Purpose

The purpose of the Physical Needs Assessment (PNA) is to:

1. evaluate the overall condition of the improvements, and
2. identify and provide cost estimates for (a) items requiring immediate repair and (b) repairs or replacements that will be needed over the next ten years.

For this purpose, items requiring immediate repair including items that have the potential to affect the health and/or safety of persons living at, working at, or visiting the subject property and may also include items of deferred maintenance which, if left unattended to, could result in further damage to the improvements.

Qualifications of the Evaluator

A qualified evaluator is any firm or individual, qualified by training and experience to evaluate building systems and site conditions and to provide cost estimates. In some instances, an employee of the Lender, the appraiser, or the environmental professional may be considered qualified to perform the PNA, provided that such individual has prior experience in capital needs assessments and the training and experience necessary to evaluate building systems and develop cost estimates.

Part 1 -- Terms of Reference

Either the Lender or the evaluator may complete the Terms of Reference form. If completed by the Lender, this form will serve as a reference point for the assessment and will provide the evaluator with the basic information about the property and the term of the Loan.

The evaluator should survey sufficient units, buildings, and numbers of specialized systems to state with confidence the present and probable future condition of each
major system at the Property. Considerations in determining an adequate sample size are age and number of buildings (especially if the Property was developed in phases), total number of units and variations in size, type and occupancy of units. Effective sampling is based on observing a sufficient number of each significant category.

In certain instances, market conditions may necessitate action on certain systems. Examples are early appliance replacement or recarpeting, new entry paving, special plantings and redecorated lobbies. If the owner or Lender has identified such an action, the evaluator should include a cost estimate for such action and indicate what, if any, other costs would be eliminated by such action.

The property ownership or management should provide the evaluator or Lender with information about prior repairs or replacements that have been completed in recent years and any work in progress or under contract. The evaluator should include enough units, buildings or systems in the sample to verify the reported repairs or replacements or the need for planned work. In addition, this information should be utilized, as appropriate, in developing the estimates of future repair/replacement costs.

Part 2 -- Systems and Conditions

It is the responsibility of the evaluator to assess the condition of every major system that is present at the property. The Systems and Conditions section lists four main groups of systems, typically related by trade and/or location:

- Site
- Architectural
- Mechanical and Electrical
- Dwelling Units

While the form has several columns in which information may be recorded, in many instances only the columns titled "Condition" and "Effective Remaining Life" will have to be completed. If (a) the condition of a system is acceptable, (b) the effective remaining life exceeds 10 years and (c) no action is required, then no other columns need to be completed.

The column titled "Estimated Useful Life" includes the standard estimated useful life for most building systems. The evaluator should determine the effective remaining life based on the age and condition of each system. A component with unusually good original quality or exceptional maintenance could have a longer life. On the other hand, if the component has been poorly maintained or was of below standard original quality, the useful life could be shorter than expected. The evaluator should apply his or her professional judgment in making a determination of the effective remaining life.
The evaluator is not expected to identify minor, inexpensive repairs or other maintenance items that are clearly part of the property owner's current operation pattern and budget, so long as these items appear to be taken care of on a regular basis. The evaluator is expected to address infrequently-occurring "big ticket" maintenance items, such as exterior painting, all deferred maintenance, and repairs or replacements that normally involve significant expense. The evaluator should note any environmental hazards observed in the course of the PNA, such as needed repair of damaged asbestos containing materials.

If any action is required -- immediately or over the next 10 years -- the action should be recorded as "repair," "replace" or "maintain." The evaluator should develop a cost estimate for each action item, indicating the total cost and quantity to be repaired or replaced. The source of the cost estimate may include a third-party estimation service, actual bid or contract prices, estimates from contractors or vendors, the evaluator's own files, or published supplier sources.

The "Field Notes" column may be used to record the type of component, the problem and the information the evaluator used in determining the estimated repair or replacement cost. All immediate repair items should be discussed in this area. The discussions should include:

- the identification of the problem,
- its location,
- the cause of the project, and
- possible repair or replacement solutions.

Use extra pages if necessary.

**Special Repair and Replacement Requirements**

While performing a PNA, the evaluator must be aware that certain building materials and construction practices may cause properties to experience (or develop in a short time period) problems that can be corrected only with major repairs or replacements. If the evaluator determines that any of the following conditions are present, the evaluator must contact the Lender immediately to discuss the timing, as well as the cost, of the repairs or replacements.