

# Appendix I: Physical Condition Assessment Statement of Work

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## **Qualifications:**

Contractor must:

1. Be trained to evaluate building systems, health, and safety conditions, and physical and structural conditions, and to provide cost estimates for maintaining, rehabilitating, or improving deficiencies. Must also have environmental expertise, as inspection will include environmental issues as well. Must have any required licenses.
2. Have acceptably completed written evaluation reports for similar types of multifamily rental housing projects in similar physical condition and age in the subject market or in similar areas, preferably including two (2) or more buildings that were receiving Section 8 or some other type of housing assistance when the report was prepared.
3. Not be under suspension or debarment by HUD, or involved as a defendant in criminal or civil action with HUD.
4. Produce reports that are well regarded in the marketplace in terms of content, timeliness and responsiveness. The inspector should have this personal experience, not just the company.
5. Have the capacity to complete the project inspection and prepare the report in a time frame acceptable to the PAE.

## **Statement of Work**

The Contractor shall:

1. Perform a Physical Condition Assessment (PCA) for each asset specified by the PAE and report the findings.
  - a. The report shall be prepared according to the Fannie Mae document: “Physical Needs Assessment Guidance To The Property Evaluator” (Attachment A), except as modified herein.
  - b. The report shall include color photographs and a detailed narrative describing the property’s exterior and interior physical elements and condition, including architectural and structural components, and mechanical systems.
  - c. The Inspector will consult HUD Asset Management, Real Estate Assessment Center (REAC) and mortgagee (if available) files.

- d. The Contractor shall conduct site inspections of a minimum of 25% of all units. Units shall be randomly sampled while taking into consideration occupied and unoccupied units and the unit size mix, i.e. one bedrooms, two-bedrooms, etc. If a significant number of units are found to be in poor condition, the PAE may require that additional units be inspected.
- e. The report shall include:
  - (1) **Critical items:** Identify in detail, and report immediately to property management and the PAE, any repair item(s) that represents an immediate threat to health and safety;
  - (2) **Repair/Rehab items (Short Term Physical Needs):** Identify and estimate the cost of the repairs, replacements, and significant deferred and other maintenance items that will need to be addressed within 12 months of closing (do not include items that are not broken but may need replacement in the near future).
  - (3) **Market Comparable Improvements.** After discussion with the PAE and the PAE's appraiser, the inspector may include repairs or improvements that are necessary for marketability in the list of Repair/Rehab needs. The repairs/improvements identified should be those necessary for the project to retain its original market position as an affordable project in a decent, safe and sanitary condition (recognizing any evolution of standards appropriate for such a project). The project should be able to compete in the non-subsidized market on the basis of rents rather than amenities. Where a range of options exists, the least costly options for repair or rehabilitation should be chosen, when both capital and operating costs are taken into consideration.
  - (4) **Long-term Physical Needs/Reserve items:** Identify and provide an estimate of the major maintenance and replacement items that are required to maintain the project's physical integrity over the next **twenty (20) years**. (Note that the *Fannie Mae Guidance to the Property Evaluator* only requires an 18-year assessment maximum.)
  - (5) **Environmental Concerns:** The report shall provide a description of directly observed potential on-site environmental hazards and include a completed Environmental Restrictions Checklist (Form 4.4).
- f. The report shall identify any physical deficiencies as a result of:
  - (1) a visual survey;
  - (2) a review of any pertinent documentation; and
  - (3) interviews with the property owner, management staff, tenants, interested local community groups and government officials, to the extent possible.

- g. The report shall provide a cost-benefit analysis of any individual repair or improvement costing more than \$10,000 per work item that represents an upgrade to current elements or that could be considered to reduce the operating expenses. (For example, individual utility metering, extra insulation, thermopane windows, water savers on showers and toilets, automatic setback thermostats, and durable siding.) Compare the cost of the item with the long-term impact on rent and expenses, taking into account the remaining useful life of building systems, as needed. The Contractor should coordinate with the underwriter and appraiser on this analysis, as needed. (Note: This analysis does not apply to items proposed to address accessibility issues, discussed below.)
  - h. The report shall explain how the project will meet the requirements for accessibility to persons with disabilities, to the extent applicable. (See Attachment B, Accessibility Law Compliance Chart, for specific guidance.) Paragraph 2-40 of HUD Handbook 4350.3 (change 24 issued 1-19-93) requires owners to develop a transition plan that identifies physical obstacles that limit accessibility and describes methods to make the project accessible. The contractor shall include items in the transition plan in the list of repairs.
  - i. If requested by the PAE, the contractor shall take part in discussions with the owner, tenants, or other interested parties, including neighborhood associations, members of local government, and representatives from the public housing authority, including attendance at a meeting to solicit oral and written comments to be incorporated into the PCA. The contractor shall assist the PAE in evaluating and responding to tenant and local community comments concerning the physical condition of the project and recommended repairs.
  - j. The contractor shall act as an independent third-party on behalf of the PAE to review the completeness and accuracy of any PCA submitted by the owner.
  - k. The contractor shall provide the PAE with weekly status reports (upon request) during the preparation phase to track and monitor the progress.
2. The PCA report should also include the following subcomponents:
- a. Acknowledgments (who prepared report, when report was prepared, who received report and when report was reviewed).
  - b. Appendices (color photographs, site plans, maps, etc.)
3. In addition to the above, the Contractor shall:
- a. Recommend any additional professional reports needed, for example, to determine the presence or degree of structural defects, or to complete additional investigation into an environmental issue. (The PAE will be responsible for obtaining such reports.)

- b. If the services of a subcontractor were secured to perform the PCA, the Contractor shall review the inspection for quality, consistency and agreed upon format and conformance with Fannie Mae's and these requirements.
- c. If requested by the PAE, attend a formal kick-off meeting to clarify the requirements and scope of the work to be performed.

### **Deliverables**

- 1. A draft report shall be submitted to the PAE for review prior to completion of the final report.
- 2. The final report shall be completed in the number of originals and copies requested by the PAE or its designee.