

## **Functional Obsolescence**

Functional obsolescence has increased rapidly over the past decade and will continue to increase. It has six main sources.

**Market preferences** Most buildings are built for a specific market at a specific moment in time. Buildings can't change like the market so, without effective adaptation or a new user market, they gradually become obsolete.

**Technological changes** Mechanical, electrical and electronic systems are always being improved and often have necessarily shorter life-cycles. Buildings unable to accommodate these changes can become rapidly obsolete.

**Design concepts** Experimentation by developers and designers in attempting to attract a market can go wrong. Design philosophies change radically in a short time; so do the results.

**Metropolitan growth** Patterns of growth always change the relative accessibility of locations and their functional capabilities.

**Management decisions** Decisions to accommodate growth and change frequently result in incremental additions that unwittingly alter strategic functional patterns.

**Government actions** Public agency recommendations can be ill-advised or poorly incorporated into designs. Takings and other forms of government activity can easily change the physical/functional characteristics of a site or location causing economic damage.

## **Functional due diligence**

**Property and Prudence:** Most offerings of property for sale contain a disclaimer like the following:

Any prospective purchaser should independently determine, to its satisfaction, whether or not the property is satisfactory. The prospective purchaser should conduct or obtain such market analyses, utility studies, zoning determinations, rental surveys, title examinations, review of applicable laws and ordinances or studies or information relevant to purchase analysis as are appropriate for a prudent investor.

**Diligence** Black's Law Dictionary defines diligence as: Prudence: vigilant activity; attentiveness; or care, of which there are infinite shades, from the slightest momentary thought to the most vigilant anxiety. The infinite shades of diligence lead to several critical distinctions:

**Due diligence** Such a measure of prudence, activity, or assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent man under the particular circumstances; not measured by any absolute standard, but depending on the relative facts of the special case.

**Special diligence** The measure of diligence and skill exercised by a good business man in his particular specialty, which must be commensurate with the duty to be performed and the individual circumstances of the case; not merely the diligence of an ordinary person or non-specialist.

**Functional due diligence** Special diligence applied to the design of buildings and places. It can be defined as that measure of prudence and skill exercised in the real estate investment process which addresses the functional and related aesthetic characteristics of buildings and places and related infrastructure.

The objective of **functional due diligence** is the identification of **latent defects** in functional/aesthetic design and whether they are threats or opportunities. If they are minor, they can be opportunities with a significant revenue upside. But, if they are major defects, they have both a revenue downside and are likely to have a high cost to cure.

Our approach to functional due diligence addresses three interrelated parts of real estate:

- within the building footprint
- from the building footprint to site boundaries
- from site boundaries to one-quarter mile from the site.