

A proper property inspection is the first line of defence for careful vendors and lenders

Inspectors spot secrets

Although the old adage “location, location, location” still holds true when it comes to purchasing commercial real estate it certainly should not be the only consideration. Today’s astute investor wants — and needs — to have a lot more information about a property’s condition and viability before money and titles change hands. Local zoning plans, environmental issues and liability concerns, for instance, can be as important as the physical state of the property.

The commercial real estate industry is seeing a dramatic increase in the use of building inspectors as investors are becoming more sophisticated and requiring more information before they make a decision. Similarly, many financial institutions are also requiring precise information on a property before they will commit to financing.

Using the services of a commercial building inspector, an owner, seller, buyer or financial institution can get an independent report on a property prior to making their offer. A commercial building inspection report gives the potential investor or owner important answers to a key set of questions.

Is the building adequate for the proposed use? For example, if the building’s use is going to change, is the municipal zoning correct? Are the existing utility infrastructures (water, power, gas, etc.) able to accommodate the proposed new use? Can the building be renovated at a reasonable cost and does it meet current codes?

Commercial realtors are using commercial building inspectors to answer another series of questions. The inspection report can determine

if the property’s “highest and best use” could accommodate a change from its current use, i.e. a warehouse being converted to an office or residential property.

Finance issues

Financial institutions are also finding substantial value in having commercial inspections done on properties they are considering to finance. Because of the long-term nature of many financial agreements, lenders are particularly interested in finding out if the considered site or building might pose any environmental issues. In addition, they are interested if there are any real property issues, such as encroachment. As well, they like to have an overview of the age and condition of the structure and conformation that the property is meeting zone and code compliance.

Here’s a snapshot of what comprises a commercial inspection. First, the inspector reviews the site and building to see if it is zoned properly. The report will identify what usage is allowed under the present zoning and if additions can be made to a building. It reviews parking requirements, because insufficient parking may preclude the ability to expand a building.

The commercial inspector also reviews the site in relation to existing municipal plans. For example, could the site be affected by long-range municipal plans for roadway or utility

upgrades? Can the site handle increased truck or automobile traffic? Again, is the parking adequate for the proposed new use? Each of these questions would be addressed in the commercial inspection report.

When a commercial inspector examines a building, he or she takes note of the age and condition of the property. The inspector looks at the total building envelope — walls, roof, windows and doors. If further inspection is needed, e.g. the roof show sign of deterioration, the inspector could recommend that additional testing be considered by a qualified roofing inspector.

Commercial inspectors will also review and examine a building’s mechanical and electrical systems, reporting on any possible problems that might be encountered as they relate to the present building or the proposed new use for the building. The inspection report also provides insight into a building’s energy efficiency.

Inspection reports review any possible environmental concerns associated with the site or building. The reports will note if there is a presence of hazardous materials, such as asbestos. The inspector will provide the client with a recommendation as to whether or not to carry out a Phase I Environmental Audit.

Sick building syndrome

Today, an increasing environmental issue is what is commonly referred to as “sick building syndrome.” This situation, which could make a building uninhabitable, is often caused by the presence of mould or moisture in buildings. This situation could result in the building’s occupants developing allergies and other illnesses. The inspector could recommend that the building requires further testing and should be rehabilitated using, for example, the protocols developed by New York City building authorities a decade ago that are now used across North America.

Costs associated with commercial inspections vary with the size of the building and site

the type of proposed use for the property and the comprehensiveness of the required report. In some cases, a professional inspector will give a potential owner an indication whether the commercial property is suitable for large-scale renovations, for example.

Common problems

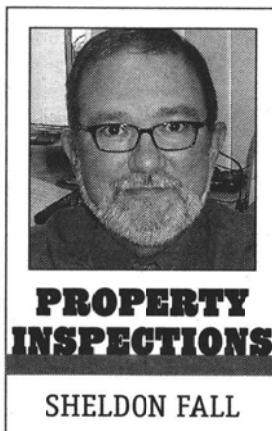
The most common physical problems encountered by commercial property inspectors relate primarily to the age of the properties. Many commercial buildings were developed in the early ’70s and are now approaching 30 years of age. In some cases, landlords have postponed maintenance and have not following a stringent maintenance routine.

This usually translates into problems with the mechanical plants, such as boilers, pumps, air handlers and motors in need of replacement. In addition, it is common to find problems with the building envelope, such as lack of insulation or failed window and door seals, resulting in higher energy costs for the owner.

Age is also a factor in the code compliance aspect of the property. Common problems with compliance normally relate to life safety systems such as lack of exit signs, emergency lighting, lack of barrier-free access and structural aspects such as fire exits and stairwells.

Financial institutions are now asking for a Phase I Environmental Audit, which has obligated the commercial inspector to be vigilant for a host of even potentially hazardous materials. The common areas being reported in inspections are asbestos in stippled ceilings, on-site spillage of materials from operations within the building, mould in crawl spaces and disposal of hazardous material into interstitial spaces within the building.

Our clients have told us that undertaking a commercial inspection is money well spent — and sometimes it has saved them from spending a lot of money unwisely. ♦



Codes,
zoning,
hazards
checked

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