

STANDARD
& POOR'S



STANDARD & POOR'S
STRUCTURED FINANCE RATINGS
REAL ESTATE FINANCE

**PROPERTY
CONDITION
ASSESSMENT
CRITERIA**

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PROPERTY CONDITION ASSESSMENT CRITERIA

OVERVIEW

The construction quality, structural and mechanical integrity, and physical condition of a property are very important factors in Standard & Poor's analysis of commercial real estate transactions. Since a property's income potential is based on its ability to attract tenants, Standard & Poor's requires each owner/borrower to provide an independently prepared report evaluating the property's physical condition. The report should provide reliable and detailed information on issues including the building's operating systems, capital improvement requirements, energy efficiency, security systems, overall design and architectural features, and any signs of material physical deterioration or functional obsolescence that could detract from the building's potential to generate income. Standard & Poor's also examines the impact of local zoning regulations, building codes, and any special hazards that may affect the income stability of a property.

Standard & Poor's Property Condition Assessment Criteria consists of:

1. Consultant Qualification Requirements, which seek information on the consulting company's operations and personnel.
2. The Presurvey Questionnaire and Disclosure Schedule—preliminary survey information of the property's condition, submitted by the Borrower before the site visit.
3. Property Condition Assessment Document and Information Checklist—a schedule of documents and other information that should be available to the Consultant before the site visit.

Depending on the transaction type being contemplated, Standard & Poor's provides two sets of report protocol guidelines:

- A. The Short Form, which should be used to conduct surveys for commercial mortgage pool transactions consisting of 20 or more loans.
- B. The Long Forms, which should be used for property specific transactions or for commercial mortgage pools of less than 20 loans where a property specific analysis will be performed. Each format is based on the property type to be surveyed, i.e., Retail Buildings, Multifamily Buildings, Hospitality Buildings, Industrial/Flex Space Buildings, Office Buildings, and Nursing Homes.

The information requested in the Presurvey Questionnaire, Consultant Qualification Requirements, and Property Condition Assessment documents should be provided to the Consultant for each transaction type.

Certain information, if available, is required and common for all property types including a survey, site plan and building drawings, zoning variance documents, promotional and leasing information, building maintenance history, and various inspection certificates. In addition, Standard & Poor's requires information that is specific to individual properties. Such information is to be made available to the Consultant for review in the Consultant's office. If it is not provided, the Consultant is required to report same in the Consultant's Report.

These guidelines were developed in conjunction with Inspection & Valuation International (IVI), a 22-year-old construction consulting company that specializes in conducting property condition due-diligence studies, project management oversight, construction litigation support services and various aspects of construction and cost consulting.

IVI's headquarters are in White Plains, N.Y., with branch offices in Washington D.C., Los Angeles, and Miami. IVI is the U.S. representative of SOCOTEC International Inspection, which is headquartered in Paris, France.

—*Carl de Stefanis, P.E., contributing editor*

CONSULTANT QUALIFICATION REQUIREMENTS

Please respond to each section below. Your response may include promotional/marketing brochures and literature, letters of recommendation, etc.

COMPANY EXPERIENCE

1. How many years has your firm been in business? What year was it incorporated or the partnership formed? Since inception, has there been a corporate name change? Qualified Consultants must be able to prove that they have been in operation for a minimum of three years.
2. How many, if any, branch offices do you have and where are they located? Provide addresses, number of personnel, manager's name and telephone number.
3. Provide a schedule of the last 12 building condition survey assignments completed by your firm complete with scope of assignment(s), location, client and client telephone number.
4. Approximately how many property condition survey assignments were completed by your firm for each 12-month period going back three years?
5. Are there any pending litigation or claims against the firm? If so, please provide a brief overview as to the basis and status of same.

PERSONNEL

1. Provide resumes of each firm member who will be conducting property condition surveys and reviewing completed reports. All personnel conducting property condition surveys shall have all of the following qualifications:
 - Professional engineer's license or architectural registration; no exceptions will be permitted.
 - Four or more years of experience in specifically conducting property condition surveys on behalf of investors, lending institutions, or government agencies.
2. Provide the resume of the senior project manager who will be responsible for report review/quality control, final sign-off, and answering of rebuttal questions, if any. The individual signing off on the report must be a licensed professional engineer or a registered architect.

REFERENCES

Please provide the names, position, company and telephone number of four references who are able to opine on your firm's property condition survey reports.

CONFLICT OF INTEREST

Consultant may not be affiliated with the Borrower or its representative or engage in any business that might present a conflict of interest. Consultant must disclose whether Consultant had been retained or employed by the Borrower in the past.

INSURANCE REQUIREMENTS

All Consultants must carry the following insurance coverages to be considered for an assignment. No proposal submitted by a Consultant will be considered unless accompanied by the appropriate certificates of insurance.

Worker's Compensation

	<u>Limit of Liability</u>
Worker's Compensation	Statutory Benefits
Employer's Liability	\$500,000

Comprehensive General Liability

(including coverage of Contractual Liability assumed by the Contractor under Indemnity Agreement set forth below and completed operations coverage).

	<u>Limit of Liability</u>
Bodily Injury	\$1,000,000 per occurrence
Property Damage	\$1,000,000 per occurrence
Professional Liability	\$1,000,000 per occurrence or claims made form (coverage shall be maintained for three years following expiration of the assignment).

Comprehensive Automobile Liability

	<u>Limit of Liability</u>
Bodily Injury	\$1,000,000 per occurrence
Property Damage	\$1,000,000 per occurrence

PRESURVEY QUESTIONNAIRE AND DISCLOSURE SCHEDULE

Borrower: Complete this questionnaire before the Consultant's site visit. For those questions that are not applicable to the subject, please respond with an "N/A." This document must be signed on the last page of this Questionnaire by the Borrower or its representative. If you have any questions about how to answer any of the questions, please call the Consultant. If additional pages for response are necessary, please attach them to this form. Clearly mark all references to the appropriate question number(s). This document, and your written response to same, will be an exhibit in the Consultant's report.

Project Name: _____

Property No.: _____

Date: _____

Address: _____

Property Owner: _____

Fax: _____ Telephone: _____

Building Manager: _____

Fax: _____ Telephone: _____

1. What is the current occupancy of the building(s), expressed as a percentage?

2. If the Subject is a multifamily building, what is the approximate lease turnover rate?

3. To the best of your knowledge, does the building have any of the following problems and, if so, where are they located?
 - a. Roof or sidewall leakage? Yes No

 - b. Structural problems? Yes No

 - c. Cellar/basement water/moisture infiltration? Yes No

 - d. Heating capacity or distribution deficiencies? Yes No

 - e. Air conditioning capacity or distribution deficiencies? Yes No

 - f. Inadequate domestic water pressure or drainage problems? Yes No

 - g. Elevator service problems? Yes No

 - h. Inadequate electrical capacity or distribution? Yes No

 - i. Presence of any friable asbestos? Yes No

4. Are maintenance and/or complaint logs kept for any of the following systems?
- a. Plumbing Yes No
 - b. Heating Yes No
 - c. Air Conditioning Yes No
 - d. Elevators Yes No
5. Is the boiler water treated? If so, by whom? Yes No N/A
6. Is the cooling tower water treated? If so, by whom? Yes No N/A
7. When were the chillers' last eddy current tested?
Who performed the test?
8. When was the fire alarm system last tested?
9. Has any exterior restoration or repair work been performed during the last five years? If so, what was the scope of this work and who performed the work?

14. Please complete the following schedule as to the status of replacement of any recurring components, items or systems:

Item or System	Quantity Replaced Thus Far	Date Replaced	Average Cost For Replacement
Asphalt Pavement Sealant			\$ /SY
Asphalt Paving			\$ /SY
Roofing			\$ /SY or \$ /Bldg.
Carpeting			\$ /SY or \$ /Unit
Vinyl Flooring			\$ /SF or \$ /Unit
Ceramic Tiling			\$ /SY or \$ /Unit
Refrigerators			\$ /Each
Ranges/Stoves			\$ /Each
Dishwashers			\$ /Each
Garbage Disposal Units			\$ /Each
A/C Condenser Units			\$ /Each
Air Handling Units			\$ /Each
Central Boiler			\$ /Each
Oil/Gas Burner			\$ /Each
Individual Unit Furnaces			\$ /Unit
Individual Domestic Hot Water Heaters			\$ /Each
Kitchen Cabinets			\$ /Each
Kitchen Countertops			\$ /Each
Heat Pump Units			\$ /Each
Vanities			\$ /Each
Swimming Pool Resurfacing			\$ /Pool
Swimming Pool Pump and Filter			\$ /Each
Tennis Court Resurfacing			\$ /Court

Signature

Date

Name

Title

PROPERTY CONDITION ASSESSMENT DOCUMENT AND INFORMATION CHECKLIST

Please provide the Consultant with the following documents and information so that the Consultant may proceed with the physical evaluation of the building(s). This document, complete with Consultant's comments and date of receipt of documentation/information requested, will become an exhibit in the Consultant's report.

Document	Date Received	Comment
A. As-Built Plans and Specifications		
1. Survey		
2. Site Plans		
3. Structural		
4. Architectural		
5. Mechanical		
6. Electrical		
B. Municipal Department Documents		
1. Certificate of Occupancy or Temporary Certificate of Occupancy		
2. Building Permit		
3. Schedule of Building Code Violations		
4. Zoning Variances or Restrictions		
C. Promotional/Leasing Information		
1. Copy of the Most Recent Appraisal		
2. Promotional Leasing/Sales Literature		
3. Tenant SFR Schedule		
4. Location Map		

Document	Date Received	Comment
D. Building Maintenance History		
1. Age of the Building		
2. Owner's Name and Telephone Number		
3. Building Manager's Name and Telephone and Fax Numbers		
4. Building Superintendent's Name and Telephone Number		
5. Names and Telephone Numbers of Service Firms		
a. Facade Repairs/Restoration		
b. Roofing		
c. Plumbing		
d. Water Tower		
e. Heating		
f. Boiler Water Treatment		
g. Air Conditioning		
h. Cooling Tower		
i. Electrical		
j. Elevators		
k. Sprinkler/Standpipe System		
l. Swimming Pool		
m. Life/Safety Alarm System		

Document	Date Received	Comment
E. Miscellaneous Certifications/Studies		
1. Appraisal		
2. Roof Condition Survey		
3. Elevator Inspection Certificate		
4. Boiler Inspection Certificate		
5. Certificate of Electrical Compliance		
6. Asbestos Survey		
7. Asbestos Abatement Approvals and Sign-offs		
8. Phase I Environmental Assessment Report		
9. Previously Prepared Due Diligence Condition Survey Reports		
10. Sprinkler System/Standpipe Survey Prepared by Insurance Company		
11. Tenant Complaint Log		
12. Schedule of Floor Area Measurements: Gross, Usable and Rentable SF		
13. Schedule of Deficiencies or Statement of Violations—Issued by a State Agency		
14. Schedule of Operating Expenses		
15. Schedule of CAM Expenses		
16. Previously Prepared Replacement Reserve Studies		
17. Fire Alarm Inspection Report as per NFPA 72		

N/A—Not Applicable or Not Available.

GUIDELINES FOR CONDUCTING PROPERTY CONDITION SURVEYS

SHORT FORM

PURPOSE

1. Identify significant defects, deficiencies, items of deferred maintenance and material building code violations (individually and collectively, Physical Deficiencies) as a result of a visual survey, review of documents, and the research and interrogatories as described herein.
2. Prepare estimated costs to remedy the Physical Deficiencies.
3. Prepare a Replacement Reserve Schedule for the term of the loan plus two years. The length of this term is to be provided by the Client.
4. Prepare a written report (the Report) that opines on the Subject's overall physical condition, including photos of representative systems and major Physical Deficiencies, and provides estimated costs to remedy Physical Deficiencies and for annual Replacement Reserve Expenditures.

SCOPE OF WORK

1. General

The Consultant shall review available information to be provided by the Client, make inquiries of the Borrower, make observations sufficient to establish the type and approximate extent of Physical Deficiencies, and take representative measurements and quantity counts to estimate the cost to remedy Physical Deficiencies and to prepare the Replacement Reserve Schedule.

Consultant should assume that timely and complete access to the property, staff, vendors, and documents will be provided by Borrower. Borrower is to provide sufficient, safe and readily available access to all areas of the building(s) including roofs so as not to impede Consultant's procedures. Client will assist Consultant in securing access and information in the event Borrower fails to cooperate. The Consultant should not seek access to any property, staff, vendors, or documents if the Borrower objects to this access or attempts to restrict Consultant from conducting its survey or research.

Should any document, vendor access, or information be requested by Consultant but knowingly withheld by Borrower from Consultant, Consultant shall contact Client. If this information is not provided before the preparation of Consultant's draft report, Consultant shall identify within the Report, in the appropriate sections, any information or access requested but denied or not made readily available either at the time of the Consultant's site visit or the Report's writing.

2. Survey Procedures

- a. **Property Survey**—Observe property components, systems, and elements that are easily visible and readily accessible for the purposes of identifying significant Physical Deficiencies. Consultant is not required to prepare detailed calculations, remove materials, operate equipment not typically operated by tenants, or conduct any exploratory probing or testing. This is a nonintrusive visual survey. However, Consultant is to make a reasonable attempt at discovery. The law-of-reason shall prevail.

Survey procedures will consist of:

- Walk-around visual survey.
- Random operation of equipment, fixtures and systems, which are normally operated by tenants, on a sampling basis to determine system operability or operating characteristics.
- Noting of material building code violations of items, systems or inherent design that are readily apparent as a result of a “walk-through” survey.
- The taking of measurements and system counts to adequately justify estimated costs to remedy Physical Deficiencies and to estimate Replacement Reserve Expenditures. The basis for these estimated costs (unit of measure, quantity, and unit cost) must be substantiated within the Report.

- b. **Research**—Consultant is to provide Borrower with a Presurvey Questionnaire and Disclosure Schedule (the Questionnaire) and a Property Condition Assessment Document and Information Checklist (the Checklist) (copies attached), which are to be completed by the Borrower or its representative and forwarded to the Consultant. The Questionnaire and Checklist shall be included as exhibits within the Consultant’s report, whether or not they are completed by the Borrower and provided to the Consultant.

Research shall be conducted using tenants, service providers, and those knowledgeable about the Subject as sources. Standard & Poor’s recommends that the following research be conducted as a minimum. Telephone interviews may be sufficient for most inquiries.

- i. Interviewing building management, ownership and tenant(s).
- ii. Review of historical repair/improvement costs incurred by tenants/ownership along with the following documents:
 - Certificates of Occupancy
 - Maintenance reports and logs
 - Passenger and freight elevator safety
 - Inspection reports
 - Warranty information

- c. **Review of Documents**—Review pertinent property records and studies as furnished by Client and/or Borrower. In general, document information will consist primarily of Borrower-supplied leasing literature, historical receipts for repairs and/or improvements, schedules of component replacements or improvements complete with the costs incurred for same, pending proposals, schedule of landlord responsible operating expenses, etc. There may also be previously prepared property condition survey reports, appraisals, an ADA survey, (if applicable), etc. that should be provided to the Consultant as well.
- d. **Representative Sampling**—Not every tenant space must be surveyed. However, the envelope of each building along with base building areas/systems shall be surveyed should more than one building exist. For multifamily buildings, as a guide, approximately 10% of the units should be surveyed. Should less than 10% of the units be surveyed, such percentage shall be sufficient for Consultant to opine with confidence as to the typical general condition of all units.
- e. **Photographs**—As a minimum, Consultant will take 35mm photographs of:
 - View of Subject from “curb”
 - Representative elevations
 - Typical mechanical, electrical and plumbing systems
 - Landscape photos of roof areas
 - Landscape photos of parking and truck loading areas taken from roof vantage points
 - Significant or commonly encountered Physical DeficienciesFor most assignments, the number of photographs will range from 20-40. Each photograph should be described.

REPORT

Outline

Prepare a Property Condition Survey Report (the Report) that follows this outline:

Cover Page

Table of Contents

- I. Executive Summary
 - A. General Description
 - B. General Condition
 - C. Estimated Required Expenditures
 - Deferred Maintenance and Physical Deficiencies
 - Replacement Reserve Expenditures
 - D. Recommendations
- II. Purpose and Scope
- III. Description and Condition
 - Annotated Photographs
- IV. Cost Estimates to Remedy Deficiencies
- V. Replacement Reserve Analysis
- VI. Qualifications
 - Limiting Conditions
 - Consultant's Certification
- VII. Exhibits
 - Presurvey Questionnaire and Disclosure Schedule
 - Property Condition Assessment Document and Information Checklist
 - Subject Description and Parameters Schedule
 - Leasing Literature
 - Reduced Plot or Site Plans, etc.

The required content of each Property Condition Survey Report (Short Form format) is more fully described as follows. The format follows the Report's Table of Contents provided on this page.

I. EXECUTIVE SUMMARY

(try to limit to one to two pages)

-
- A. General Description** This should be no more than a short paragraph that describes the Subject. It should provide salient information such as location, size, age, construction type, apparent occupancy status, etc. Sufficient information should be provided so that the reader can visualize the Subject.
- B. General Condition** The opening paragraph should opine on the Subject's general condition and the apparent level of preventive maintenance exercised, significant deferred maintenance, and material Physical Deficiencies. If any significant improvements were recently implemented, this information should be provided as well. Should any of Consultant's research result in either significantly positive or negative responses, provide this information. Do not dwell on minor deficiencies.
- Consultant is then to provide a numbered schedule of the major Physical Deficiencies observed complete with a concise description and proposed remedy.
- C. Estimated Required Expenditures**
- 1. Deferred Maintenance and Physical Deficiencies**
Allocate the totals of the derived cost estimates to remedy Physical Deficiencies into categories classified as either Immediate or Short Term.
 - 2. Replacement Reserve Expenditures**
Determine the present value, at a discount rate to be provided, of the annual required replacement reserve expenditures over the reserve term.
- D. Recommendations** Should any condition be suspect or warrant further research, testing, removal of material, etc., such a recommendation should be placed in this section. Examples would be recommendations for eddy current testing of chillers, roof infrared surveys, scaffold inspections, etc.

II. PURPOSE AND SCOPE

- A. Purpose** Consultant is to provide a short paragraph specifically stating the purpose of this engagement and identifying the Subject.
- B. Scope** Consultant is to outline the scope and the methods used to conduct the survey (as outlined herein and in accordance with the Consultant's Property Condition Assessment Agreement), and is to identify the individuals, firms, and/or governmental agencies interviewed for research purposes.

III. DESCRIPTION AND CONDITION

The scope of this section should consist of a written, narrative report describing existing systems and their condition. The Subject is to be described by using a one to two page schedule that not only rates the overall condition of a system and its major components, but briefly describes same as well. In addition, Consultant is to provide representative color photographs showing typical elevations, site improvements, common or base building areas, and commonly encountered and/or major Physical Deficiencies.

Text, in a caption format adjacent to each photo, is to identify the location, describe the system or component shown, and direct the reader to any certain condition or Physical Deficiencies depicted.

Photos are to be sequentially organized into the following categories:

- Site Work
- Building Envelope
- Interior
- Plumbing
- HVAC
- Electrical
- Elevators
- Miscellaneous

IV. COST ESTIMATES TO REMEDY DEFICIENCIES

Based upon (i) Consultant’s observations during its site visit, and (ii) information received from interviews with building management, tenants, and service personnel, which for purposes of the Report will be deemed to be reliable, prepare general scope, preliminary cost estimates for each Physical Deficiency. The Consultant must describe the Physical Deficiency, provide its location, and offer an appropriate recommended remedy. The remedy must be commensurate with the Subject and considered a prudent expenditure. Simply stating “poor roof” and providing a lump sum cost-to-cure is insufficient.

These estimates are for components or systems exhibiting either patent defects, significant deferred maintenance, or requiring major repairs or replacement. Repairs or improvements that could be classified as (i) a routine operating expense, (ii) part or parcel of a building renovation program, (iii) normal building preventive maintenance, or (iv) that are the responsibility of tenants are not to be included.

Cost estimates for deficiencies shall be allocated into two categories. Terms used to describe these categories are defined below:

- Immediate—** Physical Deficiencies that require immediate action as a result of: (i) existing or potentially unsafe conditions, (ii) significant negative conditions significantly impacting marketability or habitability, (iii) material building code violations, (iv) poor or deteriorated condition of critical element or system, or (v) a condition that if left “as is,” with an extensive delay in addressing same, would result in or contribute to critical element or system failure within one year or a significant escalation in repair costs.
- Short Term—
(0-1 year)** Physical Deficiencies, which are inclusive of deferred maintenance, that may not warrant immediate attention, but requiring repairs or replacements that should be undertaken on a priority basis, taking precedence over routine preventive maintenance work within a zero to one-year time frame. Included are such deficiencies resulting from improper design, faulty installation and/or quality of original system or materials. Components or systems that have realized or exceeded their Expected Useful Life (EUL) and that may require replacement within a zero to one-year time frame are also to be included.

IV. COST ESTIMATES TO REMEDY DEFICIENCIES *(continued)*

Consultant's estimated costs are deemed to be preliminary. These costs are to be net of general conditions, construction management fees, and design fees. Consultant is to use market costs or costs incurred by the Borrower that are documented and/or have been substantiated to Consultant's satisfaction. However, these costs must be reasonable market costs. The Borrower should document these costs by submitting paid invoices, executed or pending bona fide proposals, etc.

The basis of the derivation of these costs must be provided with respect to nominal quantities and the unit costs used; a rational approach to the derivation of the cost estimate must be provided. All cost information must be submitted in a format similar to the schedule titled "Cost Estimates to Remedy Deficiencies" attached to this guideline, and be complete with quantities, units, unit costs and totals.

V. REPLACEMENT RESERVE ANALYSIS

Borrower shall provide Consultant with a schedule of all building expenses. Inasmuch as operating expenses may be expensed to tenants as additional rent, or assumed by tenant under a net lease structure, these costs are to be excluded from the Consultant's Replacement Reserve Schedule. However, any item that has a predictable Expected Useful Life and/or is not subject to routine preventive maintenance must be included.

The Consultant shall prepare a Replacement Reserve Schedule that is to encompass short-lived, mid-lived and long-lived recurring systems and components. Short-term recurring systems and components are typical of such items as exterior caulking, carpeting, pavement sealing and striping, domestic hot water heaters, etc. Mid-lived recurring systems are typically cooling towers, paving, roofing, appliances, kitchen cabinets, etc. Long-lived items are typically boilers, chillers, electrical systems, infrastructure components, supply and drainage piping, etc.

The following methodology should be employed when completing the Replacement Reserve Schedule. Submit these schedules typed in a spreadsheet format. An example of a typical Replacement Reserve Schedule is attached.

V. REPLACEMENT RESERVE ANALYSIS (continued)

1. **Do Not Double-dip:** In other words, if Consultant identifies that the roof requires replacement as a Short-Term item under Section IV. - “Cost Estimates to Remedy Deficiencies” do not require its replacement under year one in the Replacement Reserve Schedule. Treat the roof as if it were new with a Remaining Useful Life (RUL) equal to its commonly anticipated Expected Useful Life (EUL).
2. **Opine on EUL and EFF AGE:** Consultant is allowed to use its professional judgment in determining when a system or component will require replacement. Inclement weather, exposure to the elements, initial quality and installation, extent of use, and the degree of preventive maintenance exercised are all factors that could impact the RUL of a system or component. As a result of the aforementioned items, a system or component may have an Effective Age (EFF AGE) greater or less than its Actual Age (ACT AGE). For instance, a parking lot with an EUL of 18 years that has been religiously sealed with a squeegee applied asphaltic emulsion slurry coat may have an EFF AGE equal to eight years although its ACT AGE is 12 years. Therefore, its RUL will be 10 years (18 minus 8) instead of six years (18 minus 12). Should the Borrower or Client differ from the Consultant as to a component’s or system’s EUL, Borrower or Client must substantiate this opinion by schedules, invoices, etc. The Consultant is not to accept unsubstantiated EULs.
3. **Phase Replacements:** Consultant may exercise professional judgment as to the rate or phasing of replacements. For instance, suppose that an office complex has an extensive quantity of paving that will realize its EUL in year eight. Instead of requiring the replacement of all paving in year eight, which may be a significant cost to be incurred in any single year, Consultant may phase the work over three years; i.e., Consultant may replace 40% in year eight, 40% in year nine and 20% in year 10. However, make sure that the other replacements recommended that complement same are also completed in this phase. For instance, if the paving overlay is to be completed in phases, so must the striping. On the other hand, do not phase work that is only of limited scope, such as resurfacing only a 2,000 SY parking lot, since prudent management would not phase such a small quantity of paving resurfacing.

Phased replacement scheduling is also appropriate for allocating asbestos removal/abatement costs inasmuch as such work commonly coincides with lease terminations.

V. REPLACEMENT RESERVE ANALYSIS (continued)

4. **Component Replacements:** Certain mechanical equipment lends itself to be broken down into commonly replaced individual components so that funding to replace the entire piece of equipment at one time is not necessary. For example, the overall cost of a boiler may include pumps, a burner, etc., which may require replacement on a schedule different from that of replacing the entire boiler.
5. **Replacements Made Thus Far:** Take into consideration if management has already begun a program of replacing multiple or single components that have realized their EUL. If, as a result of research, Consultant learns the extent of such replacements made to date, Consultant shall take this into consideration. In some instances, Consultant may use weight averaged EULs and EFF AGEs. The onus is on management to substantiate the replacements made and the reported costs incurred by submitting documentation to the Consultant. Such documents should be included as an exhibit to the Report.
6. **Term:** Complete a Replacement Reserve Schedule for the term of the loan plus two years. The length of the term or “window” may significantly impact reserve requirements. For instance, a 17-year reserve “window” would not include replacement of roofing (RUL = 20 years) for a Subject having a one-year-old roof, whereas a 22-year “window” would include such a cost. Generally, the smaller the window, the less the reserve monies required.
7. **Replacement Costs:** Replacement costs used shall be market or Borrower’s historical incurred costs, or substantiated third-party costs. Should the borrower or Client differ from the Consultant as to a component’s or system’s replacement cost, Borrower or Client must substantiate this opinion by submitting paid invoices, executed proposals, receipts, bona fide pending proposals, etc. The Consultant is not to accept unsubstantiated replacement costs offered by the Borrower or Client.
8. **Inflation:** Projected future expenditures should incorporate a rate of inflation equal to the rate of comparable term Treasuries less 140 basis points or a defined rate provided by Client.

VI. QUALIFICATIONS

Limiting Conditions, Consultant's Certification, etc.

VII. EXHIBITS

The Consultant should append any exhibits that illustrate or clarify information presented in the body of the Report. Pertinent documents, such as leasing literature, floor area or unit schedules, annotated site plans, copies of pending proposals, unit or building plan excerpts, certificates of occupancy and other relevant information should be provided where available and useful.

The Presurvey Questionnaire and Disclosure Schedule and the Property Condition Assessment Document and Information Checklist should be appended whether or not the Borrower or its representative has completed them.

REPLACEMENT RESERVE ANALYSIS

CRYSTAL BAY
2333 Feather Sound Drive

Inflation = 4.6%
October 14, 1994

No.	Item	Avg. EUL (yr)	EFF AGE (yr)	RUL (yr)	Quantity	Unit	Unit Cost	Cost Over Cycle	1994 1	1995 2	1996 3	1997 4	1998 5	1999 6	2000 7	2001 8	2002 9	2003 10	Total over term inflated \$	
<i>SITE</i>																				
1	Paving, Asphalt—Apply 1" Topping	18	7	11	11,500	SY	21.75	\$77,625	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	Asphalt Pvmnt Sealant—Slurry Coat	5	4	1	11,500	SY	0.75	\$8,625	\$9,022	\$0	\$0	\$0	\$0	\$11,297	\$0	\$0	\$0	\$0	\$0	\$20,318
3	Sidewalks, Concrete—Replace	25	10	15	1,750	SF	5.00	\$8,750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	Irrigtn Sys., Lawn—Rpl. Pump & Controls	8	5	3	4	EA	1,200.00	\$4,800	\$0	\$0	\$5,493	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,493
5	Lighting Standards, Aluminum—Site	16	5	11	32	EA	1,700.00	\$54,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	Swimming Pool, Re-Marciting	5	2	3	6,200	SF	1.45	\$8,990	\$0	\$0	\$10,289	\$0	\$0	\$0	\$0	\$12,883	\$0	\$0	\$0	\$23,171
7	Swimming Pool, Deck Re-surfacing	8	2	6	4,000	SF	2.50	\$10,000	\$0	\$0	\$0	\$0	\$0	\$13,098	\$0	\$0	\$0	\$0	\$0	\$13,098
8	Swimming Pool, Filtering Equip.	12	10	2	2	POOL	900.00	\$1,800	\$0	\$1,969	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,969
9	Fencing, Stockade (Wood)	12	5	7	450	LF	7.50	\$3,375	\$0	\$0	\$0	\$0	\$0	\$0	\$4,624	\$0	\$0	\$0	\$0	\$4,624
10	Fence Enclosure, Refuse (Wood)	8	5	3	5	EA	200.00	\$1,000	\$0	\$0	\$1,144	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,144
11	Mailboxes, Aluminum—Exterior Display	15	5	10	2	EA	2,800.00	\$5,600	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$8,780	\$8,780
12	Tennis Court—Surface Coating & Striping	15	8	7	14,400	SF	0.65	\$9,360	\$0	\$0	\$0	\$0	\$0	\$0	\$12,823	\$0	\$0	\$0	\$0	\$12,823
<i>ENVELOPE</i>																				
13	Roofing, Asphalt Shingle	20	8	12	94,000	SF	0.80	\$117,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
14	Gutters & Leaders, Aluminum	20	8	12	6,200	LF	3.00	\$55,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	Painting, Building Exterior	5	2	3	117,000	SF	0.50	\$58,500	\$0	\$0	\$66,950	\$0	\$0	\$0	\$0	\$83,832	\$0	\$0	\$0	\$150,782
16	Doors, Entrance—Exterior Individual Unit	25	10	15	308	EA	275.00	\$84,700	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	Siding, "Masonite"	17	5	12	110,000	SF	1.90	\$209,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
18	Metal Stair Railings, Repaint	6	4	2	4,400	LF	0.90	\$3,960	\$0	\$4,333	\$0	\$0	\$0	\$0	\$0	\$5,675	\$0	\$0	\$0	\$10,007
19	Window, Aluminum Frame & Glazing	30	10	20	1,260	EA	225.00	\$283,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
20	Balcony, Structure Rehabilitation	15	4	11	204	EA	1,100.00	\$224,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
21	Balcony, Concrete Traffic Coating	10	0	10	7,100	SF	1.20	\$8,520	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,672	\$2,672
<i>INTERIORS</i>																				
22	Carpeting, Individual Unit	7	7	0	23,000	SY	\$15.00	\$345,000	\$75,783	\$37,747	\$39,483	\$41,300	\$43,199	\$45,187	\$75,624	\$93,935	\$73,876	\$77,275	\$603,409	
23	Vinyl Composition Tile, Kitchen	10	5	5	42,000	SF	\$2.10	\$88,200	\$0	\$0	\$0	\$0	\$22,088	\$34,656	\$12,083	\$12,639	\$13,221	\$13,829	\$108,516	
24	Vinyl Composition Tile, Bathroom	10	5	5	28,000	SF	\$2.10	\$58,800	\$0	\$0	\$0	\$0	\$14,725	\$23,104	\$8,056	\$8,426	\$8,814	\$9,219	\$72,344	
25	Refrigerator, 14 Cu. Ft. Frost Free	15	4	11	308	EA	\$425.00	\$130,900	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
26	Range, 30" Electric	15	4	11	308	EA	\$285.00	\$87,780	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
27	Garbage Disposal, In-Sink	10	6	4	308	EA	\$90.00	\$27,720	\$0	\$0	\$0	\$6,637	\$10,413	\$3,631	\$3,798	\$3,972	\$4,155	\$4,346	\$36,952	
28	Dishwasher, Four Cycle	10	0	10	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$24,146	\$24,146
<i>MECHANICAL</i>																				
29	Exhaust Fan, Bathroom	12	8	4	620	EA	\$30.00	\$18,600	\$0	\$0	\$0	\$4,453	\$6,987	\$2,030	\$2,124	\$2,221	\$2,323	\$2,430	\$22,569	
30	Furnace, Individual Gas-Fired Unit	20	5	15	308	EA	\$800.00	\$246,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
31	Condenser, Air-Cooled	15	4	11	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
32	Domestic Water Heater, Individual Electric Unit	7	7	0	308	EA	\$180.00	\$55,440	\$12,178	\$6,066	\$6,345	\$6,637	\$6,942	\$7,261	\$12,152	\$15,095	\$11,872	\$12,418	\$96,965	
EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.																				
ANNUAL REQUIREMENTS (ROUNDED)									\$96,982	\$50,115	\$129,705	\$59,026	\$104,355	\$140,263	\$131,284	\$238,678	\$114,261	\$155,114	\$1,219,783	
PV OF TOTAL ANNUAL RESERVES									\$929,137											
PV TOTAL ANNUAL RESERVES/UNIT/YEAR									\$451											

COST ESTIMATE TO REMEDY DEFICIENCIES

Canterberry Green
October 14, 1994

Item	Quantity	Unit	Unit Cost	Budget Cost Immediate	Estimate Short-term
<i>SITE</i>					
Asphalt Patching —Remove and patch all soft, crazed parking areas. Within the next three (3) years all of the paved areas should be resurfaced.	1	LS	\$2,700		\$2,700
Asphalt Sealing —Pavement is bleached and oil stained at parking spots. Prolong longevity and improve the complex's general aesthetics by applying an emulsion asphalt sealant. Prepare surfaces by sealing all cracks, patching deficiencies and removing oil staining. Apply two (2) coats of emulsion based asphalt sealant, containing 4 lbs. of sand per gallon plus 4% latex additive, to entire asphalt paved area in that location.	61	Unit	\$20		\$1,220
Asphalt Striping —Striping is faded throughout the paved parking areas. Layout and restripe entire parking lot using reflectorized white or yellow 4" wide painted lines for car stalls, handicap areas, fire zones and traffic flow.	61	Unit	\$3		\$183
Regrade Cluster Perimeters —Crawl space flooding is occurring at Building No. 10. Similar conditions were noted at Building Nos. 9 and 11. Foundation wall backfill has settled and the situation has been aggravated by storm water ponding adjacent to the foundation. These conditions are contributing to crawl space water seepage and high humidity problems, which are conducive to rot and termite infestation. Spread and compact additional soil to promote positive drainage away from sidewalls.	3	Cluster	\$2,300	\$6,900	
Site Lighting —Install three (3) new high pressure, sodium fixtured lighting standards near Building Nos. 10 and 11 to illuminate unsafe areas.	3	Each	\$1,600		\$4,800
<i>EXTERIOR</i>					
Exterior Painting —Paint on hardboard siding and rough sawn trim is faded, mildew stained and deteriorated at all units. Such conditions will eventually lead to rot and deterioration of wood surfaces. Scrape worn painted surfaces, and brush apply two (2) coats of exterior latex paint on the hardboard siding, trim, window frames and exterior doors. Apply sealant to all open joints.	130	Cube	\$145		\$18,850
Misc. Exterior Carpentry Repairs —Numerous years of deferred maintenance has led to the deterioration of miscellaneous wood trim components at cluster exteriors. Secure loose and cupped rough sawn battens, loose and hanging soffit panels, and replace rotted eave and fascia trim. Also replace miscellaneous rotted exterior door jambs, sheathing and deteriorated trim sections, etc.	8	Cluster	\$965		\$7,720
Asphalt Shingle Roofing —Remove existing asphalt shingles down to plywood sheathing. Replace damaged sheathing as necessary. Install new #235 asphalt shingle roofs, complete with flashings, at each building.	130	Cube	\$400		\$52,000
<i>MECHANICAL/ELECTRICAL/PLUMBING</i>					
Electric Domestic Hot Water Heaters —Existing domestic hot water heaters have reached their expected useful lives. Budget to replace with new electric domestic hot water heaters complete with new temperature and pressure safety release valve piped to the floor.	308	Each	\$45	\$13,860	
Bathroom Vents —Bathroom vents exhaust in the attic spaces of the units, as in the cases of Unit Nos. 405 and 609, creating warm, humid conditions which have contributed to minor rot and decay of the roof sheathing. Extend bathroom vent ducts through the roofs and terminate with proper flashing and caps.					
<i>INTERIOR</i>					
Carpet —Many units contain dated carpeting which is in need of replacement. Remove existing carpeting and padding and install new carpet.	15	Unit	\$500		\$7,500
Kitchen Vinyl Floor Covering —Worn, dated vinyl kitchen flooring was reported at most units in the development. Remove existing vinyl flooring, which is said to be faded and lifting along seams, and replace.	15	Unit	\$100		\$1,500
Bathroom Vinyl Flooring —Worn, dated vinyl flooring was observed at representative bathrooms. Remove discolored and lifting vinyl bathroom flooring and replace with new.	15	Bath	\$100		\$1,500
			TOTAL	\$20,760	\$97,973

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.

GUIDELINES FOR CONDUCTING PROPERTY CONDITION ASSESSMENTS

RETAIL BUILDINGS

PURPOSE

1. Identify significant defects, deficiencies, items of deferred maintenance and material building code violations (individually and collectively, Physical Deficiencies) as a result of a visual survey, review of documents, and the research and interrogatories as described herein.
2. Prepare estimated costs to remedy the Physical Deficiencies.
3. Prepare a Replacement Reserve Schedule for the term of the loan plus two years. The length of this term is to be provided by the Client.
4. Prepare a written report (the Report) that opines on the Subject's overall physical condition, describes pertinent components or systems of the Subject property, identifies Physical Deficiencies and conditions that would limit the expected useful life of major components or systems, and provides estimated costs to remedy Physical Deficiencies and for annual Replacement Reserve Expenditures.

SCOPE OF WORK

A. General

The Consultant shall review available information to be provided by the Client and the Borrower, make inquiries of the Borrower, make observations sufficient to establish the type and approximate extent of Physical Deficiencies, and take representative measurements and quantity counts to estimate the cost to remedy Physical Deficiencies and to prepare the Replacement Reserve Schedule.

Consultant should assume that timely and complete access to the property, staff, vendors, and documents will be provided by Borrower. Borrower is to provide sufficient, safe, and readily available access to all areas of the building(s) including roofs so as not to impede Consultant's survey procedures. Client will assist Consultant in securing access and information in the event Borrower fails to cooperate. The Consultant should not seek access to any property, staff, tenants, vendors, or documents if the Borrower objects to this access or attempts to restrict Consultant from conducting its survey or research.

Should any document, vendor access, or information be requested by Consultant but knowingly withheld by Borrower from Consultant, Consultant shall contact Client. If this information is not provided before the preparation of Consultant's draft report, Consultant shall identify within the Report, in the appropriate sections, any information or access requested but subsequently denied, or not made readily available at the time of the Consultant's site visit or the Report's writing.

SCOPE OF WORK (continued)

B. Time Allocation

Although the time required at a site and for research will vary based on the size, age, number of buildings, configuration, type and condition of a property, the following man-hour estimates may be useful as a guideline for the Consultant to estimate its fee. Based upon Standard & Poor's experience, these guidelines appear to be reasonable for the time required to conduct a property condition assessment by an architect or engineer knowledgeable and experienced in this field.

Man-Hour Guidelines			
Item	Size of Retail Building		
	<50 MSF	>50 MSF <400 MSF	>150 MSF <400 MSF
Mobilization	2	2	2
Site Visit:			
Property Assessment	3-5	6-8	8-16
Replacement Reserve Measuring	2-3	3-5	6-12
Research: Historical Costs, Tenants, Vendors, and Government	3-5	4-5	5-8
Cost Estimating:			
Deficiencies	3-8	4-8	7-12
Replacement Reserves	6-8	7-8	8-16
Seismic Review/PML Study*	30	35	45
Building Measurement	3-5	5-8	8-16
Confirmation (Optional)			
Report Write-Up: Draft	13-16	16-22	22-32
Subtotal	65-82	82-101	111-159
Report Revisions and Discussions	2	2	2-3
Report Write-Up: Final Review and Handling	<u>2-4</u>	<u>2-4</u>	<u>4-6</u>
Total Estimated Man-Hours	<u>69-88</u>	<u>86-107</u>	<u>117-168</u>

*Required for seismic zones 3 and 4 only.

As an expert in this field of work, Consultant is to use its judgment as to the time required to be expended by the Consultant's technical staff, clerical and secretarial staff, expenses related to traveling and communication, and other expenses that may not be identified.

SURVEY AND RESEARCH PROCEDURES

A. Property Survey

Observe property components, systems, and elements that are easily visible and readily accessible for the purposes of describing same, opining on their apparent physical condition, and identifying significant Physical Deficiencies. Consultant is not required to prepare detailed calculations, to remove materials, operate equipment not typically operated by tenants, or conduct any exploratory probing or testing. This is a nonintrusive visual survey. However, Consultant is to make a reasonable attempt at discovery. The “law-of-reason” shall prevail.

Survey procedures will consist of:

- Walk-around visual survey.
- Random operation of equipment, fixtures and systems, which are normally operated by tenants, on a sampling basis to determine system operability or operating characteristics.
- Noting of material building code violations of items, systems, or design that are readily apparent and discernible as a result of the “walk-through” survey.
- The taking of measurements and system counts to adequately justify estimated costs to remedy Physical Deficiencies and to estimate Replacement Reserve Expenditures. The basis for these costs must be substantiated by the Consultant within the Report.

B. Research

1. Borrower/Owner

Consultant is to provide Borrower with a Presurvey Questionnaire and Disclosure Schedule (the Questionnaire) and a Property Condition Assessment Document and Information Checklist (the Checklist) (copies attached), which are to be specifically tailored by Consultant for the Subject. These documents are to be completed by the Borrower or its representative and forwarded to the Consultant. The Questionnaire and Checklist shall be included as exhibits within Consultant’s report, whether or not they are completed by the Borrower and provided to Consultant.

Research shall be conducted using tenants, service providers, and those knowledgeable about the Subject as sources. Standard & Poor’s recommends that the following research be conducted as a minimum. Telephone interviews may be sufficient for most inquiries.

- Interviewing building management and ownership.
- Interrogatories with pertinent building systems service personnel, vendors, and tenants.

In addition, attempt to discover the following information:

- Type and extent of deferred maintenance
- Type and extent of latent or patent defects
- Anticipated costs to remedy known Physical Deficiencies at the property (prior quotes and proposals, pending proposals, unit prices, etc.)
- Historical costs incurred for repairs, improvements, recurring replacements, etc.
- Schedules of CAM and operating expenses
- Program for preventive maintenance, repairs, and budgeting for replacement reserves
- Age of systems, components and equipment when different from property age
- Current and recent maintenance practices
- Warranty information (roof, HVAC, etc.)
- Existence of outstanding citations for building, fire and zoning code violations
- Existence of ADA assessment survey and status of any compliance activity
- Existence of any other previously prepared due diligence survey
- Building occupancy percentage and turnover rate

2. Government Agencies

Consultant shall endeavor to research the local Department of Buildings' file on the Subject. The purpose of this research is to determine the presence of any outstanding material building code violations, file completeness, and to obtain, if possible, a copy of the Subject's Certificate of Occupancy and/or use restrictions that may have been imposed as a result of granting zoning variances. Furthermore, Consultant is to inquire whether there are any proposed or anticipated building codes that may be implemented, which the Subject would be required to comply with as a result of not being grandfathered. The Report shall contain the results of these interviews complete with the names and titles of government employees consulted.

C. Review of Documents Review property records and studies as furnished by the Client, the Borrower or its representative. In general, document information will consist primarily of Borrower-supplied leasing literature, possibly drawings (as-built, if available), historical receipts for repairs and/or improvements, pending proposals for repairs and replacements, schedule of CAM expenses, etc. There may also be previously prepared building condition survey reports, appraisals, roof condition surveys, an ADA survey, etc. that should be provided to the Consultant as well. Should access to any or all documentation be restricted or denied to Consultant, Consultant is to notify Client and report this lack of access or denial within the Report.

If drawings (as-built or construction) are available, they are to be provided to the Consultant for Consultant's use in Consultant's offices. These drawings shall serve as an aid to the Consultant in developing quantities for cost estimating purposes (both to remedy deficiencies and for replacement reserve calculations), and will assist Consultant in preparing descriptions of the improvements, and identifying latent defects. An in-depth review of the drawings is not required under the scope of this engagement. In addition, Consultant is not required to prepare a detailed code compliance review based upon either the drawings or the Consultant's visual survey.

D. Representative Sampling Not every tenant space must be surveyed. However, the envelope of each building along with base building areas/systems shall be surveyed should more than one building exist.

E. Photographs As a minimum, Consultant will take 35mm color photographs of:

- View of Subject from "curb"
- Representative elevations
- Landscape photos of roof (main and canopy)
- Landscape photos of parking areas taken from roof vantage points
- Loading dock areas
- Canopy system
- Mechanical, electrical and plumbing equipment
- Significant or commonly encountered Physical Deficiencies

For most assignments, the number of photographs will range from 20-40. Each photograph should be described.

REPORT

Outline

Prepare a Property Condition Assessment Report (the Report) following this outline:

Cover Page

Table of Contents

- I. Executive Summary
 - A. General Description
 - B. General Condition
 - C. Estimated Required Expenditures
 - Deferred Maintenance and Physical Deficiencies
 - Replacement Reserve Expenditures
 - D. Recommendations
- II. Purpose and Scope
- III. Description and Condition
 - A. Site
 - B. Frame and Envelope
 - C. Interior Elements
 - D. Plumbing, HVAC and Electrical
 - E. Elevators and Escalators
 - F. Fire/Life Safety
 - G. Miscellaneous
 - ADA Compliance
 - Building Code Violations Issues
 - Asbestos/Environmental Concerns
 - Building Measurement Confirmation
- IV. Cost Estimates to Remedy Deficiencies

- V. Replacement Reserve Analysis
- VI. Qualifications
 - Limiting Conditions
 - Consultant's Certification
- VII. Exhibits
 - Photographs
 - Presurvey Questionnaire and Disclosure Schedule
 - Property Condition Assessment Document and Information Checklist
 - Subject Description and Parameters Schedule
 - Schedule of Data/Documents Reviewed
 - Schedule of Borrower CAM Expenses
 - Leasing Literature
 - Reduced Plot or Site Plans, etc.
 - Tenant Schedule

The required content of the Property Condition Assessment Report is more fully described as follows. The format follows the Report's Table of Contents provided above.

I. EXECUTIVE SUMMARY

(try to limit to one to two pages)

A. General Description

This should be no more than a short paragraph that describes the Subject. It should provide salient information such as location, size, age, construction type, type of retail center, design style, apparent occupancy status, major anchor tenants, etc. Sufficient information should be provided so that the reader can visualize the Subject.

B. General Condition

The opening paragraph should opine on the Subject's general condition and the apparent level of preventive maintenance exercised, significant deferred maintenance, material Physical Deficiencies, and any significant deviations from Borrower provided building gross or leaseable areas. If any significant physical improvements were recently implemented, this information should be provided as well. Should any of Consultant's research result in either significantly positive or negative responses, provide this information. Do not dwell on minor deficiencies.

Although not limited to the following, the conditions listed below must be commented upon, if noted. For each, provide a summary outline of the pertinent, salient Physical Deficiencies noted, with concise opinions.

- Presence of phenolic roof insulation
- Numerous quilt-like or trench-type asphalt pavement patches
- Roof (main or canopy) leaks, significant roof repairs and ponding
- Parapet deficiencies
- Facade leaks
- Material building code violations
- Presence of sewage ejector pumps
- Presence of suspect ACM
- Presence of cannibalized RTUs
- Aluminum branch circuit wiring and the use of CO/ALR components, if any

I. EXECUTIVE SUMMARY *(continued)*

.....

- C. **Estimated Required Expenditures**
1. **Deferred Maintenance and Physical Deficiencies**
Allocate the totals of the derived cost estimates to remedy Physical Deficiencies into categories classified as either Immediate or Short Term.
 2. **Replacement Reserve Expenditures**
Determine the present value, at a discount rate to be provided, of the annual required replacement reserve expenditures over the reserve term.
- D. **Recommendations** Should any condition be suspect and warrant further research, testing, removal of material, etc., this recommendation should be placed in this section. Examples would be recommendations for eddy current testing of chillers, roof infrared surveys, scaffold inspections, etc.

II. PURPOSE AND SCOPE

.....

- A. **Purpose** Consultant is to provide a short paragraph specifically stating the purpose of this engagement and identifying the Subject.
- B. **Scope** Consultant is to outline the scope and the methods used to conduct the survey (as outlined herein and in accordance with the Consultant's Property Condition Assessment Agreement), and is to identify the individuals, firms, and/or governmental agencies interviewed for research purposes.

III. DESCRIPTION AND CONDITION

The succeeding sections should be presented in a narrative form and may only need to consist of a few sentences and, in some cases, simply phrases. This information can be presented in either tabular or outline form. Excessively detailed descriptions, such as providing model or serial numbers of mechanical equipment, are unwarranted. If access or visual observation was impaired, denied or limited, or if pertinent information was denied or realized as a result of Consultant's research or interviews, provide the results of same in the appropriate following sections.

Each section is to consist of two sections: *Description* and *Observations/Comments*, and presented as in the example that follows. Please provide sufficient descriptive information to support an opinion. Simply stating that the "roof is poor" is insufficient. The opinion should be adequately supported, and it should be accompanied by a recommended remedy.

2. Paving and Curbing

Description:

Paving consists of asphalt throughout all drives and parking areas. Curbing is of extruded asphalt. Six hundred open air parking spaces are provided. Ten parking spaces for the disabled are located along the front elevation.

Observations/Comments:

Paving is 10 years old and serviceable. Numerous patch-type repairs have been made and about 30% of the surface has received a 1½" overlay. Poor soils, an inadequate base course and heavy loading for trucks are suspect for the premature failure noted. Surfaces were never sealed and striping is faded. Vehicle parking is more than sufficient with one space per 200 SF of gross area.

The prompts listed under each section for the following *Description* and *Observations/Comments* sections are presented *as a guide only* and are not to be construed as all inclusive or as a constraint to response limitation. Consultant is responsible for reporting all significant Physical Deficiencies.

III. DESCRIPTION AND CONDITION *(continued)*

A. Site

1. Topography and Drainage

Description:

- Flat, rolling hills, extreme variations in topography
- Conditions conducive to soils with low load bearing characteristics, etc.
- Note whether the property encroaches upon a 100-year flood area designated as “Special Flood Hazard Areas Inundated by 100-year Flood” on FEMA maps, as amended.
- Site drainage
- Surface waters or vegetation indicative of surface waters
- Retention or detention basins

Observations/Comments:

- Propensity of flooding
- Clogged or silt-filled catch basins
- Storm water overflow to or from adjacent properties
- High water table suspect, etc.

2. Paving and Curbing

Description:

- Number of parking and loading spaces
- Type of paving and curbing
- SFR per parking space

Observations/Comments:

- Evidence of existing numerous deficiencies, large patch or trench-type repairs, overlays
- Condition of striping, curb repairs, extensive ponding or “bird baths,” etc.
- Presence of previously applied asphaltic sealant
- Extensive vehicle oil staining or bleaching of asphalt surfaces
- Opine on adequacy of parking and truck loading spaces
- Ponding or silt-filled intercepting drains or catch basins

III. DESCRIPTION AND CONDITION *(continued)*

3. Flatwork

Description:

- Type of sidewalks and plazas

Observations/Comments:

- Significant cracks
- Heaved sections or significant settlement
- Tripping hazards
- Missing handrails
- Replaced sections, evidence of previous repairs, etc.
- Depressed curbs for the disabled
- Truck landing gear support pads

4. Landscaping and Appurtenances

Description:

- Presence of specimen trees, shrubs, and lawn areas, etc.
- Location of pad mounted transformer

Observations/Comments:

- Whether landscaping appears professionally maintained, overgrown, unkept, bare lawn areas, etc.
- Protection of pad mounted transformer with bollards and storm water drainage characteristics around same

5. Utilities

Description:

- Type and provider
 - a. Water
 - b. Electricity
 - c. Natural gas
 - d. Sanitary sewer
 - e. Storm sewer

Observations/Comments:

- Sewage backup problems
- Storm water backup/flooding
- Septic system maintenance
- Sewage ejector pump maintenance

III. DESCRIPTION AND CONDITION (continued)

B. Frame and Envelope

1. Substructure

Description:

- Foundation system
- Presence of cellar or basement, if any

Observations/Comments:

- Visual evidence of significant foundation cracks, differential settlement, step cracking of foundation walls
- Existence of sump pumps, perimeter channels, etc.
- Evidence of cellar/basement level flooding, water or moisture penetration
- Significant S.O.G. cracks or settlement
- Stairwell drainage, handrails, etc.

2. Superstructure

a. Visual Survey

Description:

- Framing system: preengineering or conventional
- Lateral load resistance
- Design live loads: S.O.G. and mezzanine

Observations/Comments:

- Visual evidence of any structural distress
- Racking evidence or nonalignment of sidewall system
- Rusting of column bases

b. Seismic Requirements

For buildings located within Zones 3 or 4, as depicted on the “Seismic Zone Map of the U.S.,” Figure 23-2, page 194 of the 1991 Uniform Building Code, the following requirements shall apply. However, it will be up to the discretion of Standard & Poor’s to require the following should the building(s) be of Type 5 Construction (UBC Building Code) and under 75,000 SF in size.

- Review and report on available geotechnical information (geotechnical reports, soil borings, foundation system studies, etc.) and comment on the soil type, geotechnical features and the potential of soil liquefaction in the event of an earthquake.

III. DESCRIPTION AND CONDITION *(continued)*

- Identify and report on any catalogued active faults that may affect the property. Report magnitude estimates and distance from the subject to such faults.
- Determine the building type and under which code the building was designed.
- Review and report on available drawings as they pertain to the designed gravity (dead and live) and lateral (earthquake or wind, whichever is greater) loads and on the existing gravity and lateral force resisting systems of the structures.
- Conduct a site visit to visually review as-built conditions as they comply with the drawings submitted, if any, and to identify structural deficiencies as they pertain to inadequate gravity and horizontal loading under current code requirements.
- Render an opinion of the Aggregate Probable Maximum Loss (PML) as a percentage of the current building replacement cost as a result of an earthquake, complete with a general description of the anticipated damage for the structure. The PML is to be based on a 10% probability of being exceeded in a 50-year period.
- Provide recommendations for mitigating structural deficiencies to incur a PML of not more than 15% complete with preliminary cost estimates based upon nominal quantity, take-off calculations for the recommended work. The analysis and recommendations are to be based upon a visual review of the drawings and structure and are not to involve performing analytical structural calculations or testings.
- Take representative photographs of typical conditions and pertinent deficiencies. Such photos are to be annotated to adequately describe same.
- Prepare a written report evaluating all of the above.

3. Facades

Description:

- Sidewall system
- Insulation characteristics
- Canopy fascia and soffits
- Parapets and copings
- Storefront
- Loading dock areas

Observations/Comments:

- Condition of paint, caulking, pointing, facade system, lintels, etc.
- Condition of parapets and copings, visible diagonal cracks, horizontal shifting, etc.
- Sidewall water/moisture penetration, efflorescence, etc.
- Insulation adequacy
- Condition of sidewall mounted gutters and leaders
- Condition of loading dock areas and steps
- Water stains on canopy soffit
- Protection of sidewall mounted tenant electrical panels or natural gas meters

4. Roofing (Main and Canopy)

Consultant is to place an emphasis within the report on surveying, researching and opining on the condition of the building's roof. All previously prepared roof condition survey reports, whether visual or infrared, are to be reviewed and commented upon. Copies of any roofing warranties, either manufacturer or contractor supplied, should be solicited and reviewed.

Description:

- Type, pitch, drainage and means of access
- Number of roof coverings

III. DESCRIPTION AND CONDITION *(continued)*

Observations/Comments:

- Opine on remaining useful life
- Evidence of previous roof or flashing repairs
- Evidence of surface ponding
- Adequacy of roof drainage
- Presence of phenolic insulation
- Presence of roofing vents installed after the roof application
- Condition of roof expansion joint, flashing, pitch pockets and gravel stops
- Reported leaks
- Condition of roof appurtenances
- Evidence of membrane mechanical damage

C. Interior Elements

Describe a typical tenant retail store box as to storefront, ceiling system, toilet facilities, etc.

D. Plumbing, HVAC and Electrical

1. Plumbing

Description:

- Source of potable water
- Type of supply and drainage piping material
- Discharge source of sanitary waste: on-site septic system, lift station, municipal system, etc.
- Description of domestic hot water production

Observations/Comments:

- Evidence of leaks, galvanic action, or piping condition
- Reports or evidence of sewage backup

III. DESCRIPTION AND CONDITION *(continued)*

2. Heating and Air Conditioning

Description:

- Describe equipment and distribution systems

Observations/Comments:

- Opine on equipment's condition, remaining useful life, system replacements, etc.
- Use of R-12 refrigerant
- RTU condensate drains discharging on roof
- Adequacy of boiler/furnace room combustion air
- Lack of boiler room fire hazards
- Boiler water treatment, if applicable
- RTUs sitting on 4"x4"s, CMUs, or not properly flashed or curbed
- Evidence of cannibalized RTUs
- Zoning problems and tenant complaints

3. Electrical

Description:

- Size of service
- Circuit breakers or fuse overload protection
- Aluminum distribution wiring
- Metering of individual tenants

Observations/Comments:

- Service adequacy
- If aluminum wiring, use of CO/ALR components to mitigate potential fire hazard

III. DESCRIPTION AND CONDITION *(continued)*

.....

E. Elevators and Escalators

Description:

- Type, number and age
- Type of control system
- Name of service company

Observations/Comments:

- Research gleaned from service company and management interviews with respect to operations, reliability and expected useful life.
- Existence of fireman's recall
- Comment on date of last safety inspection and load test

F. Fire/Life Safety

1. Sprinklers

Description:

- Type of system: wet or dry
- Fire pump and exterior fire department connections
- Classification of hazard

Observations/Comments:

- Adequacy of coverage
- Clearance under heads
- Date of annual testing
- Date of last state or local municipal inspection

2. Alarm Systems

Description:

- Type of system: manual, automatic, addressable, supervised, multiplex, hardwire, etc.
- Devices incorporated: smoke detectors, pull stations, flow switches, etc.

Observations/Comments:

- Date of last test and inspection

III. DESCRIPTION AND CONDITION *(continued)*

G. Miscellaneous

1. ADA Compliance

Provide paragraph addressing compliance with salient ADA requirements that are concerned with building access and public toilet facilities. Estimated costs to provide or modify existing improvements so as to provide access for the disabled are to be provided within Section V. - "Replacement Reserve Analysis." Clearly indicate these costs are for ADA-related improvements. Inasmuch as this survey for ADA compliance is not to be construed as an in-depth ADA survey, detailed cost estimates for compliance are to be calculated using broad assumptions.

2. Building Code Violations Issues

Address noncompliance with any material building codes or anticipated code changes for which the Subject would not be grandfathered. Refer to "Survey and Research Procedures: B. Research; 2. Government Agencies" for requirements.

3. Asbestos/Environmental Concerns

Opining on asbestos, hazardous wastes, toxic materials, IAQ, etc., is outside the scope of this Report. However, should Consultant observe material that is suspect of containing friable asbestos or other conditions indicative of possible environmental concerns, such as USTs in excess of 10 years old, Consultant shall note these concerns within the text of the report and within this section as well. Costs to remove/abate asbestos should be provided under Section V. - "Replacement Reserve Analysis." These costs should be provided on an SF basis. Similar to No. 1 above, ADA Compliance, cost estimates for asbestos removal/abatement are to be order of magnitude estimates calculated using broad assumptions.

4. Building Measurement Confirmation (Optional)

If as-built drawings are provided by the Borrower, calculate the gross and rentable floor areas using BOMA standards. These calculations are to be provided in a tabular format and compared to a schedule of same provided by the Borrower. Client may direct Consultant to provide only spot or a sampling of compliance measurements, or to omit this section entirely.

IV. COST ESTIMATES TO REMEDY DEFICIENCIES

Based upon (i) Consultant's observations during its site visit, and (ii) information received from interviews with building management, tenants, and service personnel, which for purposes of the Report will be deemed to be reliable, prepare general scope, preliminary cost estimates complete with an appropriate recommended remedy for each significant Physical Deficiency. This remedy must be commensurate with the Subject and considered a prudent expenditure. Simply stating "poor roof" and providing a lump sum cost-to-cure is insufficient.

These estimates are for components or systems exhibiting either patent defects, significant deferred maintenance, or requiring major repairs or replacement. Repairs or improvements that could be classified as (i) a routine operating expense, (ii) part or parcel of a building renovation program, or (iii) normal building preventive maintenance are not to be included. However, improvement/repair expenses that are typically classified as CAM or that are the responsibility of tenants are to be included. This typically includes, but is not limited to: tenant HVAC units, paving and canopy repairs. Of importance, the Consultant must offer an appropriate recommended remedy for each Physical Deficiency.

Cost estimates for Physical Deficiencies shall be allocated into two categories. Terms used to describe these categories are defined below:

- Immediate—** Physical Deficiencies that require immediate action as a result of: (i) existing or potentially unsafe conditions, (ii) significant negative conditions impacting tenancy/marketability, (iii) material building code violations, (iv) poor or deteriorated condition of critical element or system, or (v) a condition that if left "as is," with an extensive delay in addressing same, would result in or contribute to critical element or system failure within one year.
- Short Term—
(0-1 year)** Physical Deficiencies, which are inclusive of deferred maintenance, that may not warrant immediate attention, but requiring repairs or replacements that should be undertaken on a priority basis, taking precedence over routine preventive maintenance work within a zero to one-year time frame. Included are such Physical Deficiencies resulting from improper design, faulty installation and/or substandard quality of original system or materials. Components or systems that have realized or exceeded their Expected Useful Life (EUL) that may require replacement to be implemented within a zero to one-year time frame are also included.

IV. COST ESTIMATES TO REMEDY DEFICIENCIES *(continued)*

Consultant's estimated costs are deemed to be preliminary. These costs are to be net of general conditions, construction management fees, and design fees. Consultant is to use market costs or historical costs incurred by the Borrower that are documented and/or have been substantiated to Consultant's satisfaction. However, these costs must be reasonable market costs. The Borrower should document these costs by submitting paid invoices, executed or pending bona fide proposals, etc.

The basis of the derivation of these costs must be provided with respect to nominal quantities and the unit costs used; a rational approach to the derivation of the cost estimate must be provided. All cost information must be submitted in a format similar to the schedule titled "Cost Estimates to Remedy Deficiencies" attached to this guideline, and be complete with quantities, units, unit costs and totals.

V. REPLACEMENT RESERVE ANALYSIS

Borrower shall provide Consultant with a schedule of all CAM expenses. Although CAM expenses are typically expensed to tenants as additional rent, these costs are to be included in the Consultant's Replacement Reserve Schedule and each shall be identified as a CAM expense. However, only such CAM expenditures for major improvements are to be included.

In addition to CAM items, the Consultant shall prepare a Replacement Reserve Schedule that is comprehensive and complete. Other than a CAM item or an item that is clearly and commonly accepted in the industry as an expense, all recurring items requiring replacement are to be included. This spreadsheet is to encompass short-lived, mid-lived and long-lived recurring systems and components. Short-term recurring systems and components are typically such items as exterior caulking, pavement sealing and striping, etc. Mid-lived recurring systems are typically cooling towers, paving, roofing, domestic hot water heaters, etc. Long-lived items are typically boilers, chillers, electrical systems, infrastructure components, supply and drainage piping, etc.

The following methodology should be employed when completing the attached Replacement Reserve Schedule. Submit these schedules in a spreadsheet format. An example of a typical schedule is attached.

V. REPLACEMENT RESERVE ANALYSIS (continued)

1. **Do Not Double-dip:** In other words, if Consultant identifies that the roof requires replacement as a Short-Term item under Section IV. - “Cost Estimates to Remedy Deficiencies” do not require its replacement under year one in the Replacement Reserve Schedule. Treat the roof as if it were new with a Remaining Useful Life (RUL) equal to its commonly anticipated Expected Useful Life (EUL).
2. **Opine on EUL and EFF AGE:** Consultant is allowed to use its professional judgment in determining when a system or component will require replacement. Inclement weather, exposure to the elements, initial quality and installation, extent of use, and the degree of preventive maintenance exercised are all factors that could impact the RUL of a system or component. As a result of the aforementioned items, a system or component may have an Effective Age (EFF AGE) greater or less than its Actual Age (ACT AGE). For instance, a parking lot with an EUL of 18 years that has been religiously sealed with a squeegee applied asphaltic emulsion slurry coat may have an EFF AGE equal to eight years although its ACT AGE is 12 years. Therefore, its RUL will be 10 years (18 minus 8) instead of six years (18 minus 12). When there is a significant deviation from common EULs, the text in Section III. - “Description and Condition” must complement same. Should the Borrower or Client differ from the Consultant as to a component’s or system’s EUL, Borrower or Client must substantiate this opinion by schedules, invoices, etc. The Consultant is not to accept unsubstantiated EULs.
3. **Phase Replacements:** Consultant may exercise professional judgment as to the rate or phasing of replacements. For instance, suppose that an office complex has an extensive quantity of paving that will realize its EUL in year eight. Instead of requiring the replacement of all paving in year eight, which would be a significant cost to be incurred in any single year, Consultant may phase the work over three years; i.e., Consultant may replace 40% in year eight, 40% in year nine and 20% in year 10. However, make sure that the other replacements recommended that complement same are also completed in this phase. For instance, if the paving overlay is to be completed in phases, so must the striping. However, do not phase work that is only of limited scope, such as resurfacing a 2,000 SY parking lot, since prudent management would not phase such a small quantity of paving resurfacing.

Phased replacement scheduling is also appropriate for allocating asbestos removal/abatement costs inasmuch as such work commonly coincides with lease terminations.

V. REPLACEMENT RESERVE ANALYSIS (continued)

4. **Component Replacements:** Certain mechanical equipment can be broken down into commonly replaced individual major components so that funding to replace the entire piece of equipment at one time is not necessary. For example, the overall cost of a boiler may include pumps, a burner, etc., which may require replacement on a schedule different from that of the entire boiler.
5. **Replacements Made Thus Far:** Take into consideration if management has already begun a program of replacing multiple or single components that have realized their EUL. If, as a result of research, Consultant learns the extent of such replacements made to date, Consultant shall take this into consideration. In some instances, Consultant may use weighted average EULs and EFF AGEs. The onus is on management to substantiate the replacements made and the reported costs incurred by submitting documentation to the Consultant. Such documents should be included as an exhibit to the Report.
6. **Term:** Complete a Replacement Reserve Schedule for the term of the loan plus two years. The length of the term or “window” may significantly impact reserve requirements. For instance, a 17-year reserve “window” would not include replacement of roofing (RUL = 20 years) for a subject having a one-year-old roof, whereas a 22-year “window” would include such a cost. Generally, the smaller the window, the less the reserve monies required.
7. **Replacement Costs:** Replacement costs used shall be market or Borrower’s historical incurred costs, or substantiated third-party costs. Should the Borrower or Client differ from the Consultant as to a component’s or system’s replacement cost, Borrower or Client must substantiate this opinion by submitting paid invoices, executed proposals, receipts, bona fide pending proposals, etc. The Consultant is not to accept unsubstantiated replacement costs offered by the Borrower or Client.
8. **Inflation:** Projected future expenditures should incorporate a rate of inflation equal to the rate of comparable term Treasuries less 140 basis points or a defined rate provided by Client.

VI. QUALIFICATIONS

Procedure, Limitations, Use and Reliance Restrictions.

VII. EXHIBITS

The Consultant should append any exhibits that illustrate or clarify information presented in the body of the Report. Pertinent documents such as leasing literature and schedules, tenant schedules, annotated site plans, copies of pending proposals, building plan excerpts, certificates of occupancy and other relevant information should be provided where available and useful.

The Presurvey Questionnaire and Disclosure Schedule and the Property Condition Assessment Document and Information Checklist should be appended whether or not the Borrower or its representative has completed them.

REPLACEMENT RESERVE ANALYSIS

CRYSTAL BAY
2333 Feather Sound Drive

Inflation = 4.6%
October 14, 1994

No.	Item	Avg. EUL (yr)	EFF AGE (yr)	RUL (yr)	Quantity	Unit	Unit Cost	Cost Over Cycle	1994 1	1995 2	1996 3	1997 4	1998 5	1999 6	2000 7	2001 8	2002 9	2003 10	Total over term inflated \$	
<i>SITE</i>																				
1	Paving, Asphalt—Apply 1" Topping	18	7	11	11,500	SY	21.75	\$77,625	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	Asphalt Pvmnt Sealant—Slurry Coat	5	4	1	11,500	SY	0.75	\$8,625	\$9,022	\$0	\$0	\$0	\$0	\$11,297	\$0	\$0	\$0	\$0	\$0	\$20,318
3	Sidewalks, Concrete—Replace	25	10	15	1,750	SF	5.00	\$8,750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	Irrigtn Sys., Lawn—Rpl. Pump & Controls	8	5	3	4	EA	1,200.00	\$4,800	\$0	\$0	\$5,493	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,493
5	Lighting Standards, Aluminum—Site	16	5	11	32	EA	1,700.00	\$54,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	Swimming Pool, Re-Marciting	5	2	3	6,200	SF	1.45	\$8,990	\$0	\$0	\$10,289	\$0	\$0	\$0	\$0	\$12,883	\$0	\$0	\$0	\$23,171
7	Swimming Pool, Deck Re-surfacing	8	2	6	4,000	SF	2.50	\$10,000	\$0	\$0	\$0	\$0	\$0	\$13,098	\$0	\$0	\$0	\$0	\$0	\$13,098
8	Swimming Pool, Filtering Equip.	12	10	2	2	POOL	900.00	\$1,800	\$0	\$1,969	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,969
9	Fencing, Stockade (Wood)	12	5	7	450	LF	7.50	\$3,375	\$0	\$0	\$0	\$0	\$0	\$0	\$4,624	\$0	\$0	\$0	\$0	\$4,624
10	Fence Enclosure, Refuse (Wood)	8	5	3	5	EA	200.00	\$1,000	\$0	\$0	\$1,144	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,144
11	Mailboxes, Aluminum—Exterior Display	15	5	10	2	EA	2,800.00	\$5,600	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$8,780	\$8,780
12	Tennis Court—Surface Coating & Striping	15	8	7	14,400	SF	0.65	\$9,360	\$0	\$0	\$0	\$0	\$0	\$0	\$12,823	\$0	\$0	\$0	\$0	\$12,823
<i>ENVELOPE</i>																				
13	Roofing, Asphalt Shingle	20	8	12	94,000	SF	0.80	\$117,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
14	Gutters & Leaders, Aluminum	20	8	12	6,200	LF	3.00	\$55,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	Painting, Building Exterior	5	2	3	117,000	SF	0.50	\$58,500	\$0	\$0	\$66,950	\$0	\$0	\$0	\$0	\$83,832	\$0	\$0	\$0	\$150,782
16	Doors, Entrance—Exterior Individual Unit	25	10	15	308	EA	275.00	\$84,700	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	Siding, "Masonite"	17	5	12	110,000	SF	1.90	\$209,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
18	Metal Stair Railings, Repaint	6	4	2	4,400	LF	0.90	\$3,960	\$0	\$4,333	\$0	\$0	\$0	\$0	\$0	\$5,675	\$0	\$0	\$0	\$10,007
19	Window, Aluminum Frame & Glazing	30	10	20	1,260	EA	225.00	\$283,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
20	Balcony, Structure Rehabilitation	15	4	11	204	EA	1,100.00	\$224,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
21	Balcony, Concrete Traffic Coating	10	0	10	7,100	SF	1.20	\$8,520	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,672	\$2,672
<i>INTERIORS</i>																				
22	Carpeting, Individual Unit	7	7	0	23,000	SY	\$15.00	\$345,000	\$75,783	\$37,747	\$39,483	\$41,300	\$43,199	\$45,187	\$75,624	\$93,935	\$73,876	\$77,275	\$603,409	
23	Vinyl Composition Tile, Kitchen	10	5	5	42,000	SF	\$2.10	\$88,200	\$0	\$0	\$0	\$0	\$22,088	\$34,656	\$12,083	\$12,639	\$13,221	\$13,829	\$108,516	
24	Vinyl Composition Tile, Bathroom	10	5	5	28,000	SF	\$2.10	\$58,800	\$0	\$0	\$0	\$0	\$14,725	\$23,104	\$8,056	\$8,426	\$8,814	\$9,219	\$72,344	
25	Refrigerator, 14 Cu. Ft. Frost Free	15	4	11	308	EA	\$425.00	\$130,900	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
26	Range, 30" Electric	15	4	11	308	EA	\$285.00	\$87,780	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
27	Garbage Disposal, In-Sink	10	6	4	308	EA	\$90.00	\$27,720	\$0	\$0	\$0	\$6,637	\$10,413	\$3,631	\$3,798	\$3,972	\$4,155	\$4,346	\$36,952	
28	Dishwasher, Four Cycle	10	0	10	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$24,146	\$24,146
<i>MECHANICAL</i>																				
29	Exhaust Fan, Bathroom	12	8	4	620	EA	\$30.00	\$18,600	\$0	\$0	\$0	\$4,453	\$6,987	\$2,030	\$2,124	\$2,221	\$2,323	\$2,430	\$22,569	
30	Furnace, Individual Gas-Fired Unit	20	5	15	308	EA	\$800.00	\$246,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
31	Condenser, Air-Cooled	15	4	11	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
32	Domestic Water Heater, Individual Electric Unit	7	7	0	308	EA	\$180.00	\$55,440	\$12,178	\$6,066	\$6,345	\$6,637	\$6,942	\$7,261	\$12,152	\$15,095	\$11,872	\$12,418	\$96,965	

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.

ANNUAL REQUIREMENTS (ROUNDED)	\$96,982	\$50,115	\$129,705	\$59,026	\$104,355	\$140,263	\$131,284	\$238,678	\$114,261	\$155,114	\$1,219,783
PV OF TOTAL ANNUAL RESERVES	\$929,137										
PV TOTAL ANNUAL RESERVES/UNIT/YEAR	\$451										

COST ESTIMATE TO REMEDY DEFICIENCIES

Canterberry Green
October 14, 1994

Item	Quantity	Unit	Unit Cost	Budget Cost Immediate	Estimate Short-term
<i>SITE</i>					
Asphalt Patching —Remove and patch all soft, crazed parking areas. Within the next three (3) years all of the paved areas should be resurfaced.	1	LS	\$2,700		\$2,700
Asphalt Sealing —Pavement is bleached and oil stained at parking spots. Prolong longevity and improve the complex's general aesthetics by applying an emulsion asphalt sealant. Prepare surfaces by sealing all cracks, patching deficiencies and removing oil staining. Apply two (2) coats of emulsion based asphalt sealant, containing 4 lbs. of sand per gallon plus 4% latex additive, to entire asphalt paved area in that location.	61	Unit	\$20		\$1,220
Asphalt Striping —Striping is faded throughout the paved parking areas. Layout and restripe entire parking lot using reflectorized white or yellow 4" wide painted lines for car stalls, handicap areas, fire zones and traffic flow.	61	Unit	\$3		\$183
Regrade Cluster Perimeters —Crawl space flooding is occurring at Building No. 10. Similar conditions were noted at Building Nos. 9 and 11. Foundation wall backfill has settled and the situation has been aggravated by storm water ponding adjacent to the foundation. These conditions are contributing to crawl space water seepage and high humidity problems, which are conducive to rot and termite infestation. Spread and compact additional soil to promote positive drainage away from sidewalls.	3	Cluster	\$2,300	\$6,900	
Site Lighting —Install three (3) new high pressure, sodium fixtured lighting standards near Building Nos. 10 and 11 to illuminate unsafe areas.	3	Each	\$1,600		\$4,800
<i>EXTERIOR</i>					
Exterior Painting —Paint on hardboard siding and rough sawn trim is faded, mildew stained and deteriorated at all units. Such conditions will eventually lead to rot and deterioration of wood surfaces. Scrape worn painted surfaces, and brush apply two (2) coats of exterior latex paint on the hardboard siding, trim, window frames and exterior doors. Apply sealant to all open joints.	130	Cube	\$145		\$18,850
Misc. Exterior Carpentry Repairs —Numerous years of deferred maintenance has led to the deterioration of miscellaneous wood trim components at cluster exteriors. Secure loose and cupped rough sawn battens, loose and hanging soffit panels, and replace rotted eave and fascia trim. Also replace miscellaneous rotted exterior door jambs, sheathing and deteriorated trim sections, etc.	8	Cluster	\$965		\$7,720
Asphalt Shingle Roofing —Remove existing asphalt shingles down to plywood sheathing. Replace damaged sheathing as necessary. Install new #235 asphalt shingle roofs, complete with flashings, at each building.	130	Cube	\$400		\$52,000
<i>MECHANICAL/ELECTRICAL/PLUMBING</i>					
Electric Domestic Hot Water Heaters —Existing domestic hot water heaters have reached their expected useful lives. Budget to replace with new electric domestic hot water heaters complete with new temperature and pressure safety release valve piped to the floor.	308	Each	\$45	\$13,860	
Bathroom Vents —Bathroom vents exhaust in the attic spaces of the units, as in the cases of Unit Nos. 405 and 609, creating warm, humid conditions which have contributed to minor rot and decay of the roof sheathing. Extend bathroom vent ducts through the roofs and terminate with proper flashing and caps.					
<i>INTERIOR</i>					
Carpet —Many units contain dated carpeting which is in need of replacement. Remove existing carpeting and padding and install new carpet.	15	Unit	\$500		\$7,500
Kitchen Vinyl Floor Covering —Worn, dated vinyl kitchen flooring was reported at most units in the development. Remove existing vinyl flooring, which is said to be faded and lifting along seams, and replace.	15	Unit	\$100		\$1,500
Bathroom Vinyl Flooring —Worn, dated vinyl flooring was observed at representative bathrooms. Remove discolored and lifting vinyl bathroom flooring and replace with new.	15	Bath	\$100		\$1,500
			TOTAL	\$20,760	\$97,973

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.

GUIDELINES FOR CONDUCTING PROPERTY CONDITION ASSESSMENTS

MULTIFAMILY BUILDINGS

PURPOSE

1. Identify significant defects, deficiencies, items of deferred maintenance and material building code violations (individually and collectively, Physical Deficiencies) as a result of a visual survey, review of documents, and the research and interrogatories as described herein.
2. Prepare estimated costs to remedy the Physical Deficiencies.
3. Prepare a Replacement Reserve Schedule for the term of the loan plus two years. The length of this term is to be provided by the Client.
4. Prepare a written report (the Report) that opines on the Subject's overall physical condition, describes pertinent components or systems of the Subject property, identifies Physical Deficiencies and conditions that would limit the expected useful life of major components or systems, and provides estimated costs to remedy Physical Deficiencies and for annual Replacement Reserve Expenditures.

SCOPE OF WORK

A. General

The Consultant shall review available information to be provided by the Client and the Borrower, make inquiries of the Borrower, make observations sufficient to establish the type and approximate extent of Physical Deficiencies, and take representative measurements and quantity counts to estimate the cost to remedy Physical Deficiencies and to prepare the Replacement Reserve Schedule.

Consultant should assume that timely and complete access to the property, staff, vendors, and documents will be provided by Borrower. Borrower is to provide sufficient, safe, and readily available access to all areas of the building(s) including roofs so as not to impede Consultant's procedures. Client will assist Consultant in securing access and information in the event Borrower fails to cooperate. The Consultant should not seek access to any property, staff, tenants, vendors, or documents if the Borrower objects to this access or attempts to restrict Consultant from conducting its survey or research.

Should any document, vendor access, or information be requested by Consultant but knowingly withheld by Borrower from Consultant, Consultant shall contact Client. If this information is not provided before the preparation of Consultant's draft report, Consultant shall identify within the Report, in the appropriate sections, any information or access requested but subsequently denied, or not made readily available at the time of the Consultant's site visit or the Report's writing.

SCOPE OF WORK (continued)

B. Time Allocation

Although the time required at a site and for research will vary based on the size, age, number of buildings, configuration, type and condition of a property, the following man-hour estimates may be useful as a guideline for the Consultant to estimate its fee. Based upon Standard & Poor's experience, these guidelines appear to be reasonable for the time required to conduct a property condition assessment by an architect or engineer knowledgeable and experienced in this field.

Man-Hour Guidelines			
Item	Size of Multifamily Complex		
	<50 Units	>50 Units <150 Units	>150 Units <400 Units
Mobilization	2	2	2
Site Visit:			
Property Assessment	3-5	6-8	8-16
Replacement Reserve Measuring	2-3	3-5	6-12
Research: Historical Costs, Vendors and Government	3-5	4-5	5-8
Cost Estimating:			
Deficiencies	3-8	4-8	7-12
Replacement Reserves	6-8	7-8	8-16
Seismic Review/PML Study *	30	35	45
Report Write-Up: Draft	8-11	12-15	16-24
Subtotal	57-72	73-86	97-135
Report Revisions and Discussions	2	2	2-3
Report Write-Up: Final Review and Handling	<u>2-4</u>	<u>2-4</u>	<u>4-6</u>
Total Estimated Man-Hours	61-78	77-92	103-144

* Required for seismic zones 3 and 4 only.

As an expert in this field of work, Consultant is to use its judgment as to the time required to be expended by the Consultant's technical staff, clerical and secretarial staff, expenses related to traveling and communication, and other expenses that may not be identified.

SURVEY AND RESEARCH PROCEDURES

A. Property Survey

Observe property components, systems, and elements that are easily visible and readily accessible for the purposes of describing same, opining on their apparent physical condition, and identifying significant Physical Deficiencies. Consultant is not required to prepare detailed calculations, to remove materials, operate equipment not typically operated by tenants, or conduct any exploratory probing or testing. This is a nonintrusive visual survey. However, Consultant is to make a reasonable attempt at discovery. The “law-of-reason” shall prevail.

Survey procedures will consist of:

- Walk-around visual survey.
- Random operation of equipment, fixtures and systems, which are normally operated by tenants, on a sampling basis to determine system operability or operating characteristics.
- Noting of material building code violations of items, systems or inherent design that are readily apparent and discernible as a result of the “walk-through” survey.
- The taking of measurements and system counts to adequately justify estimated costs to remedy Physical Deficiencies and to estimate Replacement Reserve Expenditures. The basis for these costs must be substantiated by the Consultant within the Report.

B. Research

1. Borrower/Owner

Consultant is to provide Borrower with a Presurvey Questionnaire and Disclosure Schedule (the Questionnaire) and a Property Condition Assessment Document and Information Checklist (the Checklist) (copies attached), which are to be specifically tailored by Consultant for the Subject. These documents are to be completed by the Borrower or its representative and forwarded to the Consultant. The Questionnaire and Checklist shall be included as exhibits within the Consultant’s report, whether or not they are completed by the Borrower and provided to Consultant.

Research shall be conducted using tenants, service providers, and those knowledgeable about the Subject as sources. Standard & Poor’s recommends that the following research be conducted as a minimum. Telephone interviews may be sufficient for most inquiries.

- Interviewing building management and ownership.
- Interrogatories with pertinent building systems service personnel, vendors, and tenants.

In addition, attempt to discover the following information:

- Type and extent of deferred maintenance
- Type and extent of latent or patent defects
- Anticipated costs to remedy known Physical Deficiencies at the property (prior quotes and proposals, pending proposals, unit prices, etc.)
- Historical costs incurred for repairs, improvements, recurring replacements, etc.
- Program for preventive maintenance, repairs, and budgeting for replacement reserves
- Age of systems, components and equipment when different from property age
- Current and recent maintenance practices
- Existence of outstanding citations for building, fire and zoning code violations
- Existence of an ADA assessment survey and status of any compliance activity
- Existence of any other previously prepared due diligence survey
- Building occupancy percentage and turnover rate

2. Government Agencies

Consultant shall endeavor to research the local Department of Buildings' file on the Subject. The purpose of this research is to determine the presence of any outstanding material building code violations, file completeness, and to obtain, if possible, a copy of the Subject's Certificate of Occupancy and/or use restrictions that may have been imposed as a result of granting zoning variances. Furthermore, Consultant is to inquire whether there are any proposed or anticipated building codes that may be implemented, which the Subject would be required to comply with as a result of not being grandfathered. The Report shall contain the results of these interviews complete with the names and titles of government employees consulted.

C. Review of Documents

Review property records and studies as furnished by the Client, the Borrower or its representative. In general, document information will consist primarily of Borrower supplied leasing literature, possibly drawings (as-built, if available), historical receipts for repairs and/or improvements, pending proposals for repairs and replacements, schedule of operating expenses, etc. There may also be previously prepared building condition survey reports, appraisals, an ADA survey, etc. that should be provided to the Consultant as well. Should access to any or all documentation be restricted or denied to Consultant, Consultant is to notify Client and report this lack of access or denial within the Report.

If drawings (as-built or construction) are available, they are to be provided to the Consultant for Consultant's use in Consultant's offices. These drawings shall serve as an aid to the Consultant in developing quantities for cost estimating purposes (both to remedy deficiencies and for replacement reserve calculations), and will assist Consultant in preparing descriptions of the improvements, and identifying latent defects. An in-depth review of the drawings is not required under the scope of this engagement. In addition, Consultant is not required to prepare a detailed code compliance review based upon either the drawings or the Consultant's visual survey.

D. Representative Sampling

Not every rental unit must be surveyed. However, the common elements of each building shall be surveyed should more than one building exist. Consultant is required to survey a representative sampling of units to opine with confidence as to the typical pattern of Deficiencies to be encountered. If the Subject was constructed in various phases or the buildings consist of different construction systems, then a representative sampling should be conducted within each phase or building of different construction systems.

Based upon its opinion of a representative sampling, Consultant will extrapolate results to those units not surveyed for cost estimating purposes. As a guide, approximately 10% of the units should be surveyed within each phase of the Subject if the Subject was constructed of different building types or construction systems. It is the responsibility of the Borrower or its representative to provide Consultant with supervised, timely access to units at the time of the Consultant's site visit.

E. Photographs

As a minimum, Consultant will take 35mm color photographs of:

- View of Subject from “curb”
- Representative elevations
- Significant or commonly encountered Physical Deficiencies
- Main entrance lobby
- Typical elevator lobby and corridor
- Roof areas
- Parking facilities/pavement
- Site amenities such as pool and tennis courts

For most assignments, the number of photographs will range from 20-40. Each photograph should be described.

REPORT

Outline

Prepare a Property Condition Assessment Report (the Report) following this outline:

Cover Page

Table of Contents

- I. Executive Summary
 - A. General Description
 - B. General Condition
 - C. Estimated Required Expenditures
 - Deferred Maintenance and Physical Deficiencies
 - Replacement Reserve Expenditures
 - D. Recommendations
- II. Purpose and Scope
- III. Description and Condition
 - A. Site
 - B. Frame and Envelope
 - C. Interior Elements
 - D. Attic
 - E. Plumbing, HVAC and Electrical
 - F. Elevators
 - G. Fire/Life Safety
 - H. Miscellaneous
 - ADA Compliance
 - Security
 - Asbestos/Environmental Concerns
 - Building Code Violations Issues
 - Unit Count Verification
- IV. Cost Estimates to Remedy Deficiencies

- V. Replacement Reserve Analysis
- VI. Qualifications
 - Limiting Conditions
 - Consultant's Certification
- VII. Exhibits
 - Photographs
 - Presurvey Questionnaire and Disclosure Schedule
 - Property Condition Assessment Document and Information Checklist
 - Subject Description and Parameters Schedule
 - Schedule of Data/Documents Reviewed
 - Schedule of Borrower Expenses
 - Leasing Literature
 - Reduced Plot or Site Plans
 - Reduced Unit Floor Plans, etc.

The required content of each Property Condition Assessment Report is more fully described as follows. The format follows the Report's Table of Contents provided above.

I. EXECUTIVE SUMMARY

(try to limit to one to two pages)

A. General Description

This should be no more than a short paragraph that describes the Subject. It should provide salient information such as location, size, age, construction type, design style, apparent occupancy status, etc. Sufficient information should be provided so that the reader can visualize the Subject.

B. General Condition

The opening paragraph should opine on the Subject's general condition and the apparent level of preventive maintenance exercised, significant deferred maintenance, and material Physical Deficiencies. If any significant physical improvements were recently implemented, this information should be provided as well. Should any of Consultant's research result in either significantly positive or negative responses, provide this information. Do not dwell on minor deficiencies.

Although not limited to the following, the conditions listed below must be commented upon, if noted. For each, provide a summary outline of the pertinent, salient Physical Deficiencies noted, with concise opinions.

- Galvanized iron or polybutylene water supply piping
- Aluminum branch circuit wiring and the use of CO/ALR components, if any
- Fire retardant treated plywood roof sheathing
- Inadequate HVAC
- Electrical overload protection (all units should have circuit breaker panels and not fuse panels)
- Unit's electrical distribution capacity (all should have 60 amps, 120 volts as a minimum)
- Numerous quilt-like or trench-type asphalt pavement repairs
- Roof leaks, significant roof repairs and ponding
- Parapet deficiencies
- Facade leaks
- Material building code violations
- Presence of sewage ejector pumps
- Presence of suspect ACM

I. EXECUTIVE SUMMARY *(continued)*

- C. Estimated Required Expenditures**
- 1. Deferred Maintenance and Physical Deficiencies**
Allocate the totals of the derived cost estimates to remedy Physical Deficiencies into categories classified as either Immediate or Short Term.
 - 2. Replacement Reserve Expenditures**
Determine the present value and cumulative future value of all of the annual required replacement reserve expenditures over the reserve term. Divide same by the number of years in the reserve term and then by the number of units.
- D. Recommendations** Should any condition be suspect or warrant further research, testing, removal of material, etc., such a recommendation should be placed in this section. Examples would be recommendations for eddy current testing of chillers, roof infrared surveys, scaffold inspections, etc.

II. PURPOSE AND SCOPE

- A. Purpose** Consultant is to provide a short paragraph specifically stating the purpose of this engagement and identifying the Subject.
- B. Scope** Consultant is to outline the scope and the methods used to conduct the survey (as outlined herein and in accordance with the Consultant's Property Condition Assessment Agreement), and is to identify the individuals, firms, and/or governmental agencies interviewed for research purposes.

III. DESCRIPTION AND CONDITION

The succeeding sections should be presented in a narrative form and may only need to consist of a few sentences and, in some cases, simply phrases. This information can be presented in either tabular or outline form. Excessively detailed descriptions, such as providing model or serial numbers of mechanical equipment, are unwarranted. If access or visual observation was impaired, denied or limited, or if pertinent information was denied or realized as a result of Consultant's research or interviews, provide the results of same in the appropriate following sections.

Each section is to consist of two sections: *Description* and *Observations/Comments*, and presented as in the example that follows. Please provide sufficient descriptive information to support an opinion. Simply stating that the "roof is poor" is insufficient. The opinion should be adequately supported and it should be accompanied by a recommended remedy.

2. Paving and Curbing

Description:

Paving consists of asphalt throughout all drives and parking areas. Curbing is of extruded asphalt except along the front building line, where it is of belgium block. Three hundred open air parking spaces are provided. Ten parking spaces for the disabled are located along the front elevation.

Observations/Comments:

Paving is 10 years old and serviceable. Numerous patch-type repairs have been made and about 30% of the surface has received a 1½" overlay. Poor soils and an inadequate base course are suspect for the premature failure noted. Surfaces were never sealed and striping is faded. Vehicle parking is more than sufficient with three spaces per rental unit.

The prompts listed under each section for the following *Description* and *Observations/Comments* sections are presented *as a guide only* and are not to be construed as all inclusive or as a constraint to response limitation. Consultant is responsible for reporting all apparent significant Physical Deficiencies.

III. DESCRIPTION AND CONDITION *(continued)*

.....

A. Site

1. Topography and Drainage

Description:

- Flat, rolling hills, extreme variations in topography
- Conditions conducive to soils with low load bearing characteristics, etc.
- Note whether the property encroaches upon a 100-year flood area designated as “Special Flood Hazard Areas Inundated by 100-year Flood” on FEMA maps, as amended
- Site drainage
- Surface waters or vegetation indicative of surface waters
- Retention or detention basins

Observations/Comments:

- Opine on the effectiveness of storm water drainage, the propensity of flooding or any historical flooding gleaned by observation or research
- Storm water overflow to or from adjacent properties
- High water table suspect, etc.

2. Paving and Curbing

Description:

- Number of parking and loading spaces: covered or uncovered
- Type of paving and curbing

Observations/Comments:

- Evidence of existing numerous deficiencies, repairs, overlays
- Condition of striping, curb repairs, extensive ponding or “bird baths,” etc.
- Presence of previously applied asphaltic sealant
- Extensive vehicle oil staining or bleaching of asphalt surfaces
- Opine on adequacy of parking and provide average number of spaces per unit and per bedroom
- Existence and adequacy of parking for the disabled

III. DESCRIPTION AND CONDITION *(continued)*

3. Flatwork

Description:

- Type of sidewalks, stoops, steps, patios, refuse pads, etc.

Observations/Comments:

- Significant cracks
- Heaved sections or significant settlement
- Tripping hazards
- Missing handrails
- Replaced sections, evidence of significant previous repairs, etc.
- Depressed sidewalk curbs for the disabled

4. Landscaping and Appurtenances

Description:

- Presence of specimen trees, shrubs, and lawn areas, etc.
- Location of pad mounted transformer

Observations/Comments:

- Whether landscaping appears professionally maintained, overgrown, unkept, bare lawn areas, etc.
- Protection of pad mounted transformer with bollards and storm water drainage characteristics around same

5. Amenities

Description:

- Pool, tennis courts, fencing, child play area, clubhouse, leasing office, common laundry facilities, etc.

Observations/Comments:

- General condition and upkeep

6. Utilities

Description:

- Type and provider
 - a. Water
 - b. Electricity
 - c. Natural gas
 - d. Sanitary sewer
 - e. Storm sewer

III. DESCRIPTION AND CONDITION (continued)

Observations/Comments:

- Sewage backup problems
- Storm water backup/flooding
- Septic system maintenance
- Sewage ejector pump maintenance

B. Frame and Envelope

1. Substructure

Description:

- Foundation system
- Presence of cellar, basement or crawl space, if any

Observations/Comments:

- Visual evidence of significant foundation cracks, differential settlement, step cracking of foundation walls
- Existence of sump pumps, perimeter channels, etc.
- Evidence of cellar/basement space level flooding, water or moisture penetration
- Haphazard tenant storage facilities
- Cellar/basement/tenant storage area fire hazard conditions
- Lack of crawl space rodent slab or vapor barrier
- Insulation adequacy
- Ventilation adequacy

2. Superstructure

a. Visual Survey

Description:

- Framing system
- Lateral load resistance

Observations/Comments:

- Visual evidence of any structural distress
- Racking evidence or nonalignment on either sidewall surfaces or within stairwell walls
- Excessive elevated slab cracking or settlement

b. Seismic Requirements

For buildings located within Zones 3 or 4, as depicted on the “Seismic Zone Map of the U.S.,” Figure 23-2, page 194 of the 1991 Uniform Building Code, the following requirements shall apply. However, it will be up to the discretion of Standard & Poor’s to require the following should the building(s) be of Type 5 Construction (UBC Building Code) and under 75,000 SF in size.

- Review and report on available geotechnical information (geotechnical reports, soil borings, foundation system studies, etc.) and comment on the soil type, geotechnical features and the potential of soil liquefaction in the event of an earthquake.
- Identify and report on any catalogued active faults that may affect the property. Report magnitude estimates and distance from the subject to such faults.
- Determine the building type and under which code the building was designed.
- Review and report on available drawings as they pertain to the designed gravity (dead and live) and lateral (earthquake or wind, whichever is greater) loads and on the existing gravity and lateral force resisting systems of the structures.
- Conduct a site visit to visually review as-built conditions as they comply with the drawings submitted, if any, and to identify structural deficiencies as they pertain to inadequate gravity and horizontal loading under current code requirements.
- Render an opinion of the Aggregate Probable Maximum Loss (PML) as a percentage of the current building replacement cost as a result of an earthquake, complete with a general description of the anticipated damage for the structure. The PML is to be based on a 10% probability of being exceeded in a 50-year period.
- Provide recommendations for mitigating structural deficiencies to incur a PML of not more than 15% complete with preliminary cost estimates based upon nominal quantity, take-off calculations for the recommended work. The analysis and recommendations are to be based upon a visual review of the drawings and structure and are not to involve performing analytical structural calculations or testings.

III. DESCRIPTION AND CONDITION *(continued)*

- Take representative photographs of typical conditions and pertinent deficiencies. Such photos are to be annotated to adequately describe same.
- Prepare a written report evaluating all of the above.

3. Facades

Description:

- Sidewall system
- Fenestration system
- Parapets and copings
- Soffits and trim
- Entrances and doors
- Decks, balconies, and exterior stairs

Observations/Comments:

- Condition of paint, caulking, veneer, pointing, or lintels, etc.
- Condition of parapets and copings, visible diagonal cracks, horizontal shifting, etc.
- Sidewall water/moisture penetration
- Condition of window frames, their watertightness, and presence of insulated glass units
- Insulation adequacy
- Condition of exterior doors, sliding glass doors, screen doors, etc.
- Deck/balcony framing, railing and exterior stair systems
- Evidence of any termite or wood destroying insect infestation

4. Roofing

Description:

- Type, pitch, drainage and means of access
- Number of roof coverings

Observations/Comments:

- Opine on remaining useful life
- Evidence of previous repairs or surface ponding
- Adequacy of roof drainage
- Condition or absence of roof gutters and leaders
- Presence of roofing vents installed after the roof application
- Condition of flashing, pitch pockets and gravel stops
- Reported leaks
- Roof leaders discharging at sidewall base
- Condition of roof appurtenances
- Adequacy of attic ventilation

III. DESCRIPTION AND CONDITION *(continued)*

C. Interior Elements

Description:

- Schedule of unit mix and average SF area per unit, if available
Provide schedule of finishes in a tabular format

Observations/Comments:

- Representative number of units surveyed
- Obsolete or dated appliances and fixtures
- Soiled or worn carpeting, vinyl flooring or ceramic tiling
- Results of management and tenant interviews
- Presence of “popcorn” ceiling finish

Examples of Tables

Size	Unit Mix	
	No.	SF Area
Studio	20	650 SF
1-BR	70	800 SF
2-BR	30	1,000 SF

Finishes, Fixtures and Appliances	
Walls	Drywall
Ceiling	Popcorn (probably asbestos)
Carpeting	Wall-to-Wall
Vinyl Flooring	Bath and Kitchen
Dishwasher	Yes
Microwave	No
Refrigerator	Frost-Free
Tub/Shower	Fiberglass
Ceramic Tile	Wet Walls Only
Vanity	Yes
Cabinets	Plastic Laminate
Kitchen Exhaust Fan	Ductless
Bathroom Exhaust	None: Not Applicable

III. DESCRIPTION AND CONDITION (continued)

D. Attic

Description:

- Access
- Storage potential

Observations/Comments:

- Evidence of fire retardant treated plywood sheathing (buildings constructed after 1981)
- Daylighting
- Insulation adequacy
- Structural adequacy
- Leak stains or active leaks
- Flashing leak stains at roof penetrations
- Bathroom exhaust ducts discharging into attic area
- Adequacy of ventilation

E. Plumbing,
HVAC
and Electrical

1. Plumbing

Description:

- Source of potable water
- Type of supply and drainage piping material
- Presence of sewage ejector pump
- Discharge source of sanitary waste: on-site septic system, forced-main, lift station, municipal system, etc.
- Description of domestic hot water production

Observations/Comments:

- Evidence of leaks, galvanic action, or piping condition
- Presence of polybutylene plastic supply piping and any reported failures or replacements (partial or full) of same
- Conduct sampling operation of plumbing fixtures
- Reports or evidence of sewage backup
- Adequacy of domestic hot water production
- Domestic hot water production: opine on overall condition, remaining expected useful life, replacement status of individual or house domestic hot water heaters, fire proofing adequacy, and apparent condition of the T&P valve discharge piping

III. DESCRIPTION AND CONDITION *(continued)*

2. Heating and Air Conditioning

Description:

- Describe system, equipment, distribution and metering

Observations/Comments:

- Opine on equipment's remaining useful life, condition, system replacements, etc.
- Use of R-12 refrigerant
- RTU condensate drains discharging on roof surface
- RTUs sitting on 4"x4"s, CMUs, or not properly flashed or curbed
- Adequacy of boiler/furnace room combustion air
- Boiler/furnace room fire hazards
- Boiler water treatment, if applicable
- Zoning problems and tenant complaints

3. Electrical

Description:

- Size of typical apartment service (amps and volts)
- Circuit breakers or fuse overload protection
- Aluminum branch distribution wiring
- Metering of individual tenants

Observations/Comments:

- Adequacy and safety
- Use of CO/ALR components to mitigate the potential fire hazard of aluminum branch wiring
- Condition of conductor insulation
- Electrical room/closet firestopping
- Presence of GFI receptacles
- Electrical rooms/closets used as storage rooms

F. Elevators

Description:

- Type, number and age
- Type of control system
- Name of service company

Observations/Comments:

- Research gleaned from service company and management interviews with respect to operations and reliability
- Presence of fireman's recall
- Scope and dates of significant repairs or upgrades
- Date of last state or local municipal inspection and load test

III. DESCRIPTION AND CONDITION *(continued)*

**G. Fire/Life
Safety**

1. Sprinklers

Description:

- Type of system: wet or dry
- Fire pump and exterior fire department connections
- Classification of hazard

Observations/Comments:

- Adequacy of coverage
- Clearance under heads
- Date of annual testing

2. Alarm Systems

Description:

- Type of system: manual, automatic, addressable, supervised, multiplex, hardwire, etc.
- Devices incorporated: smoke detectors, pull stations, flow switches, etc.

Observations/Comments

- Date of last test and inspection

H. Miscellaneous

1. ADA Compliance

Provide paragraph addressing compliance with salient ADA requirements that are concerned with access to rental office or other facilities open to the public and deemed a “Public Accommodation.” Estimate costs to provide or modify existing improvements so as to provide access for the disabled are to be provided within Section V. - “Replacement Reserve Analysis.” Clearly indicate that these costs are for ADA-related improvements. Inasmuch as this survey for ADA compliance is not to be construed as an in-depth ADA survey, detailed cost estimates for compliance are to be calculated using broad assumptions.

III. DESCRIPTION AND CONDITION *(continued)*

2. Security

Description:

- Site lighting
- Building entrance
- Audio/visual intercoms
- Unit entrance door hardware

Observations/Comments:

- Adequacy

3. Asbestos/Environmental Concerns

Opining on asbestos, hazardous wastes, toxic materials, IAQ, etc. is outside the scope of this Report. However, should Consultant observe material that is suspect of containing friable asbestos or other conditions indicative of possible environmental concerns, such as USTs in excess of 10 years old, Consultant shall note such concerns within the text of the Report and within this section as well. Costs to remove/abate asbestos should be provided under Section V. - "Replacement Reserve Analysis." These costs should be provided on an SF basis. Similar to No. 1 above, ADA Compliance, cost estimates for asbestos removal/abatement are to be order of magnitude estimates calculated using broad assumptions.

4. Building Code Violations Issues

Address noncompliance with any material building codes or anticipated code changes for which the Subject would not be grandfathered. Refer to "Survey and Research Procedures: B. Research; 2. Government Agencies" for requirements.

5. Unit Count Verification

Verify from drawings unit count and mix. Provide a paragraph identifying the documents reviewed and the result of Consultant's findings.

IV. COST ESTIMATES TO REMEDY DEFICIENCIES

Based upon (i) Consultant's observations during its site visit, and (ii) information received from interviews with building management, tenants, and service personnel, which for purposes of the Report will be deemed to be reliable, prepare general scope, preliminary cost estimates complete with an appropriate recommended remedy for each significant Physical Deficiency. This remedy must be commensurate with the Subject and considered a prudent expenditure. Simply stating "poor roof" and providing a lump sum cost-to-cure is insufficient.

These estimates are for components or systems exhibiting either patent defects, significant deferred maintenance or requiring major repairs or replacement. Repairs or improvements that could be classified as (i) a routine operating expense, (ii) part or parcel of a building renovation program, (iii) normal building preventive maintenance, or (iv) that are the responsibility of tenants are not to be included.

Cost estimates for Physical Deficiencies shall be allocated into two categories. Terms used to describe these categories are defined below:

- | | |
|-----------------------------------|--|
| Immediate— | Physical Deficiencies that require immediate action as a result of: (i) existing or potentially unsafe conditions, (ii) significant negative conditions impacting tenancy/marketability, (iii) material building code violations, (iv) poor or deteriorated condition of critical element or system, or (v) a condition that if left "as is," with an extensive delay in addressing same, would result in or contribute to critical element or system failure within one year. |
| Short Term—
(0-1 year) | Physical Deficiencies, which are inclusive of deferred maintenance, that may not warrant immediate attention, but requiring repairs or replacements that should be undertaken on a priority basis, taking precedence over routine preventive maintenance work within a zero to one-year time frame. Included are such Physical Deficiencies resulting from improper design, faulty installation and/or substandard quality of original system or materials. Components or systems that have realized or exceeded their Expected Useful Life (EUL) that may require replacement to be implemented within a zero to one-year time frame are also included. |

IV. COST ESTIMATES TO REMEDY DEFICIENCIES *(continued)*

Consultant's estimated costs are deemed to be preliminary. These costs are to be net of general conditions, construction management fees, and design fees. Consultant is to use market costs or historical costs incurred by the Borrower that are documented and/or have been substantiated to Consultant's satisfaction. However, these costs must be reasonable market costs. The Borrower should document these costs by submitting paid invoices, executed or pending bona fide proposals, etc.

The basis of the derivation of these costs must be provided with respect to nominal quantities and the unit costs used; a rational approach to the derivation of the cost estimate must be provided. All cost information must be submitted in a format similar to the schedule titled "Cost Estimates to Remedy Deficiencies" attached to this guideline, and be complete with quantities, units, unit costs and totals.

V. REPLACEMENT RESERVE ANALYSIS

Borrower shall provide Consultant with a schedule of all components or systems typically requiring replacement reserves. Consultant is to augment this schedule with any item or system that has a predictable Expected Useful Life and/or is not subject to routine preventive maintenance.

The Consultant shall prepare a Replacement Reserve Schedule that is to encompass short-lived, mid-lived and long-lived recurring systems and components. Short-term recurring systems and components are typical of such items as exterior caulking, carpeting, pavement sealing and striping, domestic hot water heaters, etc. Mid-lived recurring are typically cooling towers, paving, roofing, appliances, kitchen cabinets, etc. Long-lived items are typically boilers, chillers, electrical systems, infrastructure components, supply and drainage piping, etc.

The following methodology should be employed when completing the Replacement Reserve Schedule. Submit these schedules typed in a spreadsheet format. An example of a typical Replacement Reserve Schedule is attached.

V. REPLACEMENT RESERVE ANALYSIS (continued)

1. **Do Not Double-dip:** In other words, if Consultant identifies that the roof requires replacement as a Short-Term item under Section IV. - “Cost Estimates to Remedy Deficiencies” do not require its replacement under year one in the Replacement Reserve Schedule. Treat the roof as if it were new with a Remaining Useful Life (RUL) equal to its commonly anticipated Expected Useful Life (EUL).
2. **Opine on EUL and EFF AGE:** Consultant is allowed to use its professional judgment in determining when a system or component will require replacement. Inclement weather, exposure to the elements, initial quality and installation, extent of use, and the degree of preventive maintenance exercised are all factors that could impact the RUL of a system or component. As a result of the aforementioned items, a system or component may have an Effective Age (EFF AGE) greater or less than its Actual Age (ACT AGE). For instance, a parking lot with an EUL of 18 years that has been religiously sealed with a squeegee applied asphaltic emulsion slurry coat may have an EFF AGE equal to eight years although its ACT AGE is 12 years. Therefore, its RUL will be 10 years (18 minus 8) instead of six years (18 minus 12). When there is a significant deviation from common EULs, the text in Section III. - “Description and Condition” must complement same. Should the Borrower or Client differ from the Consultant as to a component’s or system’s EUL, Borrower or Client must substantiate this opinion by schedules, invoices, etc. The Consultant is not to accept unsubstantiated EULs.
3. **Phase Replacements:** Consultant may exercise professional judgment as to the rate or phasing of replacements. For instance, suppose that an office complex has an extensive quantity of paving that will realize its EUL in year eight. Instead of requiring the replacement of all paving in year eight, which would be a significant cost to be incurred in any single year, Consultant may phase the work over three years; i.e., Consultant may replace 40% in year eight, 40% in year nine and 20% in year 10. However, make sure that the other replacements recommended that complement same are also completed in this phase. For instance, if the paving overlay is to be completed in phases, so must the striping. However, do not phase work that is only of limited scope, such as resurfacing a 2,000 SY parking lot, since prudent management would not phase such a small quantity of paving resurfacing.

Phased replacement scheduling is also appropriate for allocating asbestos removal/abatement costs inasmuch as such work commonly coincides with lease terminations.

4. **Component Replacements:** Certain mechanical equipment can be broken down into commonly replaced individual major components so that funding to replace the entire piece of equipment at one time is not necessary. For example, the overall cost of a boiler may include pumps, a burner, etc., which may require replacement on a schedule different from that of replacing the entire boiler.
5. **Replacements Made Thus Far:** Take into consideration if management has already begun a program of replacing multiple or single components that have realized their EUL. If, as a result of research, Consultant learns the extent of such replacements made to date, Consultant shall take this into consideration. In some instances, Consultant may use weighted average EULs and EFF AGEs. The onus is on management to substantiate the replacements made and the reported costs incurred by submitting documentation to the Consultant. Such documents should be included as an exhibit to the Report.
6. **Term:** Complete a Replacement Reserve Schedule for the term of the loan plus two years. The length of the term or “window” may significantly impact reserve requirements. For instance, a 17-year reserve “window” would not include replacement of roofing (RUL = 20 years) for a Subject having a one-year-old roof, whereas a 22-year “window” would include such a cost. Generally, the smaller the window, the less the reserve monies required.
7. **Replacement Costs:** Replacement costs used shall be market or Borrower’s historical incurred costs, or substantiated third-party costs. Should the Borrower or Client differ from the Consultant as to a component’s or system’s replacement cost, Borrower or Client must substantiate this opinion by submitting paid invoices, executed proposals, receipts, bona fide pending proposals, etc. The Consultant is not to accept unsubstantiated replacement costs offered by the Borrower or Client.
8. **Inflation:** Projected future expenditures should incorporate a rate of inflation equal to the rate of comparable term Treasuries less 140 basis points or a defined rate provided by Client.

VI. QUALIFICATIONS

Procedure, Limitations, Use and Reliance Restrictions.

VII. EXHIBITS

The Consultant should append any exhibits that illustrate or clarify information presented in the body of the Report. Pertinent documents such as leasing literature and schedules, copies of pending reports, annotated site plans, unit or building plan excerpts, certificates of occupancy and other relevant information should be provided where available and useful.

The Presurvey Questionnaire and Disclosure Schedule and the Property Condition Assessment Document and Information Checklist should be appended whether or not the Borrower or its representative has completed them.

REPLACEMENT RESERVE ANALYSIS

CRYSTAL BAY
2333 Feather Sound Drive

Inflation = 4.6%
October 14, 1994

No.	Item	Avg. EUL (yr)	EFF AGE (yr)	RUL (yr)	Quantity	Unit	Unit Cost	Cost Over Cycle	1994 1	1995 2	1996 3	1997 4	1998 5	1999 6	2000 7	2001 8	2002 9	2003 10	Total over term inflated \$	
<i>SITE</i>																				
1	Paving, Asphalt—Apply 1" Topping	18	7	11	11,500	SY	21.75	\$77,625	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	Asphalt Pvmnt Sealant—Slurry Coat	5	4	1	11,500	SY	0.75	\$8,625	\$9,022	\$0	\$0	\$0	\$0	\$11,297	\$0	\$0	\$0	\$0	\$0	\$20,318
3	Sidewalks, Concrete—Replace	25	10	15	1,750	SF	5.00	\$8,750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	Irrigtn Sys., Lawn—Rpl. Pump & Controls	8	5	3	4	EA	1,200.00	\$4,800	\$0	\$0	\$5,493	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,493
5	Lighting Standards, Aluminum—Site	16	5	11	32	EA	1,700.00	\$54,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	Swimming Pool, Re-Marciting	5	2	3	6,200	SF	1.45	\$8,990	\$0	\$0	\$10,289	\$0	\$0	\$0	\$0	\$12,883	\$0	\$0	\$0	\$23,171
7	Swimming Pool, Deck Re-surfacing	8	2	6	4,000	SF	2.50	\$10,000	\$0	\$0	\$0	\$0	\$0	\$13,098	\$0	\$0	\$0	\$0	\$0	\$13,098
8	Swimming Pool, Filtering Equip.	12	10	2	2	POOL	900.00	\$1,800	\$0	\$1,969	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,969
9	Fencing, Stockade (Wood)	12	5	7	450	LF	7.50	\$3,375	\$0	\$0	\$0	\$0	\$0	\$0	\$4,624	\$0	\$0	\$0	\$0	\$4,624
10	Fence Enclosure, Refuse (Wood)	8	5	3	5	EA	200.00	\$1,000	\$0	\$0	\$1,144	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,144
11	Mailboxes, Aluminum—Exterior Display	15	5	10	2	EA	2,800.00	\$5,600	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$8,780	\$8,780
12	Tennis Court—Surface Coating & Striping	15	8	7	14,400	SF	0.65	\$9,360	\$0	\$0	\$0	\$0	\$0	\$0	\$12,823	\$0	\$0	\$0	\$0	\$12,823
<i>ENVELOPE</i>																				
13	Roofing, Asphalt Shingle	20	8	12	94,000	SF	0.80	\$117,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
14	Gutters & Leaders, Aluminum	20	8	12	6,200	LF	3.00	\$55,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	Painting, Building Exterior	5	2	3	117,000	SF	0.50	\$58,500	\$0	\$0	\$66,950	\$0	\$0	\$0	\$0	\$83,832	\$0	\$0	\$0	\$150,782
16	Doors, Entrance—Exterior Individual Unit	25	10	15	308	EA	275.00	\$84,700	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	Siding, "Masonite"	17	5	12	110,000	SF	1.90	\$209,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
18	Metal Stair Railings, Repaint	6	4	2	4,400	LF	0.90	\$3,960	\$0	\$4,333	\$0	\$0	\$0	\$0	\$0	\$5,675	\$0	\$0	\$0	\$10,007
19	Window, Aluminum Frame & Glazing	30	10	20	1,260	EA	225.00	\$283,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
20	Balcony, Structure Rehabilitation	15	4	11	204	EA	1,100.00	\$224,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
21	Balcony, Concrete Traffic Coating	10	0	10	7,100	SF	1.20	\$8,520	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,672	\$2,672
<i>INTERIORS</i>																				
22	Carpeting, Individual Unit	7	7	0	23,000	SY	\$15.00	\$345,000	\$75,783	\$37,747	\$39,483	\$41,300	\$43,199	\$45,187	\$75,624	\$93,935	\$73,876	\$77,275	\$603,409	
23	Vinyl Composition Tile, Kitchen	10	5	5	42,000	SF	\$2.10	\$88,200	\$0	\$0	\$0	\$0	\$22,088	\$34,656	\$12,083	\$12,639	\$13,221	\$13,829	\$108,516	
24	Vinyl Composition Tile, Bathroom	10	5	5	28,000	SF	\$2.10	\$58,800	\$0	\$0	\$0	\$0	\$14,725	\$23,104	\$8,056	\$8,426	\$8,814	\$9,219	\$72,344	
25	Refrigerator, 14 Cu. Ft. Frost Free	15	4	11	308	EA	\$425.00	\$130,900	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
26	Range, 30" Electric	15	4	11	308	EA	\$285.00	\$87,780	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
27	Garbage Disposal, In-Sink	10	6	4	308	EA	\$90.00	\$27,720	\$0	\$0	\$0	\$6,637	\$10,413	\$3,631	\$3,798	\$3,972	\$4,155	\$4,346	\$36,952	
28	Dishwasher, Four Cycle	10	0	10	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$24,146	\$24,146
<i>MECHANICAL</i>																				
29	Exhaust Fan, Bathroom	12	8	4	620	EA	\$30.00	\$18,600	\$0	\$0	\$0	\$4,453	\$6,987	\$2,030	\$2,124	\$2,221	\$2,323	\$2,430	\$22,569	
30	Furnace, Individual Gas-Fired Unit	20	5	15	308	EA	\$800.00	\$246,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
31	Condenser, Air-Cooled	15	4	11	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
32	Domestic Water Heater, Individual Electric Unit	7	7	0	308	EA	\$180.00	\$55,440	\$12,178	\$6,066	\$6,345	\$6,637	\$6,942	\$7,261	\$12,152	\$15,095	\$11,872	\$12,418	\$96,965	

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.

ANNUAL REQUIREMENTS (ROUNDED)	\$96,982	\$50,115	\$129,705	\$59,026	\$104,355	\$140,263	\$131,284	\$238,678	\$114,261	\$155,114	\$1,219,783
PV OF TOTAL ANNUAL RESERVES	\$929,137										
PV TOTAL ANNUAL RESERVES/UNIT/YEAR	\$451										

COST ESTIMATE TO REMEDY DEFICIENCIES

Canterberry Green
October 14, 1994

Item	Quantity	Unit	Unit Cost	Budget Cost Immediate	Estimate Short-term
<i>SITE</i>					
Asphalt Patching —Remove and patch all soft, crazed parking areas. Within the next three (3) years all of the paved areas should be resurfaced.	1	LS	\$2,700		\$2,700
Asphalt Sealing —Pavement is bleached and oil stained at parking spots. Prolong longevity and improve the complex's general aesthetics by applying an emulsion asphalt sealant. Prepare surfaces by sealing all cracks, patching deficiencies and removing oil staining. Apply two (2) coats of emulsion based asphalt sealant, containing 4 lbs. of sand per gallon plus 4% latex additive, to entire asphalt paved area in that location.	61	Unit	\$20		\$1,220
Asphalt Striping —Striping is faded throughout the paved parking areas. Layout and restripe entire parking lot using reflectorized white or yellow 4" wide painted lines for car stalls, handicap areas, fire zones and traffic flow.	61	Unit	\$3		\$183
Regrade Cluster Perimeters —Crawl space flooding is occurring at Building No. 10. Similar conditions were noted at Building Nos. 9 and 11. Foundation wall backfill has settled and the situation has been aggravated by storm water ponding adjacent to the foundation. These conditions are contributing to crawl space water seepage and high humidity problems, which are conducive to rot and termite infestation. Spread and compact additional soil to promote positive drainage away from sidewalls.	3	Cluster	\$2,300	\$6,900	
Site Lighting —Install three (3) new high pressure, sodium fixtured lighting standards near Building Nos. 10 and 11 to illuminate unsafe areas.	3	Each	\$1,600		\$4,800
<i>EXTERIOR</i>					
Exterior Painting —Paint on hardboard siding and rough sawn trim is faded, mildew stained and deteriorated at all units. Such conditions will eventually lead to rot and deterioration of wood surfaces. Scrape worn painted surfaces, and brush apply two (2) coats of exterior latex paint on the hardboard siding, trim, window frames and exterior doors. Apply sealant to all open joints.	130	Cube	\$145		\$18,850
Misc. Exterior Carpentry Repairs —Numerous years of deferred maintenance has led to the deterioration of miscellaneous wood trim components at cluster exteriors. Secure loose and cupped rough sawn battens, loose and hanging soffit panels, and replace rotted eave and fascia trim. Also replace miscellaneous rotted exterior door jambs, sheathing and deteriorated trim sections, etc.	8	Cluster	\$965		\$7,720
Asphalt Shingle Roofing —Remove existing asphalt shingles down to plywood sheathing. Replace damaged sheathing as necessary. Install new #235 asphalt shingle roofs, complete with flashings, at each building.	130	Cube	\$400		\$52,000
<i>MECHANICAL/ELECTRICAL/PLUMBING</i>					
Electric Domestic Hot Water Heaters —Existing domestic hot water heaters have reached their expected useful lives. Budget to replace with new electric domestic hot water heaters complete with new temperature and pressure safety release valve piped to the floor.	308	Each	\$45	\$13,860	
Bathroom Vents —Bathroom vents exhaust in the attic spaces of the units, as in the cases of Unit Nos. 405 and 609, creating warm, humid conditions which have contributed to minor rot and decay of the roof sheathing. Extend bathroom vent ducts through the roofs and terminate with proper flashing and caps.					
<i>INTERIOR</i>					
Carpet —Many units contain dated carpeting which is in need of replacement. Remove existing carpeting and padding and install new carpet.	15	Unit	\$500		\$7,500
Kitchen Vinyl Floor Covering —Worn, dated vinyl kitchen flooring was reported at most units in the development. Remove existing vinyl flooring, which is said to be faded and lifting along seams, and replace.	15	Unit	\$100		\$1,500
Bathroom Vinyl Flooring —Worn, dated vinyl flooring was observed at representative bathrooms. Remove discolored and lifting vinyl bathroom flooring and replace with new.	15	Bath	\$100		\$1,500
			TOTAL	\$20,760	\$97,973

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.

GUIDELINES FOR CONDUCTING PROPERTY CONDITION ASSESSMENTS

HOSPITALITY BUILDINGS

PURPOSE

1. Identify significant defects, deficiencies, items of deferred maintenance and material building code violations (individually and collectively, Physical Deficiencies) of both the front and back of house areas as a result of a visual survey, review of documents, and the research and interrogatories as described herein.
2. Prepare estimated costs to remedy the Physical Deficiencies.
3. Prepare a Replacement Reserve Schedule for the term of the loan plus two years. The length of this term is to be provided by the Client.
4. Prepare a written report (the Report) that opines on the Subject's overall physical condition, describes pertinent components or systems of the Subject property, identifies Physical Deficiencies and conditions that would limit the expected useful life of major components or systems, and provides estimated costs to remedy Physical Deficiencies and for annual Replacement Reserve Expenditures.

SCOPE OF WORK

A. General

The Consultant shall review available information to be provided by the Client and the Borrower, make inquiries of the Borrower, make observations sufficient to establish the type and approximate extent of Physical Deficiencies, and take representative measurements and quantity counts to estimate the cost to remedy Physical Deficiencies and to prepare the Replacement Reserve Schedule.

Consultant should assume that timely and complete access to the property, (guest rooms, front and back-of-house areas), staff, vendors, and documents will be provided by Borrower. Borrower is to provide sufficient, safe, and readily available access to all areas of the building(s), including roofs so as not to impede Consultant's procedures. Client will assist Consultant in securing access and information in the event Borrower fails to cooperate. The Consultant should not seek access to any property, staff, vendors, or documents if the Borrower objects to this access or attempts to restrict Consultant from conducting its survey or research.

Should any document, vendor access, or information be requested by Consultant but knowingly withheld by Borrower from Consultant, Consultant shall contact Client. If this information is not provided before the preparation of Consultant's draft report, Consultant shall identify within the Report, in the appropriate sections, any information or access requested but subsequently denied, or not made readily available at the time of the Consultant's site visit or the Report's writing.

B. Time Allocation

Although the time required at a site and for research will vary based on the size, age, number of buildings, configuration, type and condition of a property, the following man-hour estimates may be useful as a guideline for the Consultant to estimate its fee. Based upon Standard & Poor's experience, these guidelines appear to be reasonable for the time required to conduct a property condition assessment by an architect or engineer knowledgeable and experienced in this field.

Man-Hour Guidelines			
Item	Size of Hotel Complex		
	<50 Rooms	>50 Rooms <150 Rooms	>150 Rooms <400 Rooms
Mobilization	2	2	2
Site Visit:			
Property Assessment	3-5	6-16	16-24
Replacement Reserve Measuring	2-3	6-8	8-16
Research: Historical Costs, Vendors and Government	3-5	4-5	5-8
Cost Estimating:			
Deficiencies	3-8	4-8	7-12
Replacement Reserves	6-8	8-16	16-24
Seismic Review/PML Study*	30	35	45
Report Write-Up: Draft	8-11	12-20	20-32
Subtotal	57-72	77-110	119-163
Report Revisions and Discussions	2	2	2-3
Report Write-Up: Final Review and Handling	<u>2-4</u>	<u>2-4</u>	<u>4-6</u>
Total Estimated Man-Hours	61-78	81-116	125-172

* Required for seismic zones 3 and 4 only.

As an expert in this field of work, Consultant is to use its judgment as to the time required to be expended by the Consultant's technical staff, clerical and secretarial staff, expenses related to traveling and communication, and other expenses that may not be identified.

SURVEY AND RESEARCH PROCEDURES

A. Property Survey

Observe property components, systems, and elements that are easily visible and readily accessible for the purposes of describing same, opining on their apparent physical condition, and identifying significant Physical Deficiencies. Consultant is not required to prepare detailed calculations, to remove materials, operate equipment not typically operated by guests, or conduct any exploratory probing or testing. This is a nonintrusive visual survey. However, Consultant is to make a reasonable attempt at discovery. The “law-of-reason” shall prevail.

Survey procedures will consist of:

- Walk-around visual survey.
- Random operation of equipment, fixtures and systems, which are normally operated by guests, on a sampling basis to determine system operability or operating characteristics. Support systems or amenities operated under concession to the hotel are excluded.
- Noting of material building code violations of items, systems, or inherent design that are readily apparent and discernible as a result of the “walk-through” survey.
- The taking of measurements and system counts to adequately justify estimated costs to remedy Physical Deficiencies and to estimate Replacement Reserve Expenditures. The basis for these costs must be substantiated by the Consultant within the Report.

B. Research

1. Borrower/Owner

Consultant is to provide Borrower with a Presurvey Questionnaire and Disclosure Schedule (the Questionnaire) and a Property Condition Assessment Document and Information Checklist (the Checklist) (copies attached), which are to be specifically tailored by Consultant for the Subject. These documents are to be completed by the Borrower or its representative and forwarded to the Consultant. The Questionnaire and Checklist shall be included as exhibits within Consultant’s report, whether or not they are completed by the Borrower and provided to Consultant.

Research shall be conducted using tenants, service providers, and those knowledgeable about the Subject as sources. Standard & Poor’s recommends that the following research be conducted as a minimum. Telephone interviews may be sufficient for most inquiries.

- Interviewing building management and ownership.
- Interrogatories with pertinent building systems service personnel and vendors.

In addition, attempt to discover the following information:

- Type and extent of deferred maintenance
- Type and extent of latent or patent defects
- Anticipated costs to remedy known Physical Deficiencies at the property (prior quotes and proposals, pending proposals, unit prices, etc.)
- Historical costs incurred for repairs, improvements, recurring replacements, etc.
- Program for preventive maintenance, repairs, budgeting and implementing of replacement reserves
- Age of systems, components and equipment when different from property age
- Current and recent maintenance practices
- Existence of outstanding citations for building, fire and zoning code violations
- Existence of an ADA assessment survey and status of any compliance activity
- Existence of any other previously prepared due diligence survey
- Existence of any replacement reserve program or study

2. Government Agencies

Consultant shall endeavor to research the local Department of Buildings' file on the Subject. The purpose of this research is to determine the presence of any outstanding material building code violations, file completeness, and to obtain, if possible, a copy of the Subject's Certificate of Occupancy and/or use restrictions that may have been imposed as a result of granting zoning variances. Furthermore, Consultant is to inquire whether there are any proposed or anticipated building codes that may be implemented, which the Subject would be required to comply with as a result of not being grandfathered. The Report shall contain the results of these interviews complete with the names and titles of government employees consulted.

C. Review of Documents

Review property records and studies as furnished by the Client, the Borrower or its representative. In general, document information will consist primarily of Borrower-supplied promotional/marketing literature; possibly drawings, (as-built drawings if available); historical receipts for repairs, improvements, and FF&E; pending proposals for repairs or replacements; schedule of operating expenses; etc. There may also be previously prepared building condition survey reports, appraisals, ADA surveys, replacement reserve studies, etc. that should be provided to the Consultant as well. Should access to any or all documentation be restricted or denied to Consultant, Consultant is to notify Client and report this lack of access or denial within the Report.

If drawings (as-built or construction) are available, they are to be provided to the Consultant for Consultant's use in Consultant's offices. These drawings shall serve as an aid to the Consultant in developing quantities for cost estimating purposes (both to remedy deficiencies and for replacement reserve calculations), and will assist Consultant in preparing descriptions of the improvements, and identifying latent defects. An in-depth review of the drawings is not required under the scope of this engagement. In addition, Consultant is not required to prepare a detailed code compliance review based upon either the drawings or the Consultant's visual survey.

D. Representative Sampling

Not every guest room must be surveyed. However, the common elements, and front and back-of-house areas shall be surveyed. Consultant is required to survey a representative sampling of guest rooms to opine with confidence as the typical pattern of Deficiencies to be encountered.

Based upon its opinion of a representative sampling, Consultant will extrapolate results to those guest rooms not surveyed for cost estimating purposes. As a guide, approximately 10% of the guest rooms should be surveyed. It is the responsibility of the Borrower or its representative to provide Consultant with supervised, timely access to guest rooms and back-of-house areas.

E. Photographs

As a minimum, Consultant will take 35mm color photographs of:

- View of Subject from “curb”
- Representative elevations
- Significant or commonly encountered Physical Deficiencies
- Main entrance lobby and reception counter
- Typical elevator lobby and corridor
- Typical guest rooms
- Roof areas
- Back-of-house areas
- Parking facilities/pavement
- Mechanical, electrical and plumbing equipment
- Amenities such as pool, tennis courts, etc.

For most assignments, the number of photographs will range from 20-40. Each photograph should be described.

REPORT

Outline

Prepare a Property Condition Assessment Report (the Report) following this outline:

Cover Page

Table of Contents

- I. Executive Summary
 - A. General Description
 - B. General Condition
 - C. Estimated Required Expenditures
 - Deferred Maintenance and Physical Deficiencies
 - Replacement Reserve Expenditures
 - D. Recommendations
- II. Purpose and Scope
- III. Description and Condition
 - A. Site
 - B. Frame and Envelope
 - C. Interior Elements
 - D. Attic
 - E. Plumbing, HVAC and Electrical
 - F. Elevators
 - G. Fire/Life Safety
 - H. Miscellaneous
 - ADA Compliance
 - Security
 - Asbestos/Environmental Concerns
 - Building Code Violations Issues
- IV. Cost Estimates to Remedy Deficiencies

- V. Replacement Reserve Analysis
- VI. Qualifications
 - Limiting Conditions
 - Consultant's Certification
- VII. Exhibits
 - Photographs
 - Presurvey Questionnaire and Disclosure Schedule
 - Property Condition Assessment Document and Information Checklist
 - Subject Description and Parameters Schedule
 - Schedule of Data/Documents Reviewed
 - Schedule of Borrower Expenses
 - Promotional Literature and Brochures
 - Reduced Plot or Site Plans
 - Reduced Floor Plans, etc.

The required content of the Property Condition Assessment Report is more fully described as follows. The format follows the Report's Table of Contents provided above.

I. EXECUTIVE SUMMARY

(try to limit to one to two pages)

A. General Description

This should be no more than a short paragraph that describes the Subject. It should provide salient information such as location, size, age, construction type, design style, etc. Sufficient information should be provided so that the reader can visualize the Subject.

B. General Condition

The opening paragraph should opine on the Subject's general condition and the apparent level of preventive maintenance exercised, significant deferred maintenance, and material Physical Deficiencies. If any significant physical improvements were recently implemented, this information should be provided as well. Should any of Consultant's research result in either significantly positive or negative responses, provide this information. Do not dwell on minor deficiencies.

Although not limited to the following, the conditions listed below must be commented upon, if noted. For each, provide a summary outline of the pertinent, salient Physical Deficiencies noted, with concise opinions.

- Galvanized iron and polybutylene water supply piping
- Aluminum branch circuit wiring and the use of CO/ALR components, if any
- Fire retardant treated plywood roof sheathing
- Inadequate HVAC
- Unacceptable electrical overload protection (all guest rooms should have circuit breaker panels and not fuse panels)
- Numerous quilt-like or trench-type asphalt pavement repairs
- Roof leaks, significant roof repairs and ponding
- Parapet deficiencies
- Facade leaks
- Material building code violations
- Presence of sewage ejector pumps
- Problems related to indoor/enclosed pool excessive humidity
- Presence of suspect ACM
- Worn/dated guest room finishes, furnishings and equipment

I. EXECUTIVE SUMMARY *(continued)*

- C. Estimated Required Expenditures**
- 1. Deferred Maintenance and Physical Deficiencies**
Allocate the totals of the derived cost estimates to remedy Physical Deficiencies into categories classified as either Immediate or Short Term.
 - 2. Replacement Reserve Expenditures**
Determine the present value and cumulative future value of all of the annual required replacement reserve expenditures over the reserve term. Divide same by the number of years in the reserve term and then by the number of units.
- D. Recommendations** Should any condition be suspect or warrant further research, testing, removal of material, etc., such a recommendation should be placed in this section. Examples would be recommendations for eddy current testing of chillers, roof infrared surveys, scaffold inspections, etc.

II. PURPOSE AND SCOPE

- A. Purpose** Consultant is to provide a short paragraph specifically stating the purpose of this engagement and identifying the Subject.
- B. Scope** Consultant is to outline the scope and the methods used to conduct the survey (as outlined herein and in accordance with the Consultant's Property Condition Assessment Agreement), and is to identify the individuals, firms, and/or governmental agencies interviewed for research purposes.

III. DESCRIPTION AND CONDITION

The succeeding sections should be presented in a narrative form and may only need to consist of a few sentences and, in some cases, simply phrases. This information can be presented in either tabular or outline form. Excessively detailed descriptions, such as providing model or serial numbers of mechanical equipment, are unwarranted. If access or visual observation was impaired, denied or limited, or if pertinent information was denied or realized as a result of Consultant’s research or interviews, provide the results of same in the appropriate following sections.

Each section is to consist of two sections: *Description* and *Observations/Comments*, and presented as in the example that follows. Please provide sufficient descriptive information to support an opinion. Simply stating that the “roof is poor” is insufficient. The opinion should be adequately supported and it should be accompanied by a recommended remedy.

<p>2. Paving and Curbing</p> <p>Description: Paving consists of asphalt throughout all drives and parking areas. Curbing is of extruded asphalt except along the front building line, where it is of belgium block. Three hundred open air parking spaces are provided. Ten parking spaces for the disabled are located along the front elevation.</p> <p>Observations/Comments: Paving is 10 years old and serviceable. Numerous patch-type repairs have been made and about 30% of the surface has received a 1½” overlay. Poor soils and an inadequate base course are suspect for the premature failure noted. Surfaces were never sealed and striping is faded. Vehicle parking is more than sufficient with one space per guest room.</p>
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The prompts listed under each section for the following *Description* and *Observations/Comments* sections are presented *as a guide only* and are not to be construed as all inclusive or as a constraint to response limitation. Consultant is responsible for reporting all apparent significant Physical Deficiencies.

III. DESCRIPTION AND CONDITION *(continued)*

.....

A. Site

1. Topography and Drainage

Description:

- Flat, rolling hills, extreme variations in topography
- Conditions conducive to soils with low load bearing characteristics, etc.
- Note whether the property encroaches upon a 100-year flood area designated as “Special Flood Hazard Areas Inundated by 100-year Flood” on FEMA maps, as amended
- Site drainage
- Surface waters or vegetation indicative of surface waters
- Retention or detention basins

Observations/Comments:

- Opine on the effectiveness of storm water drainage and the propensity of flooding or any historical flooding gleaned by observation or research
- Storm water overflow to or from adjacent properties
- High water table suspect, etc.

2. Paving and Curbing

Description:

- Number of parking and loading spaces: covered or uncovered
- Type of paving and curbing
- Parking spaces per guest room

Observations/Comments:

- Evidence of existing numerous deficiencies, repairs, overlays
- Condition of striping, curb repairs, extensive ponding or “bird baths,” etc.
- Presence of previously applied asphaltic sealant
- Extensive vehicle oil staining or bleaching of asphalt surfaces
- Opine on adequacy of guest and service personnel parking and provide average number of spaces per guest room
- Existence and adequacy of parking for the disabled
- Condition of loading dock facilities

III. DESCRIPTION AND CONDITION *(continued)*

3. Flatwork

Description:

- Type of sidewalks, stoops, steps, patios, refuse pads, etc.

Observations/Comments:

- Significant cracks
- Heaved sections or significant settlement
- Tripping hazards
- Missing handrails
- Replaced sections, evidence of significant previous repairs, etc.
- Depressed sidewalk curbs for the disabled

4. Landscaping and Appurtenances

Description:

- Presence of specimen trees, shrubs, and lawn areas, etc.
- Location of pad mounted transformer

Observations/Comments:

- Whether landscaping appears professionally maintained, overgrown, unkept, bare lawn areas, etc.
- Protection of pad mounted transformer with bollards and storm water drainage characteristics around same

5. Amenities

Description:

- Pool, tennis courts, fencing, etc.

Observations/Comments:

- General condition and upkeep

6. Utilities

Description:

- Type and provider
 - a. Water
 - b. Electricity
 - c. Natural gas
 - d. Sanitary sewer
 - e. Storm sewer

III. DESCRIPTION AND CONDITION (continued)

Observations/Comments:

- Sewage backup problems
- Storm water backup/flooding
- Septic system maintenance
- Sewage ejector pump maintenance

B. Frame and Envelope

1. Substructure

Description:

- Foundation system
- Presence of cellar, basement or crawl space, if any

Observations/Comments:

- Visual evidence of significant foundation cracks, differential settlement, step cracking of foundation walls
- Existence of sump pumps, perimeter channels, etc.
- Evidence of cellar/basement level flooding, water or moisture penetration
- Cellar/basement fire hazard conditions
- Lack of crawl space rodent slab or vapor barrier
- Insulation adequacy
- Ventilation adequacy

2. Superstructure

a. Visual Survey

Description:

- Framing system
- Lateral load resistance

Observations/Comments:

- Visual evidence of any structural distress
- Racking evidence or nonalignment on either sidewall surfaces or within stairwell walls
- Excessive elevated slab cracking or settlement

b. Seismic Requirements

For buildings located within Zones 3 or 4, as depicted on the “Seismic Zone Map of the U.S.,” Figure 23-2, page 194 of the 1991 Uniform Building Code, the following requirements shall apply. However, it will be up to the discretion of Standard & Poor’s to require the following should the building(s) be of Type 5 Construction (UBC Building Code) and under 75,000 SF in size.

- Review and report on available geotechnical information (geotechnical reports, soil borings, foundation system studies, etc.) and comment on the soil type, geotechnical features and the potential of soil liquefaction in the event of an earthquake.
- Identify and report on any catalogued active faults that may affect the property. Report magnitude estimates and distance from the subject to such faults.
- Determine the building type and under which code the building was designed.
- Review and report on available drawings as they pertain to the designed gravity (dead and live) and lateral (earthquake or wind, whichever is greater) loads and on the existing gravity and lateral force resisting systems of the structures.
- Conduct a site visit to visually review as-built conditions as they comply with the drawings submitted, if any, and to identify structural deficiencies as they pertain to inadequate gravity and horizontal loading under current code requirements.
- Render an opinion of the Aggregate Probable Maximum Loss (PML) as a percentage of the current building replacement cost as a result of an earthquake, complete with a general description of the anticipated damage for the structure. The PML is to be based on a 10% probability of being exceeded in a 50-year period.
- Provide recommendations for mitigating structural deficiencies to incur a PML of not more than 15% complete with preliminary cost estimates based upon nominal quantity, take-off calculations for the recommended work. The analysis and recommendations are to be based upon a visual review of the drawings and structure and are not to involve performing analytical structural calculations or testings.

III. DESCRIPTION AND CONDITION *(continued)*

- Take representative photographs of typical conditions and pertinent deficiencies. Such photos are to be annotated to adequately describe same.
- Prepare a written report evaluating all of the above.

3. Facades

Description:

- Sidewall system
- Fenestration system
- Parapets and copings
- Soffits and trim
- Entrances
- Decks and balconies
- Loading dock areas

Observations/Comments:

- Condition of paint, caulking, veneer, pointing, lintels, etc.
- Condition of parapets and copings, visible diagonal cracks, horizontal shifting, etc.
- Sidewall water/moisture penetration
- Condition of window frames and their watertightness
- Insulation adequacy
- Deck/balcony framing and railing system
- Evidence of any termite or wood destroying insect infestation

4. Roofing

Description:

- Type, pitch, drainage and means of access
- Number of roof coverings

Observations/Comments:

- Opine on remaining useful life
- Evidence of previous roof or flashing repairs
- Evidence of surface ponding
- Adequacy of roof drainage
- Presence of roofing vents installed after the roof application
- Condition of flashing, pitch pockets and gravel stops
- Reported leaks
- Condition of roof appurtenances
- Roof deck condensation problems resulting from indoor pools

III. DESCRIPTION AND CONDITION *(continued)*

C. Interior Elements

Description:

- Provide schedule of finishes in a tabular format.

Observations/Comments:

- Representative number of guest rooms surveyed
- Deteriorated, obsolete or dated finishes, furnishings and fixtures: guest rooms, lobbies, guest-floor corridors, and dining, conference or banquet rooms
- Soiled or worn carpeting
- Results of management interviews
- Condition of public toilet facilities
- General conditions of kitchens and food preparation areas: appliances and equipment are excluded

Example of Tables

Guest Room Finishes and Furnishings	
Walls	Drywall
Ceiling	Popcorn (probably asbestos)
Carpeting	Wall-to-Wall
Vinyl Flooring	Bath
Window Treatment	Drapes
Tub/Shower	Fiberglass
Ceramic Tile	Wet Walls Only
Vanity	Yes
Toilets	One-piece/Flushometer
Bathroom Exhaust	None: Not Applicable

III. DESCRIPTION AND CONDITION *(continued)*

D. Attic

Description:

- Access
- Storage potential

Observations/Comments:

- Evidence of fire retardant treated plywood sheathing (buildings constructed after 1981)
- Daylighting
- Insulation adequacy
- Structural adequacy
- Leak stains or active leaks
- Flashing leak stains at roof penetrations
- Bathroom exhaust ducts discharging into attic area
- Adequacy of ventilation

**E. Plumbing,
HVAC and
Electrical**

1. Plumbing

Description:

- Source of potable water
- Type of supply and drainage piping material
- Presence of sewage ejector pump
- Discharge source of sanitary waste: on-site septic system, forced-main, lift station, municipal system, etc.
- Description of domestic hot water production

Observations/Comments:

- Evidence of leaks, galvanic action, or piping condition
- Conduct sampling operation of plumbing fixtures
- Reports or evidence of sewage backup
- Adequacy of domestic hot water production
- Opine on overall condition, remaining expected useful life, and replacement status of house domestic hot water heaters

III. DESCRIPTION AND CONDITION *(continued)*

.....

2. Heating and Air Conditioning

Description:

- Describe system, equipment, and distribution

Observations/Comments:

- Opine on equipment's remaining useful life, condition, system replacements, etc.
- Use of R-12 refrigerant
- RTU condensate drains discharging on roof surface
- Adequacy of boiler/furnace room combustion air
- Lack of boiler/furnace room fire hazards
- Boiler water treatment, if applicable
- Zoning problems

3. Electrical

Description:

- Size of service
- Circuit breakers or fuse overload protection
- Aluminum branch circuit wiring
- Existence of UPS system

Observations/Comments:

- Adequacy and safety
- Presence of GFI receptacles
- If aluminum wiring, use of CO/ALR components to mitigate potential fire hazard
- Firestopping at electrical room/closet penetrations

F. Elevators

Description:

- Type, number, age and capacity
- Name of service company
- Type of control system

Observations/Comments:

- Research gleaned from service company and management interviews with respect to operations and reliability
- Presence of fireman's recall
- Scope and dates of significant repairs or upgrades
- Date of last state or local municipal inspection and load test

III. DESCRIPTION AND CONDITION *(continued)*

G. Fire/Life Safety

1. Sprinklers

Description:

- Type of system: wet or dry
- Fire pump and exterior fire department connections
- Classification of hazard

Observations/Comments:

- Adequacy of coverage
- Clearance under heads
- Date of annual testing

2. Alarm Systems

Description:

- Type of system: manual, automatic, addressable, supervised, multiplex, hardwire, etc.
- Devices incorporated: smoke detectors, pull stations, flow switches, etc.

Observations/Comments:

- Date of last test and inspection

H. Miscellaneous

1. ADA Compliance

Provide paragraph addressing compliance with salient ADA requirements. Estimated costs to provide or modify existing improvements so as to provide access for the disabled are to be provided within Section V. - "Replacement Reserve Analysis." Clearly indicate these costs are for ADA-related improvements. Inasmuch as this survey for ADA compliance is not to be construed as an in-depth ADA survey, detailed cost estimates for compliance are to be calculated using broad assumptions.

III. DESCRIPTION AND CONDITION *(continued)*

2. Security

Description:

- Site lighting
- Building entrance
- Audio/visual intercoms
- Guest room entrance door hardware

Observations/Comments:

- Adequacy

3. Asbestos/Environmental Concerns

Opining on asbestos, hazardous wastes, toxic materials, IAQ, etc. is outside the scope of this Report. However, should Consultant observe material that is suspect of containing friable asbestos or other conditions indicative of possible environmental concerns, such as USTs in excess of 10 years old, Consultant shall note these concerns within the text of the Report and within this section as well. Costs to remove/abate asbestos should be provided under Section V. - "Replacement Reserve Analysis." These costs should be provided on an SF basis. Similar to No. 1 above, ADA Compliance, cost estimates for asbestos removal/abatement are to be order of magnitude estimates calculated using broad assumptions.

4. Building Code Violations Issues

Address noncompliance with any material building codes or anticipated code changes for which the Subject would not be grandfathered. Refer to "Survey and Research Procedures: B. Research; 2. Government Agencies" for requirements.

IV. COST ESTIMATES TO REMEDY DEFICIENCIES

Based upon (i) Consultant's observations during its site visit, and (ii) information received from interviews with building management, and service personnel, which for purposes of the Report will be deemed to be reliable, prepare general scope, preliminary costs estimates complete with an appropriate recommended remedy for each significant Physical Deficiency. This remedy must be commensurate with the Subject and considered a prudent expenditure. Simply stating "poor roof" and providing a lump sum cost-to-cure is insufficient.

These estimates are for components or systems exhibiting either patent defects, significant deferred maintenance, or requiring major repairs or replacement. Repairs or improvements that could be classified as (i) a routine operating expense, (ii) part or parcel of a building renovation program, or (iii) normal building preventive maintenance are not to be included.

Cost estimates for Physical Deficiencies shall be allocated into two categories. Terms used to describe these categories are defined below:

- Immediate—** Physical Deficiencies that require immediate action as a result of: (i) existing or potentially unsafe conditions, (ii) significant negative conditions impacting occupancy/marketability, (iii) material building code violations, (iv) poor or deteriorated condition of critical element or system, or (v) a condition that if left "as is," with an extensive delay in addressing same, would result in or contribute to critical element or system failure within one year.
- Short Term—
(0-1 year)** Physical Deficiencies, which are inclusive of deferred maintenance, that may not warrant immediate attention, but requiring repairs or replacements that should be undertaken on a priority basis, taking precedence over routine preventive maintenance work within a zero to one-year time frame. Included are such Physical Deficiencies resulting from improper design, faulty installation and/or substandard quality of original system or materials. Components or systems that have realized or exceeded their Expected Useful Life (EUL) that may require replacement to be implemented within a zero to one-year time frame are also included.

IV. COST ESTIMATES TO REMEDY DEFICIENCIES *(continued)*

Consultant's estimated costs are deemed to be preliminary. These costs are to be net of general conditions, construction management fees, and design fees. Consultant is to use market costs or historical costs incurred by the Borrower that are documented and/or have been substantiated to Consultant's satisfaction. However, these costs must be reasonable market costs. The Borrower should document these costs by submitting paid invoices, executed or pending bona fide proposals, etc.

The basis of the derivation of these costs must be provided with respect to nominal quantities and the unit costs used; a rational approach to the derivation of the cost estimate must be provided. All cost information must be submitted in a format similar to the schedule titled "Cost Estimates to Remedy Deficiencies" attached to this guideline, and be complete with quantities, units, unit costs and totals.

V. REPLACEMENT RESERVE ANALYSIS

The Consultant shall prepare a Replacement Reserve Schedule that is to encompass short-lived, mid-lived and long-lived recurring systems and components. Short-term recurring systems and components are typical of such items as exterior caulking, carpeting, guest room finishes, furnishings, and fixtures, common area carpeting, pavement sealing and striping, domestic hot water heaters, etc. Mid-lived recurring systems are typically cooling towers, roofing, paving, etc. Long-lived items are typically boilers, chillers, electrical systems, infrastructure components, supply and drainage piping, etc.

The following methodology should be employed when completing the Replacement Reserve Schedule. These schedules shall be submitted typed in a spreadsheet format. An example of a typical Replacement Reserve Schedule is attached.

V. REPLACEMENT RESERVE ANALYSIS (continued)

1. **Do Not Double-dip:** In other words, if Consultant identifies that the roof requires replacement as a Short-Term item under Section IV. - “Cost Estimates to Remedy Deficiencies” do not require its replacement under year one in the Replacement Reserve Schedule. Treat the roof as if it were new with a Remaining Useful Life (RUL) equal to its commonly anticipated Expected Useful Life (EUL).
2. **Opine on EUL and EFF AGE:** Consultant is allowed to use its professional judgment in determining when a system or component will require replacement. Inclement weather, exposure to the elements, initial quality and installation, extent of use, and the degree of preventive maintenance exercised are all factors that could impact the RUL of a system or component. As a result of the aforementioned items, a system or component may have an Effective Age (EFF AGE) greater or less than its Actual Age (ACT AGE). For instance, a parking lot with an EUL of 18 years that has been religiously sealed with a squeegee applied asphaltic emulsion slurry coat may have an EFF AGE equal to eight years although its ACT AGE is 12 years. Therefore, its RUL will be 10 years (18 minus 8) instead of six years (18 minus 12). When there is a significant deviation from common EULs, the text in Section III. - “Description and Condition” must complement same. Should the Borrower or Client differ from the Consultant as to a component’s or system’s EUL, Borrower or Client must substantiate this opinion by schedules, invoices, etc. The Consultant is not to accept unsubstantiated EULs.
3. **Phase Replacements:** Consultant may exercise professional judgment as to the rate or phasing of replacements. For instance, suppose that an office complex has an extensive quantity of paving that will realize its EUL in year eight. Instead of requiring the replacement of all paving in year eight, which would be a significant cost to be incurred in any single year, Consultant may phase the work over three years; i.e., Consultant may replace 40% in year eight, 40% in year nine and 20% in year 10. However, make sure that the other replacements recommended that complement same are also completed in this phase. For instance, if the paving overlay is to be completed in phases, so must the striping. However, do not phase work that is only of limited scope, such as resurfacing a 2,000 SY parking lot, since prudent management would not phase such a small quantity of paving resurfacing.

Phased replacement scheduling is also appropriate for allocating asbestos removal/abatement costs inasmuch as such work commonly coincides with lease terminations.

V. REPLACEMENT RESERVE ANALYSIS *(continued)*

4. **Component Replacements:** Certain mechanical equipment can be broken down into commonly replaced individual major components so that funding to replace the entire piece of equipment at one time is not necessary. For example, the overall cost of a boiler may include pumps, a burner, etc., which may require replacement on a schedule different from that of replacing the entire boiler.
5. **Replacements Made Thus Far:** Take into consideration if management has already begun a program of replacing multiple or single components that have realized their EUL. If, as a result of research, Consultant learns the extent of such replacements made to date, Consultant shall take this into consideration. In some instances, Consultant may use weighted average EULs and EFF AGEs. The onus is on management to substantiate the replacements made and the reported costs incurred by submitting documentation to the Consultant. Such documents should be included as an exhibit to the Report.
6. **Term:** Complete a Replacement Reserve Schedule for the term of the loan plus two years. The length of the term or “window” may significantly impact reserve requirements. For instance, a 17-year reserve “window” would not include replacement of roofing (RUL = 20 years) for a Subject having a one-year-old roof, whereas a 22-year “window” would include such a cost. Generally, the smaller the window, the less the reserve monies required.
7. **Replacement Costs:** Replacement costs used shall be market or Borrower’s historical incurred costs, or substantiated third-party costs. Should the borrower or Client differ from the Consultant as to a component’s or system’s replacement cost, Borrower or Client must substantiate this opinion by submitting paid invoices, executed proposals, receipts, bona fide pending proposals, etc. The Consultant is not to accept unsubstantiated replacement costs offered by the Borrower or Client.
8. **Inflation:** Projected future expenditures should incorporate a rate of inflation equal to the rate of comparable term Treasuries less 140 basis points or a defined rate provided by Client.

VI. QUALIFICATIONS

Procedure, Limitations, Use and Reliance Restrictions.

VII. EXHIBITS

The Consultant should append any exhibits that illustrate or clarify information presented in the body of the Report. Pertinent documents such as promotional literature, leasing literature and room size and court schedules, annotated site plans, copies of pending proposals, room or building plan excerpts, certificates of occupancy and other relevant information should be provided where available and useful.

The Presurvey Questionnaire and Disclosure Schedule and the Property Condition Assessment Document and Information Checklist should be appended whether or not the Borrower or its representative has completed them.

REPLACEMENT RESERVE ANALYSIS

CRYSTAL BAY
2333 Feather Sound Drive

Inflation = 4.6%
October 14, 1994

No.	Item	Avg. EUL (yr)	EFF AGE (yr)	RUL (yr)	Quantity	Unit	Unit Cost	Cost Over Cycle	1994 1	1995 2	1996 3	1997 4	1998 5	1999 6	2000 7	2001 8	2002 9	2003 10	Total over term inflated \$	
<i>SITE</i>																				
1	Paving, Asphalt—Apply 1" Topping	18	7	11	11,500	SY	21.75	\$77,625	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	Asphalt Pvmnt Sealant—Slurry Coat	5	4	1	11,500	SY	0.75	\$8,625	\$9,022	\$0	\$0	\$0	\$0	\$11,297	\$0	\$0	\$0	\$0	\$0	\$20,318
3	Sidewalks, Concrete—Replace	25	10	15	1,750	SF	5.00	\$8,750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	Irrigtn Sys., Lawn—Rpl. Pump & Controls	8	5	3	4	EA	1,200.00	\$4,800	\$0	\$0	\$5,493	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,493
5	Lighting Standards, Aluminum—Site	16	5	11	32	EA	1,700.00	\$54,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	Swimming Pool, Re-Marciting	5	2	3	6,200	SF	1.45	\$8,990	\$0	\$0	\$10,289	\$0	\$0	\$0	\$0	\$12,883	\$0	\$0	\$0	\$23,171
7	Swimming Pool, Deck Re-surfacing	8	2	6	4,000	SF	2.50	\$10,000	\$0	\$0	\$0	\$0	\$0	\$13,098	\$0	\$0	\$0	\$0	\$0	\$13,098
8	Swimming Pool, Filtering Equip.	12	10	2	2	POOL	900.00	\$1,800	\$0	\$1,969	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,969
9	Fencing, Stockade (Wood)	12	5	7	450	LF	7.50	\$3,375	\$0	\$0	\$0	\$0	\$0	\$0	\$4,624	\$0	\$0	\$0	\$0	\$4,624
10	Fence Enclosure, Refuse (Wood)	8	5	3	5	EA	200.00	\$1,000	\$0	\$0	\$1,144	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,144
11	Mailboxes, Aluminum—Exterior Display	15	5	10	2	EA	2,800.00	\$5,600	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$8,780	\$8,780
12	Tennis Court—Surface Coating & Striping	15	8	7	14,400	SF	0.65	\$9,360	\$0	\$0	\$0	\$0	\$0	\$0	\$12,823	\$0	\$0	\$0	\$0	\$12,823
<i>ENVELOPE</i>																				
13	Roofing, Asphalt Shingle	20	8	12	94,000	SF	0.80	\$117,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
14	Gutters & Leaders, Aluminum	20	8	12	6,200	LF	3.00	\$55,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	Painting, Building Exterior	5	2	3	117,000	SF	0.50	\$58,500	\$0	\$0	\$66,950	\$0	\$0	\$0	\$0	\$83,832	\$0	\$0	\$0	\$150,782
16	Doors, Entrance—Exterior Individual Unit	25	10	15	308	EA	275.00	\$84,700	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	Siding, "Masonite"	17	5	12	110,000	SF	1.90	\$209,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
18	Metal Stair Railings, Repaint	6	4	2	4,400	LF	0.90	\$3,960	\$0	\$4,333	\$0	\$0	\$0	\$0	\$0	\$5,675	\$0	\$0	\$0	\$10,007
19	Window, Aluminum Frame & Glazing	30	10	20	1,260	EA	225.00	\$283,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
20	Balcony, Structure Rehabilitation	15	4	11	204	EA	1,100.00	\$224,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
21	Balcony, Concrete Traffic Coating	10	0	10	7,100	SF	1.20	\$8,520	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,672	\$2,672
<i>INTERIORS</i>																				
22	Carpeting, Individual Unit	7	7	0	23,000	SY	\$15.00	\$345,000	\$75,783	\$37,747	\$39,483	\$41,300	\$43,199	\$45,187	\$75,624	\$93,935	\$73,876	\$77,275	\$603,409	
23	Vinyl Composition Tile, Kitchen	10	5	5	42,000	SF	\$2.10	\$88,200	\$0	\$0	\$0	\$0	\$22,088	\$34,656	\$12,083	\$12,639	\$13,221	\$13,829	\$108,516	
24	Vinyl Composition Tile, Bathroom	10	5	5	28,000	SF	\$2.10	\$58,800	\$0	\$0	\$0	\$0	\$14,725	\$23,104	\$8,056	\$8,426	\$8,814	\$9,219	\$72,344	
25	Refrigerator, 14 Cu. Ft. Frost Free	15	4	11	308	EA	\$425.00	\$130,900	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
26	Range, 30" Electric	15	4	11	308	EA	\$285.00	\$87,780	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
27	Garbage Disposal, In-Sink	10	6	4	308	EA	\$90.00	\$27,720	\$0	\$0	\$0	\$6,637	\$10,413	\$3,631	\$3,798	\$3,972	\$4,155	\$4,346	\$36,952	
28	Dishwasher, Four Cycle	10	0	10	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$24,146	\$24,146
<i>MECHANICAL</i>																				
29	Exhaust Fan, Bathroom	12	8	4	620	EA	\$30.00	\$18,600	\$0	\$0	\$0	\$4,453	\$6,987	\$2,030	\$2,124	\$2,221	\$2,323	\$2,430	\$22,569	
30	Furnace, Individual Gas-Fired Unit	20	5	15	308	EA	\$800.00	\$246,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
31	Condenser, Air-Cooled	15	4	11	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
32	Domestic Water Heater, Individual Electric Unit	7	7	0	308	EA	\$180.00	\$55,440	\$12,178	\$6,066	\$6,345	\$6,637	\$6,942	\$7,261	\$12,152	\$15,095	\$11,872	\$12,418	\$96,965	

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.

ANNUAL REQUIREMENTS (ROUNDED)	\$96,982	\$50,115	\$129,705	\$59,026	\$104,355	\$140,263	\$131,284	\$238,678	\$114,261	\$155,114	\$1,219,783
PV OF TOTAL ANNUAL RESERVES	\$929,137										
PV TOTAL ANNUAL RESERVES/UNIT/YEAR	\$451										

COST ESTIMATE TO REMEDY DEFICIENCIES

Canterberry Green
October 14, 1994

Item	Quantity	Unit	Unit Cost	Budget Cost Immediate	Estimate Short-term
<i>SITE</i>					
Asphalt Patching —Remove and patch all soft, crazed parking areas. Within the next three (3) years all of the paved areas should be resurfaced.	1	LS	\$2,700		\$2,700
Asphalt Sealing —Pavement is bleached and oil stained at parking spots. Prolong longevity and improve the complex's general aesthetics by applying an emulsion asphalt sealant. Prepare surfaces by sealing all cracks, patching deficiencies and removing oil staining. Apply two (2) coats of emulsion based asphalt sealant, containing 4 lbs. of sand per gallon plus 4% latex additive, to entire asphalt paved area in that location.	61	Unit	\$20		\$1,220
Asphalt Striping —Striping is faded throughout the paved parking areas. Layout and restripe entire parking lot using reflectorized white or yellow 4" wide painted lines for car stalls, handicap areas, fire zones and traffic flow.	61	Unit	\$3		\$183
Regrade Cluster Perimeters —Crawl space flooding is occurring at Building No. 10. Similar conditions were noted at Building Nos. 9 and 11. Foundation wall backfill has settled and the situation has been aggravated by storm water ponding adjacent to the foundation. These conditions are contributing to crawl space water seepage and high humidity problems, which are conducive to rot and termite infestation. Spread and compact additional soil to promote positive drainage away from sidewalls.	3	Cluster	\$2,300	\$6,900	
Site Lighting —Install three (3) new high pressure, sodium fixtured lighting standards near Building Nos. 10 and 11 to illuminate unsafe areas.	3	Each	\$1,600		\$4,800
<i>EXTERIOR</i>					
Exterior Painting —Paint on hardboard siding and rough sawn trim is faded, mildew stained and deteriorated at all units. Such conditions will eventually lead to rot and deterioration of wood surfaces. Scrape worn painted surfaces, and brush apply two (2) coats of exterior latex paint on the hardboard siding, trim, window frames and exterior doors. Apply sealant to all open joints.	130	Cube	\$145		\$18,850
Misc. Exterior Carpentry Repairs —Numerous years of deferred maintenance has led to the deterioration of miscellaneous wood trim components at cluster exteriors. Secure loose and cupped rough sawn battens, loose and hanging soffit panels, and replace rotted eave and fascia trim. Also replace miscellaneous rotted exterior door jambs, sheathing and deteriorated trim sections, etc.	8	Cluster	\$965		\$7,720
Asphalt Shingle Roofing —Remove existing asphalt shingles down to plywood sheathing. Replace damaged sheathing as necessary. Install new #235 asphalt shingle roofs, complete with flashings, at each building.	130	Cube	\$400		\$52,000
<i>MECHANICAL/ELECTRICAL/PLUMBING</i>					
Electric Domestic Hot Water Heaters —Existing domestic hot water heaters have reached their expected useful lives. Budget to replace with new electric domestic hot water heaters complete with new temperature and pressure safety release valve piped to the floor.	308	Each	\$45	\$13,860	
Bathroom Vents —Bathroom vents exhaust in the attic spaces of the units, as in the cases of Unit Nos. 405 and 609, creating warm, humid conditions which have contributed to minor rot and decay of the roof sheathing. Extend bathroom vent ducts through the roofs and terminate with proper flashing and caps.					
<i>INTERIOR</i>					
Carpet —Many units contain dated carpeting which is in need of replacement. Remove existing carpeting and padding and install new carpet.	15	Unit	\$500		\$7,500
Kitchen Vinyl Floor Covering —Worn, dated vinyl kitchen flooring was reported at most units in the development. Remove existing vinyl flooring, which is said to be faded and lifting along seams, and replace.	15	Unit	\$100		\$1,500
Bathroom Vinyl Flooring —Worn, dated vinyl flooring was observed at representative bathrooms. Remove discolored and lifting vinyl bathroom flooring and replace with new.	15	Bath	\$100		\$1,500
			TOTAL	\$20,760	\$97,973

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.

GUIDELINES FOR CONDUCTING PROPERTY CONDITION ASSESSMENTS

INDUSTRIAL/FLEX SPACE BUILDINGS

PURPOSE

1. Identify significant defects, deficiencies, items of deferred maintenance and material building code violations (individually and collectively, Physical Deficiencies) as a result of a visual survey, review of documents, and the research and interrogatories as described herein.
2. Prepare estimated costs to remedy the Physical Deficiencies.
3. Prepare a Replacement Reserve Schedule for the term of the loan plus two years. The length of this term is to be provided by the Client.
4. Prepare a written report (the Report) that opines on the Subject's overall physical condition, describes pertinent components or systems of the Subject property, identifies Physical Deficiencies and conditions that would limit the expected useful life of major components or systems, and provides estimated costs to remedy Physical Deficiencies and for annual Replacement Reserve Expenditures.

SCOPE OF WORK

A. General

The Consultant shall review available information to be provided by the Client and the Borrower, make inquiries of the Borrower, make observations sufficient to establish the type and approximate extent of Physical Deficiencies, and take representative measurements and quantity counts to estimate the cost to remedy Physical Deficiencies and to prepare the Replacement Reserve Schedule.

Consultant should assume that timely and complete access to the property, staff, vendors, and documents will be provided by Borrower. Borrower is to provide sufficient, safe, and readily available access to all areas of the building(s) including roofs so as not to impede Consultant's survey procedures. Client will assist Consultant in securing access and information in the event Borrower fails to cooperate. The Consultant should not seek access to any property, staff, vendors, or documents if the Borrower objects to this access or attempts to restrict Consultant from conducting its survey or research.

Should any document, vendor access, or information be requested by Consultant but knowingly withheld by Borrower from Consultant, Consultant shall contact Client. If this information is not provided before the preparation of Consultant's draft report, Consultant shall identify within the Report, in the appropriate sections, any information or access requested but subsequently denied, or not made readily available at the time of the Consultant's site visit or the Report's writing.

SCOPE OF WORK (continued)

B. Time Allocation

Although the time required at a site and for research will vary based on the size, age, number of buildings, configuration, type and condition of a property, the following man-hour estimates may be useful as a guideline for the Consultant to estimate its fee. Based upon Standard & Poor's experience, these guidelines appear to be reasonable for the time required to conduct a property condition assessment by an architect or engineer knowledgeable and experienced in this field.

Item	Man-Hour Guidelines		
	Size of Industrial/Flex Space Building		
	<50 MSF	>50 MSF <150 MSF	>150 MSF <400 MSF
Mobilization	2	2	2
Site Visit:			
Property Assessment	3-5	5-8	9-16
Replacement Reserve Measuring	2-3	3-4	4-8
Research: Historical Costs, Vendors and Government	2-4	4-5	5-8
Cost Estimating:			
Deficiencies	3-4	4-6	6-8
Replacement Reserves	4-6	6-8	8-12
Seismic Review/PML Study *	30	35	40
Building Measurement Confirmation (Optional)	2-4	4-6	6-8
Report Write-Up: Draft	6-8	8-12	12-16
Subtotal	54-66	71-86	92-118
Report Revisions and Discussions	2	2	2-3
Report Write-Up: Final Review and Handling	<u>2-4</u>	<u>2-4</u>	<u>4-6</u>
Total Estimated Man-Hours	58-72	75-92	98-127

* Required for seismic zones 3 and 4 only.

As an expert in this field of work, Consultant is to use its judgment as to the time required to be expended by the Consultant's technical staff, clerical and secretarial staff, expenses related to traveling and communication, and other expenses that may not be identified.

SURVEY AND RESEARCH PROCEDURES

A. Property Survey

Observe property components, systems, and elements that are easily visible and readily accessible for the purposes of describing same, opining on their apparent physical condition, and identifying significant Physical Deficiencies. Consultant is not required to prepare detailed calculations, remove materials, operate equipment not typically operated by tenants, or conduct any exploratory probing or testing. This is a nonintrusive visual survey. However, Consultant is to make a reasonable attempt at discovery. The “law-of-reason” shall prevail.

Survey procedures will consist of:

- Walk-around visual survey.
- Random operation of equipment, fixtures and systems, which are normally operated by tenants, on a sampling basis to determine system operability or operating characteristics.
- Noting of material building code violations of items, systems, or inherent design that are readily apparent and discernible as a result of the “walk-through” survey.
- The taking of measurements and system counts to adequately justify estimated costs to remedy Physical Deficiencies and to estimate Replacement Reserve Expenditures. The basis for these costs must be substantiated by the Consultant within the Report.

B. Research

1. Borrower/Owner

Consultant is to provide Borrower with a Presurvey Questionnaire and Disclosure Schedule (the Questionnaire) and a Property Condition Assessment Document and Information Checklist (the Checklist) (copies attached), which are to be specifically tailored by Consultant for the Subject. These documents are to be completed by the Borrower or its representative and forwarded to the Consultant. The Questionnaire and Checklist shall be included as exhibits within Consultant’s report, whether or not they are completed by the Borrower and provided to Consultant.

Research shall be conducted using tenants, service providers, and those knowledgeable about the Subject as sources. Standard & Poor’s recommends that the following research be conducted as a minimum. Telephone interviews may be sufficient for most inquiries.

- Interviewing building management and ownership.
- Interrogatories with pertinent building systems service personnel, vendors, and tenants.

In addition, attempt to discover the following information:

- Type and extent of deferred maintenance
- Type and extent of latent or patent defects
- Anticipated costs to remedy known Physical Deficiencies at the property (prior quotes and proposals, pending proposals, unit prices, etc.)
- Historical costs incurred for repairs, improvements, recurring replacements, etc.
- Program for preventive maintenance, repairs, and budgeting for replacement reserves
- Age of systems, components and equipment when different from property age
- Current and recent maintenance practices
- Existence of outstanding citations for building, fire and zoning code violations
- Existence of an ADA assessment survey and status of any compliance activity
- Existence of any other previously prepared due diligence survey
- Building occupancy percentage and turnover rate

2. Government Agencies

Consultant shall endeavor to research the local Department of Buildings' file on the Subject. The purpose of this research is to determine the presence of any outstanding material building code violations, file completeness, and to obtain, if possible, a copy of the Subject's Certificate of Occupancy and/or use restrictions that may have been imposed as a result of granting zoning variances. Furthermore, Consultant is to inquire whether there are any proposed or anticipated building codes that may be implemented, which the Subject would be required to comply with as a result of not being grandfathered. The Report shall contain the results of these interviews complete with the names and titles of government employees consulted.

- C. Review of Documents** Review property records and studies as furnished by the Client, the Borrower or its representative. In general, document information will consist primarily of Borrower supplied leasing literature, possibly drawings (as-built drawings, if available), historical receipts for repairs and/or improvements, pending proposals, schedule of operating expenses, etc. There may also be previously prepared building condition survey reports, appraisals, roof condition surveys, etc. that should be provided to the Consultant as well. Should access to any or all documentation be restricted or denied to Consultant, Consultant is to notify Client and report this lack of access or denial within the Report.
- If drawings (as-built or construction) are available, they are to be provided to the Consultant for Consultant's use in Consultant's offices. These drawings shall serve as an aid to the Consultant in developing quantities for cost estimating purposes (both to remedy deficiencies and for replacement reserve calculations), and will assist Consultant in preparing descriptions of the improvements, and identifying latent defects. An in-depth review of the drawings is not required under the scope of this engagement. In addition, Consultant is not required to prepare a detailed code compliance review based upon either the drawings or the Consultant's visual survey.
- D. Representative Sampling** Not every tenant space must be surveyed. However, the envelope of each building along with base building areas/systems shall be surveyed should more than one building exist.
- E. Photographs** As a minimum, Consultant will take 35mm color photographs of:
- View of Subject from "curb"
 - Pavement views
 - Representative elevations
 - Typical mechanical, electrical and plumbing equipment and fixtures
 - Main entrance lobby
 - Significant or commonly encountered Physical Deficiencies
 - Toilet facilities
 - Loading docks
 - Roof views (main and canopy)
 - Views of S.O.G. expanses
- For most assignments, the number of photographs will range from 20-40. Each photograph should be described.

REPORT

Outline

Prepare a Property Condition Assessment Report (the Report) following this outline:

Cover Page

Table of Contents

- I. Executive Summary
 - A. General Description
 - B. General Condition
 - C. Estimated Required Expenditures
 - Deferred Maintenance and Physical Deficiencies
 - Replacement Reserve Expenditures
 - D. Recommendations
- II. Purpose and Scope
- III. Description and Condition
 - A. Site
 - B. Frame and Envelope
 - C. Interior Elements
 - D. Plumbing, HVAC and Electrical
 - E. Fire/Life Safety
 - F. Miscellaneous
 - ADA Compliance
 - Asbestos/Environmental Concerns
 - Building Code Violations Issues
 - Building Measurement Confirmation
- IV. Cost Estimates to Remedy Deficiencies

- V. Replacement Reserve Analysis
- VI. Qualifications
 - Limiting Conditions
 - Consultant's Certification
- VII. Exhibits
 - Photographs
 - Presurvey Questionnaire and Disclosure Schedule
 - Property Condition Assessment Document and Information Checklist
 - Subject Description and Parameters Schedule
 - Schedule of Data/Documents Reviewed
 - Schedule of Operating Expenses
 - Leasing Literature
 - Reduced Plot or Site Plans, etc.
 - Documentation of Loading Capacities

The required content of the Property Condition Assessment Report is more fully described as follows. The format follows the Report's Table of Contents provided above.

I. EXECUTIVE SUMMARY

(try to limit to one to two pages)

A. General Description

This should be no more than a short paragraph that describes the Subject. It should provide salient information such as location, size, age, construction type, design style, apparent occupancy status, type of lease, etc. Sufficient information should be provided so that the reader can visualize the Subject.

B. General Condition

The opening paragraph should opine on the Subject's general condition and the apparent level of preventive maintenance exercised, significant deferred maintenance, material Physical Deficiencies, and any significant deviations from Borrower provided building gross or leaseable areas. If any significant physical improvements were recently implemented, this information should be provided as well. Should any of Consultant's research result in either significantly positive or negative responses, provide this information. Do not dwell on minor deficiencies.

Although not limited to the following, the conditions listed below must be commented upon, if noted. For each, provide a summary outline of the pertinent, salient Physical Deficiencies noted, with concise opinions.

- Presence of phenolic roof insulation
- Numerous quilt-like or trench-type asphalt pavement repairs
- Roof (main and canopy) leaks, significant roof repairs and ponding
- Severely cracked or settled floor slab areas
- Evidence of floor slab remediation work such as pressure grouting
- Parapet deficiencies
- Facade leaks
- Presence of suspect ACM
- Material building code violations

I. EXECUTIVE SUMMARY *(continued)*

- C. **Estimated Required Expenditures**
1. **Deferred Maintenance and Physical Deficiencies**
Allocate the totals of the derived cost estimates to remedy Physical Deficiencies into categories classified as either Immediate or Short Term.
 2. **Replacement Reserve Expenditures**
Determine the present value, at a discount rate to be provided, of the annual required replacement reserve expenditures over the reserve term.
- D. **Recommendations** Should any condition be suspect or warrant further research, testing, removal of material, etc., such a recommendation should be placed in this section. Examples would be recommendations for roof infrared surveys, roof cuts, scaffold inspections, etc.

II. PURPOSE AND SCOPE

- A. **Purpose** Consultant is to provide a short paragraph specifically stating the purpose of this engagement and identifying the Subject.
- B. **Scope** Consultant is to outline the scope and the methods used to conduct the survey (as outlined herein and in accordance with the Consultant's Property Condition Assessment Agreement), and is to identify the individuals, firms, and/or governmental agencies interviewed for research purposes.

III. DESCRIPTION AND CONDITION

The succeeding sections should be presented in a narrative form and may only need to consist of a few sentences and, in some cases, simply phrases. This information can be presented in either tabular or outline form. Excessively detailed descriptions, such as providing model or serial numbers of mechanical equipment, are unwarranted. If access or visual observation was impaired, denied or limited, or if pertinent information was denied or realized as a result of Consultant's research or interviews, provide the results of same in the appropriate following sections.

Each section is to consist of two sections: *Description* and *Observations/Comments*, and presented as in the example that follows. Please provide sufficient descriptive information to support an opinion. Simply stating that the "roof is poor" is insufficient. The opinion should be adequately supported and it should be accompanied by an appropriate recommended remedy.

2. Paving and Curbing

Description:

Paving consists of asphalt throughout all drives and parking areas. Curbing is of extruded asphalt except along the front building line, where it is of belgium block. Sixty open air parking spaces are provided along with 12 truck loading spaces.

Observations/Comments:

Paving is 10 years old and serviceable. Numerous patch-type repairs have been made and about 30% of the surface has received a 1½" overlay. Poor soils, an inadequate base course and heavy loading from trucks are suspect for the premature failure noted. Surfaces were never sealed and striping is faded. Vehicle parking is more than sufficient with one space per 150 SF of usable office area and one space per 500 SF of warehouse space.

The prompts listed under each section for the following *Description* and *Observations/Comments* sections are presented *as a guide only* and are not to be construed as all inclusive or as a constraint to response limitation. Consultant is responsible for reporting all significant Physical Deficiencies.

III. DESCRIPTION AND CONDITION *(continued)*

A. Site

1. Topography and Drainage

Description:

- Flat, rolling hills, extreme variations in topography
- Conditions conducive to soils with low load bearing characteristics, etc.
- Note whether the property encroaches upon a 100-year flood area designated as “Special Flood Hazard Areas Inundated by 100-year Flood” on FEMA maps, as amended
- Site drainage
- Surface waters or vegetation indicative of surface waters
- Retention or detention basins

Observations/Comments:

- Opine on the effectiveness of storm water drainage, the propensity of flooding or any historical flooding gleaned by observation or research
- Storm water overflow to or from adjacent properties
- High water table suspect, etc.

2. Paving and Curbing

Description:

- Number of parking and loading spaces
- Type of paving and curbing

Observations/Comments:

- Evidence of existing numerous deficiencies, repairs, overlays
- Condition of striping, curb repairs, extensive ponding or “bird baths,” etc.
- Presence of previously applied asphaltic sealant
- Extensive vehicle oil staining or bleaching of asphalt surfaces
- Opine on adequacy of parking and truck loading spaces
- Ponding or silt-filled intercepting drain at loading dock

III. DESCRIPTION AND CONDITION *(continued)*

3. Flatwork

Description:

- Type of sidewalks

Observations/Comments:

- Significant cracks
- Heaved sections or significant settlement
- Tripping hazards
- Missing handrails
- Replaced sections, evidence of previous significant repairs, etc.
- Truck landing gear support pads

4. Landscaping and Appurtenances

Description:

- Presence of specimen trees, shrubs, and lawn areas, etc.
- Location of transformer

Observations/Comments:

- Whether landscaping appears professionally maintained, overgrown, unkept, bare lawn areas, etc.
- Protection of pad mounted transformer with bollards

5. Utilities

Description:

- Type and provider
 - a. Water
 - b. Electricity
 - c. Natural gas
 - d. Sanitary sewer
 - e. Storm sewer

Observations/Comments:

- Sewage backup problems
- Storm water backup/flooding
- Septic system maintenance
- Sewage ejector pump maintenance

III. DESCRIPTION AND CONDITION *(continued)*

B. Frame and Envelope

1. Substructure

Description:

- Foundation system
- Presence of cellar or basement, if any
- S.O.G. or mezzanine level elevated slab live loading capacities

Observations/Comments:

- Visual evidence of significant foundation cracks, differential settlement, step cracking of foundation walls
- Significant S.O.G. cracks or settlement
- Evidence of S.O.G. remediation work such as pressure grouting, resurfacing, etc.

2. Superstructure

a. Visual Survey

Description:

- Framing system: Preengineered or conventional
- Lateral load resistance
- Design live loads: S.O.G. and mezzanine. Provide source documenting loading capacity and limits, and provide any documentation referencing same as an exhibit to the report.
- Height of eaves

Observations/Comments:

- Visual evidence of any structural distress
- Racking evidence or nonalignment of sidewall systems
- Rusting of column bases and anchor bolts

b. Seismic Requirements

For buildings located within Zones 3 or 4, as depicted on the “Seismic Zone Map of the U.S.,” Figure 23-2, page 194 of the 1991 Uniform Building Code, the following requirements shall apply. However, it will be up to the discretion of Standard & Poor’s to require the following should the building(s) be of Type 5 Construction (UBC Building Code) and under 75,000 SF in size.

- Review and report on available geotechnical information (geotechnical reports, soil borings, foundation system studies, etc.) and comment on the soil type, geotechnical features and the potential of soil liquefaction in the event of an earthquake.

III. DESCRIPTION AND CONDITION *(continued)*

- Identify and report on any catalogued active faults that may affect the property. Report magnitude estimates and distance from the subject to such faults.
- Determine the building type and under which code the building was designed.
- Review and report on available drawings as they pertain to the designed gravity (dead and live) and lateral (earthquake or wind, whichever is greater) loads and on the existing gravity and lateral force resisting systems of the structures.
- Conduct a site visit to visually review as-built conditions as they comply with the drawings submitted, if any, and to identify structural deficiencies as they pertain to inadequate gravity and horizontal loading under current code requirements.
- Render an opinion of the Aggregate Probable Maximum Loss (PML) as a percentage of the current building replacement cost as a result of an earthquake, complete with a general description of the anticipated damage for the structure. The PML is to be based on a 10% probability of being exceeded in a 50-year period.
- Provide recommendations for mitigating structural deficiencies to incur a PML of not more than 15% complete with preliminary cost estimates based upon nominal quantity, take-off calculations for the recommended work. The analysis and recommendations are to be based upon a visual review of the drawings and structure and are not to involve performing analytical structural calculations or testings.
- Take representative photographs of typical conditions and pertinent deficiencies. Such photos are to be annotated to adequately describe same.
- Prepare a written report evaluating all of the above.

3. Facades

Description:

- Sidewall system
- Height of eaves
- Fenestration system
- Parapets and copings
- Loading docks
- Overhead doors

Observations/Comments:

- Condition of paint, panel coatings, facade systems, caulking, pointing, lintels, etc.
- Condition of parapets and copings, visible diagonal cracks, horizontal shifting, etc.
- Sidewall water/moisture penetration
- O.H. door panel, jamb and header condition
- Condition of sidewall leaders
- Rusting of exposed columns or anchor bolts

4. Roofing

Consultant is to place an emphasis within the report on surveying, researching and opining on the condition of the building's roof. All previously prepared roof condition survey reports, whether visual or infrared, are to be reviewed and commented upon.

Description:

- Type, pitch, drainage and means of access
- Main and canopy roofs
- Number of roof coverings

III. DESCRIPTION AND CONDITION *(continued)*

Observations/Comments:

- Opine on remaining useful life
- Evidence of previous roof or flashing repairs
- Adequacy of roof drainage
- Evidence of surface ponding
- Presence of phenolic insulation
- Presence of roofing vents installed after the roof application
- Condition of roof expansion joint, flashing, pitch pockets and gravel stops
- Reported leaks
- Condition of roof appurtenances
- Rust evidence on underside of metal roof decking

C. Interior Elements

Describe a typical tenant space with respect to office to warehouse space ratio and to building standard finishes: capacity, overhead doors, ceiling system, toilet facilities, etc. This descriptive information may be presented in a tabular format. Opine on the adequacy of sufficient egress with respect to life/safety concerns.

D. Plumbing, HVAC and Electrical

1. Plumbing

Description:

- Source of potable water
- Type of supply and drainage piping material
- Discharge source of sanitary waste: on-site septic system, lift station, municipal system, etc.
- Description of domestic hot water production

Observations/Comments:

- Evidence of leaks, galvanic action, or piping condition
- Reports or evidence of sewage backup
- Capacity and remaining useful life of domestic hot water heaters
- Piping (unsupported) under S.O.G. in a piled foundation building

III. DESCRIPTION AND CONDITION *(continued)*

2. Heating

Description:

- Describe equipment and distribution system

Observations/Comments:

- Opine on equipment's remaining useful life, present condition, system replacements, etc.
- Stratification problems
- Presence of unheated soffit areas below usable space
- Adequacy of boiler room combustion air
- Presence of ceiling suspended heating units that are difficult to access and service
- RTUs sitting on 4"x4"s, CMUs, or not properly flashed or curbed
- Lack of boiler room fire hazards
- Evidence of cannibalized RTUs

3. Air Conditioning and Ventilation

Description:

- Describe equipment and distribution system
- Air changes per hour

Observations/Comments:

- Use R-12 refrigerant
- RTU condensate drains discharging on roof surface
- Zoning problems and tenant complaints

4. Electrical

Description:

- Size of service
- Circuit breakers or fuse overload protection
- Aluminum branch circuit wiring
- Metering of individual tenants

Observations/Comments:

- Adequacy
- Presence of salient electrical code violations
- Firestopping of electrical room/closet penetrations

III. DESCRIPTION AND CONDITION *(continued)*

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E. Fire/Life
Safety

1. Sprinklers

Description:

- Type of system: wet or dry
- Fire pump and exterior fire department connections
- Classification of hazard

Observations/Comments:

- Adequacy of coverage
- Clearance under heads
- Date of annual testing

2. Alarm Systems

Description:

- Type of system: manual, automatic, addressable, supervised, multiplex, hardwire, etc.
- Devices incorporated: smoke detectors, pull stations, flow switches, etc.

Observations/Comments:

- Date of last test and inspection

3. Egress

Opine on the adequacy of building egress, specifically as it relates to the warehouse portion of the facility.

III. DESCRIPTION AND CONDITION *(continued)*

.....

F. Miscellaneous

1. ADA Compliance

Provide paragraph addressing compliance with salient ADA requirements that are concerned with access to office use areas. Estimated costs to provide or modify existing improvements so as to provide access for the disabled are to be provided within Section V. - "Replacement Reserve Analysis." Clearly indicate these costs are for ADA-related improvements. Inasmuch as this survey for ADA compliance is not to be construed as an in-depth ADA survey, detailed cost estimates for compliance are to be calculated using broad assumptions.

2. Asbestos/Environmental Concerns

Opining on asbestos, hazardous wastes, toxic materials, IAQ, etc. is outside the scope of this Report. However, should Consultant observe material that is suspect of containing friable asbestos or other conditions indicative of possible environmental concerns such as USTs in excess of 10 years old, Consultant shall note such concerns within the text of the Report and within this section as well. Costs to remove/abate asbestos should be provided under Section V. - "Replacement Reserve Analysis." These costs should be provided on an SF basis. Similar to No. 1 above, ADA Compliance, cost estimates for asbestos removal/abatement are to be order of magnitude estimates calculated using broad assumptions.

3. Building Code Violations Issues

Address noncompliance with any material building codes or anticipated code changes for which the Subject would not be grandfathered. Refer to "Survey and Research Procedures: B. Research; 2. Government Agencies" for requirements.

4. Building Measurement Confirmation (Optional)

If as-built drawings are provided by the Borrower, calculate the gross, useable and rentable floor areas using BOMA standards. These calculations are to be provided in a tabular format and compared to a schedule of same provided by the Borrower. Within the RFP, Client may direct Consultant to provide only spot or a sampling of compliance measurements, or to omit this section entirely.

IV. COST ESTIMATES TO REMEDY DEFICIENCIES

Based upon (i) Consultant's observations during its site visit, and (ii) information received from interviews with building management, tenants, and service personnel, which for purposes of the Report will be deemed to be reliable, prepare general scope, preliminary cost estimates complete with an appropriate recommended remedy for each significant Physical Deficiency. This remedy must be commensurate with the Subject and considered a prudent expenditure. Simply stating "poor roof" and providing a lump sum cost-to-cure is insufficient.

These estimates are for components or systems exhibiting either patent defects, significant deferred maintenance, or requiring major repairs or replacement. Repairs or improvements that could be classified as (i) a routine operating expense, (ii) part or parcel of a building renovation program, (iii) normal building preventive maintenance, or (iv) that are the responsibility of tenants are not to be included. Of importance, the Consultant must offer an appropriate recommended remedy for each Physical Deficiency.

Cost estimates for Physical Deficiencies shall be allocated into two categories. Terms used to describe these categories are defined below:

- Immediate—** Physical Deficiencies that require immediate action as a result of: (i) existing or potentially unsafe conditions, (ii) significant conditions impacting tenancy, (iii) material building code violations, (iv) poor or deteriorated condition of critical element or system, or (v) a condition that if left "as is," with an extensive delay in addressing same, would result in or contribute to critical element or system failure within one year.
- Short Term—
(0-1 year)** Physical Deficiencies, which are inclusive of deferred maintenance, that may not warrant immediate attention, but requiring repairs or replacements that should be undertaken on a priority basis, taking precedence over routine preventive maintenance work within a zero to one-year time frame. Included are such Physical Deficiencies resulting from improper design, faulty installation and/or substandard quality of original system or materials. Components or systems that have realized or exceeded their Expected Useful Life (EUL) that may require replacement to be implemented within a zero to one-year time frame are also included.

IV. COST ESTIMATES TO REMEDY DEFICIENCIES *(continued)*

Consultant's estimated costs are deemed to be preliminary. These costs are to be net of general conditions, construction management fees, and design fees. Consultant is to use market costs or historical costs incurred by the Borrower that are documented and/or have been substantiated to Consultant's satisfaction. However, these costs must be reasonable market costs. The Borrower should document these costs by submitting paid invoices, executed or pending bona fide proposals, etc.

The basis of the derivation of these costs must be provided with respect to nominal quantities and the unit costs used; a rational approach to the derivation of the cost estimate must be provided. All cost information must be submitted in a format similar to the schedule titled "Cost Estimates to Remedy Deficiencies" attached to this guideline, and be complete with quantities, units, unit costs and totals.

V. REPLACEMENT RESERVE ANALYSIS

Borrower shall provide Consultant with a schedule of all operating expenses as these costs are to be omitted from the replacement reserve schedule. However, any item that has a predictable Expected Useful Life and/or is not subject to routine preventive maintenance must be included.

The Consultant shall prepare a Replacement Reserve Schedule that is to encompass short-term, mid-lived and long-lived recurring systems and components. Short-term recurring systems and components are typical of such items as exterior caulking, pavement sealing and striping, etc. Mid-lived recurring systems are typically cooling towers, paving, roofing, domestic hot water heaters, etc. Long-lived items are typically boilers, chillers, electrical systems, infrastructure components, supply and drainage piping, etc.

The following methodology should be employed when completing the attached Replacement Reserve Schedule. Submit these schedules typed in a spreadsheet format. An example of a typical Replacement Reserve Schedule is attached.

V. REPLACEMENT RESERVE ANALYSIS (continued)

1. **Do Not Double-dip:** In other words, if Consultant identifies that the roof requires replacement as a Short-Term item under Section IV. - “Cost Estimates to Remedy Deficiencies” do not require its replacement under year one in the Replacement Reserve Schedule. Treat the roof as if it were new with a Remaining Useful Life (RUL) equal to its commonly anticipated Expected Useful Life (EUL).
2. **Opine on EUL and EFF AGE:** Consultant is allowed to use its professional judgment in determining when a system or component will require replacement. Inclement weather, exposure to the elements, initial quality and installation, extent of use, and the degree of preventive maintenance exercised are all factors that could impact the RUL of a system or component. As a result of the aforementioned items, a system or component may have an Effective Age (EFF AGE) greater or less than its Actual Age (ACT AGE). For instance, a parking lot with an EUL of 18 years that has been religiously sealed with a squeegee applied asphaltic emulsion slurry coat may have an EFF AGE equal to eight years although its ACT AGE is 12 years. Therefore, its RUL will be 10 years (18 minus 8) instead of six years (18 minus 12). When there is a significant deviation from common EULs, the text in Section III. - “Description and Condition” must complement same. Should the Borrower or Client differ from the Consultant as to a component’s or system’s EUL, Borrower or Client must substantiate this opinion by schedules, invoices, etc. The Consultant is not to accept unsubstantiated EULs.
3. **Phase Replacements:** Consultant may exercise professional judgment as to the rate or phasing of replacements. For instance, suppose that an office complex has an extensive quantity of paving that will realize its EUL in year eight. Instead of requiring the replacement of all paving in year eight, which would be a significant cost to be incurred in any single year, Consultant may phase the work over three years; i.e., Consultant may replace 40% in year eight, 40% in year nine and 20% in year 10. However, make sure that the other replacements recommended that complement same are also completed in this phase. For instance, if the paving overlay is to be completed in phases, so must the striping. On the other hand, do not phase work that is only of limited scope, such as resurfacing a 2,000 SY parking lot, since prudent management would not phase such a small quantity of paving resurfacing.

Phased replacement scheduling is also appropriate for allocating asbestos removal/abatement costs inasmuch as this work commonly coincides with lease terminations.

V. REPLACEMENT RESERVE ANALYSIS *(continued)*

4. **Component Replacements:** Certain mechanical equipment can be broken down into commonly replaced individual major components so that funding to replace the entire piece of equipment at one time is not necessary. For example, the overall cost of a boiler may include pumps, a burner, etc., which may require replacement on a schedule different from that of replacing the entire boiler.
5. **Replacements Made Thus Far:** Take into consideration if management has already begun a program of replacing multiple or single components that have realized their EUL. If, as a result of research, Consultant learns the extent of such replacements made to date, Consultant shall take this into consideration. In some instances, Consultant may use weighted average EULs and EFF AGEs. The onus is on management to substantiate the replacements made and the reported costs incurred by submitting documentation to the Consultant. Such documents should be included as an exhibit to the Report.
6. **Term:** Complete a Replacement Reserve Schedule for the term of the loan plus two years. The length of the term or “window” may significantly impact reserve requirements. For instance, a 17-year reserve “window” would not include replacement of roofing (RUL = 20 years) for a subject having a one-year-old roof, whereas a 22-year “window” would include such a cost. Generally, the smaller the window, the less the reserve monies required.
7. **Replacement Costs:** Replacement costs used shall be market or Borrower’s historical incurred costs, or substantiated third-party costs. Should the borrower or Client differ from the Consultant as to a component’s or system’s replacement cost, Borrower or Client must substantiate this opinion by submitting paid invoices, executed proposals, receipts, bona fide pending proposals, etc. The Consultant is not to accept unsubstantiated replacement costs offered by the Borrower or Client.
8. **Inflation:** Projected future expenditures should incorporate a rate of inflation equal to the rate of comparable term Treasuries less 140 basis points or a defined rate to be provided by Client.

VI. QUALIFICATIONS

Procedure, Limitations, Use and Reliance Restrictions.

VII. EXHIBITS

The Consultant should append any exhibits that illustrate or clarify information presented in the body of the report. Pertinent documents such as leasing literature and schedules, annotated site plans, building plan excerpts, certificates of occupancy and other relevant information should be provided where available and useful.

The Presurvey Questionnaire and Disclosure Schedule and the Property Condition Assessment Document and Information Checklist should be appended whether or not the Borrower or its representative has completed them.

REPLACEMENT RESERVE ANALYSIS

CRYSTAL BAY
2333 Feather Sound Drive

Inflation = 4.6%
October 14, 1994

No.	Item	Avg. EUL (yr)	EFF AGE (yr)	RUL (yr)	Quantity	Unit	Unit Cost	Cost Over Cycle	1994 1	1995 2	1996 3	1997 4	1998 5	1999 6	2000 7	2001 8	2002 9	2003 10	Total over term inflated \$	
<i>SITE</i>																				
1	Paving, Asphalt—Apply 1" Topping	18	7	11	11,500	SY	21.75	\$77,625	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	Asphalt Pvmnt Sealant—Slurry Coat	5	4	1	11,500	SY	0.75	\$8,625	\$9,022	\$0	\$0	\$0	\$0	\$11,297	\$0	\$0	\$0	\$0	\$0	\$20,318
3	Sidewalks, Concrete—Replace	25	10	15	1,750	SF	5.00	\$8,750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	Irrigtn Sys., Lawn—Rpl. Pump & Controls	8	5	3	4	EA	1,200.00	\$4,800	\$0	\$0	\$5,493	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,493
5	Lighting Standards, Aluminum—Site	16	5	11	32	EA	1,700.00	\$54,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	Swimming Pool, Re-Marciting	5	2	3	6,200	SF	1.45	\$8,990	\$0	\$0	\$10,289	\$0	\$0	\$0	\$0	\$0	\$12,883	\$0	\$0	\$23,171
7	Swimming Pool, Deck Re-surfacing	8	2	6	4,000	SF	2.50	\$10,000	\$0	\$0	\$0	\$0	\$0	\$13,098	\$0	\$0	\$0	\$0	\$0	\$13,098
8	Swimming Pool, Filtering Equip.	12	10	2	2	POOL	900.00	\$1,800	\$0	\$1,969	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,969
9	Fencing, Stockade (Wood)	12	5	7	450	LF	7.50	\$3,375	\$0	\$0	\$0	\$0	\$0	\$0	\$4,624	\$0	\$0	\$0	\$0	\$4,624
10	Fence Enclosure, Refuse (Wood)	8	5	3	5	EA	200.00	\$1,000	\$0	\$0	\$1,144	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,144
11	Mailboxes, Aluminum—Exterior Display	15	5	10	2	EA	2,800.00	\$5,600	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$8,780	\$8,780
12	Tennis Court—Surface Coating & Striping	15	8	7	14,400	SF	0.65	\$9,360	\$0	\$0	\$0	\$0	\$0	\$0	\$12,823	\$0	\$0	\$0	\$0	\$12,823
<i>ENVELOPE</i>																				
13	Roofing, Asphalt Shingle	20	8	12	94,000	SF	0.80	\$117,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
14	Gutters & Leaders, Aluminum	20	8	12	6,200	LF	3.00	\$55,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	Painting, Building Exterior	5	2	3	117,000	SF	0.50	\$58,500	\$0	\$0	\$66,950	\$0	\$0	\$0	\$0	\$83,832	\$0	\$0	\$0	\$150,782
16	Doors, Entrance—Exterior Individual Unit	25	10	15	308	EA	275.00	\$84,700	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	Siding, "Masonite"	17	5	12	110,000	SF	1.90	\$209,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
18	Metal Stair Railings, Repaint	6	4	2	4,400	LF	0.90	\$3,960	\$0	\$4,333	\$0	\$0	\$0	\$0	\$0	\$5,675	\$0	\$0	\$0	\$10,007
19	Window, Aluminum Frame & Glazing	30	10	20	1,260	EA	225.00	\$283,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
20	Balcony, Structure Rehabilitation	15	4	11	204	EA	1,100.00	\$224,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
21	Balcony, Concrete Traffic Coating	10	0	10	7,100	SF	1.20	\$8,520	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,672	\$2,672
<i>INTERIORS</i>																				
22	Carpeting, Individual Unit	7	7	0	23,000	SY	\$15.00	\$345,000	\$75,783	\$37,747	\$39,483	\$41,300	\$43,199	\$45,187	\$75,624	\$93,935	\$73,876	\$77,275	\$603,409	
23	Vinyl Composition Tile, Kitchen	10	5	5	42,000	SF	\$2.10	\$88,200	\$0	\$0	\$0	\$0	\$22,088	\$34,656	\$12,083	\$12,639	\$13,221	\$13,829	\$108,516	
24	Vinyl Composition Tile, Bathroom	10	5	5	28,000	SF	\$2.10	\$58,800	\$0	\$0	\$0	\$0	\$14,725	\$23,104	\$8,056	\$8,426	\$8,814	\$9,219	\$72,344	
25	Refrigerator, 14 Cu. Ft. Frost Free	15	4	11	308	EA	\$425.00	\$130,900	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
26	Range, 30" Electric	15	4	11	308	EA	\$285.00	\$87,780	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
27	Garbage Disposal, In-Sink	10	6	4	308	EA	\$90.00	\$27,720	\$0	\$0	\$0	\$6,637	\$10,413	\$3,631	\$3,798	\$3,972	\$4,155	\$4,346	\$36,952	
28	Dishwasher, Four Cycle	10	0	10	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$24,146	\$24,146
<i>MECHANICAL</i>																				
29	Exhaust Fan, Bathroom	12	8	4	620	EA	\$30.00	\$18,600	\$0	\$0	\$0	\$4,453	\$6,987	\$2,030	\$2,124	\$2,221	\$2,323	\$2,430	\$22,569	
30	Furnace, Individual Gas-Fired Unit	20	5	15	308	EA	\$800.00	\$246,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
31	Condenser, Air-Cooled	15	4	11	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
32	Domestic Water Heater, Individual Electric Unit	7	7	0	308	EA	\$180.00	\$55,440	\$12,178	\$6,066	\$6,345	\$6,637	\$6,942	\$7,261	\$12,152	\$15,095	\$11,872	\$12,418	\$96,965	

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.

ANNUAL REQUIREMENTS (ROUNDED)	\$96,982	\$50,115	\$129,705	\$59,026	\$104,355	\$140,263	\$131,284	\$238,678	\$114,261	\$155,114	\$1,219,783
PV OF TOTAL ANNUAL RESERVES	\$929,137										
PV TOTAL ANNUAL RESERVES/UNIT/YEAR	\$451										

COST ESTIMATE TO REMEDY DEFICIENCIES

Canterberry Green
October 14, 1994

Item	Quantity	Unit	Unit Cost	Budget Cost Immediate	Estimate Short-term
<i>SITE</i>					
Asphalt Patching —Remove and patch all soft, crazed parking areas. Within the next three (3) years all of the paved areas should be resurfaced.	1	LS	\$2,700		\$2,700
Asphalt Sealing —Pavement is bleached and oil stained at parking spots. Prolong longevity and improve the complex's general aesthetics by applying an emulsion asphalt sealant. Prepare surfaces by sealing all cracks, patching deficiencies and removing oil staining. Apply two (2) coats of emulsion based asphalt sealant, containing 4 lbs. of sand per gallon plus 4% latex additive, to entire asphalt paved area in that location.	61	Unit	\$20		\$1,220
Asphalt Striping —Striping is faded throughout the paved parking areas. Layout and restripe entire parking lot using reflectorized white or yellow 4" wide painted lines for car stalls, handicap areas, fire zones and traffic flow.	61	Unit	\$3		\$183
Regrade Cluster Perimeters —Crawl space flooding is occurring at Building No. 10. Similar conditions were noted at Building Nos. 9 and 11. Foundation wall backfill has settled and the situation has been aggravated by storm water ponding adjacent to the foundation. These conditions are contributing to crawl space water seepage and high humidity problems, which are conducive to rot and termite infestation. Spread and compact additional soil to promote positive drainage away from sidewalls.	3	Cluster	\$2,300	\$6,900	
Site Lighting —Install three (3) new high pressure, sodium fixtured lighting standards near Building Nos. 10 and 11 to illuminate unsafe areas.	3	Each	\$1,600		\$4,800
<i>EXTERIOR</i>					
Exterior Painting —Paint on hardboard siding and rough sawn trim is faded, mildew stained and deteriorated at all units. Such conditions will eventually lead to rot and deterioration of wood surfaces. Scrape worn painted surfaces, and brush apply two (2) coats of exterior latex paint on the hardboard siding, trim, window frames and exterior doors. Apply sealant to all open joints.	130	Cube	\$145		\$18,850
Misc. Exterior Carpentry Repairs —Numerous years of deferred maintenance has led to the deterioration of miscellaneous wood trim components at cluster exteriors. Secure loose and cupped rough sawn battens, loose and hanging soffit panels, and replace rotted eave and fascia trim. Also replace miscellaneous rotted exterior door jambs, sheathing and deteriorated trim sections, etc.	8	Cluster	\$965		\$7,720
Asphalt Shingle Roofing —Remove existing asphalt shingles down to plywood sheathing. Replace damaged sheathing as necessary. Install new #235 asphalt shingle roofs, complete with flashings, at each building.	130	Cube	\$400		\$52,000
<i>MECHANICAL/ELECTRICAL/PLUMBING</i>					
Electric Domestic Hot Water Heaters —Existing domestic hot water heaters have reached their expected useful lives. Budget to replace with new electric domestic hot water heaters complete with new temperature and pressure safety release valve piped to the floor.	308	Each	\$45	\$13,860	
Bathroom Vents —Bathroom vents exhaust in the attic spaces of the units, as in the cases of Unit Nos. 405 and 609, creating warm, humid conditions which have contributed to minor rot and decay of the roof sheathing. Extend bathroom vent ducts through the roofs and terminate with proper flashing and caps.					
<i>INTERIOR</i>					
Carpet —Many units contain dated carpeting which is in need of replacement. Remove existing carpeting and padding and install new carpet.	15	Unit	\$500		\$7,500
Kitchen Vinyl Floor Covering —Worn, dated vinyl kitchen flooring was reported at most units in the development. Remove existing vinyl flooring, which is said to be faded and lifting along seams, and replace.	15	Unit	\$100		\$1,500
Bathroom Vinyl Flooring —Worn, dated vinyl flooring was observed at representative bathrooms. Remove discolored and lifting vinyl bathroom flooring and replace with new.	15	Bath	\$100		\$1,500
			TOTAL	\$20,760	\$97,973

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.

GUIDELINES FOR CONDUCTING PROPERTY CONDITION ASSESSMENTS

OFFICE BUILDINGS

PURPOSE

1. Identify significant defects, deficiencies, items of deferred maintenance and material building code violations (individually and collectively, Physical Deficiencies) as a result of a visual survey, review of documents, and the research and interrogatories as described herein.
2. Prepare estimated costs to remedy the Physical Deficiencies.
3. Prepare a Replacement Reserve Schedule for the term of the loan plus two years. The length of this term is to be provided by the Client.
4. Prepare a written report (the Report) that opines on the Subject's overall physical condition, describes pertinent components or systems of the Subject property, identifies Physical Deficiencies and conditions that would limit the expected useful life of major components or systems, and provides estimated costs to remedy Physical Deficiencies and for annual Replacement Reserve Expenditures.

SCOPE OF WORK

A. General

The Consultant shall review available information to be provided by the Client and the Borrower, make inquiries of the Borrower, make observations sufficient to establish the type and approximate extent of Physical Deficiencies, and take representative measurements and quantity counts to estimate the cost to remedy Physical Deficiencies and to prepare the Replacement Reserve Schedule.

Consultant should assume that timely and complete access to the property, staff, vendors, and documents will be provided by Borrower. Borrower is to provide sufficient, safe, and readily available access to all areas of the building(s) including roofs so as not to impede Consultant's survey procedures. Client will assist Consultant in securing access and information in the event Borrower fails to cooperate. The Consultant should not seek access to any property, staff, tenants, vendors, or documents if the Borrower objects to this access or attempts to restrict Consultant from conducting its survey or research.

Should any document, vendor access, or information be requested by Consultant but knowingly withheld by Borrower from Consultant, Consultant shall contact Client. If this information is not provided before the preparation of Consultant's draft report, Consultant shall identify within the Report, in the appropriate sections, any information or access requested but subsequently denied, or not made readily available at the time of the Consultant's site visit or the Report's writing.

SCOPE OF WORK (continued)

B. Time Allocation

Although the time required at a site and for research will vary based on the size, age, number of buildings, configuration, type and condition of a property, the following man-hour estimates may be useful as a guideline for the Consultant to estimate its fee. Based upon Standard & Poor's experience, these guidelines appear to be reasonable for the time required to conduct a property condition assessment by an architect or engineer knowledgeable and experienced in this field.

Man-Hour Guidelines			
Item	Size of Office Building		
	<50 SFG	>50 SFG <150 SFG	>150 SFG <400 SFG
Mobilization	2	2	2
Site Visit:			
Property Assessment	4-6	6-8	9-16
Replacement Reserve Measuring	2-3	4-8	8-12
Research: Historical Costs, Vendors and Government	3-5	4-5	5-8
Cost Estimating:			
Deficiencies	3-8	4-8	7-12
Replacement Reserves	6-8	8-12	12-16
Seismic Review/PML Study *	30	35	45
Building Measurement Confirmation (Optional)	4-8	8-16	16-32
Report Write-Up: Draft	13-16	16-22	22-32
Subtotal	67-86	87-116	126-175
Report Revisions and Discussions	2	3	4
Report Write-Up: Final Review and Handling	<u>2-4</u>	<u>2-4</u>	<u>4-6</u>
Total Estimated Man-Hours	71-92	92-123	134-185

* Required for seismic zones 3 and 4 only.

As an expert in this field of work, Consultant is to use its judgment as to the time required to be expended by the Consultant's technical staff, clerical and secretarial staff, expenses related to traveling and communication, and other expenses that may not be identified.

SURVEY AND RESEARCH PROCEDURES

A. Property Survey

Observe property components, systems, and elements that are easily visible and readily accessible for the purposes of describing same, opining on their apparent physical condition, and identifying significant Physical Deficiencies. Consultant is not required to prepare detailed calculations, remove materials, operate equipment not typically operated by tenants, or conduct any exploratory probing or testing. This is a nonintrusive visual survey. However, Consultant is to make a reasonable attempt at discovery. The “law-of-reason” shall prevail.

Survey procedures will consist of:

- Walk-around visual survey.
- Random operation of equipment, fixtures and systems, which are normally operated by tenants, on a sampling basis to determine system operability or operating characteristics.
- Noting of material building code violations of items, systems, or inherent design that are readily apparent and discernible as a result of the “walk-through” survey.
- The taking of measurements and system counts to adequately justify estimated costs to remedy Physical Deficiencies and to estimate Replacement Reserve Expenditures. The basis for these costs must be substantiated by the Consultant within the Report.

B. Research

1. Borrower/Owner

Consultant is to provide Borrower with a Presurvey Questionnaire and Disclosure Schedule (the Questionnaire) and a Property Condition Assessment Document and Information Checklist (the Checklist) (copies attached), which are to be specifically tailored by Consultant for the Subject. These documents are to be completed by the Borrower or its representative and forwarded to the Consultant. The Questionnaire and Checklist shall be included as exhibits within Consultant’s report, whether or not they are completed by the Borrower and provided to Consultant.

Research shall be conducted using tenants, service providers, and those knowledgeable about the Subject as sources. Standard & Poor’s recommends that the following research be conducted as a minimum. Telephone interviews may be sufficient for most inquiries.

- Interviewing building management and ownership.
- Interrogatories with pertinent building systems service personnel, vendors, and tenants.

In addition, attempt to discover the following information:

- Type and extent of deferred maintenance
- Type and extent of latent or patent defects
- Anticipated costs to remedy known Physical Deficiencies at the property (prior quotes and proposals, pending proposals, unit prices, etc.)
- Historical costs incurred for repairs, improvements, recurring replacements, etc.
- Program for preventive maintenance, repairs, and budgeting for replacement reserves
- Age of systems, components and equipment when different from property age
- Current and recent maintenance practices
- Existence of outstanding citations for building, fire and zoning code violations
- Existence of an ADA assessment survey and status of any compliance activity
- Existence of any other previously prepared due diligence survey
- Building occupancy percentage and turnover rate
- Building efficiency percentage

2. Government Agencies

Consultant shall endeavor to research the local Department of Buildings' file on the Subject. The purpose of this research is to determine the presence of any outstanding material building code violations, file completeness, and to obtain, if possible, a copy of the Subject's Certificate of Occupancy and/or use restrictions that may have been imposed as a result of granting zoning variances. Furthermore, Consultant is to inquire whether there are any proposed or anticipated building codes that may be implemented, which the Subject would be required to comply with as a result of not being grandfathered. The Report shall contain the results of these interviews complete with the names and titles of government employees consulted.

C. Review of Documents

Review property records and studies as furnished by the Client, the Borrower or its representative. In general, document information will consist primarily of Borrower supplied leasing literature, possibly drawings (as-built drawings, if available), historical receipts for repairs and/or improvements, pending proposals for repairs and replacements, schedule of operating expenses, etc. There may also be previously prepared building condition survey reports, appraisals, an ADA survey, etc. that should be provided to the Consultant as well. Should access to any or all documentation be restricted or denied to Consultant, Consultant is to notify Client and report this lack of access or denial within the Report.

If drawings (as-built or construction) are available, they are to be provided to the Consultant for Consultant's use in Consultant's offices. These drawings shall serve as an aid to the Consultant in developing quantities for cost estimating purposes (both to remedy deficiencies and for replacement reserve calculations), and will assist Consultant in preparing descriptions of the improvements, and identifying latent defects. An in-depth review of the drawings is not required under the scope of this engagement. In addition, Consultant is not required to prepare a detailed code compliance review based upon either the drawings or the Consultant's visual survey.

D. Representative Sampling

Not every tenant space must be surveyed. However, the envelope of each building along with base building areas/systems shall be surveyed should more than one building exist.

E. Photographs

As a minimum, Consultant will take 35mm color photographs of:

- View of Subject from "curb"
- Representative elevations
- Landscape photos of roof and pavement
- Main entrance lobby
- Significant or commonly encountered Physical Deficiencies
- Toilet facilities
- Typical mechanical, electrical and plumbing equipment
- Loading docks
- Roof areas

For most assignments, the number of photographs will range from 20-40. Each photograph should be described.

REPORT

Outline

Prepare a Property Condition Assessment Report (the Report) following this outline:

Cover Page

Table of Contents

- I. Executive Summary
 - A. General Description
 - B. General Condition
 - C. Estimated Required Expenditures
 - Deferred Maintenance and Physical Deficiencies
 - Replacement Reserve Expenditures
 - D. Recommendations
- II. Purpose and Scope
- III. Description and Condition
 - A. Site
 - B. Frame and Envelope
 - C. Interior Elements
 - D. Plumbing, HVAC and Electrical
 - E. Elevators
 - F. Fire/Life Safety
 - G. Miscellaneous
 - ADA Compliance
 - Asbestos/Environmental Concerns
 - Building Code Violations Issues
 - Building Measurement Confirmation
- IV. Cost Estimates to Remedy Deficiencies

- V. Replacement Reserve Analysis
- VI. Qualifications
 - Limiting Conditions
 - Consultant's Certification
- VII. Exhibits
 - Photographs
 - Presurvey Questionnaire and Disclosure Schedule
 - Property Condition Assessment Document and Information Checklist
 - Subject Description and Parameters Schedule
 - Schedule of Data/Documents Reviewed
 - Schedule of Operating Expenses
 - Leasing Literature
 - Reduced Plot or Site Plans, etc.

The required content of the Property Condition Assessment Report is more fully described as follows. The format follows the Report's Table of Contents provided above.

I. EXECUTIVE SUMMARY

(try to limit to one to two pages)

A. General Description

This should be no more than a short paragraph that describes the Subject. It should provide salient information such as location, size, age, construction type, design style, apparent occupancy status, type of lease, etc. Sufficient information should be provided so that the reader can visualize the Subject.

B. General Condition

The opening paragraph should opine on the Subject's general condition and the apparent level of preventive maintenance exercised, significant deferred maintenance, material Physical Deficiencies, and any significant deviations from Borrower provided building gross or leaseable areas. If any significant physical improvements were recently implemented, this information should be provided as well. Should any of Consultant's research result in either significantly positive or negative responses, provide this information. Do not dwell on minor deficiencies.

Although not limited to the following, the conditions listed below must be commented upon, if noted. For each, provide a summary outline of the pertinent, salient Physical Deficiencies noted, with concise opinions.

- Insufficient parking
- Presence of phenolic roof insulation
- Numerous quilt-like or trench-type asphalt pavement repairs
- Roof leaks, significant roof repairs and ponding
- Parapet deficiencies
- Facade leaks
- Presence of suspect ACM
- Material building code violations

I. EXECUTIVE SUMMARY *(continued)*

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- C. Estimated Required Expenditures**
- 1. Deferred Maintenance and Physical Deficiencies**
Allocate the totals of the derived cost estimates to remedy Physical Deficiencies into categories classified as either Immediate or Short Term.
 - 2. Replacement Reserve Expenditures**
Determine the present value, at a discount rate to be provided, of the annual required replacement reserve expenditures over the reserve term.
- D. Recommendations** Should any condition be suspect or warrant further research, testing, removal of material, etc., such a recommendation should be placed in this section. Examples would be recommendations for eddy current testing of chillers, roof infrared surveys, scaffold inspections, etc.

II. PURPOSE AND SCOPE

.....

- A. Purpose** Consultant is to provide a short paragraph specifically stating the purpose of this engagement and identifying the Subject.
- B. Scope** Consultant is to outline the scope and the methods used to conduct the survey (as outlined herein and in accordance with the Consultant's Property Condition Assessment Agreement), and is to identify the individuals, firms and/or governmental agencies interviewed for research purposes.

III. DESCRIPTION AND CONDITION

The succeeding sections should be presented in a narrative form and may only need to consist of a few sentences and in some cases, simply phrases. This information can be presented in either tabular or outline form. Excessively detailed descriptions, such as providing model or serial numbers of mechanical equipment, are unwarranted. If access or visual observation was impaired, denied or limited, or if pertinent information was realized as a result of Consultant's research or interviews, provide the results of same in the appropriate following sections.

Each section is to consist of two sections: *Description* and *Observations/Comments*, and presented as in the example that follows. Please provide sufficient descriptive information to support an opinion. Simply stating that the "roof is poor" is insufficient. The opinion should be adequately supported and it should be accompanied by a recommended remedy.

2. Paving and Curbing

Description:

Paving consists of asphalt throughout all drives and parking areas. Curbing is of extruded asphalt except along the front building line, where it is of belgium block. Three hundred open air parking spaces are provided. Ten parking spaces for the disabled are located along the front elevation.

Observations/Comments:

Paving is 10 years old and serviceable. Numerous patch-type repairs have been made and about 30% of the surface has received a 1½" overlay. Poor soils, an inadequate base course and heavy loading for trucks are suspect for the premature failure noted. Surfaces were never sealed and striping is faded. Vehicle parking is more than sufficient with one space per 150 SF of usable area.

The prompts listed under each section for the following *Description* and *Observations/Comments* sections are presented *as a guide only* and are not to be construed as all inclusive or as a constraint to response limitation. Consultant is responsible for reporting all apparent significant Physical Deficiencies.

III. DESCRIPTION AND CONDITION *(continued)*

.....

A. Site

1. Topography and Drainage

Description:

- Flat, rolling hills, extreme variations in topography
- Conditions conducive to soils with low load bearing characteristics, etc.
- Note whether the property encroaches upon a 100-year flood area designated as “Special Flood Hazard Areas Inundated by 100-year Flood” on FEMA maps, as amended
- Site drainage
- Surface waters or vegetation indicative of surface waters
- Retention or detention basins

Observations/Comments:

- Opine on the effectiveness of storm water drainage, the propensity of flooding or any historical flooding gleaned by observation or research
- Storm water overflow to or from adjacent properties
- High water table suspect, etc.

2. Paving and Curbing

Description:

- Number of parking spaces
- Type of paving and curbing
- SFG and SFR per parking space

Observations/Comments:

- Evidence of existing numerous deficiencies, repairs, overlays, etc.
- Condition of striping, curb repairs, extensive ponding of “bird baths,” etc.
- Presence of previously applied asphaltic sealant
- Extensive vehicle oil staining or bleaching of asphalt surfaces
- Opine on adequacy of parking and truck loading spaces
- Ponding or silt-filled intercepting drains or catch basins

III. DESCRIPTION AND CONDITION *(continued)*

3. Flatwork

Description:

- Type of sidewalks and plazas

Observations/Comments:

- Significant cracks
- Heaved sections or significant settlement
- Tripping hazards
- Missing handrails
- Replaced sections, evidence of significant previous repairs, etc.
- Depressed sidewalk curbs for the disabled

4. Landscaping and Appurtenances

Description:

- Presence of specimen trees, shrubs, and lawn areas, etc.
- Presence of lawn irrigation system

Observations/Comments:

- Whether landscaping appears professionally maintained, overgrown, unkept, bare lawn areas, etc.

5. Utilities

Description:

- Type and provider
 - a. Water
 - b. Electricity
 - c. Natural gas
 - d. Sanitary sewer
 - e. Storm sewer

Observations/Comments:

- Sewage backup problems
- Storm water backup/flooding
- Septic system maintenance
- Sewage ejector pump maintenance

III. DESCRIPTION AND CONDITION (continued)

B. Frame and Envelope

1. Substructure

Description:

- Foundation system
- Presence of cellar or basement, if any

Observations/Comments:

- Visual evidence of significant foundation cracks, differential settlement, step cracking of foundation walls
- Existence of sump pumps, perimeter channels, etc.
- Evidence of cellar/basement level flooding, water or moisture penetration

2. Superstructure

a. Visual Survey

Description:

- Framing system
- Lateral load resistance
- Design live loads

Observations/Comments:

- Visual evidence of any structural distress
- Racking evidence or nonalignment of sidewall systems or within stairwell walls
- Excessive elevated slab cracking

b. Seismic Requirements

For buildings located within Zones 3 or 4, as depicted on the “Seismic Zone Map of the U.S.,” Figure 23-2, page 194 of the 1991 Uniform Building Code, the following requirements shall apply. However, it will be up to the discretion of Standard & Poor’s to require the following should the building(s) be of Type 5 Construction (UBC Building Code) and under 75,000 SF in size.

- Review and report on available geotechnical information (geotechnical reports, soil borings, foundation system studies, etc.) and comment on the soil type, geotechnical features and the potential of soil liquefaction in the event of an earthquake.

III. DESCRIPTION AND CONDITION *(continued)*

- Identify and report on any catalogued active faults that may affect the property. Report magnitude estimates and distance from the subject to such faults.
- Determine the building type and under which code the building was designed.
- Review and report on available drawings as they pertain to the designed gravity (dead and live) and lateral (earthquake or wind, whichever is greater) loads and on the existing gravity and lateral force resisting systems of the structures.
- Conduct a site visit to visually review as-built conditions as they comply with the drawings submitted, if any, and to identify structural deficiencies as they pertain to inadequate gravity and horizontal loading under current code requirements.
- Render an opinion of the Aggregate Probable Maximum Loss (PML) as a percentage of the current building replacement cost as a result of an earthquake, complete with a general description of the anticipated damage for the structure. The PML is to be based on a 10% probability of being exceeded in a 50-year period.
- Provide recommendations for mitigating structural deficiencies to incur a PML of not more than 15% complete with preliminary cost estimates based upon nominal quantity, take-off calculations for the recommended work. The analysis and recommendations are to be based upon a visual review of the drawings and structure and are not to involve performing analytical structural calculations or testings.
- Take representative photographs of typical conditions and pertinent deficiencies. Such photos are to be annotated to adequately describe same.
- Prepare a written report evaluating all of the above.

3. Facades

Description:

- Sidewall system
- Fenestration system
- Parapets and copings
- Storefront

Observations/Comments:

- Condition of paint, caulking facade system, pointing, lintels, etc.
- Condition of parapets and copings, visible diagonal cracks, horizontal shifting, etc.
- Sidewall water/moisture penetration
- Use of thin brick with “raked” joints

4. Roofing

Description:

- Type, pitch, drainage and means of access
- Number of roof coverings

Observations/Comments:

- Opine on remaining useful life
- Evidence of surface ponding
- Evidence of previous roof or flashing repairs or surface ponding
- Adequacy of roof drainage
- Presence of phenolic insulation
- Presence of roofing vents installed after the roof application
- Condition of flashing, pitch pockets and gravel stops
- Reported and active leaks
- Condition of roof appurtenances

III. DESCRIPTION AND CONDITION *(continued)*

.....

C. Interior Elements Describe a typical tenant space with respect to building standard finishes: capacity, doors, ceiling system, toilet facilities, etc. Describe common corridor finishes and any apparent Physical Deficiencies. This information may be provided in a tabular format.

D. Plumbing, HVAC and Electrical

1. Plumbing

Description:

- Source of potable water
- Type of supply and drainage piping material
- Discharge source of sanitary waste: on-site septic system, lift station, municipal system, etc.
- Description of domestic hot water production

Observations/Comments:

- Evidence of leaks, galvanic action, or piping condition
- Reports or evidence of sewage backup
- Condition and expected useful life of domestic hot water heaters

2. Heating

Description:

- Describe equipment and distribution system

Observations/Comments:

- Opine on equipment's remaining useful life, present condition, system replacements, etc.
- Presence of unheated soffit areas below usable space
- Boiler water treatment, if applicable
- Adequacy of boiler/furnace room combustion air
- Lack of boiler/furnace room fire hazards
- Zoning problems and tenant complaints

3. Air Conditioning

Description:

- Describe system, components (i.e., cooling towers, pumps, chillers, etc.) and distribution system
- Zoning capabilities

Observations/Comments

- Does an economizer exist
- Use of R-12 refrigerant
- Evidence of cannibalized RTUs
- RTU condensate drainage onto roof surface
- Zoning problems and tenant complaints

4. Electrical

Description:

- Size of service
- Circuit breakers or fuse overload protection
- Aluminum or distribution wiring
- UPS system
- Metering of individual tenants

Observations/Comments:

- Adequacy
- Watts/SF
- Firestopping at electrical room/closet penetrations
- Salient electrical code violations

E. Elevators

Description:

- Type, number and age
- Type of control system
- Name of service company

Observations/Comments:

- Research gleaned from service company and management interviews with respect to operations and reliability
- Presence of fireman's recall
- Scope and dates of significant repairs or upgrades
- Date of last state or local municipal inspection and load test

III. DESCRIPTION AND CONDITION *(continued)*

.....

F. Fire/Life
Safety

1. Sprinklers

Description:

- Type of system: wet or dry
- Fire pump and exterior fire department connections
- Classification of hazard

Observations/Comments:

- Adequacy of coverage
- Clearance under heads
- Date of annual testing

2. Alarm Systems

Description:

- Type of system: manual, automatic, addressable, supervised, multiplex, hardwire, etc.
- Devices incorporated: smoke detectors, pull stations, flow switches, etc.

Observations/Comments:

- Date of last test and inspection

G. Miscellaneous

1. ADA Compliance

Provide paragraph addressing compliance with salient ADA requirements that are concerned with building access and path of travel to office areas and common facilities. Estimated costs to provide or modify existing improvements so as to provide access for the disabled are to be provided within Section V. - "Replacement Reserve Analysis." Clearly indicate these costs are for ADA-related improvements. Inasmuch as this survey for ADA compliance is not to be construed as an in-depth ADA survey, detailed cost estimates for compliance are to be calculated using broad assumptions.

2. Asbestos/Environmental Concerns

Opining on asbestos, hazardous wastes, toxic materials, IAQ, etc. is outside the scope of this Report. However, should Consultant observe material that is suspect of containing friable asbestos or other conditions indicative of possible environmental concerns, such as USTs in excess of 10 years old, Consultant shall note such concerns within the text of the Report and within this section as well. Costs to remove/abate asbestos should be provided under Section V. - "Replacement Reserve Analysis." These costs should be provided on an SF basis. Similar to No. 1 above, ADA Compliance, cost estimates for asbestos removal/abatement are to be order of magnitude estimates calculated using broad assumptions.

3. Building Code Violations Issues

Address noncompliance with any material building codes or anticipated code changes for which the Subject would not be grandfathered. Refer to "Survey and Research Procedures: B. Research; 2. Government Agencies" for requirements.

4. Building Measurement Confirmation (Optional)

If as-built drawings are provided by the Borrower, calculate the gross, useable and rentable floor areas as well as the building's loss factor using BOMA standards. These calculations are to be provided in a tabular format. Within the RFP, Client may direct Consultant to provide only spot or single floor plate calculations, or to omit this section entirely.

IV. COST ESTIMATES TO REMEDY DEFICIENCIES

Based upon (i) Consultant's observations during its site visit, and (ii) information received from interviews with building management, tenants, and service personnel, which for purposes of the Report will be deemed to be reliable, prepare general scope, preliminary cost estimates complete with an appropriate recommended remedy for each significant Physical Deficiency. This remedy must be commensurate with the Subject and considered a prudent expenditure. Simply stating "poor roof" and providing a lump cost-to-cure is insufficient.

These estimates are for components or systems exhibiting either patent defects and significant deferred maintenance or requiring major repairs or replacement. Repairs or improvements that could be classified as (i) a routine operating expense, (ii) part or parcel of a building renovation program, (iii) normal building preventive maintenance, or (iv) that are the responsibility of tenants are not to be included. Of importance, the Consultant must offer an appropriate recommended remedy for each Physical Deficiency.

Cost estimates for Physical Deficiencies shall be allocated into two categories. Terms used to describe these categories are defined below:

- Immediate—** Physical Deficiencies that require immediate action as a result of: (i) existing or potentially unsafe conditions, (ii) significant negative conditions impacting tenancy, (iii) material building code violations, (iv) poor or deteriorated condition of critical element or system, or (v) a condition that if left "as is," with an extensive delay in addressing same, would result in or contribute to critical element or system failure within one year.
- Short Term—
(0-1 year)** Physical Deficiencies, which are inclusive of deferred maintenance, that may not warrant immediate attention, but requiring repairs or replacements that should be undertaken on a priority basis, taking precedence over routine preventive maintenance work within a zero to one-year time frame. Included are such Physical Deficiencies resulting from improper design, faulty installation and/or substandard quality of original system or materials. Components or systems that have realized or exceeded their Expected Useful Life (EUL) that may require replacement to be implemented within a zero to one-year time frame are also included.

IV. COST ESTIMATES TO REMEDY DEFICIENCIES *(continued)*

Consultant's estimated costs are deemed to be preliminary. These costs are to be net of general conditions, construction management fees, and design fees. Consultant is to use market costs or historical costs incurred by the Borrower that are documented and/or have been substantiated to Consultant's satisfaction. However, these costs must be reasonable market costs. The Borrower should document these costs by submitting paid invoices, executed or pending bona fide proposals, etc.

The basis of the derivation of these costs must be provided with respect to nominal quantities and the unit costs used; a rational approach to the derivation of the cost estimate must be provided. All cost information must be submitted in a format similar to the schedule titled "Cost Estimates to Remedy Deficiencies" attached to this guideline, and be complete with quantities, units, unit costs and totals.

V. REPLACEMENT RESERVE ANALYSIS

Borrower shall provide Consultant with a schedule of all operating expenses as these costs are to be omitted from the replacement reserve schedule. However, any item that has a predictable Expected Useful Life and/or is not subject to routine preventive maintenance must be included.

The Consultant shall prepare a Replacement Reserve Schedule that is to encompass short-lived, mid-lived and long-lived recurring systems and components. Short-term recurring systems and components are typical of such items as exterior caulking, pavement sealing and striping, etc. Mid-lived recurring systems are typically cooling towers, paving, domestic hot water heaters, roofs, etc. Long-lived items are typically boilers, chillers, electrical systems, infrastructure components, supply and drainage piping, etc.

The following methodology should be employed when completing the attached Replacement Reserve Schedule. Submit these schedules typed in a spreadsheet format. An example of a typical Replacement Reserve Schedule is attached.

V. REPLACEMENT RESERVE ANALYSIS (continued)

1. **Do Not Double-dip:** In other words, if Consultant identifies that the roof requires replacement as a Short-Term item under Section IV. - “Cost Estimates to Remedy Deficiencies” do not require its replacement under year one in the Replacement Reserve Schedule. Treat the roof as if it were new with a Remaining Useful Life (RUL) equal to its commonly anticipated Expected Useful Life (EUL).
2. **Opine on EUL and EFF AGE:** Consultant is allowed to use its professional judgment in determining when a system or component will require replacement. Inclement weather, exposure to the elements, initial quality and installation, extent of use, and the degree of preventive maintenance exercised are all factors that could impact the RUL of a system or component. As a result of the aforementioned items, a system or component may have an Effective Age (EFF AGE) greater or less than its Actual Age (ACT AGE). For instance, a parking lot with an EUL of 18 years that has been religiously sealed with a squeegee applied asphaltic emulsion slurry coat may have an EFF AGE equal to eight years although its ACT AGE is 12 years. Therefore, its RUL will be 10 years (18 minus 8) instead of six years (18 minus 12). When there is a significant deviation from common EULs, the text in Section III. - “Description and Condition” must complement same. Should the Borrower or Client differ from the Consultant as to a component’s or system’s EUL, Borrower or Client must substantiate this opinion by schedules, invoices, etc. The Consultant is not to accept unsubstantiated EULs.
3. **Phase Replacements:** Consultant may exercise professional judgment as to the rate or phasing of replacements. For instance, suppose that an office complex has an extensive quantity of paving that will realize its EUL in year eight. Instead of requiring the replacement of all paving in year eight, which would be a significant cost to be incurred in any single year, Consultant may phase the work over three years; i.e., Consultant may replace 40% in year eight, 40% in year nine and 20% in year 10. However, make sure that the other replacements recommended that complement same are also completed in this phase. For instance, if the paving overlay is to be completed in phases, so must the striping. On the other hand, do not phase work that is only of limited scope, such as resurfacing a 2,000 SY parking lot, since prudent management would not phase such a small quantity of paving resurfacing.

Phased replacement scheduling is also appropriate for allocating asbestos removal/abatement costs inasmuch as such work commonly coincides with lease terminations.

4. **Component Replacements:** Certain mechanical equipment can be broken down into commonly replaced individual major components so that funding to replace the entire piece of equipment at one time is not necessary. For example, the overall cost of a boiler may include pumps, a burner, etc., which may require replacement on a schedule different from that of replacing the entire boiler.
5. **Replacements Made Thus Far:** Take into consideration if management has already begun a program of replacing multiple or single components that have realized their EUL. If, as a result of research, Consultant learns the extent of such replacements made to date, Consultant shall take this into consideration. In some instances, Consultant may use weighted average EULs and EFF AGEs. The onus is on management to substantiate the replacements made and the reported costs incurred by submitting documentation to the Consultant. Such documents should be included as an exhibit to the Report.
6. **Term:** Complete a Replacement Reserve Schedule for the term of the loan plus two years. The length of the term or “window” may significantly impact reserve requirements. For instance, a 17-year reserve “window” would not include replacement of roofing (RUL = 20 years) for a subject having a one-year-old roof, whereas a 22-year “window” would include such a cost. Generally, the smaller the window, the less the reserve monies required.
7. **Replacement Costs:** Replacement costs used shall be market or Borrower’s historical incurred costs, or substantiated third-party costs. Should the borrower or Client differ from the Consultant as to a component’s or system’s replacement cost, Borrower or Client must substantiate this opinion by submitting paid invoices, executed proposals, receipts, bona fide pending proposals, etc. The Consultant is not to accept unsubstantiated replacement costs offered by the Borrower or Client.
8. **Inflation:** Projected future expenditures should incorporate a rate of inflation equal to the rate of comparable term Treasuries less 140 basis points or a defined rate provided by Client.

VI. QUALIFICATIONS

Procedure, Limitations, Use and Reliance Restrictions.

VII. EXHIBITS

The Consultant should append any exhibits that illustrate or clarify information presented in the body of the report. Pertinent documents such as leasing literature and schedules, copies of pending proposals, annotated site plans, building plan excerpts, tenant schedules, certificates of occupancy and other relevant information should be provided where available and useful.

The Presurvey Questionnaire and Disclosure Schedule and the Property Condition Assessment Document and Information Checklist should be appended whether or not the Borrower or its representative has completed them.

REPLACEMENT RESERVE ANALYSIS

CRYSTAL BAY
2333 Feather Sound Drive

Inflation = 4.6%
October 14, 1994

No.	Item	Avg. EUL (yr)	EFF AGE (yr)	RUL (yr)	Quantity	Unit	Unit Cost	Cost Over Cycle	1994 1	1995 2	1996 3	1997 4	1998 5	1999 6	2000 7	2001 8	2002 9	2003 10	Total over term inflated \$	
<i>SITE</i>																				
1	Paving, Asphalt—Apply 1" Topping	18	7	11	11,500	SY	21.75	\$77,625	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	Asphalt Pvmnt Sealant—Slurry Coat	5	4	1	11,500	SY	0.75	\$8,625	\$9,022	\$0	\$0	\$0	\$0	\$11,297	\$0	\$0	\$0	\$0	\$0	\$20,318
3	Sidewalks, Concrete—Replace	25	10	15	1,750	SF	5.00	\$8,750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	Irrigtn Sys., Lawn—Rpl. Pump & Controls	8	5	3	4	EA	1,200.00	\$4,800	\$0	\$0	\$5,493	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,493
5	Lighting Standards, Aluminum—Site	16	5	11	32	EA	1,700.00	\$54,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	Swimming Pool, Re-Marciting	5	2	3	6,200	SF	1.45	\$8,990	\$0	\$0	\$10,289	\$0	\$0	\$0	\$0	\$12,883	\$0	\$0	\$0	\$23,171
7	Swimming Pool, Deck Re-surfacing	8	2	6	4,000	SF	2.50	\$10,000	\$0	\$0	\$0	\$0	\$0	\$13,098	\$0	\$0	\$0	\$0	\$0	\$13,098
8	Swimming Pool, Filtering Equip.	12	10	2	2	POOL	900.00	\$1,800	\$0	\$1,969	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,969
9	Fencing, Stockade (Wood)	12	5	7	450	LF	7.50	\$3,375	\$0	\$0	\$0	\$0	\$0	\$0	\$4,624	\$0	\$0	\$0	\$0	\$4,624
10	Fence Enclosure, Refuse (Wood)	8	5	3	5	EA	200.00	\$1,000	\$0	\$0	\$1,144	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,144
11	Mailboxes, Aluminum—Exterior Display	15	5	10	2	EA	2,800.00	\$5,600	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$8,780	\$8,780
12	Tennis Court—Surface Coating & Striping	15	8	7	14,400	SF	0.65	\$9,360	\$0	\$0	\$0	\$0	\$0	\$0	\$12,823	\$0	\$0	\$0	\$0	\$12,823
<i>ENVELOPE</i>																				
13	Roofing, Asphalt Shingle	20	8	12	94,000	SF	0.80	\$117,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
14	Gutters & Leaders, Aluminum	20	8	12	6,200	LF	3.00	\$55,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	Painting, Building Exterior	5	2	3	117,000	SF	0.50	\$58,500	\$0	\$0	\$66,950	\$0	\$0	\$0	\$0	\$83,832	\$0	\$0	\$0	\$150,782
16	Doors, Entrance—Exterior Individual Unit	25	10	15	308	EA	275.00	\$84,700	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	Siding, "Masonite"	17	5	12	110,000	SF	1.90	\$209,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
18	Metal Stair Railings, Repaint	6	4	2	4,400	LF	0.90	\$3,960	\$0	\$4,333	\$0	\$0	\$0	\$0	\$0	\$5,675	\$0	\$0	\$0	\$10,007
19	Window, Aluminum Frame & Glazing	30	10	20	1,260	EA	225.00	\$283,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
20	Balcony, Structure Rehabilitation	15	4	11	204	EA	1,100.00	\$224,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
21	Balcony, Concrete Traffic Coating	10	0	10	7,100	SF	1.20	\$8,520	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,672	\$2,672
<i>INTERIORS</i>																				
22	Carpeting, Individual Unit	7	7	0	23,000	SY	\$15.00	\$345,000	\$75,783	\$37,747	\$39,483	\$41,300	\$43,199	\$45,187	\$75,624	\$93,935	\$73,876	\$77,275	\$603,409	
23	Vinyl Composition Tile, Kitchen	10	5	5	42,000	SF	\$2.10	\$88,200	\$0	\$0	\$0	\$0	\$22,088	\$34,656	\$12,083	\$12,639	\$13,221	\$13,829	\$108,516	
24	Vinyl Composition Tile, Bathroom	10	5	5	28,000	SF	\$2.10	\$58,800	\$0	\$0	\$0	\$0	\$14,725	\$23,104	\$8,056	\$8,426	\$8,814	\$9,219	\$72,344	
25	Refrigerator, 14 Cu. Ft. Frost Free	15	4	11	308	EA	\$425.00	\$130,900	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
26	Range, 30" Electric	15	4	11	308	EA	\$285.00	\$87,780	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
27	Garbage Disposal, In-Sink	10	6	4	308	EA	\$90.00	\$27,720	\$0	\$0	\$0	\$6,637	\$10,413	\$3,631	\$3,798	\$3,972	\$4,155	\$4,346	\$36,952	
28	Dishwasher, Four Cycle	10	0	10	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$24,146	\$24,146
<i>MECHANICAL</i>																				
29	Exhaust Fan, Bathroom	12	8	4	620	EA	\$30.00	\$18,600	\$0	\$0	\$0	\$4,453	\$6,987	\$2,030	\$2,124	\$2,221	\$2,323	\$2,430	\$22,569	
30	Furnace, Individual Gas-Fired Unit	20	5	15	308	EA	\$800.00	\$246,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
31	Condenser, Air-Cooled	15	4	11	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
32	Domestic Water Heater, Individual Electric Unit	7	7	0	308	EA	\$180.00	\$55,440	\$12,178	\$6,066	\$6,345	\$6,637	\$6,942	\$7,261	\$12,152	\$15,095	\$11,872	\$12,418	\$96,965	

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.

ANNUAL REQUIREMENTS (ROUNDED)	\$96,982	\$50,115	\$129,705	\$59,026	\$104,355	\$140,263	\$131,284	\$238,678	\$114,261	\$155,114	\$1,219,783
PV OF TOTAL ANNUAL RESERVES	\$929,137										
PV TOTAL ANNUAL RESERVES/UNIT/YEAR	\$451										

COST ESTIMATE TO REMEDY DEFICIENCIES

Canterberry Green
October 14, 1994

Item	Quantity	Unit	Unit Cost	Budget Cost Immediate	Estimate Short-term
<i>SITE</i>					
Asphalt Patching —Remove and patch all soft, crazed parking areas. Within the next three (3) years all of the paved areas should be resurfaced.	1	LS	\$2,700		\$2,700
Asphalt Sealing —Pavement is bleached and oil stained at parking spots. Prolong longevity and improve the complex's general aesthetics by applying an emulsion asphalt sealant. Prepare surfaces by sealing all cracks, patching deficiencies and removing oil staining. Apply two (2) coats of emulsion based asphalt sealant, containing 4 lbs. of sand per gallon plus 4% latex additive, to entire asphalt paved area in that location.	61	Unit	\$20		\$1,220
Asphalt Striping —Striping is faded throughout the paved parking areas. Layout and restripe entire parking lot using reflectorized white or yellow 4" wide painted lines for car stalls, handicap areas, fire zones and traffic flow.	61	Unit	\$3		\$183
Regrade Cluster Perimeters —Crawl space flooding is occurring at Building No. 10. Similar conditions were noted at Building Nos. 9 and 11. Foundation wall backfill has settled and the situation has been aggravated by storm water ponding adjacent to the foundation. These conditions are contributing to crawl space water seepage and high humidity problems, which are conducive to rot and termite infestation. Spread and compact additional soil to promote positive drainage away from sidewalls.	3	Cluster	\$2,300	\$6,900	
Site Lighting —Install three (3) new high pressure, sodium fixtured lighting standards near Building Nos. 10 and 11 to illuminate unsafe areas.	3	Each	\$1,600		\$4,800
<i>EXTERIOR</i>					
Exterior Painting —Paint on hardboard siding and rough sawn trim is faded, mildew stained and deteriorated at all units. Such conditions will eventually lead to rot and deterioration of wood surfaces. Scrape worn painted surfaces, and brush apply two (2) coats of exterior latex paint on the hardboard siding, trim, window frames and exterior doors. Apply sealant to all open joints.	130	Cube	\$145		\$18,850
Misc. Exterior Carpentry Repairs —Numerous years of deferred maintenance has led to the deterioration of miscellaneous wood trim components at cluster exteriors. Secure loose and cupped rough sawn battens, loose and hanging soffit panels, and replace rotted eave and fascia trim. Also replace miscellaneous rotted exterior door jambs, sheathing and deteriorated trim sections, etc.	8	Cluster	\$965		\$7,720
Asphalt Shingle Roofing —Remove existing asphalt shingles down to plywood sheathing. Replace damaged sheathing as necessary. Install new #235 asphalt shingle roofs, complete with flashings, at each building.	130	Cube	\$400		\$52,000
<i>MECHANICAL/ELECTRICAL/PLUMBING</i>					
Electric Domestic Hot Water Heaters —Existing domestic hot water heaters have reached their expected useful lives. Budget to replace with new electric domestic hot water heaters complete with new temperature and pressure safety release valve piped to the floor.	308	Each	\$45	\$13,860	
Bathroom Vents —Bathroom vents exhaust in the attic spaces of the units, as in the cases of Unit Nos. 405 and 609, creating warm, humid conditions which have contributed to minor rot and decay of the roof sheathing. Extend bathroom vent ducts through the roofs and terminate with proper flashing and caps.					
<i>INTERIOR</i>					
Carpet —Many units contain dated carpeting which is in need of replacement. Remove existing carpeting and padding and install new carpet.	15	Unit	\$500		\$7,500
Kitchen Vinyl Floor Covering —Worn, dated vinyl kitchen flooring was reported at most units in the development. Remove existing vinyl flooring, which is said to be faded and lifting along seams, and replace.	15	Unit	\$100		\$1,500
Bathroom Vinyl Flooring —Worn, dated vinyl flooring was observed at representative bathrooms. Remove discolored and lifting vinyl bathroom flooring and replace with new.	15	Bath	\$100		\$1,500
			TOTAL	\$20,760	\$97,973

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.

GUIDELINES FOR CONDUCTING PROPERTY CONDITION ASSESSMENTS

NURSING HOMES

PURPOSE

1. Identify significant defects, deficiencies, items of deferred maintenance and material building code violations (individually and collectively, Physical Deficiencies) as a result of a visual survey, review of documents, and the research and interrogatories as described herein.
2. Prepare estimated costs to remedy the Physical Deficiencies.
3. Prepare a Replacement Reserve Schedule for the term of the loan plus two years. The length of this term is to be provided by the Client.
4. Prepare a written report (the Report) that opines on the Subject's overall physical condition, describes pertinent components or systems of the Subject property, identifies Physical Deficiencies and conditions that would limit the expected useful life of major components or systems, and provides estimated costs to remedy Physical Deficiencies and for annual Replacement Reserve Expenditures.

SCOPE OF WORK

A. General

The Consultant shall review available information to be provided by the Client and the Borrower, make inquiries of the Borrower, make observations sufficient to establish the type and approximate extent of Physical Deficiencies, and take representative measurements and quantity counts to estimate the cost to remedy Physical Deficiencies and to prepare the Replacement Reserve Schedule.

Consultant should assume that timely and complete access to the property, staff, vendors, and documents will be provided by Borrower. Borrower is to provide sufficient, safe, and readily available access to all areas of the building(s) including roofs so as not to impede Consultant's procedures. Client will assist Consultant in securing access and information in the event Borrower fails to cooperate. The Consultant should not seek access to any property, staff, vendors, or documents if the Borrower objects to this access or attempts to restrict Consultant from conducting its survey or research.

Should any document, vendor access, or information be requested by Consultant but knowingly withheld by Borrower from Consultant, Consultant shall contact Client. If this information is not provided before the preparation of Consultant's draft report, Consultant shall identify within the Report, in the appropriate sections, any information or access requested but subsequently denied, or not made readily available at the time of the Consultant's site visit or the Report's writing.

SCOPE OF WORK (continued)

B. Time Allocation

Although the time required at a site and for research will vary based on the size, age, number of buildings, configuration, type and condition of a property, the following man-hour estimates may be useful as a guideline for the Consultant to estimate its fee. Based upon Standard & Poor's experience, these guidelines appear to be reasonable for the time required to conduct a property condition assessment by an architect or engineer knowledgeable and experienced in this field.

Man-Hour Guidelines			
Item	Size of Nursing Complex		
	<50 Rooms	>50 Rooms <150 Rooms	>150 Rooms <400 Rooms
Mobilization	2	2	2
Site Visit:			
Property Assessment	3-5	6-16	16-24
Replacement Reserve Measuring	2-3	6-8	8-16
Research: Historical Costs, Vendors and Government	3-5	4-5	5-8
Cost Estimating:			
Deficiencies	3-8	4-8	7-12
Replacement Reserves	6-8	8-16	16-24
Seismic Review/PML Study *	30	35	45
Report Write-Up: Draft	8-11	12-20	20-32
Subtotal	57-72	77-110	119-163
Report Revisions and Discussions	2	2	2-3
Report Write-Up: Final Review and Handling	<u>2-4</u>	<u>2-4</u>	<u>4-6</u>
Total Estimated Man-Hours	61-78	81-116	125-172

* Required for seismic zones 3 and 4 only.

As an expert in this field of work, Consultant is to use its judgment as to the time required to be expended by the Consultant's technical staff, clerical and secretarial staff, expenses related to traveling and communication, and other expenses that may not be identified.

SURVEY AND RESEARCH PROCEDURES

A. Property Survey

Observe property components, systems, and elements that are easily visible and readily accessible for the purposes of describing same, opining on their apparent physical condition, and identifying significant Physical Deficiencies. An emphasis is to be placed on fire safety. Consultant is not required to prepare detailed calculations, to remove materials, operate equipment not typically operated by patients, or conduct any exploratory probing or testing. This is a nonintrusive survey. However, Consultant is to make a reasonable attempt at discovery. The “law-of-reason” shall prevail.

Survey procedures will consist of:

- Walk-around visual survey.
- Random operation of equipment, fixtures and systems, which are normally operated by patients, on a sampling basis to determine system operability or operating characteristics.
- Noting of material building code violations of items, systems or inherent design that are readily apparent and discernible as a result of the “walk-through” survey.
- The taking of measurements and system counts to adequately justify estimated costs to remedy Physical Deficiencies and to estimate Replacement Reserve Expenditures. The basis for these costs must be substantiated by the Consultant within the Report.

B. Research

1. Borrower/Owner

Consultant is to provide Borrower with a Presurvey Questionnaire and Disclosure Schedule (the Questionnaire) and a Property Condition Assessment Document and Information Checklist (the Checklist) (copies attached), which are to be specifically tailored by Consultant for the Subject. These documents are to be completed by the Borrower or its representative and forwarded to the Consultant. The Questionnaire and Checklist shall be included as exhibits within Consultant’s report, whether or not they are completed by the Borrower and provided to Consultant.

Research shall be conducted using patients, service providers, and those knowledgeable about the Subject as sources. Standard & Poor’s recommends that the following research be conducted as a minimum. Telephone interviews may be sufficient for most inquiries.

- Interviewing building management and ownership.
- Interrogatories with pertinent building systems service personnel and vendors.

In addition, attempt to discover the following information:

- Type and extent of deferred maintenance
- Type and extent of latent or patent defects
- Anticipated costs to remedy known Physical Deficiencies at the property (prior quotes and proposals, pending proposals, unit prices, etc.)
- Historical costs incurred for repairs, improvements, recurring replacements, etc.
- Program for preventive maintenance, repairs, and budgeting and implementing of replacement reserves
- Age of systems, components and equipment when different from property age
- Current and recent maintenance practices
- Existence of outstanding citations for building, fire and zoning code violations
- Statement of Deficiencies or Violations—typically a state issued document that is required to be on-site and available for review
- Existence of an ADA assessment survey and status of any compliance activity
- Existence of any other previously prepared due diligence survey

2. Government Agencies

Consultant shall endeavor to research the local Department of Buildings' file on the Subject. The purpose of this research is to determine the presence of any outstanding material building code violations, file completeness, and to obtain, if possible, a copy of the Subject's Certificate of Occupancy and/or use restrictions that may have been imposed as a result of granting zoning variances. Furthermore, Consultant is to inquire whether there are any proposed or anticipated building codes that may be implemented, which the Subject would be required to comply with as a result of not being grandfathered. The Report shall contain the results of these interviews complete with the names and titles of government employees consulted.

C. Review of Documents

Review property records and studies as furnished by the Client, the Borrower or its representative. In general, document information will consist primarily of borrower supplied marketing literature, possibly drawings (as-built drawings, if available), historical receipts for repairs and/or improvements, pending proposals for repairs/replacements, schedule of operating expenses, etc. There may also be previously prepared building condition survey reports, appraisals, an ADA survey, etc. that should be provided to the Consultant as well. Should access to any or all documentation be restricted or denied to Consultant, Consultant is to notify Client and report this lack of access or denial within the Report.

If drawings (as-built or construction) are available, they are to be provided to the Consultant for Consultant's use in Consultant's offices. These drawings shall serve as an aid to the Consultant in developing quantities for cost estimating purposes (both to remedy deficiencies and for replacement reserve calculations), and will assist Consultant in preparing descriptions of the improvements, and identifying latent defects. An in-depth review of the drawings is not required under the scope of this engagement. In addition, Consultant is not required to prepare a detailed code compliance review based upon either the drawings or the Consultant's visual survey.

Consultant is to request that management provide Consultant with the facility's "Statement of Deficiencies," which is also known as a "Schedule of Violations." This document, which is to be posted, is typically issued annually by state agencies monitoring nursing home facilities and identifies these deficiencies as they relate to life/safety, building condition, health and facility operation. This document is to be included as an exhibit to the report and major deficiencies, as they may relate to the building's condition, are to be commented on by the Consultant within the Report.

D. Representative Sampling

Not every patient room must be surveyed. However, the community rooms, cafeteria, kitchen and other common elements shall be surveyed. Consultant is required to survey a representative sampling of patient rooms to opine with confidence as to the typical pattern of Deficiencies to be encountered. Based upon its opinion of a representative sampling, Consultant will extrapolate results to those patient rooms not surveyed for cost estimating purposes. As a guide, approximately 10% of the patient rooms should be surveyed. It is the responsibility of the Borrower or its representative to provide Consultant with supervised, timely access to patient rooms.

E. Photographs

As a minimum, Consultant will take 35mm color photographs of:

- View of Subject from “curb”
- Representative elevations
- Significant or commonly encountered Physical Deficiencies
- Main entrance lobby and reception
- Community and cafeteria rooms
- Typical patient room
- Mechanical, electrical and plumbing equipment
- Roof areas
- Parking facilities/pavement

For most assignments, the number of photographs will range from 20-40. Each photograph should be described.

REPORT

Outline

Prepare a Property Condition Assessment Report (the Report) following this outline:

Cover Page

Table of Contents

- I. Executive Summary
 - A. General Description
 - B. General Condition
 - C. Estimated Required Expenditures
 - Deferred Maintenance and Physical Deficiencies
 - Replacement Reserve Expenditures
 - D. Recommendations
- II. Purpose and Scope
- III. Description and Condition
 - A. Site
 - B. Frame and Envelope
 - C. Interior Elements
 - D. Attic
 - E. Plumbing, HVAC and Electrical
 - F. Elevators
 - G. Fire/Life Safety
 - H. Miscellaneous
 - ADA Compliance
 - Security
 - Asbestos/Environmental Concerns
 - Building Code Violations Issues
 - Room Count Verification
- IV. Cost Estimates to Remedy Deficiencies

- V. Replacement Reserve Analysis
- VI. Qualifications
 - Limiting Conditions
 - Consultant's Certification
- VII. Exhibits
 - Photographs
 - Presurvey Questionnaire and Disclosure Schedule
 - Property Condition Assessment Document and Information Checklist
 - Subject Description and Parameters Schedule
 - Schedule of Data/Documents Reviewed
 - Schedule of Borrower Expenses
 - Leasing Literature
 - Reduced Plot or Site Plans
 - Reduced Floor Plans, etc.
 - Statement of Deficiencies

The required content of the Property Condition Assessment Report is more fully described as follows. The format follows the Report's Table of Contents provided above.

I. EXECUTIVE SUMMARY

(try to limit to one to two pages)

A. General Description

This should be no more than a short paragraph that describes the Subject. It should provide salient information such as location, size, age, construction type, design style, apparent occupancy status, etc. Sufficient information should be provided so that the reader can visualize the Subject.

B. General Condition

The opening paragraph should opine on the Subject's general condition and the apparent level of preventive maintenance exercised, significant deferred maintenance, and material Physical Deficiencies. If any significant physical improvements were recently implemented, this information should be provided as well. Should any of Consultant's research result in either significantly positive or negative responses, provide this information. Do not dwell on minor deficiencies.

Although not limited to the following, the conditions listed below must be commented upon, if noted. For each, provide a summary outline of the pertinent, salient Physical Deficiencies noted, with concise opinions.

- Galvanized iron and polybutylene water supply piping
- Aluminum branch circuit wiring
- Fire retardant treated plywood roof sheathing
- Inadequate HVAC, zoning or controls
- Numerous quilt-like or trench-type asphalt pavement repairs
- Roof leaks, significant roof repairs and ponding
- Facade leaks
- Material building code violations
- Presence of sewage ejector pumps
- Presence of suspect ACM
- Worn/dated patient room finishes

I. EXECUTIVE SUMMARY *(continued)*

- C. Estimated Required Expenditures**
- 1. Deferred Maintenance and Physical Deficiencies**
Allocate the totals of the derived cost estimates to remedy Physical Deficiencies into categories classified as either Immediate or Short Term.
 - 2. Replacement Reserve Expenditures**
Determine the present value and cumulative future value of all of the annual required replacement reserve expenditures over the reserve term. Divide same by the number of years in the reserve term and then by the number of units.
- D. Recommendations** Should any condition be suspect or warrant further research, testing, removal of material, etc., such a recommendation should be placed in this section. Examples would be recommendations for eddy current testing of chillers, roof infrared surveys, scaffold inspections, etc.

II. PURPOSE AND SCOPE

- A. Purpose** Consultant is to provide a short paragraph specifically stating the purpose of this engagement and identifying the Subject.
- B. Scope** Consultant is to outline the scope and the methods used to conduct the survey (as outlined herein and in accordance with the Consultant's Property Condition Assessment Agreement), and is to identify the individuals, firms, and/or governmental agencies interviewed for research purposes.

III. DESCRIPTION AND CONDITION

The succeeding sections should be presented in a narrative form and may only need to consist of a few sentences and, in some cases, simply phrases. This information can be presented in either tabular or outline form. Excessively detailed descriptions, such as providing model or serial numbers of mechanical equipment, are unwarranted. If access or visual observation was impaired, denied or limited, or if pertinent information was denied or realized as a result of Consultant's research or interviews, provide the results of same in the appropriate following sections.

Each section is to consist of two sections: *Description* and *Observations/Comments*, and presented as in the example that follows. Please provide sufficient descriptive information to support an opinion. Simply stating that the "roof is poor" is insufficient. The opinion should be adequately supported and it should be accompanied by a recommended remedy.

2. Paving and Curbing

Description:

Paving consists of asphalt throughout all drives and parking areas. Curbing is of extruded asphalt except along the front building line, where it is of belgium block. Three hundred open air parking spaces are provided. Ten parking spaces for the disabled are located along the front elevation.

Observations/Comments:

Paving is 10 years old and serviceable. Numerous patch-type repairs have been made and about 30% of the surface has received a 1½" overlay. Poor soils and an inadequate base course are suspect for the premature failure noted. Surfaces were never sealed and striping is faded. Vehicle parking is more than sufficient with one space per patient room.

The prompts listed under each section for the following *Description* and *Observations/Comments* sections are presented *as a guide only* and are not to be construed as all inclusive or as a constraint to response limitation. Consultant is responsible for reporting all apparent significant Physical Deficiencies.

III. DESCRIPTION AND CONDITION *(continued)*

.....

A. Site

1. Topography and Drainage

Description:

- Flat, rolling hills, extreme variations in topography
- Conditions conducive to soils with low load bearing characteristics, etc.
- Note whether the property encroaches upon a 100-year flood area designated as “Special Flood Hazard Areas Inundated by 100-year Flood” on FEMA maps, as amended
- Site drainage
- Surface waters or vegetation indicative of surface waters
- Retention or detention basins

Observations/Comments:

- Opine on the effectiveness of storm water drainage, the propensity of flooding or any historical flooding gleaned by observation or research
- Storm water overflow to or from adjacent properties
- High water table suspect, etc.

2. Paving and Curbing

Description:

- Number of parking and loading spaces: covered or uncovered
- Type of paving and curbing

Observations/Comments:

- Evidence of existing numerous deficiencies, repairs, overlays
- Condition of striping, curb repairs, extensive ponding or “bird baths,” etc.
- Presence of previously applied asphaltic sealant
- Extensive vehicle oil staining or bleaching of asphalt surfaces
- Opine on adequacy of patient and service personnel parking and provide average number of spaces per patient room

III. DESCRIPTION AND CONDITION *(continued)*

3. Flatwork

Description:

- Type of sidewalks, stoops, steps, patios, refuse pads, etc.

Observations/Comments:

- Significant cracks
- Heaved sections or significant settlement
- Tripping hazards
- Missing handrails
- Replaced sections, evidence of significant previous repairs, etc.

4. Landscaping and Appurtenances

Description:

- Presence of specimen trees, shrubs, and lawn areas, etc.
- Location of pad mounted transformer

Observations/Comments:

- Whether landscaping appears professionally maintained, overgrown, unkept, bare lawn areas, etc.
- Protection of pad mounted transformer with bollards

5. Utilities

Description:

- Type and provider
 - a. Water
 - b. Electricity
 - c. Natural gas
 - d. Sanitary sewer
 - e. Storm sewer

Observations/Comments:

- Sewage backup problems
- Storm water backup/flooding
- Septic system maintenance
- Sewage ejector pump maintenance

III. DESCRIPTION AND CONDITION *(continued)*

B. Frame and Envelope

1. Substructure

Description:

- Foundation system
- Presence of cellar, basement or crawl space, if any

Observations/Comments:

- Visual evidence of significant foundation cracks, differential settlement, step cracking of foundation walls
- Existence of sump pumps, perimeter channels, etc.
- Evidence of cellar/basement level flooding, water or moisture penetration
- Cellar/basement fire hazard conditions
- Lack of crawl space rodent slab or vapor barrier
- Insulation adequacy

2. Superstructure

a. Visual Survey

Description:

- Framing system
- Lateral load resistance

Observations/Comments:

- Visual evidence of any structural distress
- Racking evidence or nonalignment on either sidewall surfaces or within stairwell walls
- Excessive elevated slab cracking or settlement

b. Seismic Requirements

For buildings located within Zones 3 or 4, as depicted on the “Seismic Zone Map of the U.S.,” Figure 23-2, page 194 of the 1991 Uniform Building Code, the following requirements shall apply. However, it will be up to the discretion of Standard & Poor’s to require the following should the building(s) be of Type 5 Construction (UBC Building Code) and under 75,000 SF in size.

- Review and report on available geotechnical information (geotechnical reports, soil borings, foundation system studies, etc.) and comment on the soil type, geotechnical features and the potential of soil liquefaction in the event of an earthquake.

III. DESCRIPTION AND CONDITION *(continued)*

- Identify and report on any catalogued active faults that may affect the property. Report magnitude estimates and distance from the subject to such faults.
- Determine the building type and under which code the building was designed.
- Review and report on available drawings as they pertain to the designed gravity (dead and live) and lateral (earthquake or wind, whichever is greater) loads and on the existing gravity and lateral force resisting systems of the structures.
- Conduct a site visit to visually review as-built conditions as they comply with the drawings submitted, if any, and to identify structural deficiencies as they pertain to inadequate gravity and horizontal loading under current code requirements.
- Render an opinion of the Aggregate Probable Maximum Loss (PML) as a percentage of the current building replacement cost as a result of an earthquake, complete with a general description of the anticipated damage for the structure. The PML is to be based on a 10% probability of being exceeded in a 50-year period.
- Provide recommendations for mitigating structural deficiencies to incur a PML of not more than 15% complete with preliminary cost estimates based upon nominal quantity, take-off calculations for the recommended work. The analysis and recommendations are to be based upon a visual review of the drawings and structure and are not to involve performing analytical structural calculations or testings.
- Take representative photographs of typical conditions and pertinent deficiencies. Such photos are to be annotated to adequately describe same.
- Prepare a written report evaluating all of the above.

III. DESCRIPTION AND CONDITION *(continued)*

3. Facades

Description:

- Sidewall system
- Fenestration system
- Parapets and copings
- Soffits and trim
- Entrances
- Decks and balconies

Observations/Comments:

- Condition of paint, caulking, veneer, facade systems, pointing, lintels, etc.
- Condition of parapets and copings, visible diagonal cracks, horizontal shifting, etc.
- Sidewall water/moisture penetration.
- Condition of window frames and their watertightness
- Insulation adequacy
- Deck/balcony framing, railing and exterior stair systems
- Evidence of any termite or wood destroying insect infestation

4. Roofing

Description:

- Type, pitch, drainage and means of access
- Number of roof coverings

Observations/Comments:

- Opine on remaining useful life
- Evidence of previous roof or flashing repairs
- Adequacy of roof drainage
- Evidence of surface ponding
- Presence of roofing vents installed after the roof application
- Condition of flashing, pitch pockets and gravel stops
- Reported leaks
- Condition of roof appurtenances

III. DESCRIPTION AND CONDITION (continued)

C. Interior Elements

Description:

- Provide schedule of finishes in a tabular format

Observations/Comments:

- Representative number of patient rooms surveyed
- Obsolete or dated finishes, furnishings and fixtures: both patient rooms, lobbies, patient-floor corridors, and dining, or community rooms
- Soiled or worn carpeting or vinyl flooring
- Results of management interviews
- Condition of public toilet facilities
- Conditions of kitchens and food preparation areas: appliances, equipment, and fixtures are excluded

Examples of Tables

Patient Room Finishes and Furnishings	
Walls	Drywall
Ceiling	Popcorn (probably asbestos)
Carpeting	Wall-to-Wall
Vinyl Flooring	Bath
Window Treatment	Drapes
Tub/Shower	Fiberglass
Ceramic Tile	Wet Walls Only
Vanity	Yes
Toilets	One-piece/Flushometer
Bathroom Exhaust	Central

III. DESCRIPTION AND CONDITION (continued)

D. Attic

Description:

- Access
- Storage potential

Observations/Comments:

- Evidence of fire retardant treated plywood sheathing (buildings constructed after 1981)
- Daylighting
- Insulation adequacy
- Structural adequacy
- Leak stains or active leaks
- Flashing leak stains at roof penetrations
- Bathroom exhaust ducts discharging into attic area
- Adequacy of ventilation

**E. Plumbing,
HVAC
and Electrical**

1. Plumbing

Description:

- Source of potable water
- Type of supply and drainage piping material
- Presence of sewage ejector pump
- Discharge source of sanitary waste: on-site septic system, forced-main, lift station, municipal system, etc.
- Description of domestic hot water production

Observations/Comments:

- Evidence of leaks, galvanic action, or piping condition
- Conduct sampling operation of plumbing fixtures
- Reports or evidence of sewage backup
- Adequacy of domestic hot water production
- Opine on overall condition, remaining expected useful life, and replacement status of house domestic hot water heaters

III. DESCRIPTION AND CONDITION *(continued)*

2. Heating and Air Conditioning

Description:

- Describe system, equipment, distribution and controls

Observations/Comments:

- Opine on equipment's remaining useful life, condition, system replacements, etc.
- Use of R-12 refrigerant
- RTU condensate drains discharging on roof surface
- Adequacy of boiler/furnace room combustion air
- Lack of boiler/furnace room fire hazards
- Boiler water treatment, if applicable
- Zoning problems

3. Electrical

Description:

- Size of service
- Circuit breakers or fuse overload protection
- Aluminum branch circuit wiring
- Existence of UPS system

Observations/Comments:

- Adequacy and safety
- Presence of GFI receptacles
- Use of CO/ALR components to mitigate fire hazard if aluminum wiring is present
- Salient electrical code violations

F. Elevators

Description:

- Type, number, age and capacity
- Type of control system
- Name of service company

Observations/Comments:

- Research gleaned from service company and management interviews with respect to operations and reliability
- Presence of fireman's recall
- Scope and dates of significant repairs or upgrades
- Date of last state or local municipal inspection or load test

III. DESCRIPTION AND CONDITION *(continued)*

.....

G. Fire/Life
Safety

1. Sprinklers

Description:

- Type of system: wet or dry
- Fire pump and exterior fire department connections
- Classification of hazard

Observations/Comments:

- Adequacy of coverage
- Clearance under heads
- Date of annual testing

2. Alarm Systems

Description:

- Type of system: manual, automatic, addressable, supervised, multiplex, hardwire, etc.
- Devices incorporated: smoke detectors, pull stations, flow switches, etc.

Observations/Comments:

- Date of last test and inspection

III. DESCRIPTION AND CONDITION *(continued)*

H. Miscellaneous

1. ADA Compliance

Provide paragraph addressing compliance with salient ADA requirements. Estimated costs to provide or modify existing improvements so as to provide access for the disabled are to be provided within Section V. - "Replacement Reserve Analysis." Clearly indicate these costs are for ADA-related improvements. Inasmuch as this survey for ADA compliance is not to be construed as an in-depth ADA survey, detailed cost estimates for compliance are to be calculated using broad assumptions.

2. Security

Description:

- Site lighting
- Building entrance
- Audio/visual intercoms
- Patient room entrance door hardware

Observations/Comments:

- Adequacy

3. Asbestos/Environmental Concerns

Opining on asbestos, hazardous wastes, toxic materials, IAQ, etc. is outside the scope of this Report. However, should Consultant observe material that is suspect of containing friable asbestos or other conditions indicative of possible environmental concerns, such as USTs in excess of 10 years old, Consultant shall note these concerns within the text of the Report and within this section as well. Costs to remove/abate asbestos should be provided under Section V. - "Replacement Reserve Analysis." These costs should be provided on an SF basis. Similar to No. 1 above, ADA Compliance, cost estimates for asbestos removal/abatement are to be order of magnitude estimates calculated using broad assumptions.

4. Building Code Violations Issues

Address noncompliance with any material building codes or anticipated code changes for which the Subject would not be grandfathered. Refer to Sections titled "Survey and Research Procedures"; B. "Research"; 2. Government Agencies, and C. "Review of Documents" for requirements.

IV. COST ESTIMATES TO REMEDY DEFICIENCIES

Based upon (i) Consultant's observations during its site visit, and (ii) information received from interviews with building management, and service personnel, which for purposes of the Report will be deemed to be reliable, prepare general scope, preliminary cost estimate complete with an appropriate recommended remedy for each significant Physical Deficiency. This remedy must be commensurate with the Subject and considered a prudent expenditure. Simply stating "poor roof" and providing a lump sum cost-to-cure is insufficient.

These estimates are for components or systems exhibiting either patent defects, and significant deferred maintenance, or requiring major repairs or replacement. Repairs or improvements that could be classified as (i) a routine operating expense, (ii) part or parcel of a building renovation program, or (iii) normal building preventive maintenance are not to be included.

Cost estimates for Physical Deficiencies shall be allocated into two categories. Terms used to describe these categories are defined below:

- Immediate—** Physical Deficiencies that require immediate action as a result of: (i) existing or potentially unsafe conditions, (ii) significant negative conditions impacting occupancy/marketability, (iii) material building code violations, (iv) poor or deteriorated condition of critical element or system, or (v) a condition that if left "as is," with an extensive delay in addressing same, would result in or contribute to critical element or system failure within one year.
- Short Term—
(0-1 year)** Physical Deficiencies, which are inclusive of deferred maintenance, that may not warrant immediate attention, but requiring repairs or replacements that should be undertaken on a priority basis, taking precedence over routine preventive maintenance work within a zero to one-year time frame. Included are such Physical Deficiencies resulting from improper design, faulty installation and/or substandard quality of original system or materials. Components or systems that have realized or exceeded their Expected Useful Life (EUL) that may require replacement to be implemented within a zero to one-year time frame are also included.

IV. COST ESTIMATES TO REMEDY DEFICIENCIES *(continued)*

Consultant's estimated costs are deemed to be preliminary. These costs are to be net of general conditions, construction management fees, and design fees. Consultant is to use market costs or historical costs incurred by the Borrower that are documented and/or have been substantiated to Consultant's satisfaction. However, these costs must be reasonable market costs. The Borrower should document these costs by submitting paid invoices, executed or pending bona fide proposals, etc.

The basis of the derivation of these costs must be provided with respect to nominal quantities and the unit costs used; a rational approach to the derivation of the cost estimate must be provided. All cost information must be submitted in a format similar to the schedule titled "Cost Estimates to Remedy Deficiencies" attached to this guideline, and be complete with quantities, units, unit costs and totals.

V. REPLACEMENT RESERVE ANALYSIS

The Consultant shall prepare a Replacement Reserve Schedule that is to encompass short-lived, mid-lived and long-lived recurring systems and components. Short-term recurring systems and components are typical of such items as exterior caulking, carpeting, patient room finishes, common area carpeting, pavement sealing and striping, domestic hot water heaters, etc. Mid-lived recurring systems are typically cooling towers, paving, etc. Long-lived items are typically boilers, chillers, roofing, infrastructure components, supply and drainage piping, etc.

The following methodology should be employed when completing the Replacement Reserve Schedule. These schedules shall be submitted typed in a spreadsheet format. An example of a typical Replacement Reserve Schedule is attached.

V. REPLACEMENT RESERVE ANALYSIS (continued)

1. **Do Not Double-dip:** In other words, if Consultant identifies that the roof requires replacement as a Short-Term item under Section IV. - “Cost Estimates to Remedy Deficiencies” do not require its replacement under year one in the Replacement Reserve Schedule. Treat the roof as if it were new with a Remaining Useful Life (RUL) equal to its commonly anticipated Expected Useful Life (EUL).
2. **Opine on EUL and EFF AGE:** Consultant is allowed to use its professional judgment in determining when a system or component will require replacement. Inclement weather, exposure to the elements, initial quality and installation, extent of use, and the degree of preventive maintenance exercised are all factors that could impact the RUL of a system or component. As a result of the aforementioned items, a system or component may have an Effective Age (EFF AGE) greater or less than its Actual Age (ACT AGE). For instance, a parking lot with an EUL of 18 years that has been religiously sealed with a squeegee applied asphaltic emulsion slurry coat may have an EFF AGE equal to eight years although its ACT AGE is 12 years. Therefore, its RUL will be 10 years (18 minus 8) instead of six years (18 minus 12). When there is a significant deviation from common EULs, the text in Section III. - “Description and Condition” must complement same. Should the Borrower or Client differ from the Consultant as to a component’s or system’s EUL, Borrower or Client must substantiate this opinion by schedules, invoices, etc. The Consultant is not to accept unsubstantiated EULs.
3. **Phase Replacements:** Consultant may exercise professional judgment as to the rate or phasing of replacements. For instance, suppose that an office complex has an extensive quantity of paving that will realize its EUL in year eight. Instead of requiring the replacement of all paving in year eight, which would be a significant cost to be incurred in any single year, Consultant may phase the work over three years; i.e., Consultant may replace 40% in year eight, 40% in year nine and 20% in year 10. However, make sure that the other replacements recommended that complement same are also completed in this phase. For instance, if the paving overlay is to be completed in phases, so must the striping. On the other hand, do not phase work that is only of limited scope, such as resurfacing a 2,000 SY parking lot, since prudent management would not phase such a small quantity of paving resurfacing.

Phased replacement scheduling is also appropriate for allocating asbestos removal/abatement costs inasmuch as this work commonly coincides with lease terminations.

V. REPLACEMENT RESERVE ANALYSIS *(continued)*

4. **Component Replacements:** Certain mechanical equipment can be broken down into commonly replaced individual major components so that funding to replace the entire piece of equipment at one time is not necessary. For example, the overall cost of a boiler may include pumps, a burner, etc., which may require replacement on a schedule different from that of replacing the entire boiler.
5. **Replacements Made Thus Far:** Take into consideration if management has already begun a program of replacing multiple or single components that have realized their EUL. If, as a result of research, Consultant learns the extent of such replacements made to date, Consultant shall take this into consideration. In some instances, Consultant may use weighted average EULs and EFF AGEs. The onus is on management to substantiate the replacements made and the reported costs incurred by submitting documentation to the Consultant. Such documents should be included as an exhibit to the Report.
6. **Term:** Complete a Replacement Reserve Schedule for the term of the loan plus two years. The length of the term or “window” may significantly impact reserve requirements. For instance, a 17-year reserve “window” would not include replacement of roofing (RUL = 20 years) for a Subject having a one-year old roof, whereas a 22-year “window” would include such a cost. Generally, the smaller the window, the less the reserve monies required.
7. **Replacement Costs:** Replacement costs used shall be market or Borrower’s historical incurred costs, or substantiated third-party costs. Should the borrower or Client differ from the Consultant as to a component’s or system’s replacement cost, Borrower or Client must substantiate this opinion by submitting paid invoices, executed proposals, receipts, bona fide pending proposals, etc. The Consultant is not to accept unsubstantiated replacement costs offered by the Borrower or Client.
8. **Inflation:** Projected future expenditures should incorporate a rate of inflation equal to the rate of comparable term Treasuries less 140 basis points or a defined rate provided by Client.

VI. QUALIFICATIONS

Procedure, Limitations, Use and Reliance Restrictions.

VII. EXHIBITS

The Consultant should append any exhibits that illustrate or clarify information presented in the body of the Report. Pertinent documents such as leasing literature and schedules, copies of pending proposals, annotated site plans, building plan excerpts, tenant schedules, certificates of occupancy and other relevant information should be provided where available and useful.

The Presurvey Questionnaire and Disclosure Schedule and the Property Condition Assessment Document and Information Checklist should be appended whether or not the Borrower or its representative has completed them.

REPLACEMENT RESERVE ANALYSIS

CRYSTAL BAY
2333 Feather Sound Drive

Inflation = 4.6%
October 14, 1994

No.	Item	Avg. EUL (yr)	EFF AGE (yr)	RUL (yr)	Quantity	Unit	Unit Cost	Cost Over Cycle	1994 1	1995 2	1996 3	1997 4	1998 5	1999 6	2000 7	2001 8	2002 9	2003 10	Total over term inflated \$
<i>SITE</i>																			
1	Paving, Asphalt—Apply 1" Topping	18	7	11	11,500	SY	21.75	\$77,625	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	Asphalt Pvmnt Sealant—Slurry Coat	5	4	1	11,500	SY	0.75	\$8,625	\$9,022	\$0	\$0	\$0	\$0	\$11,297	\$0	\$0	\$0	\$0	\$20,318
3	Sidewalks, Concrete—Replace	25	10	15	1,750	SF	5.00	\$8,750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	Irrigtn Sys., Lawn—Rpl. Pump & Controls	8	5	3	4	EA	1,200.00	\$4,800	\$0	\$0	\$5,493	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,493
5	Lighting Standards, Aluminum—Site	16	5	11	32	EA	1,700.00	\$54,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	Swimming Pool, Re-Marciting	5	2	3	6,200	SF	1.45	\$8,990	\$0	\$0	\$10,289	\$0	\$0	\$0	\$0	\$12,883	\$0	\$0	\$23,171
7	Swimming Pool, Deck Re-surfacing	8	2	6	4,000	SF	2.50	\$10,000	\$0	\$0	\$0	\$0	\$0	\$13,098	\$0	\$0	\$0	\$0	\$13,098
8	Swimming Pool, Filtering Equip.	12	10	2	2	POOL	900.00	\$1,800	\$0	\$1,969	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,969
9	Fencing, Stockade (Wood)	12	5	7	450	LF	7.50	\$3,375	\$0	\$0	\$0	\$0	\$0	\$0	\$4,624	\$0	\$0	\$0	\$4,624
10	Fence Enclosure, Refuse (Wood)	8	5	3	5	EA	200.00	\$1,000	\$0	\$0	\$1,144	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,144
11	Mailboxes, Aluminum—Exterior Display	15	5	10	2	EA	2,800.00	\$5,600	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$8,780	\$8,780
12	Tennis Court—Surface Coating & Striping	15	8	7	14,400	SF	0.65	\$9,360	\$0	\$0	\$0	\$0	\$0	\$0	\$12,823	\$0	\$0	\$0	\$12,823
<i>ENVELOPE</i>																			
13	Roofing, Asphalt Shingle	20	8	12	94,000	SF	0.80	\$117,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
14	Gutters & Leaders, Aluminum	20	8	12	6,200	LF	3.00	\$55,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	Painting, Building Exterior	5	2	3	117,000	SF	0.50	\$58,500	\$0	\$0	\$66,950	\$0	\$0	\$0	\$0	\$83,832	\$0	\$0	\$150,782
16	Doors, Entrance—Exterior Individual Unit	25	10	15	308	EA	275.00	\$84,700	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	Siding, "Masonite"	17	5	12	110,000	SF	1.90	\$209,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
18	Metal Stair Railings, Repaint	6	4	2	4,400	LF	0.90	\$3,960	\$0	\$4,333	\$0	\$0	\$0	\$0	\$0	\$5,675	\$0	\$0	\$10,007
19	Window, Aluminum Frame & Glazing	30	10	20	1,260	EA	225.00	\$283,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
20	Balcony, Structure Rehabilitation	15	4	11	204	EA	1,100.00	\$224,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
21	Balcony, Concrete Traffic Coating	10	0	10	7,100	SF	1.20	\$8,520	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,672	\$2,672
<i>INTERIORS</i>																			
22	Carpeting, Individual Unit	7	7	0	23,000	SY	\$15.00	\$345,000	\$75,783	\$37,747	\$39,483	\$41,300	\$43,199	\$45,187	\$75,624	\$93,935	\$73,876	\$77,275	\$603,409
23	Vinyl Composition Tile, Kitchen	10	5	5	42,000	SF	\$2.10	\$88,200	\$0	\$0	\$0	\$0	\$22,088	\$34,656	\$12,083	\$12,639	\$13,221	\$13,829	\$108,516
24	Vinyl Composition Tile, Bathroom	10	5	5	28,000	SF	\$2.10	\$58,800	\$0	\$0	\$0	\$0	\$14,725	\$23,104	\$8,056	\$8,426	\$8,814	\$9,219	\$72,344
25	Refrigerator, 14 Cu. Ft. Frost Free	15	4	11	308	EA	\$425.00	\$130,900	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
26	Range, 30" Electric	15	4	11	308	EA	\$285.00	\$87,780	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
27	Garbage Disposal, In-Sink	10	6	4	308	EA	\$90.00	\$27,720	\$0	\$0	\$0	\$6,637	\$10,413	\$3,631	\$3,798	\$3,972	\$4,155	\$4,346	\$36,952
28	Dishwasher, Four Cycle	10	0	10	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$24,146	\$24,146
<i>MECHANICAL</i>																			
29	Exhaust Fan, Bathroom	12	8	4	620	EA	\$30.00	\$18,600	\$0	\$0	\$0	\$4,453	\$6,987	\$2,030	\$2,124	\$2,221	\$2,323	\$2,430	\$22,569
30	Furnace, Individual Gas-Fired Unit	20	5	15	308	EA	\$800.00	\$246,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
31	Condenser, Air-Cooled	15	4	11	308	EA	\$250.00	\$77,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
32	Domestic Water Heater, Individual Electric Unit	7	7	0	308	EA	\$180.00	\$55,440	\$12,178	\$6,066	\$6,345	\$6,637	\$6,942	\$7,261	\$12,152	\$15,095	\$11,872	\$12,418	\$96,965

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.

ANNUAL REQUIREMENTS (ROUNDED)	\$96,982	\$50,115	\$129,705	\$59,026	\$104,355	\$140,263	\$131,284	\$238,678	\$114,261	\$155,114	\$1,219,783
PV OF TOTAL ANNUAL RESERVES	\$929,137										
PV TOTAL ANNUAL RESERVES/UNIT/YEAR	\$451										

COST ESTIMATE TO REMEDY DEFICIENCIES

Canterberry Green
October 14, 1994

Item	Quantity	Unit	Unit Cost	Budget Cost Immediate	Estimate Short-term
<i>SITE</i>					
Asphalt Patching —Remove and patch all soft, crazed parking areas. Within the next three (3) years all of the paved areas should be resurfaced.	1	LS	\$2,700		\$2,700
Asphalt Sealing —Pavement is bleached and oil stained at parking spots. Prolong longevity and improve the complex's general aesthetics by applying an emulsion asphalt sealant. Prepare surfaces by sealing all cracks, patching deficiencies and removing oil staining. Apply two (2) coats of emulsion based asphalt sealant, containing 4 lbs. of sand per gallon plus 4% latex additive, to entire asphalt paved area in that location.	61	Unit	\$20		\$1,220
Asphalt Striping —Striping is faded throughout the paved parking areas. Layout and restripe entire parking lot using reflectorized white or yellow 4" wide painted lines for car stalls, handicap areas, fire zones and traffic flow.	61	Unit	\$3		\$183
Regrade Cluster Perimeters —Crawl space flooding is occurring at Building No. 10. Similar conditions were noted at Building Nos. 9 and 11. Foundation wall backfill has settled and the situation has been aggravated by storm water ponding adjacent to the foundation. These conditions are contributing to crawl space water seepage and high humidity problems, which are conducive to rot and termite infestation. Spread and compact additional soil to promote positive drainage away from sidewalls.	3	Cluster	\$2,300	\$6,900	
Site Lighting —Install three (3) new high pressure, sodium fixtured lighting standards near Building Nos. 10 and 11 to illuminate unsafe areas.	3	Each	\$1,600		\$4,800
<i>EXTERIOR</i>					
Exterior Painting —Paint on hardboard siding and rough sawn trim is faded, mildew stained and deteriorated at all units. Such conditions will eventually lead to rot and deterioration of wood surfaces. Scrape worn painted surfaces, and brush apply two (2) coats of exterior latex paint on the hardboard siding, trim, window frames and exterior doors. Apply sealant to all open joints.	130	Cube	\$145		\$18,850
Misc. Exterior Carpentry Repairs —Numerous years of deferred maintenance has led to the deterioration of miscellaneous wood trim components at cluster exteriors. Secure loose and cupped rough sawn battens, loose and hanging soffit panels, and replace rotted eave and fascia trim. Also replace miscellaneous rotted exterior door jambs, sheathing and deteriorated trim sections, etc.	8	Cluster	\$965		\$7,720
Asphalt Shingle Roofing —Remove existing asphalt shingles down to plywood sheathing. Replace damaged sheathing as necessary. Install new #235 asphalt shingle roofs, complete with flashings, at each building.	130	Cube	\$400		\$52,000
<i>MECHANICAL/ELECTRICAL/PLUMBING</i>					
Electric Domestic Hot Water Heaters —Existing domestic hot water heaters have reached their expected useful lives. Budget to replace with new electric domestic hot water heaters complete with new temperature and pressure safety release valve piped to the floor.	308	Each	\$45	\$13,860	
Bathroom Vents —Bathroom vents exhaust in the attic spaces of the units, as in the cases of Unit Nos. 405 and 609, creating warm, humid conditions which have contributed to minor rot and decay of the roof sheathing. Extend bathroom vent ducts through the roofs and terminate with proper flashing and caps.					
<i>INTERIOR</i>					
Carpet —Many units contain dated carpeting which is in need of replacement. Remove existing carpeting and padding and install new carpet.	15	Unit	\$500		\$7,500
Kitchen Vinyl Floor Covering —Worn, dated vinyl kitchen flooring was reported at most units in the development. Remove existing vinyl flooring, which is said to be faded and lifting along seams, and replace.	15	Unit	\$100		\$1,500
Bathroom Vinyl Flooring —Worn, dated vinyl flooring was observed at representative bathrooms. Remove discolored and lifting vinyl bathroom flooring and replace with new.	15	Bath	\$100		\$1,500
			TOTAL	\$20,760	\$97,973

EXAMPLE ONLY: ADDITIONAL ITEMS OMITTED FOR BREVITY.