

FEATURED COMMERCIAL

# How Deal-Savvy Engineers Can Better Serve the Commercial Real Estate Industry

by  
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**T**he engineering due diligence world is unique in the way it straddles the worlds of engineering and commercial real estate (CRE). We collectively provide technical consulting on engineering, environmental and other physical properties of real estate assets to help CRE stakeholders minimize risk, maximize returns, and optimize the asset lifecycle. But to provide *true* value, one must tailor advice to specific stakeholder objectives *and* their specific business scenarios each time. The engineer who understands the nuances of the commercial real estate and finance worlds can do this better than one who doesn't.

## UNDERSTANDING STAKEHOLDER NEEDS

Our firm does a lot of engineering due diligence and when given the opportunity, we design solutions to issues found in due diligence. We perform this work for any one of the numerous stakeholders in a CRE transaction, or any member of the capital stack financing the deal. Each one of these parties has different goals, risk tolerances, circumstances and needs from their due diligence consultant. Start each deal by first asking the client "What is your end goal?"

For some, speed is most important, which is sometimes a challenge for engineers.

Nevertheless, the timeframes for CRE transactions has compressed and we must adapt. As an example, a national restaurant chain client was assessing a potential acquisition near a major airport, a lucrative location for them, but one with considerable environmental contamination. Knowing their tight timeframe, we expedited our environmental site assessments to quantify all liability issues on the site so they could make an informed decision. They ended up walking away from the deal but appreciated the good service. In CRE, sometimes a fast "no" is better than a slow "yes."

For other clients, going beyond a standard industry scope to help meet objectives makes all the difference. This means understanding the unique scenario of each deal. For example, a retail investor buying a derelict mall needed to attract a fitness tenant to make their acquisition work. To do so, they needed extensive engineering due diligence (beyond a typical Property Condition Assessment), and a floor plan showing how the space could be modified. Our engineers measured where the steel columns were, the floor plans of existing tenants, and the MEP equipment, and put it all on a CADD drawing. This early pre-design/

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feasibility work proved advantageous to meet their deal timeframe.

### HELP CLIENTS UNCOVER ROI

Our energy practice is constantly trying to entice our clients by the return on investment provided by energy efficient building systems. Building owners, however, are motivated by four distinct factors: ROI of efficient systems; code compliance; reacting to incentives/requirements of their capital sources; and tenant demand. Understanding which of these motives is primary for a client is critical to defining the project.

Engineers can also help CRE professionals recognize ROI opportunities such as retrofitting Class-B buildings to compete with Class-A buildings. This can offer location-specific amenities and work-life convenience for an evolving millennial workforce, while recouping ROI from operational efficiency, full occupancy leasing and sales of converted buildings that are a low barrier to entry.

### MAKE COMPLICATED ISSUES LESS COMPLICATED

When due diligence engineers find a problem on a site, it's a key opportunity to provide engineering expertise by anticipating the client's needs and coming with a tailored solution.

Sometimes, just putting a dollar figure on an issue can save a CRE transaction. For instance, if contamination is uncovered at a drycleaner site, providing the client with a remedial cost estimate to clean

up the problem can help them decide whether to move forward with a transaction. Some engineers hesitate to provide such a figure, but if it's a big enough deal, the transaction parties can live with some uncertainty in the cleanup costs. Then after the deal closes, the engineer can do further investigation to help them work towards a more precise cost and cleanup strategy.

Other times, "further investigation needed" is not the right answer. Some environmental contamination costs more to assess than just removing the potential source, such as in-ground hydraulic lifts at an auto shop. These can pose a risk of contamination from hydraulic fluid, but instead of a subsurface investigation to know the extent of contamination, a savvy consultant may recommend just removing the lifts and surrounding soil and not taking any chances. Sometimes, *we engineers* aren't the right answer at all. If the cost to do subsurface testing is unreasonable, a deal-savvy engineer could also suggest that the client buy environmental insurance as an alternative.

When a fix is needed, the engineer must ask: what is the right fix for *this* client or scenario? Is it a band aid, a long term sustainable fix, or somewhere in between? For example, if the engineer spots degraded parking areas during an engineering assessment, there are several possible solutions depending on the client's goals:

- Band-Aid—just fix select degraded areas or potholes
- Middle of the road—go further

and do a parking overlay, seal and stripe

- Long term sustainable fix—replace the lot entirely and fix the drainage issues simultaneously
- Differentiating between these three can be the difference between killing a deal and a happy client with a successful project.

### HELP CLIENTS ANTICIPATE AND ADAPT TO CRE CHANGES

Savvy engineers can help their clients anticipate sea changes that are fundamentally affecting commercial real estate to prevent their investments from becoming obsolete.

For instance, the current transportation evolution, with an increase in ride sharing, decrease of vehicle ownership, and eventual shift towards autonomous cars, will heavily impact what commercial real estate assets perform well. Driverless cars especially will increase commuting tolerance, decrease emphasis on clustered, transportation-oriented developments, and will necessitate adaptive repurposing of obsolete assets such as urban garages, sprawling grocery stores, and ubiquitous gas stations.

Similarly, E-Commerce and delivery services are eliminating the need for many traditional types of "brick and mortar" stores while concomitantly redefining spatial requirements for distribution centers and industrial building design. "Last-mile logistics," for example, are now a compulsory component of commercial

...Featured Commercial continued on page 47

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building layout and location to ensure the rapid delivery of a variety of goods that customers have become used to.

Engineers should factor these technological transformations into responsive design that strategizes building locations, layout, function and energy efficiency to maximize function – either through adaptive reuse of existing structures (old industrial sites or retail centers) or dual-use buildings (office buildings that can be converted into apartments or warehouses). In these instances, engineers can provide forward-looking assessments and solutions that anticipate potential future adaptations and save the client time and money.

Successful commercial real estate transactions happen when engineering knowledge is merged with financial and business expertise. Engineers working in commercial real estate must have a fundamental understanding not just of buildings but also their client's broader goals to help them underwrite investment returns and facilitate successful transactions. It is the engineer that understands your needs, has an ability to think outside the box, and looks to the future that will get you the most out of your investment.



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