

# Cardinal Group

COMPANIES



## **DUE DILIGENCE**

CLIENT  
SAMPLE COMMUNITY  
CITY, ST

**Date:**

**To:** Client

**From:** Cardinal Group Consulting

**Re:** Due Diligence - Sample Community | City, ST

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Based on the information we received from the Seller regarding the recapitalization of Sample Community, we have prepared the following memo in accordance with the executed Consulting Agreement. For the purposes of this memo, Sample Community is referred to as the “Community” or “Subject” herein.

This memo is structured as follows:

- I. [Executive Summary](#)
- II. [Financial Review](#)
- III. [Maintenance & Work Order Review](#)
- IV. [Service Contract Review](#)
- V. [Historical Utility Review](#)
- VI. [Lease File Audit - Current Rent Roll](#)
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## EXECUTIVE SUMMARY

The following is a summary of Cardinal Group Consulting’s findings for Due Diligence responsibilities pertaining to Sample Community (“Community”).

- **Financial Review**

- The trailing 12-month financials from April 2023 are as follows:

■ Rent Revenue:	\$7,985,317	(\$9,774/bed)
■ Gain to Lease:	\$12,040	(\$15/bed)
■ Vacancy:	(\$11,890)	(\$15/bed)
■ <b><u>Gross Potential Rent:</u></b>	<b><u>\$7,985,468</u></b>	<b><u>(\$9,774/bed)</u></b>
■ Model Units & Concessions:	(\$1,460,270)	(\$1,787/bed)
■ Other Income:	\$928,061	(\$1,136/bed)
■ <b><u>Total Revenue:</u></b>	<b><u>\$7,453,259</u></b>	<b><u>(\$9,123/bed)</u></b>
■ <b><u>Total Operating Expenses:</u></b>	<b><u>(\$2,512,766)</u></b>	<b><u>(\$3,079/bed)</u></b>
■ <b><u>Net Operating Income:</u></b>	<b><u>\$4,940,494</u></b>	<b><u>(\$6,047/bed)</u></b>

- **Maintenance & Work Orders**

- There were about 2,309 service requests completed between August 1, 2023 and April 30, 2024, ~2.8 work orders per bed. The Community took an average of 8 days to complete work orders. Given the long completion time, hiring an additional full-time team member could significantly improve response and resolution times for resident needs.
- The majority of these maintenance requests were related to Doors/Locks/Keys (11.4%), Refrigerators (9.5%), and A/C (8.6%). Additional categories of note are Water Heater (7.9%), Plumbing (5.9%), and Toilet (5.2%). There were also a few work orders related to Leaks.
- There have been a significant number of Cooling-related work orders due to the long calibration time for the VRF units and the difficulty in sourcing an HVAC technician trained on VRF units. We recommend prioritizing A/C repairs to minimize resident discomfort and potential mold growth in these warm, humid environments. Related to Cooling, several work orders were found related to Leaks, specifically leaks around the Sinks, Dishwasher, Walls/Ceilings, and Shower/Tubs. If these Leaks are not properly resolved, it is possible that warm and humid environments could lead to the presence of mold.
- There have been a significant amount of issues related to Sinks, Toilets, and Tub/Showers not draining properly. The section of horizontal plumbing pipe in the garage that has an inadequate slope for proper drainage of the sewage line may be the cause of these numerous plumbing issues. However, the stack of units that may be affected by this plumbing pipe only accounted for 6% of the plumbing-related

work orders. We recommend monitoring plumbing-related issues once the plumbing pipe is fixed to ensure there aren't other underlying issues with the plumbing system. The Community is still determining the best time to fix this pipe with minimal resident disruption.

- **Service Contracts**

- We have received and reviewed 13 service contracts. The Community appears to be in a good position regarding its contracts and service quality. The total monthly expense load for the contracts received amounts to \$22,381 per month or \$329 per bed.
- Pest Control was the only contract received that was not executed by the Vendor. The vendor may not be required to sign the contract.
- Service costs for Security Service, Cleaning, Phone, Postal Solutions, Printing, Package Lockers, and Waste Management do not align with the expenses in the Financial Statements due to extra services, past management issues, and invoices not hitting the Financial Statements yet.
- To ensure ongoing compliance with elevator safety regulations once the warranty expires in March 2025, we recommend obtaining a contract for any potential Elevator repairs, maintenance, and inspection moving forward. To ensure the Community is not overdue on annual fire suppression and sprinkler testing, we recommend obtaining a contact for annual sprinkler inspections.

- **Utility Assessment Priority Notes**

- Conservice was engaged to perform an analysis of historical utility bills for recommendations on potential cost savings and ancillary revenue generators. In general, Conservice recommends continuing the submetered Partial Allocation billing program for water, sewer, and electricity.
  - Conservice recommends implementing a Ratio Utility Billing (RUBS) per unit billing program in which students are billed for drainage via a flat fee per unit per month. Implementing a billing program for drainage will result in billing students 95% of total drainage expenses that the Community currently isn't recovering.
  - Instead of the \$5 monthly Trash fee, Conservice recommends implementing a RUBS per unit billing program for trash expenses. Implementing a billing program for trash will result in recovering 95% of the total trash expense, compared to the current recovery of 39% of total trash expenses.
- The City projects rate increases for water, sewer, and electricity in 2024 and 2025. Meanwhile, State Gas Services projects rate decreases for gas in 2024 and rate increases in 2025.
- The City and State Gas Service require utility deposits when taking over utility accounts. Conservice projects a potential deposit of \$102,000 for the City and a potential deposit of \$300 for State Gas Service.

- **Community Priority Notes**

- The Community requires residents to obtain a Personal Liability Insurance Program. The Community auto-enrolls all residents into the Community's Insurance Program until the resident provides their proof of active policy.
- The Community offers a Guarantor Waiver Fee program through Leap, allowing residents to pay a monthly fee in lieu of providing a qualifying guarantor or two months of rent.
- The Community requires all residents to pay a standard \$100 Security Deposit.

- **Lease File Audit Priority Notes**

- We were unable to locate any executed Parking addendums in the leases or the residents' accounts. Parking charges are only listed on the Summary of Charges addendum. We recommend that residents execute a full Parking addendum that states the monthly Parking fee and ensures residents are held accountable to the Parking rules and standards.
- All part-time leasing interns receive a 20% housing discount if they work a minimum of 18 hours/week. We were unable to locate employee letters in their resident accounts or confirm the monthly discount on the Rent Roll.
- The audit identified a discrepancy in Premium charges between the Pre-Lease Rent Roll and the Summary of Charges. This difference stems from a change for the 2024-2025 leases, where premium charges are itemized separately. In contrast, Premiums were included within the base rent for the 2023-2024 leases.
  - As a result, some premium charges listed on the Pre-Lease Rent Roll are missing from the corresponding Summary of Charges, and vice versa. This inconsistency can lead to confusion and potential billing errors. To ensure accurate billing practices and transparency for residents, we recommend that all charges on the Rent Roll have corresponding entries on the Summary of Charges.
- Several residents executed Rent Plus addendums; however, applicable Rent Plus charges were not found on the Rent Roll.

- **Current Lease File Audit Summary**

- Of the 817 total bed spaces identified in the April 18, 2024 rent roll, 807 are currently rentable due to 10 vacant spaces. Two of the rentable bed spaces are reserved for the two-bedroom model unit. 803 of the 807 rentable bed spaces were audited as three residents and one model bed space lease was missing.
- 32 residents (4% of total rentable bed spaces) have no valid qualification method on file. We recommend that all residents have appropriate proof of income documentation, screening results, and executed Guarantor Waiver Program as these residents could skip on leases with no financial penalty.
- **Base Rent:** The current lease audit produced a negative variance of (\$477) compared to the Rent Roll. This variance is made up of missing leases, missing rent from the Rent Roll, and rent variances ranging from \$5 - \$110.

- **Deposits:** The current lease file audit found a negative Deposit variance of (\$26,579) compared to the Rent Roll. The majority of this variance is a result of the lease outlining the \$100 Security Deposit when in fact a deposit of two months' rent was held.
- **Other Income:** The current lease file audit produced a positive variance of \$4,247 to the Other Income listed in the Rent Roll.
  - The biggest variance found in Other Income was related to Parking. The audit found a positive Parking variance of \$4,800 compared to the Rent Roll. No executed Parking addendums were found but the Parking charges were noted on the Summary of Charges.
  - We found a resident with a date entry error as the resident has a \$1,169 Pet Rent charge instead of a Rent charge.
  - Although 16 residents do not have a Guarantor Waiver Fee variance compared to the Rent Roll, they should. These 16 residents qualified with the Guarantor Waiver Program/Leap Guaranty; however, an executed Guarantor Waiver Fee addendum, Summary of Charges with the respective fee, or applicable charge on the Rent Roll was not found.
  - The Rent Roll lists about 582 residents enrolled in the Community insurance program, which aligns with the average monthly income on the Financial Statement. The audit found 629 residents who should be enrolled in the Community Insurance program.
- **Future Lease File Audit Summary**
  - Of the 652 total bed spaces identified in the April 18, 2024 Pre-Lease Rent Roll, 631 residents have been approved. 601 of 603 bed spaces were audited.
    - 21 leases were not audited as these residents are current residents who have partially completed 2024 - 2025 leases or prospects who are still in the process of signing a lease.
    - 30 residents were not audited as the 2024 - 2025 leases were missing. It appears that the resident does not have any documents in their account.
  - 24 leases (4% of audited leases) are missing the Landlord Signatures. As a lease is not legally binding until all parties sign it, this should be rectified as soon as possible.
  - 47 residents (7% of total bed spaces leased) have no valid qualification method on file. We recommend that all residents are qualified with appropriate proof of income documentation, screening results, and executed Guarantor Waiver Program as these residents could skip on leases with no financial penalty.
  - In general, future resident accounts missing signed Resident Screening Rights, Resident Screening Results, executed Guaranty forms, and Property Damage Liability Addendums.
  - **Base Rent:** The current lease audit produced a negative variance of (\$13,185) compared to the Rent Roll. This variance is made up of missing leases, missing rent from the Rent Roll, and rent variances ranging from \$4 - \$140.

- There was a data entry error that resulted in a \$15,948 Rent charge for one resident on the lease. It states 12 installments of \$15,948 for a total term of \$1,329, rather than 12 installments of \$1,329 for a total term amount of \$15,948.
- **Deposits:** The current lease file audit found a negative Deposit variance of (\$11,160) compared to the Resident Deposit Summary. This variance consists of missing leases, no Deposit held, and the lease outlining the \$100 Security Deposit when in fact a deposit of two months' rent was held.
- **Other Income:** The current lease file audit produced a negative variance of (\$27,672) to the Other Income listed in the Rent Roll.
  - The biggest variance found in Other Income was related to Parking. The audit found a negative Parking variance of (\$15,075) compared to the Rent Roll. Minimal executed Parking addendums were found. The majority of Parking charges were noted on the Summary of Charges. 53 residents were missing the Parking Charges on the lease, Summary of Charges, or Parking addendum.
  - The Pre-Lease Rent Roll lists monthly fees for Parking - Garage, Premium - Balcony, Premium - View, Premium - Other, and Utility - Trash. However, applicable charges are not found on the Summary of Charges driving a total negative variance of (\$12,580).
  - The audit found monthly fees for Unit Premiums and Rent Plus. However, applicable charges are not found on the Pre-Lease Rent Roll, accounting for a total positive variance of \$1,671
- **Community Inspection Summary:**
  - Cardinal employed the services of third-party vendor to perform unit inspections on 100% of units at Sample Community along with a property condition assessment (PCA) from May 9, 2024 - May 10, 2024. All recommended repairs, replacements, and estimated costs throughout the Community Inspection Summary are from third-party vendor, and as such, they should be considered as a rough approximation rather than an exact figure. All costs are subject to change based on various factors.
  - Unit inspections revealed the Community to be in fair to good condition considering its vintage. Common repair areas include walls, ceilings, windows, and showers/tubs. The estimated total cost for all unit interior repairs and replacements is \$10,975.
    - Common wall issues included minor paint scuffs and damages, water stains, and visible drywall cracks. The minor paint scuffs can easily be repaired during Turn. Meanwhile, the water stains and visible drywall crack should be addressed immediately to prevent any further damage.
    - Ceiling issues included visible water damage, holes and openings, exposed junction boxes, and cosmetic issues. All ceilings with water damage, exposed electrical hazards, and gaps near support beams should be addressed to prevent further damage and ensure the safety of the residents.

- The unit inspections identified problems with grout and caulking in showers and bathtubs, potentially leading to water damage and mold growth.
- The unit inspections identified several window issues that require attention to prevent water damage, improve energy efficiency, and ensure occupant safety. These issues include faulty latches, broken glass, water damage, missing caulking and seal issues, and a cracked window frame.
- Most of the Capital Expenses (CapEx) items reported herein are systems and assemblies that need to be replaced to maintain the Community and ensure its compliance with safety and health regulations. CapEx repairs areas include the roof, pool, windows, exterior walls, and plumbing. CapEx repairs and replacements are estimated to cost \$506,514.
  - Unit CapEx items consist of removing all existing sand-based mortar caulk around the bathtubs and replacing it with silicone caulk to create a long-lasting and waterproof seal, preventing water damage and mold growth. An estimated cost of \$66,700,
  - Several critical fire safety, electrical safety, and other health and safety issues were identified during the inspection of Sample Community, with a total estimated cost of \$92,010. These issues require immediate attention to ensure the safety of residents.
    - Fire safety-related items included an overdue fire suppression system test, loose fire door magnetic holders, and missing fire caulking.
    - Electrical safety-related items include open junction boxes exposing electrical wiring.
    - Other health and safety issues included damaged exit lights, trash chute door issues, and damaged pool enclosure doors with improper handles.
  - Plumbing and Building Envelope-related repairs and replacements accounted for 59% of total CapEx repairs and replacements.
    - Of the \$116,250 CapEx repairs and replacements allocated to Plumbing, 93% were reserved for Domestic Hot Water Systems (DHW). Hot water tanks appear to be missing dielectric fittings which can cause galvanic corrosion, leaks, poor water quality, decreased efficiency, and reduce the lifespan of the hot water tank.
    - Of the \$181,299 CapEx repairs and replacements allocated to Building Envelope, 59% were reserved for Exterior Walls. Inspections found improper expansion joints that need to be corrected, the entire brick exterior surface that needs to be waterproofed, and all missing mortar and unsealed penetrations that need to be repaired and sealed properly.
  - As previously mentioned, faulty latches on windows were common issues in Unit Inspections. Third-party vendor observed over 200 windows having latching issues, thus preventing the window from fully closing. Less than 200 windows may have faulty latches as some of these may need a bit of force



when closing the window to get them to latch. However, all windows with faulty latches will be submitted for a warranty claim. Without the warranty, the estimated cost is ~\$100/window repairs, a total cost of ~\$20,000. However, some windows may need to be replaced, which would increase the cost substantially.

- Inspections also found deteriorating outdoor piping insulation on the condensing unit. The ideal solution would be to replace the current insulation with black foam. However, another recommended solution is to apply two coats of white paintable insulation coating on all insulating piping.
- **Environmental Site Assessment:**
  - Cardinal employed the services of Third-party Vendor to perform a Phase 1 Environmental Site Assessment (ESA) of Sample Community. Third-party Vendor did not identify any recognized environmental conditions (RECs), Controlled RECs, or any significant data gaps in connection with Sample Community. No additional environmental investigation is recommended at this time.

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## FINANCIAL REVIEW

The Financial Statement received covered a 12-month period from April 2023 - March 2024. It is important to note that the Community was not operational until August 2023, resulting in minimal expenses during the first quarter (April - July 2023). Therefore, to provide a more accurate comparison, we will reference both the full 12-month totals and the 8-month totals for expense categories.

**Rental Income** | The trailing 8-month period from August 2023 revealed the following summary:

The Community's Gross Potential Rent was ~\$6,525,198 (\$7,987/bed). Rent revenue was ~\$7,985,317 (\$9,774/bed), Gain to Lease was ~\$12,040 (\$15/bed), and Vacancy was ~\$11,890 (\$15/bed). The Community used 1 Model Unit, which totalled \$4,456 (\$5/bed). The Community offered concessions, totaling \$1,458,814 (\$1,782/bed). Other Income, including Residential Fees, Parking, and Bad Debt, totaled ~\$928,061 (\$1,136/bed), resulting in Total Revenue of ~\$7,453,259 (\$9,123/bed).

Total Operating Expenses were ~\$2,512,766 (\$3,076/bed), equating to a Net Operating Income of ~\$4,940,494 (\$6,047/bed).

**Concessions** | The Community utilized approximately \$1,460,270 in Rent Concessions from August 2023 through March 2024, averaging \$1,787/bed. While the \$4,456 applied to model bed spaces aligns with lease audit findings, there are some discrepancies requiring investigation. The Concession log reflects a total one-time concession of \$40,600. Additionally, the audit identified 164 residents receiving Tangible Concessions in the form of 55-inch TVs. We have initiated inquiries to determine the source of the unaccounted concessions and ensure complete documentation for all concessions granted.

**Other Income** | The Community generates \$927,061 in Other Income. Other Income includes Residential Fees, Commercial, Parking, and Other Revenue.

Residential Fees include Parking Fees and Pet Fees, as well as Resident Services, which includes Guarantor Waiver Fees, Master Policy Premiums, and Utility Billbacks.

- The Community offers standard and tandem parking spaces ranging from \$100/mo - \$475/mo.
- Residents with pets are required to pay a non-refundable fee of \$250 and \$35/mo pet rent.
- Residents are responsible for electricity, water, sewer, and trash. Electricity, water, and sewer are billed back to residents, while residents pay a \$5 flat fee for trash.
- Residents who qualified with the Guarantor Waiver Program/Leap Guaranty are responsible for paying a monthly fee of \$46 or \$48.
- The Community requires personal liability insurance and will auto-enroll residents into the Community's program where residents pay a monthly fee of \$12.95.

Additionally, the Community generates 7% of its total Other Income through Cancel/Termination Fees. The majority of the re-let fees occurred during the winter holidays.

12% of total Other Income is attributed to Misc. Other Revenue. The Community has provided insight that the previous management had reclassified Prepaid Rent under this line item. The Community confirmed they would see the respective credit being applied in July 2024 and would not have Prepaid Rent classed under Other Revenue moving forward.

**Operating Expenses** | The Community's total operating expenses for the 12 months were ~\$2,512,766 (\$3,076/bed); excluding taxes and insurance (\$1,288/bed), operating expenses were \$1,787/bed. Taxes (31% of total expenses), payroll (17%), and utilities (14%) were the largest expense categories.

**General & Administrative (G&A)** | The total General & Administrative expenses at the Community for the 8 and 12 months was \$130/bed. From April 2023 to July 2023, the Community spent a total of \$71. The Community's G&A spending was ~5% lower than the Cardinal Group Management (CGM) portfolio average of similar vintage communities for the eight months (\$136/bed).

The largest G&A expenses were for Resident Insurance Premiums (34%), Office Contracts (15%), and Deposit Waiver Expenses (13%). Resident Insurance Premiums and Deposit Waiver Expenses will be recovered in their respective line items in Other Income. Meanwhile, the Office Contracts line item has a few discrepancies compared to its associated contract. Office Contracts total \$16,216.88, averaging \$1,257/mo with a concerning spike in November 2023 of \$9,768. Notably, the Print with Me Contract, which supposedly comprises Office Contracts, only costs the Community an average of \$568/mo. The Community has confirmed that Postal Solutions is coded under Office Contracts, about \$1,658/month. As the Community transitioned to Cardinal in March, the additional spending in November was a result of the Community reporting financial activity from project delivery to date, accruing for past expenses.

Our review of the Financial Statement did not identify an AP & Utility Management expense line item. This line item typically captures the administrative cost associated with Conservice utility bill-backs, which the associated utility admin revenue generated would offset. Since the Community currently bills residents for electricity, water, and sewer, there should be a respective expense line item associated with Conservice billing residents back. The Community indicated that this line item was bulk recorded to the AP & Utility Management in April 2024, just after the cutoff for the financial statement received.

**Payroll & Benefits** | The total Payroll expense at the Community is \$510/bed from August 2023 to March 2024, ~9% lower than the CGM portfolio average of similar vintage communities for the 12 months (\$561/bed), but 24% higher when compared to the comparable 8 months (\$410/bed).

The Community comprises 3 full-time (FT) and 6 part-time (PT) team members. Full-time team members include a Community Manager (CM), a Maintenance Team Lead, and a Maintenance Team Member. Part-time team members include 6 Leasing Interns. The CM is salaried; all other team members are compensated by the hour. The provided payroll breakdown indicates an annual expense of \$274,406, excluding potential bonuses, housing discounts, taxes, etc.

To improve work order completion times, currently averaging eight days, we recommend hiring an additional full-time Maintenance Team Member. This will directly address resident needs and enhance their overall experience. Additionally, we recommend hiring another FT office team member, a Leasing and Marketing Team Lead, to streamline all leasing and marketing efforts. With a

FT Leasing and Marketing Team Lead, we recommend replacing four part-time Leasing Interns with one Customer Service Specialist (CSS). The CSS will utilize AI lead management and collection resources to help future-proof the Community while optimizing payroll costs. Implementing Cardinal Centralized Leasing (CX3) services allows the Community to provide on-site team members with additional time and bandwidth to interact with residents and spend time around the Community and market.

Replacing four part-time Leasing Interns with one CSS produces a potential annual saving of \$9,962 (\$12/bed), excluding payroll taxes, housing discounts, or additional payroll burdens. Replacing three interns would be at an additional expense of \$3,558 (\$4/bed), but this excludes payroll taxes, housing discounts, or additional payroll burdens. It's important to note the additional costs beyond salary, such as housing discounts. All Leasing Interns receive a 20% housing discount which jumps to 30% after 12 months, which could average from \$250/mo - \$400/mo per Leasing Intern.

While current Payroll expenses exceed those of comparable CGM communities, additional increases are anticipated as team bonuses are distributed, overtime is implemented during Turn, and 401k Contributions and Health Benefits are implemented for the full-time team members. The provided Financial Statement does not have expenses for these line items. However, the Community can expect to reduce costs under the "Team/Cell/Mileage Reimbursement" line item. Since the previous management company recorded all travel expenses in this line item, likely, future travel expenses and team reimbursements would not exceed \$30,000 annually.

**Service Contracts** | The Service Contract expense from August 2023 to March 2024 was \$281/bed. This expense is drastically higher (65%) compared to the CGM portfolio average of similar vintage communities from August 2023 - March 2024 (\$171/bed). When compared to CGM's full portfolio from that same period, the Community is only 12% higher than the average (\$251/bed). This total also does not include the Print With Me, AT&T, or Package Locker contracts. The Print with Me and AT&T contracts are listed under General & Administrative Expenses.

Several service costs appear to deviate from their corresponding contracts, including Cleaning, Postal Solutions, AT&T, Print with Me, and Waste Management. For Cleaning services, the Community elected Option 1 services for \$3,377.40/month, excluding taxes. Aside from January and March, the Financial Statement cleaning expenses do not match the monthly contracted amount as the Community had additional cleaning services provided to prepare for property tours. Meanwhile, Postal Solutions, AT&T, and Print with Me, all general office contracts, were split between G&A Office Contracts and R&M Contract Services. The Community has confirmed that all three have been re-classed under Office Contracts. Waste Management's expenses reveal a significant discrepancy. The average monthly cost of \$9,200 significantly exceeds the contracted amount of \$2,700. The Community assures that it has been rectified moving forward. This would drastically reduce the total expense of the Waste Management contract by almost \$6,500/mo (\$8/bed/mo).

Security Services account for 50% of total Service Contract expenses. This is largely driven by two large expenses, \$78k in November 2023 and \$11k in January 2024, which make up 78% of the total Security Service expense. The general monthly expense for 40 hours a week is about \$5,120/month. The Community identified the \$78k in November was a result of paying open invoices from move-in and the Community paying for security services 24 hours a day for 7 days a week while the sensor for the parking garage was back-ordered. For \$32/hour for the whole month 7 days a week, the total is \$21,504. With the sensor on backorder, security hours for 7 days a week from August to

November explain the high expense of \$78k. Additionally, the \$11k in January was a result of increased security services when the parking garage was broken. If these one-time charges are excluded, total service contract costs would significantly decrease to ~\$185/bed, only 8% higher than the CGM portfolio average of similar vintage communities, a substantial difference from the original 65%.

The Community has a one-time expense of \$11,688 listed under the Landscaping Contract line item. As the Community confirmed this was an accounting classification error, we recommend recategorizing this expense to a more appropriate category, R&M - Landscaping as the Community confirmed that this expense was used to purchase additional plants to spruce up the property.

There is no in-place Elevator contract as the Elevators are still under warranty until March 2025. To ensure ongoing compliance with elevator safety regulations once the warranty expires, we recommend obtaining a contract for Elevator repairs, maintenance, and inspection moving forward. As the Community is overdue for annual sprinkler testing, we recommend the Community obtain an active sprinkler inspection contract to ensure the Community is in compliance with safety regulations and completes annual testing for the fire suppression and sprinkler system.

**Repairs & Maintenance (R&M) |** The Repairs & Maintenance expense from August 2023 - March 2024 was \$61/bed, 24% higher than the CGM portfolio average of similar vintage communities for that same period (\$49/bed). The largest R&M expenses were for Plumbing and Contracts; accounting for 64% of all R&M expenses.

A significant portion (82%) of Plumbing expenses occurred in December 2023 due to a section of horizontal plumbing pipe in the garage. This section lacks an adequate slope for proper drainage of the sewage line. The team is currently determining the best time to adjust the slope issue for the affected stacked units and minimize disruption to residents caused by the water shutoff. Resolving these slope issues should help lower the overall Plumbing expense moving forward and reduce related work orders, further discussed in the Maintenance & Work Order Review section. Many work orders involved poorly draining plumbing fixtures, including sinks, showers/tubs, and dishwashers.

R&M - Contract Services account for 28% of all R&M expenses. The Community listed Print With Me, US Postal Solutions, and EZ Turn under R&M - Contract Services, while Print With Me also appears under G&A - Office Contracts. The Community has confirmed that US Postal Solutions will be categorized under Office Contracts moving forward along with Print with Me. EZ Turn will be reclassified to Turnover.

Consistent with our recommendations for Service Contracts, future landscaping equipment and material expenses should be categorized under R&M as they represent one-time costs, not ongoing contractual obligations.

**Turnover |** As the Community recently opened in August 2023, Turnover expenses have not been incurred yet. That said, the Community should expect Turnover expenses moving forward ranging from \$130/bed to \$315/bed, CGM's portfolio average of similar vintage communities to CGM's full portfolio.

**Leasing & Marketing (L&M) |** The Leasing & Marketing expense from August 2023 to March 2024 was \$125/bed, drastically lower than the CGM portfolio average of similar vintage communities from

the same period (\$236/bed). When compared to CGM's full portfolio average from that same period, the average is much more aligned at \$157/bed. To compete with established student communities, most communities during lease-up will increase their L&M spending to effectively reach potential residents through targeted advertising campaigns.

Advertisements and Resident Life experiences made up the majority of total L&M expenses. Advertisements account for a significant portion (43%) of the total expenses (\$44,055). The provided contracts with GRO Marketing only account for \$34,050, leaving an unexplained difference of \$10,005. This difference was due to GRO Marketing allowing the Community to increase and decrease their advertising spend from their contracted amount based on the metrics so the Community can customize their spending to where services are needed most. Secondly, 30% of total Leasing & Marketing expenses were allocated to Resident Life experiences from September through March 2024, averaging ~\$4,420/mo. Due to the delayed move-in, the Community hosted a few events each month to improve the brand image. Some of the events included yoga, free coffee days at Daydreamer, and free food events.

The Community's current per-bed expense may be lower than the CGM portfolio average as it excludes typical expenses such as Marketing Services, Housing Fair, or Model/Leasing Experience. Marketing Service expenses are likely combined with Advertisement. Although the University hosts an off-campus housing fair, the Community does not plan to attend the housing fair as they have not found it beneficial. The Community has a model unit but does not stock the WOW fridge as they promote their in-house coffee shop if prospects are interested. While these are usually not major expenses, their inclusion would increase the total Leasing & Marketing spend.

**Utilities** | The total utilities expense from August 2023 - March 2024 was \$442/bed, as utilities are only operating once the Community opened. This expense was substantially lower (~23%) than the CGM's average for similar vintage communities (\$573/bed) for the whole 12 months. However, when compared to the 8 months, the Community's expense was only 4% lower than CGM's portfolio, which seems appropriate.

The community currently bills residents for electricity, water, and sewer. From January through March 2024, the expenses recovered for these utilities were 45% (water and sewer) and 100% (electricity).

From October through March 2024, a \$5 monthly trash fee currently recovers 44% of waste management expenses. However, this recovery is likely to be higher moving forward as the large expense issue with the previous management company has been rectified. Future expenses are anticipated to align with the contract amount of \$2,700/mo, significantly lower than the current average of \$9,200/mo.

## MAINTENANCE & WORK ORDER REVIEW

The Maintenance & Work Order Review below contains initial findings. These findings will be updated as additional information becomes available.

WORK ORDER SUMMARY 08/01/2023 - 04/30/2024							
Work Order Type	# of WO	WO / Bed	CGM Avg.*	Variance to CGM Avg.	Days to Complete	CGM Avg.*	Variance to CGM
A/C	198	0.24	0.05	358%	7.5	4.0	89%
Air Filter	17	0.02	0.02	-10%	2.5	2.2	13%
Appliances	105	0.13	0.03	359%	11.3	2.3	402%
Cabinets/Drawers/Counters	77	0.09	0.02	498%	9.6	4.0	140%
Cable/Internet	18	0.02	N/A	-	9.6	N/A	-
Dishwasher	119	0.15	0.08	87%	10.2	3.1	226%
Disposal	73	0.09	0.05	93%	4.4	1.5	185%
Doors/Locks/Keys	263	0.32	0.08	321%	6.4	1.9	229%
Electrical	47	0.06	0.04	52%	9.2	3.9	136%
Fan and Vents	26	0.03	0.02	66%	9.8	4.2	136%
Flooring	13	0.02	0.01	39%	10.1	3.6	183%
Furniture	11	0.01	0.00	345%	8.0	1.5	433%
Heating	3	0.00	0.03	-87%	3.3	2.2	50%
Leak	101	0.12	N/A	-	9.3	n/a	-
Lighting	49	0.06	0.08	-26%	9.2	3.1	194%
Misc	32	0.04	0.10	-59%	6.8	3.4	102%
Paint	34	0.04	0.02	122%	6.9	3.3	106%
Pests	12	0.01	N/A	-	8.8	N/A	-
Plumbing	136	0.17	0.04	371%	2.8	1.6	73%
Refrigerator	219	0.27	0.06	336%	9.6	3.3	189%
Shower/Tub	123	0.15	0.10	45%	9.1	3.4	172%
Sink	28	0.03	0.08	-55%	5.1	1.9	172%
Smoke/CO Detector	45	0.06	0.05	10%	2.4	1.5	61%
Toilet	121	0.15	0.10	45%	7.4	1.4	411%
Walls/Ceilings	84	0.10	0.04	159%	8.6	4.0	113%
Washer/Dryer	86	0.11	0.13	-16%	10.9	3.5	215%
Water Heater	183	0.22	0.04	430%	5.7	2.4	135%
Windows/Blinds	86	0.11	0.02	554%	11.6	4.1	184%
Totals / Averages	2,309	2.82	1.27	122%	7.7	2.9	170%

\* Portfolio averages are estimated based on comparable work order categories completed for student beds in the same time period

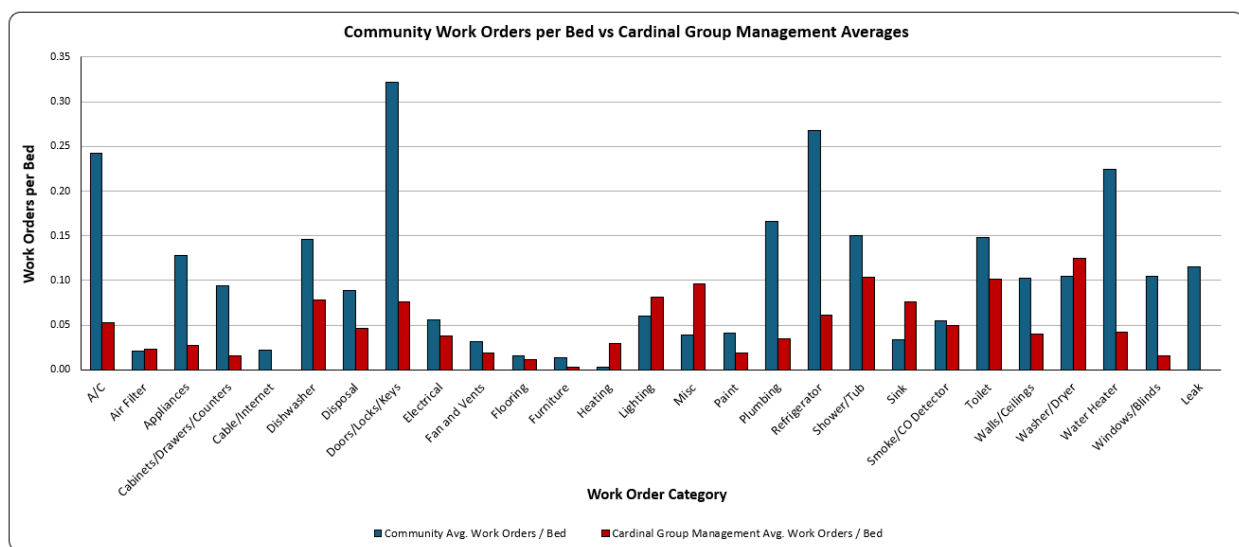
According to the Work Order logs we received, there were about 2,309 service requests completed between August 1, 2023 and April 30, 2024. We have excluded work orders that are open, on hold - awaiting parts, still in progress, and work orders that took more than 30 days to complete due to a lack of replacement parts or prolonged repairs.

As the table above and the charts below illustrate, the majority of these maintenance requests were related to Doors/Locks/Keys (11.4%), Refrigerators (9.5%), and A/C (8.6%). Additional categories of note are Water Heater (7.9%), Plumbing (5.9%), and Toilet (5.2%). There were also a few work orders related to Leaks.

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The Community experienced approximately 2.8 work orders/bed from August 2023 - April 2024. This is compared to the Cardinal Group Management (CGM) portfolio average, for similar vintage communities, of ~1.3 work orders/bed for that same period. The high work order volume per bed at the Community is concerning. While a certain number of work orders is expected, the volume and the specific types of issues raise concerns for a relatively new building that opened in August. Typically, these types of work order frequency and common issues are more prevalent in communities over 10 years old.

The Community's average work order completion time is 7.7 days, compared to the CGM portfolio average of 2.9 days. The current staffing of two full-time maintenance team members for 817 beds suggests a potential challenge in meeting work order completion timeframes. As previously recommended, hiring an additional full-time team member could significantly improve response and resolution times for resident needs.



The chart above compares the number of work orders per bed basis at the Community to the CGM student portfolio of similar vintage communities. During the period from August 1, 2023 to April 30, 2024, there were approximately 4,461 work orders logged across more than ~16,000 student beds.

**Doors/Locks/Keys (11.4%)** | Work orders submitted in this category were most commonly for doors off the hinges or locks not working. Of the 263 work orders related to Doors/Locks/Keys, 31% of requests mentioned the locks not working, residents' fobs not working on their front doors, and needing new batteries. A few residents mentioned their front doors not functioning properly. Other popular work orders were related to "doors" that are detached, broken, off the hinges, or not closing properly. Of these "door" related issues, 28% were related to closet doors. The Community averages 6.4 days to complete Doors/Locks/Keys-related work orders. While this figure is for all work orders in this category, we recommend any issues regarding the front doors be addressed and fixed immediately when received, as resident safety should be the top priority for team members.

**Refrigerator (9.5%)** | The majority of work orders categorized under Refrigerator (219 total work orders) are related to water filter replacements, accounting for 66% of all Refrigerator work orders. This high volume of water filter replacements is surprising given the Community's recent opening in



August. To address the issue and reduce future work orders, we recommend implementing a standard water filter replacement during Turn. We also recommend further investigating if there is an underlying issue causing the frequent water filter replacements. Additionally, 17% of residents who submitted Refrigerator work orders also referenced their ice maker not working properly. The Community averages ~9.6 days to complete Refrigerator-related work orders, triple the CGM's average completion time.

**A/C (8.6%)** | A/C-related work orders were prominent over the period evaluated, representing 8.6% of all work orders. Common resident descriptions include A/C being "broken," "not working," or inability to achieve desired temperatures. While A/C issues are expected in this location within the U.S., the average completion time of 7.5 days (nearly double the CGM average of 4 days) suggests potential areas for improvement. According to the Financial Statement received, the Community has spent ~\$4,300 on HVAC-related issues. The Community indicated that the common issue of the A/C not working properly was due to the VRF units taking time to properly calibrate and function properly. The Community also had difficulty in sourcing an HVAC technician trained in servicing VRF units, explaining the long completion time. However, the team has seen that VRF unit work orders have steadily decreased over time as installation issues have been rectified under warranty. We recommend prioritizing A/C repairs to minimize resident discomfort and potential mold growth in these warm, humid environments. Both maintenance team members are EPA-certified which should help provide efficient troubleshooting and repairs.

**Water Heater (7.9%)** | Water heater work orders are unexpectedly frequent, accounting for 7.9% of all requests and exceeding the CGM portfolio average (0.04 work orders/bed) by a factor of five (0.22 work orders/bed). It takes the Community about 5.7 days to complete these work orders. The residents indicate "no hot water" or the "water does not get hot". The maintenance team has been resolving these issues by increasing the water heater's temperature as it was not appropriately set to the standard temperature. To reduce the frequency of these work orders, we recommend that the Community check the water heater's temperature during Turn to ensure they are set to the standard temperature.

**Plumbing (5.9%)** | A significant portion of the 136 Plumbing work orders involve clogged toilets and improper drainage, indicated by resident descriptions mentioning "drain" and "clogged" for sinks, toilets, and showers/tubs. The work orders generally take 2.8 days to complete, on the lower end of completion time compared to other work order categories. As previously mentioned, 82% of the Plumbing expenses were related to a section of horizontal plumbing pipe that had an inadequate slope for proper drainage of the sewage line affecting a stack of 22 units. However, only 6% of Plumbing-related work orders were part of the stack of units that may be affected by the plumbing pipe. Once the Community identifies the optimal time to fix this pipe while minimizing disruption to residents, plumbing-related work orders may decrease slightly. Following the pipe repair, it will be crucial to monitor the frequency of plumbing work orders. If the issue persists, we can then explore further recommendations.

The Community had identified there were several issues with Gatorade bottles and other various debris found in the plumbing after move-in which resulted in the plumbing problems. The Community indicated that the team snaked these lines to clear them for proper flow of sewage. However, plumbing issues are still present throughout the Community. Initial recommendations are to perform a sewer line camera inspection and a P-trap inspection. Running a sewer camera through the main lines can identify any blockages, improper connections, or construction debris within the

building's plumbing system. Ensuring all sink P-traps are properly installed can prevent sewer gas from clogging the drain. Additionally, scoping the main sewer line can review if the blockage is between the city line and the building. This will also help determine who is responsible for clearing the blockage. It's also recommended to explore the construction warranty given that the community opened in August 2023. There may be a 12-month installation warranty from the original plumber that can investigate and address the drainage issues. The Community can also consider performing a hydrostatic inspection test to identify potential leaks or cracks in the main drain line that could contribute to the drain clogs. This test can also verify the integrity of the replaced pipe section.

**Toilet (5.2%)** | 121 work orders, or 0.15 work orders/bed, were submitted for Toilet issues, primarily related to toilets not flushing properly or the seat detaching. Some of these work orders mentioned the chain that allows the toilet to flush was broken. The average completion time for these repairs is over 7 days, which is longer than desired. The Community indicated that these have been repaired or replaced by the maintenance team whether it needs to be plunged or re-attached or replaced the chain.

LEAK SUMMARY		
Leak Location	# of WO	Days to Complete
Sink	25	7.8
Dishwasher	23	8.0
Walls/Ceilings	19	12.6
Shower/Tub	13	11.4
Washer/Dryer	4	4.8
Toilet	4	3.0
Fan and Vents	4	12.3
Flooring	3	8.3
Water Heater	3	8.3
HVAC	1	2.0
Sprinkler	1	13.0
Lighting	1	24.0
Grand Total	101	9.63

**Leaks** | Leak-related work orders accounted for 4.4% of total work orders. The Leak work order category has been broken down further into sub-categories to better illustrate where these work orders are occurring.

79% of the work orders centered around leaks referred to Sinks (24.8%), Dishwasher (22.8%), Walls/Ceilings (18.8%), and Showers/Tubs (12.9%) as the major culprits. The majority of the leaks were reported as "dishwasher is leaking" or "ceiling is leaking" with no specific explanation of the leak. Given that sinks, dishwashers, and showers/tubs are common areas for leaks due to the water source and pipes nearby, the community should consider installing leak detection sensors in all units in these areas. Leak detection sensors will allow for quicker notification of a potential leak, allowing the Community to be proactive in addressing the issue, and will likely help reduce the current Days to Complete average. Mold needs warm, wet conditions to grow. Leaks caused by the Sinks, Dishwashers, Showers/Tubs, Walls/Ceilings, and A/C failures can create a warm, wet environment.

<b>LEAK SUMMARY</b>		
<b>Work Order Created</b>	<b># of WO</b>	<b>% of Leak Work Orders</b>
<b>August 2023</b>	15	14.9%
<b>September 2023</b>	28	27.7%
<b>October 2023</b>	20	19.8%
<b>November 2023</b>	7	6.9%
<b>December 2023</b>	7	6.9%
<b>January 2024</b>	11	10.9%
<b>February 2024</b>	7	6.9%
<b>March 2024</b>	4	4.0%
<b>April 2024</b>	2	2.0%
<b>Grand Total</b>	<b>101</b>	<b>100%</b>

During the first rainfall post-construction, the Community had several ceiling and floor leaks that led to mold. The Community provided us with the list of units that had mold remediation due to the leaks. However, only 14% of all Leak-related work orders were a part of those initial units. It should be confirmed that all leaks were properly resolved so there is no additional/further water damage. In addition, 62% of these leak work orders occurred from September through October 2023, while the Community has averaged roughly six leak-related work orders from January through April 2024. The Community states that the majority of leak work orders occurred right after move-in, as the team did not have time to test all appliances and fixtures with a true burn-in process. This seems to be true as average leak-related work orders have fallen significantly since October 2023.

## SERVICE CONTRACT REVIEW

The Service Contract Review below contains Cardinal Group Consulting's findings related to the service contracts received.

We have received and reviewed 13 service contracts. The total monthly expense load for the contracts received with confirmed monthly/annual costs amounts to \$22,381/mo or \$329/bed.

The service contract for Bug Master was signed by the Community but not executed by the vendor. The vendor may only require the Community to execute the contract.

The Professional Cleaning Services contract provides cleaning services at different levels. According to the Community, they have elected cleaning services five days a week for eight hours a day for a monthly price of \$3,377.40. However, the Financial Statement received shows monthly expenses ranging from \$2,252 - \$5,806. With taxes, the monthly cleaning expense should be closer to \$3,600, which the Community has paid in January and March. The increased expenses resulted from additional cleaning services provided for the Community in preparation for property tours from a potential investor or partner.

The Marketing Services agreement includes a Geofence Campaign and various Digital Marketing services. While the Geofence Campaign and extended services appear to be a one-month, non-renewing contract, the Digital Marketing services span from August to April at a total cost of \$33,300. We recommend reviewing the performance of the digital marketing services to determine if they were appropriate for the leasing season and identify any potential areas for improvement or cost reduction. We also recommend evaluating whether the Geofence Campaign is necessary throughout the lease term as that one-month contract does not automatically renew each year.

The Community utilizes AT&T for phone service on a month-to-month basis. According to the Community, the cost of a multi-year contract was comparable to the monthly, yet the monthly provides flexibility. The average monthly invoice expense of \$263 does not correspond with the Cell Phone Contract line item in the Financial Statement received, stating an average of \$144/mo. The difference in invoice expenses and the Financial Statement is due to the reimbursement of the manager's cell phone expense, a perk under previous management. This will not be an expense moving forward.

We found a service contract with Luxer Package Lockers, initially running from April 2022 - April 2023 with automatic renewal. Since no termination notice was received, we assume the contract remains active. The Community has been missing invoices since the management change in March 2023. Once they are processed these contracts will be located under G&A - Office Contracts.

There is a Waste Management contract that indicates a monthly expense of \$2,658.36 for 2 2-YD Compactors and 2 2-YD Recycling Compactors for pick up six times a week. However, according to the Financial Statement received, the average monthly waste management expense is \$9,238. The Community has assured us that this discrepancy stems from issues with the previous management company, which have now been rectified. We recommend ongoing monitoring of waste management expenses to confirm this resolution. Furthermore, if a consistent increase in expenses

due to extra pickups is observed, we suggest reevaluating the service to increase the size of the compactor or adding additional compactors.

Currently, there is no Elevator contract as the Elevators are still under warranty until March 16, 2025. To ensure ongoing compliance with elevator safety regulations once the warranty expires, we recommend obtaining a contract for Elevator repairs, maintenance, and inspection moving forward. We also recommend having an active Fire Sprinkler Inspection contract in place to ensure the Community completes its annual inspection, as the Community is currently past due on its fire suppression inspection. The Community had reached out to Unlimited Sprinkler Fire Protection to obtain a quote for services but had not executed a contract.

*Please see Exhibit A for a summary of the contracts including vendors, key dates, and associated notes.*

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## HISTORICAL UTILITY REVIEW

Cardinal Group Consulting engaged Conservice to perform an analysis of historical utility bills for recommendations on potential cost savings and ancillary revenue generators. Findings from Conservice's Utility Analysis Report can be found below.

Residents are currently billed for utilities on a monthly basis by Conservice. They are billed for water, sewer, 9% water/sewer admin fee, electricity, and trash, about 62% of the total utility expenses at the Community.

- Students are billed for water and sewer via a submetered Partial Allocation billing program based on the actual water consumption in each individual unit. Additionally, each unit is charged a flat fee per month to cover water and sewer-based expenses.
  - The residents are billed a water/sewer admin fee, 9% of the total water and sewer charges billed to the students.
- Students are billed for electricity via a submetered Partial Allocation billing program based on the actual electric consumption in each unit.
- Students are billed a monthly \$5 flat fee for trash.

**Water Usage:** Water consumption at the Community has averaged 3,125 gallons/unit/month over the past nine months compared to the industry average of 3,500 gallons/unit/month. Although the monthly average consumption is below the industry average, a more thorough analysis can be performed on the water consumption and irrigation system post-acquisition.

- Across 12 comparable communities located in the similar region where the Sample Community is located, the average cost per bed per month is \$7.35. Conservice is estimating the average cost per bed for water is \$5.

**Drainage:** Drainage expenses for the next 12 months are estimated at \$5,200. The Community currently does not charge or recover any of the drainage expenses. This drainage expense may be related to the Plumbing issues created by the improper slope of the pipe in the garage.

**Utility Recommendations:** Conservice recommends continuing the submetered Partial Allocation billing program for water, sewer, and electricity.

- **Water:** Continuing a billing program for water will result in recovering a total of \$40,942 or 78% of total water expenses.
- **Sewer:** Continuing a billing program for sewer will result in recovering a total of \$64,850 or 79% of total sewer expenses.
- **Water & Sewer Admin Fee:** Continuing billing residents a water/sewer admin fee that is 9% of the water and sewer amounts billed to each unit totals about \$9,521 annually.
- **Drainage:** Conservice recommends implementing a Ratio Utility Billing (RUBS) per unit billing program in which students are billed for drainage via a flat fee per unit per month.

Implementing a billing program for drainage will result in billing students a total of \$4,940 or 95% of total drainage expenses that the Community currently isn't recovering.

- **Electric:** Continuing a billing program for electricity will result in billing the students a total of \$297,703 or 61% of the total electric expense.
- **Trash:** Conservice recommends implementing a RUBS per unit billing program in which students are billed for trash via a flat fee per unit per month based on monthly trash expenses. Implementing a billing program for trash will result in recovering a total of \$94,525.00 or 95% of the total trash expense. This is an increase from the \$5 Trash Flat Fee, which only recovers 39% of total trash expenses.

**Rates:** The City projects rate increases for water, sewer, and electricity in 2024 and 2025. Meanwhile, State Gas Services projects rate decreases for gas in 2024 and rate increases in 2025.

- **Water:** The City has advised Conservice that the water rates are projected to increase by a total of 3.1% in the calendar year of 2024 and 9% in the calendar year of 2024.
- **Sewer:** The City has advised Conservice that the sewer rates are projected to increase by a total of 4.4% in the calendar year of 2024 and 9% in the calendar year of 2024.
- **Electric:** The City has advised Conservice that the electric rates are projected to increase by a total of 1.5% in the calendar year of 2024 and 0.4% in the calendar year of 2024.
- **Gas:** State Gas Service has advised Conservice that the gas rates are projected to decrease by a total of 9.3% in the calendar year of 2024 and increase by a total of 0.8% in the calendar year of 2024.

#### Utility Deposits:

- The City advised Conservice that there are utility deposits required when taking over the water, sewer, and electric accounts. The provider advised that the deposit is calculated by charging 1/6th of the annual expenses. Conservice projects a potential deposit of \$102,000.
- State Gas Service advised Conservice that there are utility deposits required when taking over the gas accounts. The provider advised that the deposit is calculated by taking the average monthly expense of the previous 12 months, and then multiplying that average by two. Conservice projects a potential deposit of \$300.

*Please see Exhibit B for the full Conservice Assessment.*

## LEASE FILE AUDIT - CURRENT RENT ROLL

Findings related to the Current Lease File Audit are listed below and will be updated if/when additional information becomes available.

Current Lease Summary (2023 - 2024 AY)			
Total Units:	221	Last Update:	5/6/2024
Total Beds:	817	Rent Roll Date:	4/18/2024

Bed Space Status	Count
Total Bed Spaces Leased	807
<b>Total Leases Audited</b>	<b>803</b>
Leases to be Audited	4

Bed Space Status	Count	%
Occupied No Notice	764	93.5%
Notice Unrented	43	5.3%
Vacant Unrented Ready	10	1.2%
<b>Total</b>	<b>817</b>	

Lease Audit Categories	Complete/Correct	Missing/Incorrect
Lease Signed - Resident	803	0
Lease Signed - Manager	802	1
Lease Start Date	800	3
Lease End Date	803	0
Screening Rights - Resident	802	7
Screening Results - Resident	802	7
Screening Rights - Guarantor	757	0
Screening Results - Guarantor	727	0

Qualification Method	Count	%
Guarantor	721	89.3%
Guarantor Waiver Program/LEAP Guaranty	49	6.1%
Deposit	3	0.4%
Model	2	0.2%
Self-Qualify	12	1.5%
None	20	2.5%
<b>Total</b>	<b>807</b>	

	Complete/Correct	Missing/Incorrect
Renter's Insurance - Community	803	0
Guarantor Form	736	0
Security Deposit	774	29
Resident Proof of Income	0	12
Guarantor Proof of Income	649	72

Assumed Classification	Count	%
Freshman	113	14.0%
Sophomore	251	31.1%
Junior	249	30.9%
Senior	182	22.6%
Graduate Student	8	1.0%
Non-Student	3	0.4%
Missing Application	1	0.1%
<b>Total</b>	<b>807</b>	

### LEASE FILE ORGANIZATION

We received read-only access to the Community's Entrata platform to review current leases.

### RENT ROLL TO LEASE FILE DISCREPANCIES

- Of the 817 total bed spaces identified in the April 18, 2024 rent roll, 807 are currently rentable. This accounts for 10 vacant spaces. Two of the rentable bed spaces are reserved for the two-bedroom model unit.
  - 803 of the 807 rentable bed spaces were audited.



- Three residents are missing their 2023 - 2024 leases. A list identifying these residents has been provided. Please prioritize obtaining the missing leases to ensure resident accountability.
  - One of the rentable bed spaces not fully audited was the Model Two bed space. Only the executed Model One 2023 - 2024 lease was found in Model Two's account. Although this is a Model bed space, each bed space should still have the appropriate "executed lease" on file.
- **Resident Signature:** All 803 leases are signed by Resident.
- **Landlord Signature:** Of the 803 current leases, one lease was missing the Landlord's Signature. As a lease is not legally binding until all parties sign it, this should be rectified as soon as possible.
- **Screening Rights:** 802 of 807 residents have signed Resident Screening Rights forms. 757 residents have signed Guarantor Screening Rights forms.
  - Of the five residents missing signed Screening Rights forms, four residents have un-signed forms in their accounts, while one resident is missing the form altogether.
  - All 721 leases with qualified Guarantors have signed Guarantor Screening Rights forms.
  - An additional 36 residents have signed Guarantor Screening Rights forms in their accounts. These residents did not qualify with a Guarantor, therefore a signed Guarantor Screening Rights form was not required.
    - 32 residents qualified with the Guarantor Waiver Program/Leap Guaranty.
    - Two residents qualified with a Deposit.
    - Two residents self-qualified.
- **Resident Screening:** 802 of 807 residents have approved Resident Screening results. Three residents are missing screening results. The other two missing screening results are for the two model bed spaces.
- **Qualification Methods:** Residents that live at the Community qualified by the following methods:

Qualification Method	Count	%
Guarantor	721	89.3%
Guarantor Waiver Program/LEAP Guaranty	49	6.1%
Deposit	3	0.4%
Model	2	0.2%
Self-Qualify	12	1.5%
None	20	2.5%
<b>Total</b>	<b>807</b>	

- 49 residents qualified with the Guarantor Waiver/Leap Guaranty program.
- Three residents qualified with a Deposit equal to 2 Months Installment. Although no documentation indicating the required 2 Month Installment amount was found, all three residents have a Deposit held equal to 2 Months installment according to the Rent Roll.
- 32 residents (4% of total rentable bed spaces) have no valid qualification method on file. We recommend that all residents below provide appropriate proof of income documentation, screening results, and executed Guarantor Waiver Program forms as these residents could skip on leases with no financial penalty.
  - One resident's Screening results stated that they passed with conditions. However, no conditions were noted/satisfied.
  - According to the Screening results, 12 residents passed and self-qualified. However, none of these residents provided sufficient proof of income documentation.
    - Of these 12 residents who self-qualified, 1 had an executed Guaranty form. The Guarantor's screening results may be missing. We recommend re-screening the assumed Guarantor.
  - 19 residents qualified with the Guarantor Waiver Fee/Leap Guaranty program; however, no executed Guarantor Waiver Form or Leap Guaranty Declaration form was found. All residents enrolled in the program should have a declaration form or an executed Guarantor Waiver form.
- **Guarantor Documentation:** 718 of 721 residents who qualified with a Guarantor have executed Guaranty forms. The three residents missing executed Guaranty forms are the same three residents who are missing the current 2023 - 2024 leases.
  - There are an additional 18 residents with executed Guaranty forms. These residents did not qualify with a Guarantor, therefore a signed Guaranty form was not required.
    - One resident qualified with a Deposit.
    - One resident self-qualified.
    - 16 residents qualified with the Guarantor Waiver Program/Leap Guaranty.
- **Guarantor Screening:** All 721 residents who qualified with a Guarantor have approved Guarantor Screening results. Six additional residents have Guarantor screening results; however, these guarantors passed with conditions satisfying the Guarantor Waiver Program/Leap Guaranty.
- **Correct Start Date:** 800 of 803 leases have the correct lease Start Date. Three leases have a Lease Start Date that is a week earlier than the Rent Roll Start Date.
- **Correct End Date:** All 803 leases have the correct lease End Date.
- **Renter's Insurance:** All 803 leases have a signed Property Damage Liability Addendum, automatically enrolling the resident in the Community's liability insurance program if they fail to provide their own proof of insurance.

- 174 residents have provided their own proof of insurance policy and should not be enrolled in the Community's liability insurance program.
- **Security Deposit:** The Community requires a standard \$100 Security Deposit. Of the 803 leases audited, 773 residents had a Security Deposit listed. 30 residents were missing the standard Security Deposit on their lease. No concession addendum indicating a waived Security Deposit was found.

## FINANCIAL DISCREPANCIES

Rent Revenue	Rent Roll	Rent Roll Count	Audit	Audit Count	Variance	Variance %
Base Rent	\$ 996,823	804	\$ 996,436	803	\$ (387)	0.0%
<b>TOTAL</b>					<b>\$ (387)</b>	

- **Base Rent:** The current lease audit produced a negative variance of (\$387) compared to the Rent Roll. This variance is made up of 47 positive and negative variances.
  - The four missing leases, the three residents and one model bed space, are driving a total negative variance of (\$4,416). Once these leases are found, the updated variance is \$4,029.
  - Three residents on the provided Rent Roll do not have residential rent listed, driving a positive variance of \$4,117. All residents should have rent as a scheduled monthly charge. These residents' accounts should be updated with their appropriate rental amount. The accounts should also be reviewed to ensure rent has been posted and collected. Once these residents are charged with rent, the updated total negative variance is (\$4,504).
  - Two residents show Rent off by more than \$100 in which the Rent Roll is charging more than what the resident signed for on the lease.
  - 38 residents show positive and negative Rent discrepancies ranging from \$5 - \$100.
  - It's important to note that over 73 residents were sent the Summary of Charges addendum to reflect an updated lease rent. We recommend reducing the number of residents that are required to resign a Summary of Charges due to a rent change. Numerous addendums and rent changes require the Community to diligently track all addendums, ensure they are executed, and update Entrata accordingly to prevent any errors.

Deposits	Rent Roll	Rent Roll Count	Audit	Audit Count	Variance	Variance %
Deposits	\$ 105,428	764	\$ 78,849	774	\$ (26,579)	-33.7%
<b>TOTAL</b>					<b>\$ (26,579)</b>	

- **Deposits:** The current lease file audit found a negative Deposit variance of (\$26,579) compared to the Rent Roll. This Variance is made up of 30 positive and negative variances.
  - The three missing leases are driving a total negative variance of (\$300).

- One lease has a negative variance of (\$100) as the standard Security Deposit was not listed.
- 15 leases have a total positive variance of \$1,500 as the standard Security Deposit was listed on the lease but no Deposit is held according to the Rent Roll.
- 11 residents have a total negative variance of (\$27,679) as the lease only states a \$100 Security Deposit. It appears these residents have two months of rent held under the Deposit. Only three of these 11 residents qualified with a Deposit where two months of rent was required. Additional clarification is required regarding the eight other residents.
  - As previously mentioned, no documentation indicating the required two months of rent can be found in the resident's account.

Other Income	Rent Roll	Rent Roll Count	Audit	Audit Count	Variance	Variance %
Master Policy Premium	\$ 7,550	582	\$ 8,144	629	\$ 594	7.3%
Parking	\$ 38,600	162	\$ 43,400	179	\$ 4,800	11.1%
Parking - Garage	\$ 400	2	\$ -	0	\$ (400)	-%
Pet Rent	\$ 1,939	23	\$ 770	22	\$ (1,169)	-151.8%
Guarantor Waiver Fee	\$ 1,910	41	\$ 2,332	50	\$ 422	18.1%
Utility - Trash	\$ 4,015	803	\$ 4,015	803	\$ -	0.0%
<b>TOTAL</b>					<b>\$ 4,247</b>	

- **Other Income:** The current lease file audit produced a positive variance of \$4,247 to the Other Income listed in the Rent Roll. In general, we found that the majority of residents sign all addendums in the lease file, which automatically enrolls the resident in the program and requires the corresponding monthly fee.
  - **Master Policy Premium:** The audit found a positive Master Policy Premium variance of \$594 compared to the Rent Roll. Enrolled residents are obligated to pay \$12.95/mo for this policy. While all 803 residents have signed the Property Damage Liability Addendum, we identified 174 residents who provided proof of their insurance, potentially exempting them from the Master Policy fee. The Rent Roll lists about 582 residents enrolled in the Community insurance program, which aligns with the average monthly income on the Financial Statement.
    - 20 leases have a total negative variance of (\$259). The Rent Roll indicates residents should be charged \$12.95/mo. Two residents are missing leases and consequently, the Property Damage Liability Addendum. As 18 residents have provided their proof of insurance policy, their insurance charges should be removed.
    - Five residents have a total positive variance of \$64.75. While they signed the Property Damage Liability Addendum, they haven't provided proof of their own insurance, and the Rent Roll doesn't reflect charges for the Master Policy. To ensure proper coverage and address the variance, we recommend charging these residents the monthly Master Policy Premium of \$12.95 until

they upload a valid proof of active insurance listing them as insured at the Sample Community's address.

- **Parking:** The audit found a positive Parking variance of \$4,800 compared to the Rent Roll. No executed Parking addendums were found. Parking charges are only noted on the Summary of Charges. We recommend residents execute a Parking addendum that clearly outlines the monthly parking fee and holds residents accountable to established parking rules and regulations. All residents should have Parking charges that align with either their signed Parking addendum or the existing Summary of Charges. For any discrepancies, residents should sign a revised Summary of Charges reflecting the accurate Rent Roll charges. While the Rent Roll indicates 162 residents with parking, which aligns with the average monthly parking income on the Financial Statement, the audit suggests there's potential for increased revenue.
  - Two residents have a total negative variance of (\$200) as they have Parking charges listed on the Rent Roll, but nothing was found on the lease to reflect the Parking fee.
  - One resident has a negative (\$25) variance as the Rent Roll states a \$225 Parking Charge, but the Summary of Charges states \$200.
  - 20 residents were found to have Parking, but none are being charged for Parking.
    - One resident has a correctly charged Parking fee, but is categorized under "Parking" rather than "Parking - Garage" on the Summary of Charges. The difference between Parking and Parking - Garage is that "- Garage" is to identify the resident has tandem parking. We recommend that the Summary of Charges reflect what kind of Parking a resident has to ensure accurate reporting.
- **Parking - Garage:** The audit found a negative Parking - Garage variance of (\$400) compared to the Rent Roll. The Summary of Charges only lists "Parking" fees and does not specify "Parking - Garage" fees. As mentioned above, one resident has the appropriate Parking fee but is incorrectly labeled in the Summary of Charges. We recommend updating the Summary of Charges to differentiate between "Parking" and "Parking - Garage" fees to ensure accurate reporting and avoid future discrepancies.
- **Pet Rent:** The audit found a negative Pet Rent variance of (\$1,169) compared to the Rent Roll. While the Animal Addendum outlining the \$35 monthly fee and \$250 non-refundable fee is sent to all residents, they are only responsible for these charges if they complete the pet information section. The Financial Statements indicate a negative income for Pet Rent due to a one-time data posting error during migration. This issue has reportedly been resolved. Looking at the June Pet Rent forecast, 21 residents will be charged Pet Rent, while the audit reflects 22 residents should be charged Pet Rent.
  - A data entry error resulted in a \$1,169 Pet Rent charge for one resident on the Rent Roll. This amount matches the lease agreement and should be recorded as rent instead.

- Six residents have a total positive Pet Rent variance of \$210. These residents have a completed Animal addendum and Pet Rent listed on their Summary of Charges but are not currently being charged the monthly fee. An updated Summary of Charges with the removal of the Pet Rent was not found. Upon confirming if these six residents have a pet, they should be charged Pet Rent or sent an updated Summary of Charges.
- Six residents have a total negative Pet Rent variance of (\$210). These residents are being charged Pet Rent, but we were unable to locate completed Animal addendums or Pet Rent on their Summary of Charges. If these six residents have a pet, they should be sent an Animal Addendum and an updated Summary of Charges, or the charges should be removed.
- We identified two residents who have a Pet Rent charge on their Summary of Charges, but a signed Animal Addendum is missing from their file. While these residents have seemingly acknowledged the Pet Rent fee, we recommend obtaining completed Animal Addendums from all residents with pets.
- **Guarantor Waiver Fee:** The current audit found a positive Guarantor Waiver Fee variance of \$422. While the Guarantor Waiver Fee addendum (outlining the \$46 or \$48 fee) is sent to most residents, the fee only applies to those who specifically qualify through the Guarantor Waiver Program/Leap Guaranty.
  - Seven residents have a total positive Guarantor Waiver Fee variance of \$328. These residents who qualified through the Guarantor Waiver Program/Leap Guaranty, have signed the Guarantor Waiver Fee addendum, and have the fee reflected on their Summary of Charges, but they are not currently being charged the monthly fee.
    - Additionally, 16 residents do not have a variance compared to the Rent Roll but should. These 16 residents qualified with the Guarantor Waiver Program/Leap Guaranty; however, an executed Guarantor Waiver Fee addendum, Summary of Charges with the respective fee, or applicable charge on the Rent Roll was not found.
  - Two residents have a total negative Guarantor Waiver variance of (\$92). Two residents, who qualified with the Guarantor Waiver Program/Leap Guaranty, are currently being charged the monthly fee even though we couldn't locate a signed Guarantor Waiver Fee Addendum or a Summary of Charges reflecting the fee in their files.
  - One resident had a discrepancy in the Guarantor Waiver Fee and the Summary of Charges. The Guarantor Waiver Fee addendum states \$48/mo and the Summary of Charges states \$46/mo. While the Summary of Charges states its amount prevails in case of conflict, this inconsistency can cause confusion. To ensure appropriate reporting, we recommend that the fees be consistent at one price for the whole lease term.
  - One resident has a Guarantor Waiver Fee listed on their Summary of Charges, but we were unable to locate a signed Guarantor Waiver Fee addendum in their file. While the fee's presence on the Summary of Charges

suggests they may have acknowledged it, obtaining a signed addendum is crucial.

- **Utility - Trash:** The audit found no Utility - Trash variance compared to the Rent Roll. The Rent Roll and Audit reflect that all 803 residents with leases are responsible for the \$5 Utility - Trash flat fee. The Financial Statement reflects a range from 796 to 819 \$5 flat fees with the most recent March accurately reporting 803 \$5 flat fees.

Concessions	Rent Roll	Rent Roll Count	Audit	Audit Count	Variance	Variance %
Monthly Concession	\$ (2,228)	2	\$ -	0	\$ 2,228	
<b>TOTAL</b>					<b>\$ 2,228</b>	

- **Monthly Concessions:** The audit identified a positive variance of \$2,228 for Monthly Concessions. This stems from two model bed spaces receiving concessions, but no Concession addendums were found to document the specific concession amount and terms.
  - Additionally, 138 residents received a non-monetary concession in the form of a 55-inch TV for their bedrooms.

**EXPIRATION SCHEDULE**

All leases audited will expire on July 31, 2024, or at the end of the typical Academic Year.

*Please see Exhibit C for the full Current Lease Audit Summary.*

## LEASE FILE AUDIT - PRE-LEASE RENT ROLL

Findings related to the Future Lease File Audit are listed below and will be updated if/when additional information becomes available.

Future Lease Summary (2024 - 2025 AY)		
Total Units:	221	Last Update: 4/30/2024
Total Beds:	817	Rent Roll Date: 4/18/2024

Bed Space Status	Count
Total Bed Spaces Leased	631
<b>Total Leases Audited</b>	<b>601</b>
Leases to be Audited	30

Bed Space Status	Count	%
Renewal Lease Approved	178	27.3%
Lease Approved	408	62.6%
Lease Partially Completed/Completed	21	3.2%
Renewal Lease Cancelled	45	6.9%
<b>Total</b>	<b>652</b>	

Lease Audit Categories	Complete/Correct	Missing/Incorrect
Lease Signed - Resident	552	49
Lease Signed - Manager	532	69
Lease Start Date	598	3
Lease End Date	601	0
Screening Rights - Resident	581	50
Screening Results - Resident	588	43
Screening Rights - Guarantor	562	0
Screening Results - Guarantor	552	2

Qualification Method	Count	%
Guarantor	541	85.7%
Guarantor Waiver Program/Leap Guaranty	38	6.0%
Deposit	3	0.5%
Self-Qualify	8	1.3%
Model	2	0.3%
None	39	6.2%
<b>Total</b>	<b>631</b>	

	Complete/Correct	Missing/Incorrect
Renter's Insurance - Community	554	47
Guarantor Form	551	18
Security Deposit	575	26
Resident Proof of Income	0	8
Guarantor Proof of Income	487	54

Assumed Classification	Count	%
Freshman	102	16%
Sophomore	250	38%
Junior	175	27%
Senior	56	9%
Graduate	4	1%
Non-Student	7	1%
Not Listed	58	9%
<b>Total</b>	<b>652</b>	

### LEASE FILE ORGANIZATION

We received read-only access to the Community's Entrata platform to review future leases.

### RENT ROLL TO LEASE FILE DISCREPANCIES

- Of the 652 total bed spaces identified in the April 18, 2024 Pre-Lease Rent Roll, 631 residents have been approved. 21 leases were not audited as these residents are current residents who have partially completed 2024 - 2025 leases or prospects who are still in the process of signing a lease. Two bed spaces are reserved for the two-bedroom model unit.
  - 601 of 631 bed spaces were audited.
    - 30 residents were not audited as the 2024 - 2025 leases were missing. It appears that the resident does not have any documents in their account.



- One thing to note regarding the Pre-Lease Rent Report is that 72 leases had their status changed from their original status on the Pre-Lease Rent Roll during our Pre-Lease Audit.
  - Four leases originally marked as "Renewal Lease Partially Completed" have been progressed to "Renewal Lease Approved" status. These leases were successfully included in the audit process.
  - 23 leases initially marked "Lease Partially Completed/Lease Completed" have been updated to "Lease Approved", allowing them to be included in the audit.
  - We identified 45 leases that were initially marked as "Renewal Lease Partially Completed" but now have a canceled renewal status. Despite the cancellation, these leases were audited due to the presence of unexecuted renewal agreements in resident accounts. It's important to note that these residents are neither approved nor renewed within the Entrata system. We recommend contacting these residents to confirm their leasing intentions for the 2024-2025 lease term.
- **Resident Signature:** The audit identified 601 leases, with 552 leases signed by the Resident. However, excluding the 45 canceled renewals, only four leases are missing the Resident Signatures. All four unsigned leases are renewed residents with no executed leases. Two of these unsigned leases are for the model bed spaces.
- **Landlord Signature:** After excluding the 45 canceled renewals, the audit identified 24 leases missing the Landlord Signatures. All leases have already been approved and in future or renewed status. As a lease is not legally binding until all parties sign it, this should be rectified as soon as possible.
- **Screening Rights:** 581 of 631 residents have signed Resident Screening Rights forms. 561 residents have signed Guarantor Screening Rights forms.
  - 50 residents are missing signed Screening Rights forms.
    - 28 residents are missing their leases and other documents in the account.
    - 8 residents do not have Screening Rights forms in the account.
    - 14 residents have unsigned Screening Rights forms in their accounts.
  - Of the 541 residents with qualified Guarantors, four guarantors are missing signed Guarantor Screenings Rights forms.
    - Three Guarantors do not have Screening Rights forms in the account.
    - One Guarantor has an unsigned Screening Rights form in the account.
  - An additional 25 residents have signed Guarantor Screening Rights forms in their accounts. These residents did not qualify with a Guarantor, therefore a signed Guarantor Screening Rights was not required.
    - 20 residents qualified with the Guarantor Waiver Program/Leap Guaranty.
    - Three residents qualified with a Deposit.
    - One resident self-qualified.

- One resident did not have a qualification method on file.
- **Resident Screening:** 588 of 631 residents have approved Resident Screening results.
  - 28 residents are missing their leases and other documents in the account.
  - 15 residents are missing the Resident Screening results.
- **Qualification Methods:** Residents that live at the Community qualified by the following methods:

Qualification Method	Count	%
Guarantor	541	85.7%
Guarantor Waiver Program/Leap Guaranty	38	6.0%
Deposit	3	0.5%
Self-Qualify	8	1.3%
Model	2	0.3%
None	39	6.2%
<b>Total</b>	<b>631</b>	

- 38 residents qualified with the Guarantor Waiver/ Leap Guaranty Program.
- Three residents qualified with a Deposit equal to two months' rent. However, we couldn't locate any documentation specifying the required two-month installment amount or confirm its collection through a future resident deposit log. These three residents should have a Deposit equal to two months of rent before their move-in in August.
- 47 residents (7% of total bed spaces leased) have no valid qualification method on file. We recommend that all residents below are rectified with appropriate proof of income documentation, screening results, and executed Guarantor Waiver Program as these residents could skip on leases with no financial penalty.
  - 39 residents are missing their Screening results. Without the Screening results, we cannot confirm how the resident qualified to live at the Community.
  - Eight residents passed the Screening results and were self-qualified. However, none of these residents provided sufficient proof of income.
- **Guarantor Documentation:** 524 of 541 residents who qualified with a Guarantor have a signed Guarantor form.
  - One resident is a part of the 30 residents missing their 2024 - 2025 leases.
  - Three residents are missing the Guaranty form entirely.
  - 13 residents are missing the Guarantor's signature on the Guaranty form.
    - Eight of these 13 residents are part of the 45 residents with canceled renewal leases.

- An additional 27 residents had executed Guaranty forms. These residents did not qualify with a Guarantor, therefore a signed Guaranty form was not required.
- **Guarantor Screening:** 539 of 541 residents who qualified with a Guarantor have approved Guarantor Screening results. Two Guarantors failed their Screening but their approval was overridden. 12 additional residents have Guarantor screening results: however, these Guarantors passed with conditions satisfying the Guarantor Waiver Program/Leap Guaranty.
- **Correct Start Date:** 598 of 601 leases have the correct lease Start Date. These leases all begin on August 1, 2024, while the Rent Roll states an August 23, 2024 Start Date.
- **Correct End Date:** All 601 leases have the correct lease End Date.
- **Renter's Insurance:** 554 of 601 leases have a signed Property Damage Liability Addendum, automatically enrolling the resident in the Community's liability insurance program if they fail to provide their own proof of insurance.
  - Out of the 47 residents missing the signed Property Damage Liability Addendum, 43 residents had their renewal lease canceled. Thus, these residents will not have an executed addendum on file.
  - Four residents were sent the Property Damage Liability Addendum but was not signed.
  - We have not received any Liability insurance documentation for future residents yet, as policies are only required prior to move in. All residents with an executed Property Damage Liability Addendum should be charged the Master Policy Premium fee until they have provided proof of their insurance policy. Once the documentation has been verified, the scheduled charges can then be removed.
- **Security Deposit:** The Community requires a standard \$100 Security Deposit. Of the 601 leases audited, 575 residents had a Security Deposit listed. 26 residents were missing the standard Security Deposit on their lease. No concession addendum indicating a waived Security Deposit was found.

## FINANCIAL DISCREPANCIES

Rent Revenue	Rent Roll	Rent Roll Count	Audit	Audit Count	Variance	Variance %
Base Rent	\$ 825,466	629	\$ 812,281	601	\$ (13,185)	-1.6%
<b>TOTAL</b>					<b>\$ (13,185)</b>	

- **Base Rent:** The current lease audit produced a negative variance of (\$13,185) compared to the Rent Roll. This variance is made up of 214 positive and negative variances.
  - The 30 missing leases are driving a total negative variance of (\$39,560). Once these leases are found, the variance is updated to \$25,789.
  - Two residents on the provided Rent Roll do not have residential rent listed, driving a positive variance of \$1,908. All residents should have rent as a scheduled monthly charge. These residents' accounts should be updated with their appropriate rental amount. The accounts should also be reviewed to ensure rent has been posted and

collected. Once these residents are charged with rent, the updated total negative variance is (\$15,679).

- 17 residents show Rent off by more than \$100.
  - One resident has a variance of (\$140) as the Rent Roll is charging more than what the resident signed for on the lease.
  - 16 residents have a total variance of \$18,717 as the Rent Roll is charging less than what the resident signed for on the lease.
    - A data entry error resulted in a \$15,948 Rent charge for one resident on the lease. It states 12 installments of \$15,948 for a total term of \$1,329. We recommend that this error be corrected as soon as possible. Once this is correct, the total variance drops to (\$27,783).
- 165 residents show positive and negative Rent discrepancies ranging from \$4 - \$84, a total of \$5,890.
- It's important to note that 12 residents were sent the Summary of Charges addendum to reflect an updated lease rent. As previously mentioned, we recommend reducing the number of residents who are required to resign a Summary of Charges due to a rent change.

Rent Revenue	Rent Roll	Rent Roll Count	Audit	Audit Count	Variance	Variance %
Base Rent	\$ 825,466	629	\$ 812,281	601	\$ (13,185)	-1.6%
<b>TOTAL</b>					<b>\$ (13,185)</b>	

- **Deposits:** The audit found a negative Deposit variance of (\$11,160) compared to the Resident Deposit Summary. Deposits were not listed on the Pre-Lease Rent Roll. A Resident Deposit Summary was provided to show which residents have been charged the \$100 standard Security Deposit.
  - 50 leases have a total positive variance of \$5,000 as the standard Security Deposit was listed on the lease but no Deposit is held according to the Resident Deposit Summary.
  - Four missing leases are driving a total negative variance of (\$400) as the standard Security Deposit is listed on the Resident Deposit Summary.
  - Two leases have a total negative variance of (\$200) as the standard Security Deposit was not listed on the lease.
  - Six leases are driving a total negative variance of (\$15,560) as these residents have a standard Security Deposit listed on the lease but a Deposit equal to two months of rent was charged or held.
    - Two of the six residents qualified with a Deposit equal to two months of rent, but only a standard Deposit was listed.
    - One resident qualified with a Deposit equal to two months of rent, but had requested to enroll in the Leap/Guarantor Waiver Program instead.

- Two of the six residents qualified without a Deposit equal to two months of rent. We recommend confirming if these residents are re-qualified with a Deposit of two months of rent.
- One resident was missing their Screening Results. Therefore, we cannot determine if the resident qualified and was required to have a Deposit equal to two months of rent.

Other Income	Rent Roll	Rent Roll Count	Audit	Audit Count	Variance	Variance %
Master Policy Premium	\$ 7,757	599	\$ 7,836	601	\$ 79	1.0%
Parking	\$ 32,750	98	\$ 17,675	56	\$ (15,075)	-85.3%
Parking - Garage	\$ 1,000	3	\$ -	0	\$ (1,000)	-%
Pet Rent	\$ 585	17	\$ 770	22	\$ 185	24.0%
Guarantor Waiver Fee	\$ 1,438	29	\$ 1,871	38	\$ 433	23.1%
Premium - TV	\$ 2,100	105	\$ 140	7	\$ (1,960)	-1400.0%
Premium - Balcony	\$ 1,800	6	\$ -	0	\$ (1,800)	-%
Premium - Master Bedroom	\$ 900	18	\$ 510	12	\$ (390)	-76.5%
Premium - View	\$ 1,050	9	\$ -	0	\$ (1,050)	-%
Premium - Other	\$ 8,600	172	\$ -	0	\$ (8,600)	-%
Utility - Trash	\$ 3,015	603	\$ 2,980	596	\$ (35)	-1.2%
Utility - Trash (Base)	\$ 130	26	\$ -	0	\$ (130)	-%
Unit Premium	\$ -	0	\$ 1,455	24	\$ 1,455	100.0%
Rent Plus	\$ -	0	\$ 216	24	\$ 216	100.0%
<b>TOTAL</b>					<b>\$ (27,672)</b>	

- **Other Income:** The current lease file audit produced a negative variance of (\$27,672) to the Other Income listed in the Pre-Lease Rent Roll. In general, we found several fees located on the Rent Roll were not accounted for in the lease or Summary of Charges. For instance, Premium - Balcony charges were found on the Rent Roll, but not on the Summary of Charges. Additionally, we found other charges listed on the Summary of Charges that were not accounted for on the Rent Roll, such as Unit Premiums. We also found miscellaneous documents for some residents, not all, such as Rent Plus addendums.
  - **Master Policy Premium:** The audit found a positive Master Policy Premium variance of \$79 compared to the Rent Roll. Residents are obligated to pay \$12.95/mo or \$15/mo for this policy.
    - 29 missing leases are driving a total negative variance of (\$375.55).
    - Five residents have a total positive variance of \$10.25. The Rent Roll indicates residents should be charged \$12.95/mo. However, the executed Property Damage Liability Addendum states \$15/mo. These insurance charges should be updated to reflect the \$15.
    - 31 residents have a total positive variance of \$444.50. Each variance ranges from \$12.95 - \$15. The Rent Roll did not list any insurance charges for these 31 residents. As no residents were found with their active proof of insurance policy, all residents should have the applicable insurance charges.
  - **Parking:** The audit found a negative Parking variance of (\$15,075) compared to the Rent Roll. Only seven leases were found to have an executed Parking addendum. The

majority of Parking charges were noted on the Summary of Charges. As previously mentioned, we recommend residents execute a Parking addendum that clearly outlines the monthly parking fee and holds residents accountable to established parking rules and regulations.

- Five missing leases are driving a total negative variance of (\$1,675).
  - Six residents have a total positive variance of \$1,525 as they have executed Parking addendums, but nothing was listed on the Rent Roll.
  - 42 residents have a total negative variance of (\$14,925) as they have Parking charges listed on the Rent Roll, but nothing was found on the lease to reflect the Parking fee. Several residents have been issued revised Summary of Charges containing Parking fees. In the absence of resident signatures on these documents, the aforementioned Parking charges should be removed.
- **Parking - Garage:** The audit found a positive Parking - Garage variance of \$1,000 compared to the Rent Roll. This is similar to the issue identified in the current lease audit, where the Summary of Charges only lists generic "Parking" fees and not specifically "Parking-Garage" fees. Interestingly, two residents were charged a total of \$625 for parking, but again, these charges weren't categorized as "Parking-Garage". If these resident charges were reclassified under the same code as parking garage fees, the variance would be reduced to \$375.
  - **Pet Rent:** The audit found a positive Pet Rent variance of \$185 compared to the Rent Roll. While the Animal Addendum outlining the \$35 monthly fee and \$250 non-refundable fee is sent to all residents, they are only responsible for these charges if they complete the pet information section.
    - Eight residents have a total positive Pet Rent variance of \$280. These residents have a completed Animal addendum and Pet Rent listed on their Summary of Charges but are not currently being charged the monthly fee. An updated Summary of Charges with the removal of the Pet Rent was not found. Upon confirming if these eight residents plan to bring a pet, they should be charged Pet Rent or sent an updated Summary of Charges.
    - Three residents have a total negative Pet Rent variance of (\$95). These residents are being charged Pet Rent, but we were unable to locate completed Animal addendums or Pet Rent on their Summary of Charges. If these residents plan to bring a pet, they should be sent an Animal Addendum and an updated Summary of Charges, or the charges should be removed.
  - **Guarantor Waiver Fee:** The future audit found a positive Guarantor Waiver Fee variance of \$422. While the Guarantor Waiver Fee addendum (outlining the \$46, \$48, or \$69 fee) is sent to most residents, the fee only applies to those who specifically qualify through the Guarantor Waiver Program/Leap Guaranty.
    - 10 residents have a total positive Guarantor Waiver Fee variance of \$531. These residents who qualified through the Guarantor Waiver Program/Leap Guaranty, have signed the Guarantor Waiver Fee addendum, and have the fee reflected on their Summary of Charges, but are not currently being charged the monthly fee.

- Two residents have a total negative Guarantor Waiver variance of (\$50). Two residents, who qualified with the Guarantor Waiver Program/Leap Guaranty, are currently being charged the monthly fee for a different amount.
- One resident has a total negative Guarantor Waiver variance of (\$48). This resident did not qualify with the Guarantor Waiver Program/Leap Guaranty; thus should not be charged the \$48 fee.
- **Premium - TV:** The audit found a negative Premium - TV variance of (\$1,960) compared to the Pre-Lease Rent Roll. This variance is made up of 98 residents who have a \$20 Premium - TV charge on the Rent Roll but the applicable Premium - TV charge was not found on the Summary of Charges.
  - 26 of these 98 residents have a Rent variance of \$20. The Community indicated that starting this leasing season (2024-2025), premium charges are listed separately, whereas they were included in the base rent for the prior season (2023-2024). That said, these 26 residents may have this \$20 Rent variance as a result of the Premium - TV charge being included in the Base Rent. We recommend the Community verify if these variances are indeed the "Premium - TV" charges. If so, residents should receive updated Summaries of Charges reflecting the lower base rent and the separate \$20 "Premium - TV" charge.
  - Out of the 98 variances, five are a result of missing leases.
- **Premium - Balcony:** The audit found a negative Premium - Balcony variance of (\$1,800) compared to the Pre-Lease Rent Roll. This variance is made up of six residents with a \$300 Premium - Balcony charge on the Rent Roll. No Premium - Balcony charges were noted on any Summary of Charges.
  - We identified a single resident with a \$300 "Unit Premium" charge listed on their Summary of Charges. However, this charge isn't reflected on the Pre-Lease Rent Roll. Therefore, we believe this "Unit Premium" charge might be equivalent to the "Premium - Balcony" charge.
- **Premium - Master Bedroom:** The audit found a negative Premium - Master Bedroom variance of (\$390) compared to the Pre-Lease Rent Roll.
  - Two missing leases are driving a total negative Premium - Master Bedroom variance of (\$100).
  - 15 residents have a \$50 "Premium - Master Bedroom" charge listed on the Pre-Lease Rent Roll, but this specific charge isn't reflected on their Summary of Charges documents, a total negative variance of (\$750).
    - Eight of these residents also have a \$50 "Base Rent" variance. Similar to the "Premium - TV" variances we identified earlier, it's possible the "Premium - Master Bedroom" charges were originally included in the base rent. We recommend the community confirm if these variances are indeed the "Premium - Master Bedroom" charges. If so, residents should receive updated Summaries of Charges reflecting the lower base rent and the separate \$50 "Premium - Master Bedroom" charge.

- Eight residents have a \$50 "Premium - Master Bedroom" charge listed on the Summary of Charges, but not on the Pre-Lease Rent Roll. However, these eight residents have a \$50 "Premium - Other" charge listed on the Pre-Lease Rent Roll. We recommend confirming with the Community what the "Premium - Other" charge consists of.
- Three residents have a \$20 "Premium - Master Bedroom" charge listed on the Summary of Charges, but not on the Pre-Lease Rent Roll.
- **Premium - View:** The audit found a negative Premium - View variance of (\$1,050) compared to the Pre-Lease Rent Roll. Nine residents with a \$100 - \$125 Premium - View charge are found on the Rent Roll. No Premium - View charges were noted on any Summary of Charges.
- **Premium - Other:** The audit found a negative Premium - Other variance of (\$8,600) compared to the Pre-Lease Rent Roll. 172 residents with \$50 Premium - Other charges are found on the Rent Roll, but respective Premium - Other charges were missing on the Summary of Charges.
  - 13 residents have a \$50 Unit Premium charge listed on the Summary of Charges. It's possible that this "Unit Premium" charge might be equivalent to the "Premium - Other" charge.
- **Utility - Trash:** The audit found a negative Utility - Trash variance of (\$35) compared to the Pre-Lease Rent Roll. Residents are responsible for the \$5 Trash flat fee.
  - 30 missing leases are driving a total negative variance of (\$150).
  - We found a discrepancy in Trash fees for 23 residents. The Rent Roll doesn't include any "Utility - Trash" charges, creating a total variance of \$115. However, the residents were charged a \$5 "Trash" fee coded under "Utility - Trash (base)". To ensure clarity and consistency in resident billing and future reporting, we recommend combining these charges under one GL code.
- **Utility - Trash (base):** The audit found a negative Utility - Trash (base) variance of (\$130) compared to the Pre-Lease Rent Roll. 26 residents have the \$5 Utility - Trash (base) fee. As mentioned above, 23 residents were found to have the \$5 Trash fee categorized under "Utility - Trash" on the Summary of Charges. Two residents are scheduled to be double charged for Trash. One resident is fully missing the "Utility - Trash" fee.
- **Unit Premium:** The audit found a positive Unit Premium variance of \$1,455. This discrepancy resulted from charges categorized as "Unit Premium" found on the Summary of Charges but was not listed on the Rent Roll. There are 24 variances ranging from \$20 to \$300. While the specific purpose of "Unit Premium" charges remains unclear, it's possible they might correspond to existing miscellaneous premium charges already listed on the Rent Roll. These miscellaneous charges could be capturing the same fees under a different name. Further investigation is necessary to determine the purpose of these "Unit Premium" charges.
- **Rent Plus:** There is a positive variance of \$216 compared to the Rent Roll. Residents who enroll, pay \$9/mo for this credit reporting service. The audit showed that 24 residents received the Rent Plus addendum and are enrolled in the program.



Concessions	Rent Roll	Rent Roll Count	Audit	Audit Count	Variance	Variance %
Monthly Concessions	\$ (3,318)	2	\$ -	0	\$ 3,318	0.0%
<b>TOTAL</b>					<b>\$ 3,318</b>	

- **Monthly Concessions:** The audit identified a positive variance of \$3,318 for Monthly Concessions. This stems from two model bed spaces receiving concessions, but no Concession addendums were found to document the specific concession amount and terms.

  - Additionally, 46 residents received a non-monetary concession in the form of a 55-inch TV for their bedrooms.

**EXPIRATION SCHEDULE**

All leases audited will expire on July 31, 2025, or at the end of the typical Academic Year.

*Please see Exhibit D for the full Future Lease Audit Summary.*

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## COMMUNITY INSPECTION SUMMARY

Cardinal employed the services of third-party vendor to perform unit inspections on 100% of units at Sample Community along with a property condition assessment (PCA) from May 9, 2024 - May 10, 2024. Unit inspections revealed the Community to be in fair to good condition considering its vintage. Most of the Capital Expenses (CapEx) items reported herein are systems and assemblies that need to be replaced to maintain the Community and ensure its compliance with safety and health regulations. All recommended repairs, replacements, and estimated costs throughout the Community Inspection Summary are from third-party vendor, and as such, they should be considered as a rough approximation rather than an exact figure. All costs are subject to change based on various factors.

The on-site team was well-prepared for inspections with keys, notices, and one escort on hand for the unit inspection. At the start of the site assessment, a brief interview was conducted with the Community Manager to discuss known and disclosed issues, recent capital projects, and common maintenance issues.

There were ten "No Entry" units (4.5% of all units) during inspections. These "No Entry" situations occurred due to an engaged privacy lock or a loose dog inside.

The Cost Summary table below summarizes both unit interior and building-specific (CapEx) repairs and replacement recommendations. The Unit Inspection table provides a room-by-room breakdown of recommended repairs in each residential unit. Common repair areas include walls, windows, and showers/tubs. The estimated total cost for all unit interior repairs and replacements is \$10,975. CapEx repairs areas include the roof, pool, windows, exterior walls, and plumbing. Additionally, CapEx repairs and replacements are estimated to cost \$506,514.

### COST SUMMARY TABLE

	Health and Safety - Immediate	Code Compliance	Asset Integrity	Accessibility	Enhancement	Modernization	
ELEVATOR	\$0	\$0	\$5,250	\$0	\$0	\$0	\$5,250
ELECTRICAL	\$900	\$880	\$0	\$0	\$0	\$0	\$1,780
FIRE PROTECTION	\$11,880	\$0	\$78,880	\$0	\$0	\$0	\$90,760
SAFETY	\$0	\$0	\$0	\$0	\$0	\$0	\$0
PLUMBING	\$0	\$0	\$116,250	\$0	\$0	\$0	\$116,250
BUILDING ENVELOPE	\$0	\$0	\$181,299	\$0	\$0	\$0	\$181,299
MECHANICAL	\$750	\$0	\$19,325	\$0	\$0	\$0	\$20,075
BUILDING INTERIORS	\$0	\$0	\$1,450	\$0	\$0	\$0	\$1,450
RECREATIONAL FACILITIES	\$950	\$0	\$22,000	\$0	\$0	\$0	\$22,950
UNIT CapEx Items	\$0	\$0	\$66,700	\$0	\$0	\$0	\$66,700
UNIT COST	\$0	\$0	\$10,975	\$0	\$0	\$0	\$10,975
<b>Total</b>	<b>\$14,480</b>	<b>\$880</b>	<b>\$502,129</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$517,489</b>

UNIT INSPECTIONS TABLE

Unit Inspection Summary																				
COMMON AREA																				
	HVAC	Water Heater	Water Heater Fan	Walls	Blinds	Ceiling	Ceiling Fan	Lighting / Electrical	Flooring	Entry Way Flooring	Faucet	Patio / Balcony	Patio Door / Glass Door	Entry / Exit Door	Fireplace	Washer	Dryer	Smoke Detector	CO Detector	Window Sills / Seals
Good	212	215	215	204	215	209	215	215	213	215	215	215	215	214	215	215	215	215	215	201
Repair	3	0	0	11	0	6	0	0	2	0	0	0	0	1	0	0	0	0	0	11
Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3
Total	215	215	215	215	215	215	215	215	215	215	215	215	215	215	215	215	215	215	215	215

KITCHEN														
	Walls	Floor	Ceiling	Lighting / Electrical	Sink	Faucet	Garbage Disposal	Dishwasher	Refrigerator	Stove	Microwave	Cabinets	Countertops	Doors
Good	215	213	213	215	215	215	215	214	215	213	215	215	214	215
Repair	0	2	2	0	0	0	0	1	0	0	0	1	0	
Replace	0	0	0	0	0	0	0	0	2	0	0	0	0	
Total	215	215	215	215	215	215	215	215	215	215	215	215	215	

OTHER				
	Pets	Pests	Moisture	Sprinkler Heads
Okay	215	215	215	215
Yes	4	0	0	0
Units	215	215	215	215

BEDROOMS									
	Walls	Closet Doors	Flooring	Ceiling	Ceiling Fan	Lighting / Electrical	Windows	Blinds	Doors
Good	808	816	816	817	817	816	805	817	817
Repair	9	1	1	0	0	0	12	0	0
Replace	0	0	0	0	0	1	0	0	0
Total	817	817	817	817	817	817	817	817	817

BATHROOMS															
	Sink	Faucet	Mirror	Exhaust / Venting	Walls	Ceiling	Lighting / Electrical	Tub / Shower	Tub / Shower Faucet	Tub / Shower - Tile	Cabinets	Countertops	Flooring	Toilet	Doors
Good	666	667	666	667	665	665	667	665	667	665	667	667	665	667	666
Repair	0	0	0	0	2	2	0	2	0	12	0	0	2	0	1
Replace	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0
Total	667	667	667	667	667	667	667	667	667	667	667	667	667	667	667

\* Please see Exhibit F - Unit Condition & Cost Summary for additional details on estimated repair and replacement items and associated costs.

\* Please see Exhibit G - Unit Inspection Summary for additional details and a unit-specific breakdown of repair/replacement items.

UNIT INSPECTIONS

**Walls** | Unit inspections identified several wall concerns throughout common areas, bedrooms, and bathrooms. These included paint, stains, and drywall cracks. The majority of the damages found were typical paint scuffs/damages that are easily repaired during Turn, prior to new residents moving in. There was one unit with evidence of water stains in the HVAC closet that would need to be repaired. Only four units had visible drywall cracks. These cracks should be monitored to identify any potential movement or growth.

**Flooring** | Seven units had flooring-related issues. Three units had general damage that appears to be dents or remnants of adhesive on the laminate flooring. One unit had laminate flooring that was coming up below the dishwasher. One unit was fully missing a laminate piece next to the washer and dryer. Additionally, two units had bathroom baseboard damage that would need to be repaired. These issues can all be addressed during Turn.

**Ceiling** | Unit inspections identified several ceiling concerns throughout common areas, kitchens, and bathrooms. Three units had visible water damage on the ceiling that should be addressed and repaired quickly to ensure there is no lingering water damage. One unit had an open hole in the washer and dryer closet that needed to be patched up. One unit will be missing hardware surrounding the sprinkler. One unit had an exposed junction box that should be covered immediately as this poses a safety concern. One additional unit had a visible drywall seam that should be repaired.



- The image to the left shows a gap next to the structural support beam in the ceiling that needs to be repaired. This similar gap was found in two units. These should be investigated further to determine if these gaps were present during the first move-in and what the root cause of these gaps is. After repairing this gap, the Community should monitor this unit to ensure additional damage or cracks are not present.

- The image to the right shows a bathroom that needs drywall repairs. It is not known why the ceiling was opened up, requiring further investigation to determine how long the ceiling was left open and what the Community's action plan is to repair the drywall.



**Sinks** | One unit observed had a crack in the bathroom sink that should be replaced, for an estimated cost of \$300. This should be replaced prior to a new resident moving in to ensure no further damage will be made to the sink, counter, or cabinets below the sink.

**Appliances** | Unit inspections reveal several appliance issues that will need to be addressed related to the dishwasher and stove. One unit observed needs the door seal on the dishwasher to be replaced. One ADA unit observed appears to have a stove that is higher than the countertops. The Community should confirm that the height of the countertops in ADA units is 34" or less.

**Doors** | One unit was missing a deadbolt on the entry door. As previously mentioned in the Historical Work Order Review section above, we recommend any issues regarding the front doors be addressed and fixed immediately when received, as resident safety should be the top priority for team members. Inspections also observed doors that do not close properly and need to be adjusted or shaved down.

**Shower/Tubs** | Unit inspections revealed that several tubs had grout chipping away, missing, or no visible caulking. One shower had a detached shower head collar that would need to be re-attached. The grout cracks or missing caulking can result in water intrusion behind the shower which can lead to further water damage and increase mold and mildew growth. The CapEx observations section provides a more detailed analysis of these caulking issues.

**Windows** | Unit inspections revealed the majority of windows do not fully close due to a faulty latch. The CapEx Observation section provides a more detailed analysis of these window issues. In addition to faulty latches, two units had broken glass that would need to be replaced. A few units had visible water damage on the window frame that should be addressed and repaired to ensure no further water damage occurs. Additionally, several windows were found to have missing caulking or the exterior envelope to be exposed with no seal that should be repaired to maintain the integrity of the window, prevent water damage, and improve energy efficiency. One unit had a cracked window frame in the bedroom that should be repaired. It should also be investigated as to what caused the crack and ensure there's no additional underlying damage on the window frame.

**Other** | There were a few issues related to missing light fixture covers, cracked kitchen island stone slab, missing smoke detectors, and chipped bathroom mirrors. Additionally, three units had improper dielectric coupling on HVAC connections and need to be repaired with proper plumbing connections to prevent further damage and maintain the integrity of the HVAC units.

Please see Exhibit H - Unit Category Defects Report for photos of in-unit defects.

Please see Exhibit I - Unit Photos & Comments Report for photos of all inspected units.

## CAPEX OBSERVATIONS

The CapEx Planning Horizon Cost table offers a comprehensive summary and breakdown of all recommended CapEx repairs and replacements. This table prioritizes these recommendations based on identified needs and provides a timeline for implementation.

	0 - Immediate	1	2	3	4	5	6+	
<b>ELEVATOR</b>	\$0	\$5,250	\$0	\$0	\$0	\$0	\$0	\$5,250
<b>Rambler ATX</b>	\$0	\$5,000	\$0	\$0	\$0	\$0	\$0	\$5,000
MCP - Maintenance Control Plan	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cab Interiors	\$0	\$250	\$0	\$0	\$0	\$0	\$0	\$250
<b>ELECTRICAL</b>	\$900	\$880	\$0	\$0	\$0	\$0	\$0	\$1,780
Electrical (GFCI, outlets, sockets, switches, etc.)	\$400	\$0	\$0	\$0	\$0	\$0	\$0	\$400
Exit Lights	\$500	\$0	\$0	\$0	\$0	\$0	\$0	\$500
Electrical Distribution	\$0	\$880	\$0	\$0	\$0	\$0	\$0	\$880
<b>FIRE PROTECTION</b>	\$8,880	\$81,880	\$0	\$0	\$0	\$0	\$0	\$90,760
Fire Suppression / Sprinkler System	\$3,880	\$78,880	\$0	\$0	\$0	\$0	\$0	\$82,760
Fire Doors	\$0	\$3,000	\$0	\$0	\$0	\$0	\$0	\$3,000
Fire Caulking	\$5,000	\$0	\$0	\$0	\$0	\$0	\$0	\$5,000
<b>SAFETY</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Flammable / Combustible Storage	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>PLUMBING</b>	\$0	\$116,250	\$0	\$0	\$0	\$0	\$0	\$116,250
Storm Water Vault	\$0	\$450	\$0	\$0	\$0	\$0	\$0	\$450
Waste & Vent Piping	\$0	\$7,500	\$0	\$0	\$0	\$0	\$0	\$7,500
DHW Systems - Water Heaters (Stand Alone)	\$0	\$108,000	\$0	\$0	\$0	\$0	\$0	\$108,000
Water Bibb	\$0	\$300	\$0	\$0	\$0	\$0	\$0	\$300
<b>BUILDING ENVELOPE</b>	\$0	\$181,299	\$0	\$0	\$0	\$0	\$0	\$181,299
Windows	\$0	\$23,200	\$0	\$0	\$0	\$0	\$0	\$23,200
Roof	\$0	\$7,250	\$0	\$0	\$0	\$0	\$0	\$7,250
Exterior Walls	\$0	\$106,549	\$0	\$0	\$0	\$0	\$0	\$106,549
Exterior Doors	\$0	\$500	\$0	\$0	\$0	\$0	\$0	\$500
Foundation	\$0	\$600	\$0	\$0	\$0	\$0	\$0	\$600
Exterior Walls - Penetrations	\$0	\$43,200	\$0	\$0	\$0	\$0	\$0	\$43,200
Patios / Porches	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>MECHANICAL</b>	\$750	\$19,325	\$0	\$0	\$0	\$0	\$0	\$20,075
HVAC Systems	\$0	\$200	\$0	\$0	\$0	\$0	\$0	\$200
Trash chute	\$750	\$0	\$0	\$0	\$0	\$0	\$0	\$750
Exhaust Fans	\$0	\$625	\$0	\$0	\$0	\$0	\$0	\$625
Condensing Unit	\$0	\$18,500	\$0	\$0	\$0	\$0	\$0	\$18,500
<b>BUILDING INTERIORS</b>	\$500	\$950	\$0	\$0	\$0	\$0	\$0	\$1,450
Door Hardware	\$0	\$400	\$0	\$0	\$0	\$0	\$0	\$400
Ceiling Surfaces	\$500	\$0	\$0	\$0	\$0	\$0	\$0	\$500
Wall Surfaces	\$0	\$550	\$0	\$0	\$0	\$0	\$0	\$550
<b>RECREATIONAL FACILITIES</b>	\$20,950	\$2,000	\$0	\$0	\$0	\$0	\$0	\$22,950
Swimming Pools	\$20,950	\$2,000	\$0	\$0	\$0	\$0	\$0	\$22,950
<b>UNIT CapEx Items</b>	\$0	\$66,700	\$0	\$0	\$0	\$0	\$0	\$66,700
BATH - Tub / Shower Surround	\$0	\$66,700	\$0	\$0	\$0	\$0	\$0	\$66,700
<b>Total</b>	<b>\$31,980</b>	<b>\$474,534</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$506,514</b>



**Unit CapEx** | Inspections identified that sand-based mortar was used for caulking around the bathtub. Sand-based mortar is prone to cracking due to temperature changes, accelerates deterioration, is time-consuming and expensive to repair, and easily allows water to penetrate leading to mold growth and possible structural issues. On the other hand, silicone caulk offers a flexible, long-lasting seal. It is recommended to remove all existing sand-based mortar caulk around the bathtub and apply new silicone caulk which will have a long-lasting and flexible seal, about \$100/tub, for a total cost of ~\$66,700.

**Healthy & Safety** | While the overall health and safety of the property seem satisfactory, several key issues require immediate attention.

- **Fire Safety:** Several fire safety-related issues were observed during the inspections. The fire suppression system is overdue for its annual testing. This is a critical safety measure and must be addressed immediately. A fire door's magnetic holder was found loose, potentially compromising its ability to close properly in a fire. Fire caulking is missing, creating potential gaps that could allow smoke and flames to spread.
- **Electrical Safety:** Open junction boxes lacking covers pose an electrical hazard to residents.
- **Other Concerns:** Damaged exit lights and issues with the trash chute door closures and sensors will need to be addressed. Additionally, the pool enclosure doors are damaged and have handles at an improper height, potentially creating a safety hazard.

**Building Envelope** | Inspections identified several issues requiring attention across various components of the building envelope, including the foundation, roof, exterior walls, windows, exterior doors, and patios/porches.



● **Foundation:** As seen in the image, the sealant was missing at the joints between the concrete foundation and surrounding surfaces, like the sidewalk. This allows water to infiltrate resulting in potential water damage or cracking to the foundation. All foundation and transition joints need to be cleaned and resealed properly with elastomeric caulking to prevent water infiltration and protect the foundation. A backer rod can be used if needed to create the proper depth for the sealant. The estimated cost to seal all foundation transition joints is \$600.

- **Roof:** The current condition of the Thermoplastic Polyolefin (TPO) roof reveals potential risk to the building's integrity and longevity. Regular inspections and maintenance will help prevent future problems and prolong the life of the TPO roof. Several issues listed below require attention. The cost to repair all roof-related issues is estimated at \$7,250.
  - **Ponding Water:** Flat areas where water collects can lead to premature roof failure and structural issues. To prevent this, it is important to assess drainage, ensure proper installation of drains and scuppers, and correct any deficiencies to ensure proper slow and water runoff. In extreme cases, adjust the roof slope if necessary.

- **Sharp Objects:** Nails, screws, and other sharp objects observed on the roof can puncture the membrane and cause leaks or other damages. To prevent this, the roof should be thoroughly cleaned as soon as possible to remove all sharp objects. Any existing punctures or damaged areas should also be repaired.
- **Burn Marks:** Burn marks are a result of overheating during welding, which can result in a weakened membrane. It is important to assess the degree of the burn marks and replace any damaged sections.
- **Failed Membrane Adhesion:** Improper adhesion between the roof membrane layers can increase susceptibility to leaks and wind damage and cause sections to bubble up, as known as uplifts. It is recommended to identify the root cause for the adhesion failure and then reinstall affected areas using proper adhesive techniques and materials.
- **Improper Membrane Lapping:** Incorrect overlapping of membrane sections exposes the roof to water infiltration and early failure. All incorrect seams must be re-lapped with the upper membrane on top of the lower membrane.
- **Exterior Walls:** The inspection revealed several areas for improvement concerning the building's exterior brick walls.
  - **Water Absorption:** The brick exteriors, though currently in good condition, are highly absorbent. This indicates they may not have been properly sealed after construction. To prevent future issues like minor spalling, we recommend applying a sealant to the brickwork.
  - **Missing Mortar & Penetrations:** Inspections found missing mortar that needs to be repaired and holes/gaps around pipes, vents, and doors that require proper sealing to prevent any water infiltration. Unsealed penetrations can result in structural damage, mold and mildew growth, interior damage, energy loss, and aesthetic deterioration. Regular inspection and maintenance are essential to prevent water infiltration and preserve the integrity and longevity of the building. It is recommended to seal all exterior wall penetrations, about 2 penetrations per unit plus 50 common building penetrations. The estimated cost to properly seal any exterior wall penetrations is ~\$43,200.
  - **Improper Expansion Joints:** The current layout of expansion joints revealed to be disjointed, not vertically continuous, aligned adjacent to window frames, and partial. They should be continuous, strategically placed to minimize the risk of cracks, and allow for thermal expansion and contraction without causing damage. To correct any gaps and disjointed expansion joints is estimated at \$14,500.
  - **Maintenance:** The entire brick exterior surface should be lightly power washed, allowed to dry, and then waterproofed. This should be completed when initially installed and about every 10 years. We recommend confirming that this was completed when installed, if not, it is crucial to address the current lack of waterproofing, about 10% of exterior walls. The cost to waterproof the brick exterior is estimated at \$92,049.

- **Windows:** Three main problems were identified with the building's windows.
  - **Faulty Latches:** As shown in the image, many windows observed did not latch properly, creating security concerns, reducing energy efficiency, allowing noise infiltration, and potentially causing water damage. It is recommended to conduct a comprehensive inspection of all windows to identify and fix/replace any faulty latches.
    - Third-party vendor observed over 200 windows had latching issues. However, the Community did a quick walk-through of a few windows and observed that some windows may need a bit of force when closing the window to get them to latch. In the event that there is an issue with a window, these items will be covered under our warranty and fixed or replaced. Without the warranty claim, the estimated cost is \$100/window repairs, a total of ~\$20,000. However, some windows may need to be replaced, which would increase the cost substantially.
  - **Chipped Glazing:** Some windows observed have chipped corner glass. To prevent these chips from spreading and potentially causing further damage, we recommend polishing and repairing them using an epoxy kit. The estimated cost to repair the chipped glazing is ~\$200.
  - **Commercial Storefront:** Inspections observed loose or inadequate seals on some of the commercial storefront windows. These failing seals can lead to energy inefficiency, moisture infiltration, uncomfortable drafts, and increased maintenance costs for repairs. The Community should confirm if the window seals are still under warranty, as the repairs may be covered by the manufacturer. If not, the estimated cost to repair the window seals is about \$3,000.
- **Exterior Doors:** The inspection revealed that the exterior entry door is misaligned with the frame, compromising its seal. A properly sealed door offers weatherproofing, energy efficiency, consistent and comfortable indoor temperatures, structural integrity, and keeps pests out of the building. The estimated minimum cost to reseal the doors properly is ~\$500.
- **Patios/Porches:** On the pre-survey questionnaire, the Community noted past mold issues on the 7th-floor townhouse units and the 6th-floor east side units that have been remediated. No new mold issues have been identified since the remediation.



**Building Interiors** | Inspections found a few building interior items that will need to be addressed related to the wall surfaces, ceiling surfaces, and door hardware.

- **Wall Surfaces:** To address minor damage on several wall corners, a budget of \$550 has been allocated for patching and painting repairs.
- **Ceiling Surfaces:** The lobby ceiling below unit 200 had visible water damage. The source appears to be from the mechanical closet or W/D closet. It is recommended to investigate the source of the leak,





repair it, and then repair and paint the ceiling. An estimated \$500 had been allocated.

- **Door Hardware:** The IDF room door hardware on the 2nd floor was missing and needed to be replaced. An estimated \$400 had been allocated.

**Plumbing |** Inspections found a few plumbing items that need to be addressed related to waste & vent piping, domestic hot water systems, stormwater vaults, and water bibs.

- **Water and Vent Piping:** The pre-survey, along with the Financial Review and Historical Work Order Review, identified issues with the waste line slope likely caused by sewer blockages. According to the Community, the issue will be corrected in the next several weeks when there is limited resident impact. It will be important to ensure the new line has the proper slope for proper drainage.
  - **Active Leaks:** Several leaks, consisting of toilet black water and gray water, were observed in the garage from the units above. These active leaks into the parking garage below can cause water damage, structural damage, odors, health hazards, vehicle damage, disruption when the garage is closed for repairs, and high clean-up costs. The estimated cost to repair these pipes and active leaks is ~\$7,500.
- **Domestic Hot Water Systems (DHW):** Hot water tanks appear to be missing dielectric fittings between copper pipes and the tanks. Missing dielectric fittings can lead to galvanic corrosion, leaks, reduced lifespan of the piping and hot water tank, decreased efficiency such as decreased water pressure, poor water quality, and high maintenance costs. An estimated \$500 per unit had been allocated to repair the DHW, a total of \$108,000.
- **Stormwater Vault:** The handles on the stormwater vault are broken. It is recommended to check for warranty coverage and replace them, an estimated cost of \$450.
- **Water Bib:** As shown in the image, a leak was identified in the water bib on the relaxation room terrace, wasting a significant amount of water annually. It is recommended to replace the water bib valve, about \$300.



**Mechanical |** Inspections found a few mechanical issues that need to be addressed related to HVAC systems, condensing units, rooftop piping, exhaust fans, and trash chutes.

- **HVAC Systems:** The condensate drain line in the 7th-floor hallway closet is not aligned with the waste drain, requiring a PVC pipe replacement to ensure proper drainage, an estimated cost of \$200 to repair.
- **Condensing Unit Piping Insulation:** The outdoor piping insulation is deteriorating prematurely due to improper materials. It is recommended to use black foam for outdoor applications. To avoid replacing all pipe insulation, the Community can apply two coats of white paintable insulation coating, like ArmaFlex WB Finish, on all insulating piping, about \$85/unit, for a total estimated cost of \$18,500.
- **Rooftop Piping:** Several pipes are resting directly on the roof membrane, which needs to be raised and supportive above the roof surface to prevent damage.

- **Garage Exhaust Fans:** Two garage circulation fans are currently damaged and not functioning. Proper ventilation is crucial to prevent moisture buildup and potential mold growth in the garage. To address this issue promptly, we recommend repairing the existing fans. The estimated cost to repair the fans is \$625.
- **Trash Chute Safety System:** As mentioned in the Healthy & Safety section, trash chute doors were found ajar even though the sensors appear to be constantly active. This poses a significant safety hazard. If the door locking mechanisms are malfunctioning, immediate repairs are crucial to prevent accidents. The estimated cost to repair the doors is \$750.

**Electrical** | Inspections found electrical issues related to electrical supply, electrical junction boxes, and exit lights.

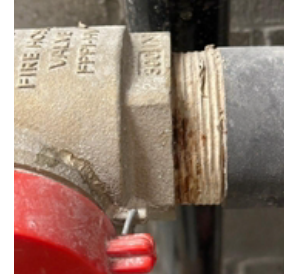
- **Fire Pit Electrical Supply:** The electric cable for the amenity terrace roof fire pit is plugged into an exterior outlet box with no protective cover. Several issues are observed with this temporary solution related to inadequate cable length, cable rating not intended for outdoor use, susceptibility to weather damage, and waterproofing. While it may be acceptable for temporary use, it is recommended to install a dedicated electrical wiring system for the fire pit, following local building codes and reducing risks of accidents or damage. About \$880 has been allocated to this capex item.
- **Electrical Junction Boxes:** Several open electrical junction boxes were found around the property, including outdoor locations. An open junction box exposes live wires and electrical connections, creating a safety hazard not limited to electrical shock, fire hazard, moisture damage, code violation, and foreign object interference. All electrical junction boxes should be properly closed and secured according to electrical codes. The estimated cost to address all open junction boxes and bring them into compliance is ~\$400.
- **Exit Lights:** Several exit light signs were damaged. Properly functioning exit lights are essential for building illumination and safe evacuation during emergencies. To ensure the safety of residents, we recommend immediate repairs to all damaged exit light signs. The estimated cost to address these repairs is \$500.

**Fire Protection** | As briefly discussed in the Healthy & Safety section above, inspections found several fire protection issues related to fire suppression systems, fire doors, and fire caulking.

- **Fire Suppression System:** The fire suppression system inspection is overdue by six months. This is a major safety hazard and puts the building out of compliance with regulations. The Community should schedule a comprehensive inspection and testing of the entire fire suppression system to ensure proper functionality and bring it up to compliance. It also appears that the panel has been manually silenced as over 17 trouble calls have not been cleared. The estimated cost to get the Community up to compliance is \$3,880.
  - Aside from legal compliance, missing the fire suppression system inspection can pose a safety risk to the Community and its residents, insurance issues invalidating insurance coverage in the event of a fire, property damage, business disruption if the system fails due to lack of testing, increased costs for repairs and replacements. As mentioned above in the Service Contract review, we recommend that the Community have an active Fire Sprinkler Inspection contract. The Community has a

quote from Unlimited Sprinkler Fire Protection to provide services for an annual cost of \$3,880.

- **Dielectric Couplings:** As shown in the image, many pipe connections lack dielectric protection, leading to galvanic corrosion and potential system failure. It is recommended to install dielectric couplings at all necessary pipe connections to prevent corrosion and ensure system integrity. As the inspection did not complete an inventory of the need for dielectric coupling protection, Third-party vendor provided a placeholder of \$78,880 for dielectric couplings until the inventory and costs are known.
- **Fire Doors:** Fire door magnetic holders are failing to properly secure the doors, compromising their ability to contain fire and smoke. All fire door magnetic attachments should be inspected and repaired to ensure they securely hold the door closed. An estimated cost of \$3,000 has been allocated to fire doors.
- **Fire Caulking:** Fire caulking is missing in several locations on fire separation walls, reducing their effectiveness in stopping the spread of a fire. It is recommended to conduct a thorough inspection to identify missing fire caulking on fire separation walls and reseal them immediately. Third-party vendor allocated about \$5,000 for fire caulking.



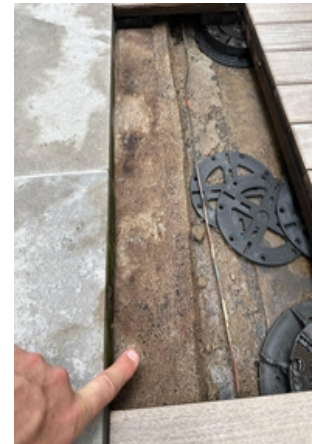
**Safety Signs** | The inspection report identified that the exterior door to the pool mechanical room, which stores chemicals, lacks a proper hazard diamond label. The sign can be easily added for ~\$75.

**Recreational Facilities - Pool** | Inspections found several pool issues related to the chemical feeder, pool pump, pool enclosure, and concrete deck that will need to be addressed.

- **Chemical Feeder:** Inspections found a non-functional, or manually turned off, automatic chemical feeder, which is crucial in maintaining proper chemical levels. That said, the pH and ORP measurements were imbalanced and not in the normal range. It is recommended to repair the automatic pool chemical feeder and ensure it is on and functioning properly at all times to maintain consistent and proper chemical levels for an estimated cost of \$500.
  - **Low ORP (545 mV):** In general, the ORP value should be around 750 -770 mV. The pool was low at 545 mV, which is inadequate to kill bacteria and germs, raising the risk of infections and cloudy water. Additionally, low ORP can result in a higher demand of chlorine, leading to increased chemical costs.
  - **High pH (9.5):** The ideal pH range is between 7.4 and 7.6. The pool pH level was high at 9.5. This high pH level reduces chlorine effectiveness, promotes scale buildup, causes skin irritation, and also contributes to cloudy water.
- **Pool Pump:** The inspection identified air entering the pool pump, which can lead to reduced efficiency, increased wear and tear, poor water quality, and potential equipment damage. It is possible that there is an air leak, low water level, clogged or blocked skimmer basket, clogged or blocked pump strainer basket, or cracks in pump housing that are causing excess air in the pump. By addressing the root cause of the air intake and performing regular

maintenance, you can ensure the pool pump operates efficiently and maintains optimal pool water circulation and quality. The cost to repair the pool pump is estimated at \$1,500.

- **Pool Enclosure:** The inspection found a critical safety issue with the pool enclosure door having a malfunctioning latch and positioned too low to meet the minimum height requirements. It is recommended to repair the door hardware and ensure its proper self-closing and self-latching functionality and install a new latch that meets the minimum requirement of 5 feet from the ground for an estimated cost of \$950.
  - The State mandates pool enclosure safety regulations to prevent accidents around swimming pools. These regulations require self-closing mechanisms, self-latching mechanisms, and a minimum latch height.
- **Concrete Deck:** The inspection revealed that the concrete pool deck, above the parking garage, lacks proper waterproofing detail. This is a significant concern, as it can lead to water infiltration, mold and mildew growth, and damage to the underlying structure. The concrete deck should have effective waterproofing, including joint sealing, effective drainage systems, waterproof coatings, incorporating expansion joints to accommodate movement, and installing flashing around vulnerable points. It is recommended to conduct an inspection of the pool deck waterproofing to identify any areas of specific concerns and implement a remediation plan to address any deficiencies. The estimated cost to repair the concrete deck is ~\$20,000; however, this should be updated once a comprehensive inspection of the pool deck is completed.



**Elevator** | Inspections revealed three areas of concern for elevators: damaged floor tiles, an incomplete Maintenance Control Plan (MCP), and a non-functional elevator. Several elevators have damaged floor tiles that pose tripping hazards and detract from the overall appearance. These tiles should be repaired promptly. The MCP, a critical document for elevator safety and maintenance, was incomplete and lacked current inspection and repair records. The elevator maintenance company is obligated to maintain these records and update the MCP accordingly. Requesting this update should not incur any cost for the Community. Elevator #8 was out of service during the inspection, and the cause of the malfunction is unknown. A qualified elevator technician should inspect and repair this elevator as soon as possible. As previously mentioned, we recommend obtaining an elevator contract for any maintenance repairs, service calls, and annual inspections.

*Please see Exhibit J - CapEx Observations & Amenity Photos for photos, descriptions, and cost estimate details related to CapEx Observations*

## **BUILDING SIGNAGE**

Sample Community currently has limited building signage, with only a small sign near the front doors and a large one at the top of the building.

## COMMON AREA & AMENITY INSPECTIONS

The inspection of common areas and amenities revealed generally fair to good condition, with the exception of the pool and elevator, which have separate CapEx observations documented above.

*Please see Exhibit J - CapEx Observations & Amenity Photos for photos of inspected Common Area & Amenity areas*

## ENVIRONMENTAL SITE ASSESSMENT

Cardinal employed the services of Third-party Vendor to perform a Phase 1 Environmental Site Assessment (ESA) of Sample Community. The results of the assessment are summarized below.

After reviewing historical uses, available regulatory databases, and adjoining properties, third-party vendor did not identify any recognized environmental conditions (RECs), Controlled RECs, or any significant data gaps in connection with Sample Community. Therefore, no further environmental investigation is recommended at this time.

There were a few limitations to the ESA, including no subsurface or invasive assessment, no vapor intrusion or indoor air quality assessment, no business environmental risk evaluation, limited historical use information before 1900, and inaccessible elevator pits. In addition, Third-party vendor reviewed historical Phase 1 ESAs and a Geotechnical Report. Both reports did not identify any RECs and no further investigation is recommended.

*Please see Exhibit K - Phase 1 Environmental Site Assessment for additional detail and description.*

## APPENDIX

The following exhibits are referenced in one or more parts of this report and accompany this memo. These exhibits are delivered separately from this memo, due to varying file types.

- Exhibit A:** Service Contract Summary
- Exhibit B:** Conservice Assessment
- Exhibit C:** Current Lease Audit Summary
- Exhibit D:** Future Lease Audit Summary
- Exhibit E:** Work Orders Summary
- Exhibit F:** Unit Condition & Cost Summary
- Exhibit G:** Unit Inspection Summary
- Exhibit H:** Unit Category Defects Report
- Exhibit I:** Unit Photos & Comments Report
- Exhibit J:** CapEx Observations & Amenity Photos
- Exhibit K:** Phase 1 Environmental Site Assessment