
Project Manager's Guide to Environmental Due Diligence

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by Essel Environmental

For project managers needing to close a deal quickly, save time and money by bundling reports with a single environmental consulting firm.

If you're a project manager tasked with closing a property purchase, it is important to know the environmental due diligence requirements for property transfer. There are required and optional investigations and reports that can protect property buyers from exposure to risks associated with environmental hazards. Most transactions require at least an ESA Phase 1 report (see below), and a few additional reports. Hiring a single environmental consulting firm with experience in all aspects of due diligence investigations can save precious time and money in the closing process.

Reporting Requirements

The Environmental Site Assessment Phase 1 (ESA Phase 1): The ESA Phase 1 is an EPA standard report that, when properly performed, protects purchasers and lenders from environmental issues from a building's prior use. Environmental issues can have significant impact on a property's value and revenue potential. If an environmental problem materializes after purchase, the buyer and lender will be responsible for any damages and the costs of remediation, subject to the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). Technically known as the American Society for Testing and Materials ("ASTM") E1527-13, the ESA Phase 1 protects owners from CERCLA liability.

Note: The EPA set the original standard for ESA Phase I in 2005 (ASTM E1527-05). However, the standard was updated in December 2013 to ASTM E1527-13, with significant changes. Buyers and project managers were allowed to use either standard for more than a year, but that "grace period" ended on October 6, 2015. The only due diligence report now accepted is the ASTM E1527-13 ESA Phase I report. Make sure your environmental consultant performing an ESA Phase 1 investigation is working with the new standards.

The typical scope of the ESA Phase 1 includes a physical site inspection to assess

the current condition of the property, an examination of all federal, state and local records to determine all previous uses of the property, and a visual inspection and evaluation of risks from neighboring properties.

Essel Environmental has conducted hundreds of ESA Phase 1 reports for commercial property investors, developers and purchases, and we can usually turn a project around in less than two weeks. For project managers looking to close a purchase by year-end, the time to get started is now.

Wait There's More

In addition to the ESA Phase 1 report, lenders, insurers, investors, or other stakeholders may require other due diligence reports. Some, or all of these reports can be bundled with the ESA Phase 1. Efficiencies can be gained as some of the data required in multiple reports is overlapping, and few site visits are required when a single entity is compiling multiple reports. In our experience a total package can be completed in three weeks or less, saving buyers time and money and expediting the closing process.

Hazardous Materials Survey: The Hazardous Materials Survey is an inspection and report on any structures that may contain materials likely to be hazardous to the structure's occupants or to the environment. These inspections most often look for asbestos, lead, synthetic mineral fibers, microbial contamination, and polychlorinated biphenyls. Hazardous material reports are required if more than 100 square feet of a structure is going to be disturbed, or if the building is going to be demolished.

Property Condition Assessment (PCA): Engineering work is not part of a standard assessment, but is considered part of the due diligence process. PCA reports are often done along with a Phase 1 ESA during a property transfer. The PCA commonly consists of two phases. First, a comprehensive representative image (photo or rendering) of the structure is created. The second phase consists of a written report including cost tables and long-term expenses linked to property maintenance.

Probable Maximum Loss Report: This report, traditionally used in the insurance industry and commercial real estate sectors, predicts the value of the largest possible loss in the event of a natural or man-made disaster.

American Land Title Association Survey: The American Land Title Association Survey documents issues impacting the ownership of the land, such as improvements, easements, and rights-of-way or other entitlements. The survey provides the title

company the information needed to improve the land in cases where commercial development may be planned.

Soil Testing: Soil tests are usually required in order to obtain building permits for property development. During construction, further soil tests may be conducted to ensure subsurface soil conditions are compatible and design recommendations may be made accordingly.

While commercial real estate project managers aren't always fond of regulatory requirements, it can be helpful to remember that environmental due diligence regulations are in place to protect buyers and lenders from environmental liability. The ESA Phase I report provides a legal safe harbor for property owners and lenders when a properly performed ESA finds no concerns for hazardous substances prior to purchase. It is important to be aware of other due diligence options that can further enhance risk mitigation. Engaging a single firm to perform multiple reports can help ensure that all investigations are conducted properly and quickly, and can reduce risk, save time and money, and expedite transactions.

Essel Environmental offers environmental services for the full real estate cycle, including disposition, acquisition, property management and real estate development.

For more information visit www.esseltek.com or call 1-800-595-7616.