RHarper Consulting Update

What Dangers Lurk Behind Those Walls?
Due Diligence for Acquisitions

Roger Harper, Principal of RHarper Consulting Group, provides development consulting services to the senior housing industry.

For more information on RHarper Consulting Group please call 615-218-4102 Or Email us

I have recently been involved in the initial planning of several acquisitions involving multi-family residential buildings that have been vacant for several months. As the recession continues to take its toll on builders, developers, and banks, many projects have been left incomplete or partially occupied then shuttered. Reclaiming a building after a significant period of abandonment requires some special considerations in addition to the normal due diligence checklist:

- **Interior Air Quality** — The property may have significant microbial growth or mold if the owners have shut down the air conditioning systems in the living units, corridors, or common areas. Trained technicians can assess that risk through visual inspections, bore scopes to view enclosed spaces, and infrared cameras to identify moisture entry locations. Mitigation may require removal, disposal, and replacement of contaminated building materials. In some cases, the cost of mitigation may exceed the economic value of the project, so buyer beware.
- **Construction Vandalism** — When a construction project is in trouble, often the subcontractors will be the first victims. Many take their revenge by theft or vandalism. Stolen appliances, removal of copper wiring and piping, and sabotage of major building systems is common. Using an experienced team with well developed checklists, video inspection of plumbing lines, and careful inventory of appliances and building components are critical elements in your acquisition due diligence.
- **Warranty Considerations** — Rarely will the original general contractor or subcontractors respond or have any obligation to respond to warranty issues without additional compensation. While appliances and vendor supplied items may have intact warranties, the time may have expired or the abandonment period may have voided the manufacturer's provisions. Adequate reserves to provide for warranty issues should be incorporated into your acquisition budget.
- **Codes Review** — Even if a building has completed construction and received a certificate of occupancy, there may be conditional items left outstanding by the original

contractor or developer with the governing authorities. They may require completion of these outstanding items before allowing the building to be occupied. If possible, ask your local code officials for a courtesy inspection during the due diligence period and factor their concerns into your budget.

- **Project Market Position** — Having an exit strategy worked out in advance of the offer is essential to a successful acquisition. If the project has been stigmatized by abandonment, adverse news stories, or word-of-mouth, a new marketing position supported by public relations and media plans will be critical to a successful rebirth. Having adequate funding in place for these efforts is essential for a successful turnaround.
- **Delivery Planning** — Effective delivery planning with a priority on initiating revenue can provide real dividends in financial performance and marketing activities. In planning the re-opening of the project, you should plan any remediation and preparatory construction work to have an early delivery of new curb appeal, leasing or sales center, models, and a completed path to the first completed units. While scheduling completion of the construction activities to occur in the shortest period of time may be cost effective, initiation of revenue and re-entry into the market may have greater impact to the acquisition's profitability.

While there has been a scarcity so far of assets for acquisition, more are making their way to market. Each case is unique, so craft your team accordingly and make sure you cover as many conditions and contingencies as possible during the due diligence period.

For more information please contact:

Roger Harper
615-218-4102
rharper@rharperconsulting.com
www.rharperconsulting.com

RHarper Consulting Group provides development consulting, program management, and owner representation services focused on the senior living and mixed use sectors. In addition, Mr. Harper is a listed mediator and arbitrator and provides dispute resolution services for the construction and real estate industries.