

APPENDIX D - GUIDANCE ON PREPARING PCA REPORT SCHEDULES AND TABLES

The Property Useful Life Table provides the User with an estimate at a specific point in time of the condition of the Property’s systems and component by assessing the current state of each component or system without regard to the year the Property was built or the system or component was installed. The completed Property Useful Life Table must be included in the Executive Summary section of the PCA Report. This Exhibit D provides the PCA Consultant with guidance on the use of the schedules and tables which are set forth in Appendix E to the Instructions for Performing a Multifamily Property Condition Assessment.

Definitions. In completing the Property Useful Life Table for the PCA Report, the PCA Consultant should use the following definitions:

- **“EUL”** is the average Estimated Useful Life for the specified system/component, as set forth on Appendix F to the Instructions for Performing a Multifamily Property Condition Assessment – Estimated Useful Life (EUL) Reference Table.
- **“Effective Age”** is the Effective Age of the specified system or component based on the PCA Consultant’s assessment of the condition of the system or component.
- **“PCR”** is the Property Condition Rating.
- **“RUL”** is the Remaining Useful Life of the specified system or component based on the EUL minus the Effective Age.
- **“RUL:EUL Ratio”** is the ratio of RUL for the specified system or component divided by the EUL for the specified system or component.

Property Condition Ratings. While characteristics from multiple rating categories may apply to individual components or systems, the rating should be based on the PCA Consultant’s professional judgment and is intended to be a representative evaluation of that component or system at the Property. If the Remaining Useful Life of a particular system or component varies significantly (e.g., the Property consists of four separate buildings, and the roof is in excellent shape on three of the buildings and in need of replacement on the fourth), the PCA Consultant will categorize the Remaining Useful Life of such component or system based on the average or weighted average of each observed part of such system or component (e.g., if the roof on three of the buildings would be rated a “1”, and the roof on the fourth building would be rated a “5”, the overall rating for the roof system at the Property would be a “2”).

The PCA Consultant must assess and categorize the physical condition of each Property system and component, as applicable, listed on the Property Useful Life Table, using the following ratings and condition rating categories as guidance.

RATING CATEGORY	RATING CATEGORY AND DESCRIPTION OF PROPERTY SYSTEM/COMPONENT
PCR 1: No concerns observed. No further action required.	
Summary	<u>Excellent condition; typically newer property or property with recent major rehab/significant investment</u>

<u>Life Safety</u>	<u>No Life Safety issues observed</u>
<u>Deferred Maintenance</u>	<u>No observed or reported Deferred Maintenance issues</u>
<u>Routine Maintenance</u>	<u>Superior Routine Maintenance practices that are extending the RUL of systems and components</u>
<u>Capital Needs</u>	<u>Capital needs are addressed; major components and systems are like new, in excellent condition and high probability they will significantly exceed the loan term</u>
Category 1 <u>RUL</u>	<p>No substantial concerns observed. No further action required.</p> <ul style="list-style-type: none"> • <u>Life Safety</u>: No issues are observed. • <u>Deferred Maintenance</u>: No observable or reported signs of deferred maintenance. • <u>Routine Maintenance</u>: The Property has superior maintenance practices in place that appear to be extending the RUL of the system or its components. <p><u>Remaining Useful Life</u>: The specified system or component has an Effective Age that is significantly less than the actual age due to quality materials and/or superior Property maintenance practices. The RUL and the Effective Age may exceed the actual age and/or the average EUL.</p>
PCR 2: Some minor issues noted. Limited follow-up required.	
<u>Summary</u>	<u>Very Good/Good condition with isolated and relatively minor issues that are unlikely to negatively impact operations and can be addressed in-house</u>
<u>Life Safety</u>	<u>No/minor Life Safety issues observed</u>
<u>Deferred Maintenance</u>	<u>Isolated or minor Deferred Maintenance can be addressed in-house and/or at limited expense</u>
<u>Routine Maintenance</u>	<u>Proactive Routine Maintenance practices ensuring good overall system performance and functionality</u>
<u>Capital Needs</u>	<u>Majority of capital needs are being addressed, property performance does not appear to be impacted; components and systems in good condition and very likely will exceed the loan term</u>
Category 2 <u>RUL</u>	<p>Some minor issues are noted. Limited follow-up is required.</p> <ul style="list-style-type: none"> • <u>Life Safety</u>: Either no issues are observed or minor issues are observed. • <u>Deferred Maintenance</u>: Isolated issues or minor items are observed that can be addressed by in-house maintenance staff or with limited expense. • <u>Routine Maintenance</u>: The Property's maintenance practices appear to be addressing issues on a proactive basis, ensuring good overall system performance. <p><u>Remaining Useful Life</u>: The specified system or component is expected to have an Effective Age that is less than or equal to the actual age due to quality materials and/or adequate Property maintenance practices. The RUL and the Effective Age may exceed or equal the actual age and/or the average EUL.</p>
PCR3: Overall declining condition or isolated deterioration. Documented follow-up required.	

<u>Summary</u>	<u>Average to Fair condition; requiring investment</u>
<u>Life Safety</u>	<u>Some Life Safety issues observed requiring immediate attention; but no capital expenditure</u>
<u>Deferred Maintenance</u>	<u>Deferred Maintenance of heightened concern; likely not addressed in-house</u>
<u>Routine Maintenance</u>	<u>Some reactive Routine Maintenance practices impacting a limited number of components requiring attention</u>
<u>Capital Needs</u>	<u>Critical capital needs are being addressed as needed, but additional capital required to maintain asset quality and system functionality; RUL of major systems/components may not meet or exceed the loan term</u>
Category 3 <u>RUL</u>	<p>Substantial and/or critical issues noted. Documented follow-up IS required.</p> <ul style="list-style-type: none"> • <u>Life Safety</u>: Some issues are observed that require immediate attention, but that do not require capital expenditures. • <u>Deferred Maintenance</u>: Concerns are observed that (i) cannot be addressed by in-house maintenance staff, and (ii) would have a material cost for repairs • <u>Routine Maintenance</u>: The Property's maintenance practices appear to be a combination of proactive and reactive practices, with some limited number of systems or components requiring attention. <p><u>Remaining Useful Life</u>: The specified system or component is anticipated to have a lower RUL due to the quality of materials and or maintenance and may have a greater Effective Age than the actual age. Generally, the quality of materials and/or maintenance practices is below average.</p>
PCR4: Substantial issues noted. Documented follow-up with possible action plan required.	
<u>Summary</u>	<u>Deteriorated overall conditions, substandard materials and practices, or major issues have not been addressed since prior inspection; requiring significant investment</u>
<u>Life Safety</u>	<u>Life Safety issues observed that require immediate attention and possible capital expenditure</u>
<u>Deferred Maintenance</u>	<u>Substantial Deferred Maintenance affecting major/several property areas/systems, requiring significant investment</u>
<u>Routine Maintenance</u>	<u>Reactive Routine Maintenance practices that do not address concerns in a timely manner</u>
<u>Capital Needs</u>	<u>Some critical capital needs are not being addressed, and property performance may be negatively impacted; very likely that the RUL of major systems/components will not meet or exceed the loan term</u>
<u>RUL</u>	<u>The RUL of the system or component is less than 3 years and/or the Effective Age is greater than the actual age. Generally, the quality of materials is substandard, the system or component has exceeded its Estimated Useful Life, and/or materials are poorly maintained.</u>
PCR5: Severe Deferred Maintenance observed. Follow-up and substantial action plan required.	

<u>Summary</u>	<u>Unacceptable overall conditions. Widespread neglect or casualty event; condition materially impacts marketability. Functionality of systems and components is compromised.</u>
<u>Life Safety</u>	<u>Significant Life Safety issues requiring capital expenditure</u>
<u>Deferred Maintenance</u>	<u>Excessive Deferred Maintenance affecting multiple areas/property systems, requiring significant investment; impacting collateral value</u>
<u>Routine Maintenance</u>	<u>Inadequate Routine Maintenance practices that do not ensure reasonable functionality of the property systems and components and may impact collateral value</u>
<u>Capital Needs</u>	<u>Major and pervasive issues with major components and systems; critical capital needs are not being addressed, property performance is being impacted and RUL of major systems/components has been exceeded</u>
<u>RUL</u>	<u>The RUL of the system or component has been exceeded or, based on the quality of materials and/or inferior maintenance practices, may have an Effective Age that exceeds the actual age and requires immediate capital expenditures. Generally, the quality of original materials is poor, the system has exceeded its EUL by a significant margin, and maintenance is poor.</u>

Category 4**Overall condition showing signs of deterioration. Documented follow-up with possible action plan required.**

- ~~Life Safety:~~ Issues are observed that require immediate attention and capital expenditures or repairs.
- ~~Deferred Maintenance:~~ Issues are observed affecting one major system or several components of different systems that will materially affect the expenditures for capital improvement or repairs within the next 12 months.
- ~~Routine Maintenance:~~ The Property's maintenance practices appear to be reactive and are not addressing system or component condition concerns in a timely manner.
- ~~Remaining Useful Life:~~ The RUL of the system or component is less than 3 years and/or the Effective Age is greater than the actual age. Generally, the quality of materials is substandard, the system or component has exceeded its Estimated Useful Life, and/or materials are poorly maintained.

Category 5**Severe deferred maintenance observed. Substantial follow-up and action plan are required.**

- ~~Life Safety:~~ Significant issues are observed that will require significant expenditures to be included in the Property Evaluators cost estimates for repairs or capital improvement replacements on an immediate basis.
- ~~Deferred Maintenance:~~ Excessive deferred maintenance is observed at multiple systems or components that will require significant expenditures for repairs or capital improvement replacements on an immediate basis.
- ~~Routine Maintenance:~~ Inadequate maintenance practices are in place that do not address either on going maintenance to ensure the EUL is achieved or maintenance to ensure functionality of the system.
- ~~Remaining Useful Life:~~ The RUL of the system or component has been exceeded or, based on the quality of materials and/or inferior maintenance practices, may have an Effective Age that exceeds the actual age and requires immediate capital expenditures. Generally, the quality of original materials is poor, the system has exceeded its EUL by a significant margin, and maintenance is poor.

The PCA Consultant should indicate "NV" in the column for that system or component at the Property if the condition of the system or component was not visible to the PCA Consultant based on access, life safety, weather conditions or other limitations. If deferred maintenance items cannot be determined based on lack of access, further action may be required.

The PCA Consultant should indicate "NA" in the column if that system or component does not exist at the Property.

Opine on EUL and Effective Age. The PCA Consultant is permitted 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, resulting in a system or component may have an Effective Age greater or less than its actual age. For instance, a parking lot with an EUL of 18 years that has been routinely sealed with a squeegee applied asphaltic emulsion slurry coat may have an Effective Age equal to 8 years although its actual age is 12 years. Therefore, its RUL will be 10 years (18 minus 8) instead of

6 years (18 minus 12). When there is a significant deviation from common EULs, the relevant section of the PCA Report should reflect that fact. Should the Property Owner's opinion differ from the PCA Consultant as to a component's or system's EUL, the Property Owner must substantiate this opinion by schedules, invoices, etc. The PCA Consultant may not accept unsubstantiated EULs.

Phase Replacements. The PCA Consultant may exercise its professional judgment as to the rate or phasing of replacements. For example, assume a Property has an extensive quantity of paving that will realize its EUL in Year 8. Rather than requiring the replacement of all paving in Year 8, resulting in a significant cost incurred in a single year, the PCA Consultant may phase the work over 3 years (i.e., 40% replaced in Year 8, 40% in Year 9, and 20% in Year 10). The PCA Consultant must also require that complementary repairs or replacements are also completed in this same phased manner (e.g., if the paving is to be completed in phases in Years 8, 9, and 10, the same percentage of parking lot striping must also occur in the same phases). However, the PCA Consultant must not phase work that is of limited scope, such as resurfacing a 2,000 square yard parking lot, since prudent management would not phase such a small quantity of resurfacing.

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.

Replacements Made Thus Far. The PCA Consultant should take into consideration whether the Property Owner or Property Manager has already begun a program of replacing multiple or single components that have realized their EUL. Any such replacements determined by the PCA Consultant to have occurred to date, must be taken into consideration. In some instances, the PCA Consultant may use weighted average EULs and Effective Ages. The onus is on the Property Owner or Property Manager to substantiate the replacements made and the reported costs incurred by submitting appropriate documentation to the PCA Consultant. Such documents should be included by the PCA Consultant as an exhibit to the PCA Report.