Due Diligence Series

WEEK 2

Physical Due Diligence:
Evaluating What You Can't See on a Tour

Protecting Your Investment Before You Close

By **Chuck Heller, SIOR** | *Executive Vice President*

A commercial property can look immaculate on the surface. Fresh paint, clean floors, a well-maintained lobby – and underneath it all, a failing roof, an aging HVAC system, or a zoning complication that could derail your plans entirely. That's why physical due diligence exists: to look beyond appearances and understand exactly what you're buying.

This is the second article in our four-part Commercial Real Estate Due Diligence series. Here we'll cover what a thorough physical evaluation involves, who conducts it, and what specific issues to watch for in south central Pennsylvania's commercial real estate market.

"I always tell buyers: the purchase price gets you in the door, but the physical due diligence tells you the true cost of ownership. Skipping or rushing this step is one of the most expensive mistakes I've seen buyers make."

– Chuck Heller, SIOR, Executive Vice President

The Purpose of Physical Due Diligence

Physical due diligence answers a fundamental question: what is the actual condition of this asset, and what will it cost me going forward? The goal is not to find reasons to walk away from a deal – it's to approach the closing table with complete information so you can negotiate confidently, budget accurately, and plan effectively.

Key Elements of a Physical Property Evaluation

Roof Condition

The roof is often the single most expensive capital expenditure a commercial property owner faces. During due diligence, a qualified roofing inspector should assess the membrane or material type, approximate remaining useful life, evidence of leaks or prior repairs, drainage systems, and any penetrations or equipment mounts that could be compromised.

In South Central Pennsylvania, we experience significant seasonal weather variation – from summer heat and humidity to winter ice and snow load – roof condition deserves particularly close scrutiny.

Structural Integrity

A licensed structural engineer should evaluate the building's foundation, load-bearing walls, columns, and framing. This is especially important for industrial and warehouse properties, where floor load ratings and clear heights directly affect your operational capacity and future tenant appeal.

Mechanical, Electrical, and Plumbing (MEP) Systems

These systems keep a building functional and are expensive to replace. Evaluators assess:

- HVAC – Age, condition, capacity, and service history of heating and cooling systems
- Electrical – Panel capacity, wiring condition, and whether the service amperage meets your operational needs
- Plumbing – Pipe materials, water pressure, drainage, and any evidence of leaks or deferred maintenance

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"We recommend buyers always get an estimate of remaining useful life on all major mechanical systems – not just a pass/fail inspection. That information is leverage at the negotiating table and essential for your financial planning."
– Chuck Heller, SIOR, Executive Vice President

The remaining useful life of each system matters as much as current condition. Knowing that an HVAC unit is functional today but has two years left before replacement allows you to budget appropriately and potentially negotiate a price reduction.

Environmental Considerations

Depending on the property's history and current or prior uses, environmental assessments may be required. A Phase I Environmental Site Assessment is standard practice and reviews historical records, aerial imagery, and site inspection data to identify any recognized environmental conditions. If red flags are found, a Phase II assessment with soil and groundwater testing may follow.

Industrial properties and older commercial buildings in particular warrant close environmental attention.

Township and Governmental Compliance

One of the most overlooked aspects of physical due diligence is regulatory compliance. Before closing, buyers must verify:

- Certificate of Occupancy – Does a valid CO exist for the current use? If you're changing the use, what approvals are required?
- Zoning Compliance – Is your intended use permitted by right, or does it require a variance or special exception?
- Highway Occupancy Permits – Does the property have valid access permits from PennDOT for its driveways and curb cuts?
- Change of Use Implications – Changing from one commercial use to another can trigger requirements for upgraded parking, sprinkler systems, ADA compliance improvements, or other code-driven renovations

In municipalities across the Harrisburg, York, Hershey, and Lancaster markets, these requirements can vary significantly. Local knowledge is invaluable here.

"I've seen deals in this region where a buyer planned to convert an office building to medical use, and the parking requirements alone nearly killed the project. Township and zoning diligence isn't optional – it's foundational."
– Chuck Heller, SIOR, Executive Vice President

Budgeting for Renovation and Deferred Maintenance

Physical due diligence should always conclude with a practical cost assessment. Work with qualified contractors to get proposals on any needed repairs or renovations identified during the inspection process. These figures serve two purposes:

- They give you an accurate total cost of acquisition (purchase price + near-term capital requirements)
- They provide the basis for price negotiations or seller credits if material deficiencies are discovered

In many transactions, the physical inspection period is also when financing discussions intensify – since lenders will want to understand the physical condition of the collateral they're securing.

Who Should Conduct Physical Due Diligence?

Physical due diligence requires a team of qualified professionals:

- Commercial Property Inspector – Provides a comprehensive overview of building systems
- Structural Engineer – Evaluates foundation and structural components for any concerns

- Environmental Consultant – Conducts Phase I (and Phase II if warranted) ESA
- Roofing Contractor or Inspector – Provides a detailed roof condition assessment
- MEP Engineers or Contractors – For in-depth evaluation of mechanical, electrical, and plumbing systems
- Local Zoning and Permitting Counsel – Confirms compliance and advises on any required approvals

Your commercial real estate broker should coordinate these professionals and help you interpret the findings in the context of the deal.

In our next article, we'll shift from the physical building to the business case – exploring what owner-occupants need to evaluate before committing to a commercial property acquisition.

Buying Commercial Real Estate in South Central Pennsylvania?

Chuck Heller has guided buyers through the physical due diligence process on hundreds of commercial properties across Harrisburg, York, Hershey, and Lancaster. Let his local expertise work for you.

Reach out today to start your acquisition conversation.

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