

## National Engineering & Environmental Due Diligence Association's Property Condition Assessment (PCA) User Guide

PCA's are a valuable tool for client to help owners, buyers, sellers, and/or lenders understand physical real estate assets and make informed decisions. Although ASTM has developed ASTM E2018 Standard Guide for Property Condition Assessments: Baseline Property Condition Assessment Process to provide a framework for PCA reports, the actual work performed can vary significantly. Costs can range from as little as \$2,000 or well over \$20,000 depending on the scope of work. Generally, with the higher fee comes greater depth of evaluation.

In an ideal world, everyone involved in a real estate transaction would have an in-depth understanding of the ASTM standard. (You can buy a copy of the standard [here](#)). However, if you haven't had time to study the Standard, the discussion below may help you work with your consultant to promote a common understanding of your objectives and the limitations of the report.

### Client Responsibilities

**Safe access** to the entire property must be provided by the client, along with equipment required for access to the roof and other building elements not observable from ground level;

**Known Information** must be obtained and provided from the seller/operator that may impact the results of the assessment; for example, historical repairs, known conditions/deficiencies, prior reports, etc.

**Knowledgeable Site Contacts** must be provided so questions regarding known information can be satisfactorily answered and relied upon in the assessment

**Identified Purpose** of the assessment should be discussed with the consultant. The reason for completing the report may affect the scope of work and the recommendations. Property condition reports may be completed to support the acquisition of or investment in real property, financing, capital planning, documentation of current conditions, and rehabilitation/repositioning assessment. It is critical to work with your consultant to make sure the work performed meets your needs. The intended use should be documented in the agreement and report, and reports should never be used by unintended users or for unintended purposes.

### Fundamental Principles of the ASTM PCA Standard

**Not exhaustive** - No Property Condition Report will identify every conceivable problem at a property. The report cannot be viewed as an "insurance policy" or a "building warranty".

**Some conditions may not be identified** - Conditions that aren't easily observable during the site walkthrough, require testing, are hidden by finishes, equipment, systems, vehicles, stored materials, etc., or that are simply not made accessible to the consultant, will not be identified unless disclosed to the consultant.

**Representative observations** - Clients are generally unwilling to pay for the examination of every inch of every building, component or system. Observation of representative samples of property elements is typically conducted unless expressly requested by the client. As a result, readily apparent conditions may exist which will not be observed during the assessment. We recommend working with your consultant to identify a scope of observations to satisfy your objectives.

**"Opinions of Costs"** - Typical costs to correct deficiencies or to complete work during a reserve term may be included in reports. The opinions of costs represent an order of magnitude estimate of related work, and are not intended as a precise estimate, guarantee of the maximum costs or offer to complete the work.

**Recommendations** - When conditions are identified that cannot be adequately evaluated within the scope of the PCA the consultant may provide recommendations for further assessment, research, testing, intrusive survey, exploratory probing, etc. Since client objectives can significantly impact these recommendations, it is important to work with the consultant to understand the magnitude and significance of related concerns.

**Reliance** - Property Condition Reports are performed for specific clients and for specific purposes. If you rely on reports done for others, the scope of work and/or recommendations may not reflect your objectives. Even if you obtain permission from the original client and consultant to rely on a report, it is recommended that you work with the consultant to understand the scope of work, determine whether additional work is needed, and develop independent recommendations that satisfy your objectives.

## Limitations Out of Scope Considerations

**Consultant Qualifications** – PCAs may be performed by professional architects or engineers; however, ASTM makes it clear that the work can be completed by others and is not intended as a professional work product.

**Reserves** - Though not required by ASTM, many PCA reports include some sort of evaluation of costs anticipated at properties in coming years to help clients understand how funds should be reserved. Methods for the evaluation of reserve needs; however, vary so widely that the ASTM committee was unable to agree on appropriate guidance. Where reserve estimates are significant to client objectives, clients should work with the consultant to agree on the approach to development of reserve estimates. The term of reserves may significantly impact allocation of funds and should be carefully considered by the User.

**Conditions Below Threshold Amounts** – The identification of conditions requiring action below a threshold amount established by the client, typically \$3,000.

**Capital Improvements** – Identification or evaluation of capital improvements, enhancements, or upgrades to building components, systems, or finishes;

### Exclusions

The ASTM Standard identifies specific tasks to be included in Property Condition Assessments. The reports are not intended to be exhaustive or all-inclusive. The following is a partial list of items which are excluded from the ASTM Scope of Work unless expressly agreed in the contract.

**We recommend discussion with your consultant before engaging the work to be sure your concerns are addressed:**

**Testing, measuring, and preparing calculations** for any system or component to determine adequacy, capacity, or compliance with any standard;

**Destructive Observation** - Performing any procedure, that may damage or impair the physical integrity of the property, any system, or component;

**Access to Confined Space** - Entering any crawl space, plenum, manholes, utility pits or other confined space; or entering or accessing any area deemed to potentially pose a threat of dangerous or adverse conditions with respect to the field observer's health or safety,

**Concealed Conditions** - Observation and evaluation of concealed elements of system and components, removing, relocating, or repositioning of materials, ceiling, wall, or equipment panels, furniture, storage containers, personal effects, debris material or finishes; conducting exploratory probing or testing; dismantling or operating of equipment or appliances; removing electrical panel and device covers; disturbing personal items or property, that obstruct access or visibility; operating or witnessing the operation of lighting or any other system controlled by a timer, operated by the maintenance staff, or operated by service companies; providing an opinion on the operation of any system or component that is shut down; subterranean and concealed conditions; as well as items or systems that are not permanently installed or are tenant-owned and maintained;

**Vacant Spaces and Dormant Systems** – Assessing systems that are not on or are not operated by the site contact during the assessment. Higher quality assessments are possible when the site contact can operate all systems;

**Roof Access** - Walking on pitched roofs, or any roof areas that appear to be unsafe, and providing equipment to access roofs;

**Special Systems** - Evaluating systems or components that require specialized knowledge or equipment; examination of flue connections, interiors of chimneys, flues or boiler stacks, or tenant owned or maintained equipment, elevator cables, sheaves, controllers, motors, inspection tags, or entering elevator/ escalator pits or shafts;

**Adequacy and Design** – Determining construction groups or types, or use classifications and the necessity for or the presence of fire areas, fire walls, fire barriers, paths of travel; identification of code or OSHA compliance except as disclosed by local regulatory offices; identification or determination of design criteria or the adequacy of existing systems for current and proposed uses; preparing engineering calculations to determine the adequacy or compliance with any specific or commonly accepted design requirements or building codes; preparing designs or specifications to remedy physical deficiencies any systems, components or equipment; determining NFPA hazard or other classifications; classifying or testing the fire rating of assemblies; evaluating the flammability of materials and related regulations; evaluating the Sound Transmission Class or acoustical or insulating characteristics of systems or components.

**Additional Issues** - Seismic Considerations, Design Consideration for Natural Disasters (Hurricanes, Tornadoes, High Winds, Floods, Snow, etc.), Insect/Rodent Infestation, Environmental Considerations, ADA Requirements, FHA Requirements, Mold, Indoor Air Quality, Property Security Systems, Long Term Costs;

**Other Matters** – The identification and evaluation of the presence of any environmental issues such as contamination, potable water quality, asbestos, hazardous wastes, toxic materials, the location and presence of designated wetlands, indoor air quality, mold, prior flooding or water infiltration, the presence or absence of pests or insects, along with other matters not expressly included in the scope of assessment.

### Frequently Asked Questions

Q: We already have a recent PCA. Why is my lender requiring this Property Condition Assessment?

A: Property Condition Assessments are performed to document conditions at the time of the site visit. The conclusions, recommended repairs and reserve estimates are, necessarily, based observations conducted at that time. As time passes, conditions are expected to change. As a result, a report completed last year, or even last month, may not adequately reflect current conditions at the property.

Q: What is the “shelf life” of a PCA Report?

A: For the reasons noted above, the report really only represents conditions at the time of the site visit. As such, the “Shelf Life” of reports is depends on the risk tolerance of the user. Generally, consultants will be reluctant to allow new users to rely on reports performed previously.

Q: How long will the Property Condition Assessment take?

A: Time to complete the assessment can vary depending on the agreed scope of work, size and nature of the property, scheduling of the site visit, availability of important documents, etc. The typical time to complete the PCA is three weeks. It is sometimes possible to complete the work more quickly, but it is always best to allow as much time as possible. Complex assessments may require 4 – 6 weeks.

Q: Can you finish your on-site assessment in less than 3 hours?

A: The size of the property and the scope of the PCA have great deal to do with the length of time that is needed to conduct the field observations for a PCA. The majority of PCAs can be performed in 4 to 7 hours on the property. PCAs of reduced scope can take less time. PCAs of increased scope may take one or more return days to the site. Submission of the PCA report can vary from 5 to 15 working days following the site visit. You should discuss the timing and your needs with your PCA professional up front so there is understanding of expectations.

Q: What parts of the building and site do you need access to?

A: This can vary depending on the objectives of the client. Representative observations are typically conducted. Generally, all common areas, exteriors, maintenance and equipment areas and roofs should be made accessible, along with a portion of interiors or tenant-occupied areas.

Q: What are “representative observations”?

A: Observation of every part of a property can be time consuming and expensive. To balance risks, time and cost, the Property Condition Assessments generally involve the observation of some portion of building areas, systems, equipment, components, etc. The assessment of the overall condition of the property is based on observed conditions. As a result, conditions may exist which are not identified as a result of the assessment.

Q: What’s involved in PCA Assessment?

A: The PCA involves a walk-through survey of the interior and exterior systems of the property, review of key available documents and limited interview of key site personnel. Observations are visual in nature and do not include destructive methods or access to/evaluation of conditions hidden by interior or exterior finishes or contained within any enclosed construction or equipment. Access needs to be provided to parking areas, interiors of rooms where the building structure may be exposed, all roof sections, a sampling of interior spaces, main electrical panels, HVAC and elevator equipment rooms, fire alarm panels and fire sprinkler risers. Any copies building construction plans that can be provided are also very helpful for reference during the PCA.

Q: How many of your people will be conducting the PCA on my building?

A: The number of professionals visiting the property vary depending on your objectives and the agreed scope of the investigations. Unless otherwise agreed, the PCA is typically performed by one Field Observer who is familiar with a wide range of building systems. If a more in-depth scope of work has been requested, specialists may also be on the site to conduct their portions of the observations (pavement, exterior envelope, roof, seismic risk assessment, elevator, mechanical equipment, or fire/life safety consultants).

Q: Can you measure the height of my building?

A: This is excluded from the scope of services, but if access to the roof is provided, and/or if all areas of the element to be measured have safe access to the top. Building heights are often included on Title Surveys, or can sometimes be determined by review of construction blueprints.

Q: Will you measure the [office spaces/apartments/warehouse] during the PCA?

A: Measurement of the building and site area is not part of the established standard for conducting PCAs. However, measurements can be made if requested; additional charges may be incurred. Measurements in compliance with standards such as the Building Owners and Managers Association (BOMA) may require the inclusion of an additional team specialist.

Q: Will you tell me if my property passed the inspection?

A: PCAs do not constitute an inspection per se; rather they are an observation of conditions which provides a baseline for determining current and future property needs.

Q: Will the Owner receive a copy of the PCA report?

A: PCA reports are routinely provided to our client, and copies may be provided only with permission of the PCA professional's client. If you intended to use or rely on the report in any way, a separate agreement with the consultant will be needed defining conditions of your use of and reliance on the PCA.

Q: After the report was completed, I found some damage. How could you have missed it?

A: Several conditions can lead to this kind of problem:

- The condition was concealed during the site visit, e.g., hidden within walls, behind equipment, stored materials, etc...;
- Representative observations at the property did not include the damaged area;
- Damage or deterioration may have occurred after completion of the site visit;
- The condition may be out of scope or be below reporting thresholds;
- The property manager or others may have failed to disclose or otherwise concealed the condition

### **About the National Engineering & Due Diligence Association (NEEDDA)**

The National Engineering and Environmental Due Diligence Association or "NEEDDA" is a 501(c)(6) non profit organization formed to promote the common interests of engineering and environmental consulting firms who provide due diligence for real estate transactions. One of NEEDDA's primary goals is to promote greater consistency and quality in the practices of due diligence consultants through establishing voluntary best practices. Other NEEDDA activities include providing education, publications, conferences, research, and accreditation and certification programs.