

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 AND DESCRIPTION OF PROPERTY SYSTEM/COMPONENT	
PCR 1: No concerns observed. No further action required.	
Summary	Excellent condition; typically newer property or property with recent major rehab/significant investment
Life Safety	No Life Safety issues observed
Deferred Maintenance	No observed or reported Deferred Maintenance issues
Routine Maintenance	Superior Routine Maintenance practices that are extending the RUL of systems and components
Capital Needs	Capital needs are addressed; major components and systems are like new, in excellent condition and high probability they will significantly exceed the loan term

RUL	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.
PCR 2: Some minor issues noted. Limited follow-up required.	
Summary	Very Good/Good condition with isolated and relatively minor issues that are unlikely to negatively impact operations and can be addressed in-house
Life Safety	No/minor Life Safety issues observed
Deferred Maintenance	Isolated or minor Deferred Maintenance can be addressed in-house and/or at limited expense
Routine Maintenance	Proactive Routine Maintenance practices ensuring good overall system performance and functionality
Capital Needs	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
RUL	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.
PCR 3: Overall declining condition or isolated deterioration. Documented follow-up required.	
Summary	Average to Fair condition; requiring investment
Life Safety	Some Life Safety issues observed requiring immediate attention; but no capital expenditure
Deferred Maintenance	Deferred Maintenance of heightened concern; likely not addressed in-house
Routine Maintenance	Some reactive Routine Maintenance practices impacting a limited number of components requiring attention
Capital Needs	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
RUL	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.
PCR 4: Substantial issues noted. Documented follow-up with possible action plan required.	
Summary	Deteriorated overall conditions, substandard materials and practices, or major issues have not been addressed since prior inspection; requiring significant investment
Life Safety	Life Safety issues observed that require immediate attention and possible capital expenditure
Deferred Maintenance	Substantial Deferred Maintenance affecting major/several property areas/systems, requiring significant investment

Routine Maintenance	Reactive Routine Maintenance practices that do not address concerns in a timely manner
Capital Needs	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
RUL	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.
PCR 5: Severe Deferred Maintenance observed. Follow-up and substantial action plan required.	
Summary	Unacceptable overall conditions. Widespread neglect or casualty event; condition materially impacts marketability. Functionality of systems and components is compromised.
Life Safety	Significant Life Safety issues requiring capital expenditure
Deferred Maintenance	Excessive Deferred Maintenance affecting multiple areas/property systems, requiring significant investment; impacting collateral value
Routine Maintenance	Inadequate Routine Maintenance practices that do not ensure reasonable functionality of the property systems and components and may impact collateral value
Capital Needs	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
RUL	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.