

**ARCHITECTURAL MANUAL
APPENDIX III**

**REHABILITATION GUIDE
FOR
EXISTING PROPERTIES**

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Introduction

The purpose of this Rehabilitation Guide is to clarify DCA's expectations for the longevity and marketability of completed rehabilitation of existing single-family and multi-family property. This Guide is also intended to provide the Owner/Applicant with guidance on how to apply for, document, and rehabilitate a property in accordance with DCA requirements.

The Internal Revenue Code requires that all low-income units in a project receiving Credits remain rent-restricted and income-restricted for the 15-year Compliance Period and for 15 years after the close of the Compliance Period. Projects that propose rehabilitation must present a scope of work that will position the property to meet the entire extent of its statutory obligations. The Fannie Mae Expected Useful Life Tables should be used as guide to determine the components and systems that need to be replaced in order to meet the duration of all tax credit program obligations. It is expected that all work scopes will propose:

1. A minimum per unit hard cost budget of \$25,000, excluding the construction of new community buildings and community building additions. This is a minimum expenditure requirement. Per unit costs that incorporate all of DCA's Architectural requirements typically exceed this minimum. The costs of furniture, fixtures, new community buildings, and common use amenities are not included in the minimum amount.
2. A substantial gut rehabilitation where major systems are removed and replaced according to the Fannie Mae Expected Useful Life Table.
3. The replacement of existing exterior stairs, breezeways, and handrails that have no roof cover with covered vertical circulation.
4. Compliance with the Georgia State Minimum Standard Codes and Life Safety Code for new construction regarding stairs, handrails, guardrails, smoke detectors, fire alarms, and unit fire separation (attic draft stops, fire separation, rated party walls and floor/ceiling components, and caulking of all

penetrations in the fire assemblies). Life Safety items that do not meet current codes will not be ‘grandfathered’ in.

5. Materially the same scope of work in all units.
6. Compliance with the Architectural Manual upon completion of work.
7. Compliance with all current building codes upon completion of work.
8. Compliance with all DCA accessibility requirements upon completion of work. DCA does not distinguish between new construction and rehabilitation in its accessibility requirements.
9. Compliance with UPCS upon completion of work.

DCA will review the type of construction and associated hard construction costs. Applications for the rehabilitation of a substandard property will not be funded if, in the opinion of DCA, the rehabilitation will not result in improved, safe and decent long-term housing, the proposed rehabilitation does not meet DCA standards, or if new construction would be more appropriate.

DCA reserves the right, at its sole and absolute discretion, to perform its own Physical Needs Assessment (PNA) or decline any application for rehabilitation if it is determined that the Rehabilitation Work Scope:

- is inadequate or excessive;
- does not address the issues of the Physical Needs Assessment;
- does not address major structural issues, building codes, health, safety, marketing or any other conditions observed on the site;
- will not result in safe, decent housing;
- will not result in a property with a longevity exceeding the life of the DCA loan or the Compliance Period, whichever is greater, of any DCA funding by at least five years.

All provisions in the Architectural Standards, Submittal, Accessibility, and Amenities Manuals along with the Core and Threshold sections of the QAP apply to rehabilitation properties. However, DCA may consider waivers for some following requirements if it

can be documented that compliance will be cost prohibitive. The burden of proof is on the Owner/Applicant.

- Architectural Standards:
 - Central HVAC in a multi-floor building where it can be demonstrated that the existing central system is the most efficient and economical system for conditioning the indoor spaces
 - Flat roofs
 - Room and unit size, closet and cabinet/counter requirements, number of bathrooms only if documentation of the marketability of existing conditions is provided
 - One bedroom units where the bathroom is accessed through the bedroom
- Threshold Section, Required Amenities: Additional Requirements and Amenities for Senior projects that requires Fair Housing compliance on all units built BEFORE 1991 only if clear documentation of the burdensome cost to provide accessibility to all units is provided
- Above per unit rehabilitation amount only if there is an overriding public policy or historic preservation need and the physical needs assessment clearly documents that the existing property does not require a comprehensive rehabilitation. A certification from the architect must also be provided documenting that the proposed work scope is sufficient to ensure that the completed project will be viable and meet DCA useful life requirements. DCA may require as a condition of the waiver, that the financial pro forma clearly provide for the full funding of the Capital Replacement Reserve. The Capital Replacement Reserve study must clearly schedule all component/system replacements required by the Fannie Mae Expected Useful Life Table.

DCA reserves the right to withhold waivers if the completed rehabilitation will not result in safe and decent housing that is equal to comparable housing in the marketplace. In no case will DCA waive federal, state or local building or accessibility laws or codes, state energy conservation codes or health and safety requirements.

No waivers will be allowed for the rehabilitation of existing units with room layouts that do not meet architectural standards requirements for bathrooms that open from areas of food preparation, or be used as a sole passageway to a habitable room, hall, basement or to the exterior or for habitable rooms in basement or cellar spaces unless egress is provided according to applicable fire codes.

The application for funding shall include a Physical Needs Assessment and comprehensive Rehabilitation Work Scope outlined below. Rehabilitation projects selected for funding must submit all pre-construction due diligence documentation outlined in the Architectural Submittals Instructions, including a complete set of plans and specifications produced by an architect licensed in the state of Georgia. The Rehabilitation Work Scope submitted at application may not be changed between application submittal and Final Allocation without DCA's consent.

Physical Needs Assessments

The Physical Needs Assessment (PNA) is required at Application for all rehabilitation, adaptive reuse, and Historic Preservation properties applications presented for potential funding by programs administered through the DCA Office of Affordable Housing. The purpose of the PNA is to provide a property description, document the existing condition of the property, to identify existing building code and program violations, identify immediate physical needs and to estimate capital needs over the long term. The PNA, including an on-site investigation, narrative report, and Fannie Mae forms must be conducted by a DCA Qualified Consultant. Refer to DCA's 2012 Funding Round website for a list of qualified consultants.

The PNA must be no more than 6 (six) months old at the time the Application is submitted. The report must include a signed statement from the Consultant explaining that the investigation has been completed in accordance with DCA requirements, is accurate, and can be relied upon by DCA as a true evaluation of existing property conditions. DCA reserves the right to verify all information contained in the report with an on-site inspection of the property conducted during the application process.

The Consultant shall inspect

- (1) all vacant and down units;
- (2) at least 10% of the occupied units
- (3) one unit in each building
- (4) one of each type of the accessible units (where they exist);
- (5) one of each unit configuration type; and
- (6) all other community/common areas and maintenance spaces.

The report is not expected to identify regular maintenance items that are part of the property owner's operating responsibility such as occasional window glazing replacement and/or caulking, minor plumbing repairs, annual HVAC and appliance servicing. However, the Consultant must comment on such items if they do not appear to be routinely addressed or in need of immediate repair, as well as report any observed or documented building code violations.

The Physical Needs Assessment must include descriptions of the condition of the following items and identification of the Remaining Useful Life in the Fannie Mae forms format of the following items:

SITE SYSTEMS AND CONDITIONS

- Landscaping
- Irrigation
- Grading/storm water drainage
- Lighting - building mounted
- Lighting - pole mounted
- Parking
- Pedestrian paving (sidewalks)
- Utilities (piping & equipment such as pumps etc)
 - Water
 - Fire
 - Gas
 - Electrical
 - Sanitary
 - Storm water drainage structures & piping
 - Cable/Phone/Communications

- Mailboxes
- Property sign
- Traffic signage
- Retaining walls
- Fencing
- Exterior stairs
- Exterior railings
- Site amenities

COMMON AREAS/COMMUNITY BUILDING

- Common area amenities
- Common area doors
 - interior
 - exterior
- Common area floors
- Common area ceilings
- Common area walls
- Common area kitchens
 - countertop
 - cabinets
 - sink
 - appliances
- Common area HVAC
 - ductwork
 - equipment
- Common area/public bathrooms
 - bath fans & ventilation
 - fixtures
 - hot water heating
 - water piping
 - waste/vent piping
 - bathroom accessories
- Sprinklers
- Electrical
 - light fixtures
 - outlets/switches
 - wiring
 - equipment (panels/breakers)
- Life safety
 - smoke alarms
 - fire alarm system

BUILDING ARCHITECTURE

- Foundations
- Crawl Spaces/Basements

- Framing
 - wall
 - floor
 - ceiling/roof
- Exterior wall sheathing
- Exterior cladding
- Roof sheathing
- Roofing
- Gutters & downspouts
- Soffits
- Windows
- Insulation
 - wall
 - floor
 - attic

DWELLING UNITS

- Cabinets
- Countertops
- Interior doors
- Exterior doors
- Floor underlayment
- Floor finishes
- Interior wall sheathing (gypsum wall board)
- Wall finishes
- Ceilings
- Bathroom vanities
- Bathtubs/showers
- Tub/shower surrounds
- HVAC
 - ductwork
 - equipment
 - bath fans & ventilation
- Plumbing
 - fixtures (faucets, shower valves, toilets, sinks)
 - hot water heating
 - water piping
 - waste/vent piping
 - wall
 - under slab
- Appliances
- Elevators
- Sprinklers
- Electrical
 - light fixtures

- outlets/switches
 - wiring
 - equipment (panels/breakers)
- Life safety
 - smoke alarms
 - fire alarm system
 - Attic draft stop/fire walls

The PNA must also include a discussion of known building code and health/life safety violations

While the PNA consultant is not expected to assume liability for compliance with accessibility regulations during design of post-rehabilitation, the consultant is expected to identify potentially costly barriers to required property accessibility, i.e., changes in grade for accessible routes or parking and unit framing changes for required clearances. Through completion of the Accessibility Checklists, the PNA must identify major violations of The Americans with Disabilities Act, The Fair Housing Act, and The Uniform Federal Accessibility Standards where these standards are applicable to the existing property. The Uniform Federal Accessibility Standard is applicable to all properties either as a federal requirement through the use of federal funds or as a DCA program specific state requirement through the use of tax credits.

The PNA must include completed Fannie Mae forms to document the condition of the components listed above along with the Immediate Needs and Capital Replacement Reserve studies. See more specific Fannie Mae guidance in the last section of this Guide.

The Capital Replacement Reserve study shall extend for 20 years with no capital replacements within the first five years (apart from regular maintenance and turnkey operations that are part of the operation and management of the property). The Capital Replacement Reserve shall reflect the condition of the property “As Improved”. That is, the Capital Replacement Reserve study must take into consideration the entire Rehabilitation Work Scope proposed by the Owner, not just the needs identified by the Physical Needs consultant. The Capital Replacement Reserve study shall be a true and

accurate representation of the needs of the property once the proposed rehabilitation is completed.

Any item that is determined to have an Effective Remaining Life of 15 years or less must be replaced as part of the work scope. Where major systems (such as roofing) have been replaced within the last 5 years, DCA may allow for replacement in the 15 year term if the cost is clearly documented in the Capital Replacement Reserve study and the project underwriting proposes full funding of the Reserve. It is recognized that the Expected Useful Life Tables represents one judgment of the expected life of the various components. The Tables provide a useful and consistent standard for all evaluators to use. They avoid debate on what the appropriate expected life is and permit focus on the evaluator's judgment of the effective remaining life of the actual component. It is incumbent upon the project team to provide adequate documentation substantiating the differences between the Effective Remaining Life as a calculated difference between Effective Useful Life and Age and the Evaluator's opinion of the remaining useful life.

The report should emphasize all systems/components with no Effective Remaining Life and those with Effective Remaining Life less than DCA requirements, all deferred maintenance, and repairs or replacements involving significant expense or outside contracting. The Consultant must note any suspected environmental hazards seen in the course of the inspection. Confirmation of suspected environment-related hazards, such as mold, lead-based paint, or asbestos containing materials, will be addressed in a separate environmental engineer's report.

The Rehabilitation Work Scope

Whereas the PNA documents the existing conditions and immediate physical needs, the Rehabilitation Work Scope must include these considerations as well as future property marketability, durability, and energy efficiency which will add to the residential quality of life. The Rehabilitation Work Scope must be compiled by the Applicant/Owner, Architect/ Engineer, and Construction Contractor in DCA's required format to include materials, quantities and unit costs. The Rehabilitation Work Scope shall be based on:

- Requirements for the replacement of components with no Effective Remaining Life at the end of 15 years, building code and health/safety violations, and immediate needs from the Physical Needs Assessment;
- Requirements for the replacement of components in order to comply with DCA's Architectural Standards and Specific Systems Replacement Guidance below;
- All applicable Threshold and Scoring upgrades as indicated in the DCA Application including amenities construction;
- All costs that will be incurred in bringing the property into compliance with federal, state, local, and DCA accessibility regulations (see the DCA Accessibility Manual for further guidance);
- Remediation of all issues identified in the Phase I and II environmental reports.

DCA must be able to determine that all major issues identified in the PNA and Environmental Reports are addressed in the Rehabilitation Work Scope.

Specific Systems Replacement Guidance

Site Utilities

The Rehabilitation Work Scope must contain a budget line item to investigate and repair or replace all main utility lines on the property, regardless of age. If more than 50% of the lines sanitary sewer, storm sewer, water service, fire service, electrical, cable, or gas are identified as failed, the entire line must be replaced. Failure to adequately substantiate the condition of existing utility lines may result in DCA re-capturing credits for failure to confirm the utilities systems operational conditions. A copy of the sewer investigation must be provide DCA if funded.

Site Utilities – Special Considerations: Polybutylene Piping

In all case where polybutylene piping is identified on the property, an investigation must be conducted to adequately confirm the condition and performance of the plumbing system. The Consultant must document the investigation and provide an opinion on the system and whether or not the piping should be repaired or replaced. Particular note must be made of the condition of the fittings, and in all cases the last 3'-0" of the hot water

lines from the water heater must be replaced with copper piping if this is identified as polybutylene piping.

Landscaping/Storm Water Drainage/Erosion

All areas of washout, exposed dirt, dead trees and overgrown landscaping must be corrected. Details must be provided in the Rehabilitation Work Scope as to how this will be accomplished. If DCA determines erosion conditions are severe, DCA may require, as a condition of funding, that a civil engineer be engaged to address the issue.

Site Improvements

Broken or un-useable amenities equipment, non-compliant site stairs and handrails, failed/deteriorated sidewalks, paving, and retaining walls must be corrected. Sidewalks and paving in particular must meet the minimum standards set forth in UPCS. All paving and sidewalks are expected to be altered for compliance with federal and DCA accessibility requirements.

Foundations

All cracking or settling of concrete foundations must be addressed. If DCA determines foundation conditions are severely deteriorated, DCA may require, as a condition of funding, that a structural engineer be engaged to address the issue.

Crawlspaces

All crawlspaces must be investigated and assessed for the presence of mold, plumbing leaks, and deteriorating structures. All crawl spaces must meet minimum energy and fire code requirements.

Rough Carpentry

Deteriorated subfloor, wall sheathing, roof sheathing, and structural framing must be addressed and allowances for the quantity of this work must be substantiated.

EIFS & Stucco

EIFS may not be repaired but must be replaced by a DCA-approved material. Hard-coat stucco must be replaced if more than 25% of the existing material has failed. DCA must approve any repair or replacement of hard-coat stucco.

Acoustical Isolation

The Rehabilitation Work Scope must meet the Architectural Standards for acoustical isolation wherever party and exterior wall structures and ceiling and floor construction are exposed during the course of construction.

Drywall

The Rehabilitation Work Scope must indicate the approximate percentage of drywall to be removed and replaced (i.e. Is this a gut removal of all drywall or small scale patching as required to address isolated leaks or penetrations into walls by other trades). Allowances must be substantiated.

HVAC

Heating, ventilating, and air conditioning systems must be replaced if they do not meet the requirements of applicable building codes, do not meet Threshold Section Building Sustainability, or do not have the required Effective Remaining Life. The duct system must be replaced as required to meet applicable codes and DCA required life expectancy. If ductwork is not replaced, it must be cleaned and sealed in accordance with the Georgia State Minimum Standard Energy Code.

Plumbing

Plumbing components must be replaced if they do not meet the requirements of applicable building codes, do not meet Threshold Section Building Sustainability, do not have the required Effective Remaining Life, 50% of the plumbing system needs replacement, or if lead in water testing results from the Phase I Environmental Site Assessment exceeds regulated levels.

Electrical

The existing electrical system shall be upgraded to meet all applicable codes. If 50% of the system needs replacement, the entire system must be replaced. This includes all wiring for the electrical system.

Building Sustainability

Threshold Section Building Sustainability of the 2012 QAP specifies certain criteria for a HERS rating, duct and building envelope leakage, attic and wall insulation, bathroom fans, lighting, glazing, plumbing fixtures, appliances, wall and floor finishes, water heaters. DCA expects that rehabilitation projects will meet these requirements regardless of local code enforcement.

Accessibility

All Rehabilitation Work Scopes must meet applicable federal, state, local, and DCA requirements. DCA requires 5% of the units to be fully accessible with an additional 2% equipped for the hearing and sight impaired. DCA does not distinguish between new construction and rehabilitation regarding accessibility requirements. See the Accessibility Manual for further guidance. The work scope should specifically address the work required to bring the property into full compliance with federal, state, local, and DCA requirements.

Fire and Life Safety

The property design shall meet or exceed all requirements to provide a safe environment for all tenants. These design aspects have been discussed in earlier sections and affect the property from overall site layout to the individual unit. Strict adherence to the most recently adopted editions of the Georgia State Minimum Standard Codes is required. Compliance with the Life Safety Code **for new construction** is required for the following regardless of local building authority enforcement: stairs, handrails, guardrails, smoke detectors, fire alarms, and unit fire separation (attic draft stops, fire/smoke separations, rated party walls and floor/ceiling components, and caulking of all

penetrations in the fire assemblies). Life Safety items that do not meet current codes will not be ‘grandfathered’ in.

Historic Rehabilitation

Summary

DCA recognizes that certain projects deemed to be historic in nature may require rehabilitation which varies from the general requirements set forth in the other sections of this Guide. Therefore, if a Preservation Professional, as defined in the Environmental Manual, determines that the proposed project has an adverse effect or is a contributing structure which is either listed in the National Register or is eligible for listing in the National Register (or a lot within such a listed or eligible district) and Georgia State Historic Preservation Office (SHPO) has cleared the proposed activities to proceed, then, depending upon the action approved (rehabilitation, demolition and/or new construction), the general rehabilitation standards set forth in the other sections of this Guide may not apply. However, DCA still requires that the completed rehabilitation results in housing that will meet the duration of all tax credit program obligations.

The Applicant must submit to DCA a detailed scope of work which sets forth the proposed rehabilitation or new construction activity in accordance with recommended practices as set forth in *“The Secretary of the Interior’s Standards for Rehabilitation”*.

Review the Historical Significance of the Property

If the historic building is to be rehabilitated, it is critical that the new use not require substantial alteration of distinctive spaces or removal of character defining architectural features or finishes. The construction materials, the form and style of the property, the principal elevations, the major architectural or landscape features, and the principal public spaces constitute some of the elements that should be preserved. Every effort should be made to minimize damage to the materials and features that convey a property’s historical significance. Review of any record documentation on file with the National Register of Historic Places or local preservation commissions and supplemented with a physical investigation to identify which character defining features and spaces

must be protected whenever any changes are anticipated.

Rehabilitation

Rehabilitation is defined by the Secretary of the Interior as "the process of returning a property to a state of utility, through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its historic, architectural, and cultural values." As such, the standards to be applied to specific rehabilitation projects must be done so in a reasonable manner, taking into consideration economic and technical feasibility. The *Secretary of the Interior's Standards for Rehabilitation* (36 CFR Part 68) should be followed to rehabilitate the property's interior and exterior features, including, but not limited to, windows, doors, siding, masonry, ceilings, walls, floors, closets, fireplaces and floor plans. DCA's environmental requirements, including the testing and abatement (encapsulation) of lead, must be completed. These exterior and interior guidelines can be found at <http://www.nps.gov/tps/standards/rehabilitation.htm>.

Reconstruction (demolition and replacement) of Historic Properties

The Applicant shall ensure that, to the greatest extent feasible, the reconstruction of any historic structure deemed infeasible for rehabilitation shall be carried out in a manner that is compatible with the architecture of the original unit and/or other buildings within the surrounding historic district in terms of set-backs, size, scale, massing, design, color, features, and materials, and is responsive to the recommended approaches for new construction set forth in the Secretary's *Standards for the Treatment of Historic Properties*. Therefore, the Applicant shall consult with the Preservation Professional to develop a set of historically compatible model replacement building plans in advance of any planned reconstruction activities which shall be shared with the public during the initial public hearings held. Final construction drawings used in the bidding process, including elevations, shall be submitted to the Preservation Professional for review and comment and forwarded to SHPO for final approval prior to the award of a construction contract and the initiation of construction activities. If the Applicant determines that the proposed plans and specifications for the reconstruction do not meet the *Standards* as

interpreted by the Preservation Professional, the Applicant shall notify the Advisory Council on Historic Preservation and initiate consultation as set forth at 36 CFR Section 800.5 (e). The Applicant shall follow the recordation and demolition guidelines as established by the Secretary of the Interior prior to the start of any demolition activities.

Questions concerning these requirements should be directed to SHPO and DCA prior to application submission.

Any modifications of the historic rehabilitation work scope must be approved in writing by DCA in advance of the project start-up.

Appendix I

The Fannie Mae Physical Needs Assessment Guidelines

Below is a reproduction of the directions for completing the Fannie Mae forms. Note that DCA may have detailed specific guidance above which overrides these boiler-plate directions.

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The standard format forms are to help the Consultant conduct a comprehensive and accurate assessment. However, the forms should not constrain the Consultant from fully addressing other findings and may be supplemented as necessary to create a thorough record of the property's physical needs. The forms may be altered to serve the Consultants' needs if the basic format is maintained and the same information is presented.

Specific Guidance to the Property Evaluator

Purpose

The purpose of the Physical Needs Assessment is to identify and provide cost estimates for the following key items:

Immediate Physical Needs - repairs, replacements and significant maintenance items which should be done immediately

Physical Needs Over the Term - repairs, replacements and significant maintenance items which will be needed over the term of the mortgage and two years beyond.

As part of the process, instances of deferred maintenance are also identified. The assessment is based on the evaluator's judgment of the actual condition of the improvements and the expected useful life of those improvements. It is understood that the conclusions presented are based upon the evaluator's professional judgment and that the actual performance of individual components may vary from a reasonably expected standard and will be affected by circumstances which occur after the date of the evaluation.

This package explains how to use the set of forms provided by Fannie Mae. It is important to recognize that the forms are intended to help the evaluator conduct a comprehensive and accurate assessment. They also present the results of that assessment in a relatively standard format which will be useful to the lender in making underwriting decisions. However, the forms should not constrain the evaluator from fully presenting concerns and findings. The forms should be used and supplemented in ways which facilitate the preparation and presentation of information useful to the lender regarding the physical needs of the property.

The Systems and Conditions forms may be altered and/or computerized to serve the evaluators' needs so long as information is provided on the condition and Effective Remaining Life of all components and the Effective Remaining Life is compared to the standard Expected Useful Life (EUL). The Summary forms may also be extended or computerized so long as the basic format is maintained.

Terms of Reference Form

The lender completes this form for the evaluator. It serves as a reference point for the assessment and provides the evaluator with basic information about the property and the term of the loan. Four additional topics are covered:

Sampling Expectations - The lender's expectations about the number and/or percentage of dwelling units, buildings and specialized systems to evaluate may be stated. If there is no stated expectation, the evaluator should inspect sufficient units, buildings, and

numbers of specialized systems to state with confidence the present and probable future condition of each system at the property. The evaluator should provide a separate statement indicating the sampling systems used to ensure a determination of conditions and costs with acceptable accuracy.

If a Sampling Expectation is provided by the lender which is not adequate to achieve the requisite level of confidence, the evaluator should so advise the lender. Considerations in determining an adequate sample size are age and number of buildings (especially if the property was developed in phases), total number of units, and variations in size, type and occupancy of units.

Effective sampling is based on observing a sufficient number of each significant category. Using the above criteria, categories could include buildings by age of each building (e.g. inspect buildings in the 8 year old phase and in the 11 year old phase), buildings by type (e.g. row house, L-shaped row house, walkup, elevator) and/or buildings by construction materials (e.g. inspect the garden/flat roof/brick walls section and the garden/pitched roof/clapboard walls section).

Dwelling units are separate categories from buildings. At a minimum, sampling is by unit size (0/1/2/3/4 bedrooms). There may be further categories if units are differently configured or equipped, or have different occupants (especially family or elderly). Generally, we would expect the percentage of units inspected to decrease as the total number of units increases. Systems which are not unit specific, such as boilers, compactors, elevators and roofs, will often have a 100% sample.

The overriding objective: SEE ENOUGH OF EACH UNIT TYPE AND SYSTEM TO BE ABLE TO STATE WITH CONFIDENCE THE PRESENT AND PROBABLE FUTURE CONDITON.

Market Issues - In certain instances, market conditions may necessitate action on certain systems. Examples are early appliance replacement or re-carpeting, new entry paving,

special plantings, and redecorated lobbies. If the owner or lender has identified such an action, the evaluator should include cost estimation for such action and indicate what, if any, other costs would be eliminated by such action.

Work In Progress - In some instances, work may be underway (which can be observed) or under contract. When known by the lender, this will be noted. For purposes of the report, such work should be assumed to be complete, unless observed to be unacceptable in quality or scope.

Management-Reported Replacements - In some instances, the property ownership or management will provide the lender with information about prior repairs or replacements which have been completed in recent years. The lender may provide this information to the evaluator to assist in the assessment of these components. The evaluator should include enough units, buildings, or systems in the sample to reasonably verify the reported repairs or replacements.

Systems and Conditions Forms

It is the responsibility of the evaluator to assess the condition of every system which is present at a property. All conditions, except as noted below, requiring action during the life of the loan must be addressed regardless of whether the action anticipated is a capital or operating expense.

To assist evaluators in reviewing all systems at a property, four Systems and Conditions Forms are provided. Each lists a group of systems typically related by trade and/or location. The four forms are Site, Architectural, Mechanical and Electrical, and Dwelling Units. While the forms have several columns in which information may be recorded, in many instances only the first three columns will be completed. If the condition of a system is acceptable, the Effective Remaining Life exceeds the term of the mortgage by two years, and no action is required, no other columns need to be completed.

The report is not expected to identify minor, inexpensive repairs or other maintenance items which are clearly part of the property owner's current operating pattern and budget so long as these items appear to be taken care of on a regular basis. Examples of such minor operating items are occasional window glazing replacement and/or caulking, modest plumbing repairs, and annual boiler servicing. However, the evaluator should comment on such items in the report if they do not appear to be routinely addressed or are in need of immediate repair.

The report is expected to address infrequently occurring "big ticket" maintenance items, such as exterior painting, all deferred maintenance of any kind, and repairs or replacements which normally involve significant expense or outside contracting. While the evaluator should note any environmental hazards seen in the course of the inspection, environment-related actions, such as removal of lead-based paint, will be addressed in a separate report prepared by an environmental consultant.

Using the Systems and Conditions Forms

Purpose

The forms can be used both to record actual observations at a specific location and for an overall summary. For example, the Architectural form can be used for a specific building (or group or identical buildings) as well as for summarizing all information for buildings at a property. The same is true for the Dwelling Unit form. An unlabeled form is included which can be used as a second page for any of the Systems and Conditions Forms.

In some instances, the evaluator will note components which, while they may continue to be functional, may reduce marketability of the property. For example, single-door refrigerators or appliances in outmoded colors may have such an impact in some properties. The evaluator should note these items, discuss them with the lender, and provide separate estimates of the cost to replace such items if requested.

Each of the four forms has a number of frequently-occurring systems and components listed. This list represents only the most frequently observed and is not meant to be all

inclusive. Every system present at the property must be observed and recorded. Any system not listed on the form may be included in the spaces labeled Other.

Note that the assessment includes the systems and components in both residential and non-residential structures. Thus, garages, community buildings, management and maintenance offices, cabanas, pools, commercial space, and other non-residential buildings and areas are included.

Items (EUL)

The Expected Useful Life (EUL) figure which appears in parentheses after the Item is taken from the Expected Useful Life Table provided. This table provides standard useful lives of many components typically found in apartment complexes. Where the parentheses do not contain a number, it is because there are various types of similar components with differing economic lives.

The evaluator should turn to the Expected Useful Life Table and select, and insert, the appropriate Expected Useful Life (EUL) number. If the Expected Useful Life (EUL) will, without question, far exceed the term of the mortgage plus two years, the Expected Useful Life (EUL) number need not be inserted.

Note: It is recognized that the Expected Useful Life Tables represents only one possible judgment of the expected life of the various components. If we receive substantial material to the effect that one or more of the estimates are inappropriate, we will make adjustments. Until such changes are made, the Tables provide a useful and consistent standard for all evaluators to use. They avoid debate on what the appropriate expected life is and permit focus on the evaluator's judgment of the effective remaining life of the actual component in place, as discussed below.

Age

The evaluator should insert the actual Age of the component or may insert "OR" for original. If the actual age is unknown, an estimate is acceptable. If there is a range in Age

(for example, components replaced over time), the evaluator may note the range (i.e., 5-7 years) or may use several lines for the same system, putting a different Age of that system on each line.

Condition

This space is provided to indicate the Condition of the component, generally excellent, good, fair, or poor, or a similar and consistent qualitative evaluation.

Effective Remaining Life

This space is provided for the evaluator to indicate the remaining life of the component as is. For standard components with standard maintenance, the Expected Useful Life Table provided by the Lender could be used to determine Effective Remaining Life by deducting the Age from Expected Useful Life (EUL). However, this should not be done automatically. A component with unusually good original quality or exceptional maintenance could have a longer life.

On the other hand, if the component has been poorly maintained or was of below standard original quality, the useful life could be shorter than expected. The evaluator applies professional judgment in making a determination of the Effective Remaining Life. If the Effective Remaining Life is longer than the term of the loan plus two years, no deferred maintenance exists, and no action needs to be taken during the life of the loan, no other columns need to be filled out.

The only exception may be Diff? (Difference), as discussed below. This should be noted when the evaluator's estimate of the Effective Remaining Life varies by more than two years from the standard estimate.

Diff? (Difference)

The Age of the component should be deducted from the Expected Useful Life (EUL) in parentheses and the answer compared to the Effective Remaining Life estimated by the evaluator. Where there is a difference of over two years, the evaluator should insert a

footnote number in the DIFF? (Difference) column and supply in an attached list of footnotes a brief statement of why, in the evaluator's judgment, the Effective Remaining Life of the component varies from the standard estimate. This approach provides consistency among evaluators while making best of the evaluators' professional judgment.

Action

If any Action is required - immediately, over the life of the loan, or within two years thereafter - the Action should be recorded as repair, replace, or maintain. Repair is used when only a part of an item requires action, such as the hydraulics and/or controls of a compactor. Replace is used when the entire item is replaced. Maintain is used where special, non-routine maintenance is required, such as the sandblasting of a swimming pool. In cases where a repair or maintenance may be needed now, and replacement or further maintenance may be needed later, separate lines may be used to identify the separate actions and timing.

Now?

If the item involves a threat to the immediate health and safety of the residents, clearly affects curb appeal, will result in more serious problems if not corrected, or should otherwise be accomplished as part of an immediate repair, maintenance or replacement program, this space should be checked. Replacements which may be needed in year one, but do not require immediate attention, need not be checked.

DM (Deferred Maintenance)

The DM (Deferred Maintenance) space is marked in any instances where current management practice is clearly inadequate and the owner's attention should be called to the item, even if no major expenditure or significant labor may be required.

Quantity

For items requiring action, the evaluator should note the Quantity of the system, with the applicable unit of measure entered (each, unit, square feet, square yards, linear feet, lump sum, etc.).

Field Notes

This space, as well as attachments may be used to record the type of component (16cf, frost. free, Hotpoint), the problem (valves leaking) or other information (consider replacement for marketing purposes, replace 30% per year, work in progress, etc.) that the evaluator will need to complete the Evaluator's Summary.

Sample Form

The following example from the Dwelling Unit Systems and Conditions form illustrates how this form is properly used. The example presumes an 11 story building containing 1 and 2 bedroom units. There are 100 units. The age of the building is 9 years. The term of the proposed loan is 7 years.

Countertop/sinks are 9 years old. (The entry could also be "OR"). Condition is excellent, with an Effective Remaining Life of 10 years. This is significantly different from the anticipated Effective Remaining Life of 1 (an EUL of 10 years minus an Age of 9 years). Therefore, there is a footnote entry "1" in the Diff? column. The footnote will indicate that this item is made of an exceptionally durable material, along with a top quality stainless steel sink.

The evaluator's estimate of an Effective Remaining Life of 10 years + is beyond the term of +2. No capital need would be reported.

Refrigerators are also original, reported as Hotpoint 16 cf frost free. Replacement is expected around the Effective Remaining Life, noted as 20% annually and beginning in the 5th year of the loan when the refrigerators are 14 years old.

Disposals range from new to original (Age = 0-9). 20% per year replacements will be needed starting in year 1. The evaluator notes that disposals appear to be replaced as part of the project's normal operations.

Bath fixtures are original, and in good condition. No replacement is expected to be required during the term +2 years. The note indicates that they are "dated looking," which may prompt a market consideration for replacement.

Ceiling is a special entry. The "04" stack of units has experienced water damage to ceilings from a major plumbing leak. This is noted for repair NOW. As this apparently occurs in all 10 units in this stack, and therefore is likely to have more than a modest cost, this action would be reported on the Immediate Physical Needs summary form.

Evaluator's Summary Forms

Two separate forms are used to summarize the evaluator's conclusions from the Systems and Conditions Forms. One summarizes Immediate Physical Needs and the other summarizes the Physical Needs Over The Term +2 years.

Evaluator's Summary: Immediate Physical Needs

All of the items for which Now? are checked are transferred to this form. This form provides for the listing of Items, Quantity, Unit Cost and Total Cost of each. The Item and Quantity are transferred directly from the Systems and Conditions Form.

Unit Cost - This is the cost per unit (sf, ea, lf, etc.) in current dollars to implement the required action. The source of the cost estimate should be listed in a separate attachment. The sources may include a third-party estimation service (e.g., R.S. Means: Repair and Remodeling Cost Data), actual bid or contract prices for the property, estimates from contractors or vendors, the evaluator's own cost files, or published supplier sources.

Total Cost - This is the result of multiplying the quantity times the unit cost. It is expressed in current year dollars.

DM (Deferred Maintenance) - If the item evidences deferred maintenance, this column is checked.

Comments - the comments column, or an attachment, should clearly provide information on the location and the nature of problem being addressed for each item. The information should be adequate for the owner to begin to implement the action.

Evaluator's Summary: Physical Needs Over the Term

Those items not listed on the Immediate Physical Needs form, but for which action is anticipated during the term of the loan plus two years, are listed on the form. The item and Quantity are transferred directly from the Systems and Conditions Form. The Unit Cost is calculated in the same manner as on the Immediate Physical Needs Form.

An attachment should be provided which gives any necessary information on the location of action items and the problem being addressed for each item. The information should be adequate for the owner to begin to implement the action.

Cost by Year - the result of multiplying the quantity times the unit cost, in current dollars, is inserted in the column for the year in which the action is expected to take place. Generally, the Effective Remaining Life estimate provided by the evaluator on the Systems and Conditions will indicate the action year. For example, if the evaluator has indicated that the Effective Remaining Life of the parking lot paving is 4 years, the cost, in current dollars, is inserted in Year 4.

If the items are likely to be done over a number of years, the costs, in current dollars should be spread over the appropriate period. For example, if the Effective Remaining Life of the Refrigerators is estimated to be 4 years, or 3-5 years, one third of the cost of replacing the refrigerators may appear in each of Years 3, 4, and 5.

Total Un-inflated - After inserting all of the appropriate action items, the evaluator should total the items for each year.

Total Inflated - The evaluator should multiply the Total Un-inflated times the factor provided to produce the Total Inflated.

Total Inflated All Pages - On the last sheet, the evaluator should include the Total Inflated Dollars for that page and all prior pages.

Cumulative Total All Pages - On the last sheet, the evaluator should insert the Total Inflated Dollars of that year and all prior years.

Special Repair and Replacement Requirements

While performing a property inspection, the evaluator must be aware that certain building materials and construction practices may cause properties to experience (or to develop in a short time period) problems that can be corrected only with major repairs or replacements.

The following identifies some specific construction related problems; however, the evaluator must be aware that other construction related problems may be found in any property and should be identified. If any of the following requirements are not met or if the evaluator determines that the following conditions (or others) are present, the evaluator must contact the lender immediately to discuss the timing as well as the cost of the repairs or replacements. The evaluator should ensure that any of these conditions are thoroughly addressed in the Physical Needs Assessment.

Minimum Electrical Capacity - Each apartment unit must have sufficient electrical capacity (amperage) to handle the number of electrical circuits and their use within an apartment. Therefore, the evaluator must determine, based on referencing the National Electric Code as well as local building codes, what is the minimum electrical service

needed. In any event, that service must not be less than **100 amperes** (This specific requirement is a DCA amendment to this section of the Fannie Mae Guidelines).

Electrical Circuit Overload Protection - All apartment unit circuits, as well as electrical circuits elsewhere in an apartment complex, must have circuit breakers as opposed to fuses as circuit overload protection.

Aluminum Wiring - In all cases, where aluminum wiring runs from the panel to the outlets of a unit, the evaluator's inspection should ascertain that the aluminum wiring connections (outlets, switches, appliances, etc.) are made to receptacles rated to accept aluminum wiring or that corrective repair can be done immediately by the owner.

Fire Retardant Treated Plywood - While performing the roof inspection, the evaluator should investigate whether there is any indication that fire-retardant treated plywood was used in the construction of the roof (primarily roof sheathing). This inspection should focus on sections of the roof that are subjected to the greatest amount of heat (e.g., areas that are not shaded or that are poorly ventilated) and, if possible, to inspect the attic for signs of deteriorating fire-retardant treated plywood or plywood that is stamped with a fire rating.

Our concern is that certain types of fire-retardant treated plywood rapidly deteriorate when exposed to excessive heat and humidity or may cause nails or other metal fasteners to corrode. Common signs of this condition include a darkening of the wood and the presence of a powder-like substance, warping of the roof and the curling of the shingles. Fire-retardant treated plywood is most likely to be in townhouse properties or other properties with pitched, shingled roofs that were constructed after 1981 and that are located in states east of the Mississippi River and some southwestern states.