

Texas State Affordable Housing Corporation

Peppertree Acres Apartments

6555 Sheridan Circle Fort Worth, TX 76134

Owner: RHAC-Peppertree Acres, LLC

Date Built: 1982

Management Company: Capstone Real Estate Services

Property Manager: Mary Levine

Inspection Date & Time: 10.08.2014 at 8:30 a.m.

Inspector's Name: James Matias Celina Mizcles

| | | | |
|-------------------------------------|-------|---|-------|
| Occupancy at Time of Report: | 93.2% | Average Occupancy Over Last 12 Months: | 97.6% |
| Number of Units:148 | | | |
| Number of One Bedrooms: | | Number of Two Bedrooms: | 132 |
| Number of Three Bedrooms: | 12 | Number of Four Bedrooms: | 4 |

| PHYSICAL INSPECTION | YES | NO | N/A |
|--|-----|----|-----|
| 1) Are the access gates in operable condition? | | | X |
| 2) Is the community monument sign in acceptable condition? | X | | |
| 3) Is the perimeter fence surrounding the property in acceptable condition? | X | | |
| 4) Are the grounds and landscaping in acceptable condition? | X | | |
| 5) Are trees and shrubs properly trimmed? | X | | |
| 6) Are the grounds free of erosion, foot paths and tree root elevation? | X | | |
| 7) Are sidewalks clean and in good repair? | X | | |
| 8) Is parking lot clean and in good repair with handicap parking clearly marked? | X | | |
| 9) Are recreational/common areas clean, maintained and accessible? | X | | |
| 10) Are laundry facilities clean, maintained and accessible? | | | X |
| 11) Is facility equipment operable and in acceptable condition? | X | | |
| 12) Is the area around the waste receptacles clean and are the enclosures in good repair? | X | | |
| 13) Is the exterior of the buildings in acceptable condition? | X | | |
| 14) Are hallways clean and maintained? | | | X |
| 15) Are storage/maintenance areas clean, maintained and organized? | X | | |
| 16) Are building foundations in good repair? | X | | |
| 17) Are the gutters, downspouts and fascia boards on the buildings in good repair? | X | | |
| 18) Do the building roofs appear to be in good condition? | X | | |
| 19) Do balconies and upper level walkways appear to be in good condition? | | | X |
| 20) Do windows, blinds, doors, and trim appear to be in good condition? | | X | |
| 21) Is Management addressing all health, fire or safety concerns on the property? (| X | | |
| 22) Have repairs or corrections recommended or required from the last physical inspection been satisfactorily completed? | X | | |

COMMENTS: Peppertree Apartments is a scattered site community with the following four addresses: 6500 Sheridan, 1000 Oak Grove, 1900 Ephriham, and 5200 South Crest. On the day of the site visit, the landscaping appeared to be well kept and regularly maintained. Most of the parking lots examined were in need of patches and/or repair. The monument signs for all locations were visible and in good condition. The exterior of the office and the amenities appeared to be clean and inviting. The building exteriors, foundations, and roofs appeared to be adequately maintained and free from impairment.

Observations:

- All property locations appeared to have a large number of windows with damaged blinds. In order to increase the curb appeal of all four locations it is recommended that regular replacement be conducted when blinds are broken or damaged.
- The majority of the dumpsters appear to be incorrectly sitting in the designated area and hanging over the curb. It is suggested that management speak with the waste disposal company regarding proper placement of the dumpsters. (Pictures attached)

Finding:

- During the exterior review of the 1000 Oak Grove location, electrical and/or cable wires were found exposed on the site grounds. (Picture attached) Provide TSAHC with supporting documentation to show that the exposed electrical wires and/or cables wires have been properly covered. Corrective action must be completed no later than November 23, 2014

SECURITY PROGRAM Part I

| | | |
|--|-------------------------|------------------|
| 1) After review of the prior 3 months of police reports, the following incidents were noted and includes the number of times incidents occurred: | | |
| Incident Type | # of Occurrences | Comments: |

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| | | |
|-------------------|---|---------------------------|
| Burglary | 2 | Breaking and entering (2) |
| Theft | | |
| Criminal Mischief | | |
| Personal Assault | | |
| Drug Activity | | |
| Gunfire | | |
| Domestic Violence | | |
| Disturbance | | |
| Other | | |

2) Does the property utilize a crime prevention agreement?
 ➤ The written plan to address criminal activity is on the Multi-housing Crime Addendum, which is signed by the residents.

3) What pro-active measures is the property taking to address crime on the property?
 ➤ Pro-active measures to address crime at the property include frequent follow up on all known criminal activity and monthly neighborhood watch meetings given by area neighborhood watch patrol officers.

4) How often is a light check conducted on the property? Who performs light checks on the property?
 ➤ Light checks are conducted once a month and as needed. Light checks are conducted by the maintenance staff.

COMMENTS:

Observation:

- The police reports provided reflect that the amount of incidents for the four addresses associated with the property have decreased from 30 incidents for the 3 months leading up to the 2013 inspection to 2 incidents for the 3 months leading up to the 2014 inspection. A large amount of activity remains in the area for all four property locations. Management stated that the Fort Worth police department makes it extremely difficult to obtain 911 reports for a specific address. TSAHC suggests that management make additional efforts to obtain regular 911 reports for each specific address and/or block range (I.E. 6500 Block of Sheridan) so management can get an accurate representation of the criminal activity at its sites and so management can issue lease violations when needed.

| SECURITY PROGRAM Part II | YES | NO | N/A |
|--|-----|----|-----|
| 1) Is the Staff trained in addressing crime on the property? | X | | |
| 2) Is the property free of graffiti and/or vandalism? | | X | |
| 3) Are criminal background checks being conducted on all residents over 18 years of age? | X | | |
| ➤ Are criminal background checks being conducted on residents as they age to be 18 while living in the unit? | X | | |
| 4) Has a risk assessment been conducted to determine (risk) liabilities at the property? | X | | |

COMMENTS: Management stated that the 1000 Oak Grove location has some recent graffiti that is being addressed at this time. A risk assessment was conducted in March of 2014.

| OFFICE | YES | NO | N/A |
|---|-----|----|-----|
| 1) Is the office neat, the desk uncluttered? | X | | |
| 2) Are accurate office hours posted? | X | | |
| 3) Are emergency phone numbers posted? | | X | |
| 4) Are the EHO logos clearly posted? | X | | |
| 5) Are the following displayed in full view in the leasing office? | | | |
| ➤ Fair Housing Poster | X | | |
| ➤ Occupancy Qualifications | X | | |
| 6) Is there a compliance department that ensures the set aside and eligibility requirements are being maintained? | X | | |
| 7) Which of the following community amenities are provided for resident use? | | | |
| ➤ Playground | X | | |
| ➤ Community Room | | X | |
| ➤ BBQ/Picnic Area | X | | |
| ➤ Laundry Facility | | X | |
| ➤ Business Center | | X | |
| ➤ Pool | | X | |
| ➤ Other(sport court) | X | | |
| 8) When are property licenses and permits renewed? ➤ The property does not have any licenses or permits that need renewal. | | | |
| 9) Where are vendor insurance records/binders maintained? ➤ Vendor insurance records and binders are maintained at the corporate office. | | | |

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COMMENTS:

| KEY CONTROL | YES | NO | N/A |
|---|-----|----|-----|
| 1) Are all property keys properly coded? | X | | |
| 2) Is key box locked and secured? | X | | |
| 3) Is the key code list kept separate from the key box? | | | X |
| 4) Are locks being changed during turnover of vacant units and turnover of staff? | X | | |

COMMENTS: The property uses the Keytrack system.

| MAINTENANCE PROGRAM | YES | NO | N/A |
|--|-----|----|-----|
| 1) Does the property have a preventative maintenance program? | X | | |
| 2) Is the preventative maintenance schedule being implemented? | X | | |
| 3) Is the maintenance shop clean and organized? | X | | |
| 4) On average, how many days does it take to complete a work order? ➢ The Maintenance Summary report provided for review does not give a detailed summary of each item nor does it provide an average completion time. | | | |
| 5) Does the maintenance area have properly documented MSDS material and chemicals labeled properly? | X | | |
| 6) How often are Pest Control services provided? ➢ The exterminator visits the properties every other Monday and as needed. | | | |
| 7) What is the policy for following up on completed service requests? ➢ The staff currently does not follow up on service requests. | | | |
| 8) What is the property's after hours emergency policy? ➢ Residents call the after-hours emergency number which dials the on call maintenance cell phone. Additionally, the answering service sends an email to the property manager for all emergency calls. | | | |
| 9) What capital improvements have been scheduled or completed for this budget year? ➢ Management stated that a few parking lot repairs are the only items scheduled for this budget year. | | | |

Detail of Ongoing Repairs and Replacements Completed in Last Budget Year

| | | | |
|---|----|--|--|
| 10) Unit Interior and Appliance upgrades ➢ Unit Interior and appliance upgrades were completed as needed. | | | |
| 11) Building Exterior and Curb Appeal repairs ➢ Management stated that in 2013 a few parking lot repairs were completed. | | | |
| 12) Amenity upgrades ➢ Amenity upgrades were not completed in 2013. | | | |
| 13) Other repairs or replacements ➢ In 2013 the property did periodic tree trimming. | | | |
| Number of service requests received: | 31 | | |
| Number of requests open from prior periods: | 5 | | |
| Number of service requests completed: | 26 | | |
| Number of service requests completed within 24 hours: | 13 | | |
| Number of outstanding service requests: | 10 | | |

COMMENTS:

MARKETING

| 1) Complete the table below with the most recent information available. | | | |
|---|------|----------------|-------------|
| SOURCE | COST | # of Prospects | # of Leases |
| Drive-By/Word of Mouth | \$0 | 1 | 0 |
| Flyers | \$0 | | |
| Resident Referral | \$0 | | |
| Locator Service | \$0 | | |
| Printed Advertising | \$0 | | |
| Internet Advertising | \$0 | | |
| Other Source (list) | \$0 | 8 | 1 |

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|--|------------|-----------|------------|
| TOTAL | \$0 | 9 | 1 |
| The rental activity reflected in the above table is from 9/9/2014 to 10/9/2014. | | | |
| | YES | NO | N/A |
| 2) Is the property doing bilingual advertising? | | X | |
| 3) Does the property have any competitors nearby? | | X | |
| 4) Does the property "shop" their competitors? | | X | |
| 5) Does the property complete a market survey at least monthly? | | X | |
| COMMENTS: The property is currently working off of a waiting list which is used each time notice is given or a unit is determined to be vacant. | | | |

| LEASE RENEWAL | YES | NO | N/A |
|---|----------------|-----------------|-------------------------|
| 1) Does it appear that an effective lease renewal program in place? | X | | |
| 2) What percentage of residents renewed last month, past 6 months, and past 12 months? | Current: NA | 6 months: NA | 12 months: 83% |
| 3) What percentage of move-outs in the last 12 months were due to eviction/non-payment of rent or "skip"? | | | (see observation below) |
| 4) When are the lease renewal/rent increase notices sent to residents? ➤ All renewals notices are sent 120 days in advance. All recertifications are completed in September. Rent change notices are sent 30 days in advance. See additional comments below. | | | |
| 5) Are individual files being reviewed to determine renewal/non-renewal status? | X | | |
| 6) How are renewals and re-certifications tracked and monitored? ➤ Renewals are tracked through Onesite, | | | |
| 7) Are rent increases being implemented? | X | | |
| 8) When was the last rent increase implemented? What was the average rent increase? ➤ See comment below. | | | |
| 9) How many households are currently on month-to-month leases? ➤ See comment below. | | | |
| 10) What is the charge for month-to-month leases? ➤ See comment below. | | | |
| COMMENTS: Annual recertification requirements have changed. Moving forward, recertifications must be completed within 120 days from the anniversary date of the household's move-in date. Example: The household moved in on June 1, 2014, so annual recertifications must be completed within 120 days of June 1st every year thereafter. Due to the type of lease used at this property all residents are on month to month leases and renewals/recertifications are completed at the same time. Gross rent changes are determined annually by HUD. The renewal percentage used for the purposes of this report is calculated based on the number of move outs in the last 12 months. | | | |
| Observation: • The Reasons for Move Outs report provided reflects that the property had 32 total move outs in the last 12 months (7 owner initiated, 24 tenant initiated, and in 1 instance the tenant acquired a pet which is against management policy). During the site visit, management stated that the over budget turnover expenses and high vacancy rate were both a result of the high number of "skips" at the property. It is strongly suggested that "skips" be recorded in the Move Outs Report so management can correctly investigate the community's retention and determine any negative trends regarding move outs and high vacancy. | | | |

| VACANT/MAKE READY UNITS | |
|--|-----------------------|
| 1) Number of vacant units at time of activity report: | 10 |
| 2) Number of completed made ready units at time of activity report: | 0 |
| 3) Number of completed one bedroom units at time of activity report: | 0 |
| 4) Number of completed two bedroom units at time of activity report: | 0 |
| 5) Number of completed three bedroom units at time of activity report: | 0 |
| 6) Number of uncompleted made ready units at time of activity report: | 10 |
| 7) Number of uncompleted one bedroom units at time of activity report: | 0 |
| 8) Number of uncompleted two bedroom units at time of activity report: | 9 |
| 9) Number of uncompleted three bedroom units at time of activity report: | 1 |
| Units Walked | |
| Unit # | Brief Description |
| 6506 | 2x1, Paint needed |
| 6524 | 2x1, Full turn needed |

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|------|---|
| 6530 | 3x1.5, Full turn needed and inoperable or missing smoke detectors on both floors. |
| 6551 | 2x1, Full turn needed |
| 0912 | 2x1, Full turn needed |
| 1024 | 2x1, Full turn needed |
| 2320 | 2x1, Full turn and personal property removal needed. |
| 5216 | 2x1, Floors and paint needed. |
| 5235 | 2x1, Paint needed |
| 5220 | 2x1, Full turn needed |

Down Units Walked (units vacant and unready for extended period of time and all down units)

| Unit # | Brief Description | | | |
|--------|--|-----|----|-----|
| NA | | | | |
| | | YES | NO | N/A |
| 1) | Does the Unit Availability Report match the make ready board? | | X | |
| 2) | Are units being turned in a timely manner? | | X | |
| 3) | Are there any down units? | | X | |
| 4) | Are there vacant units that have been vacant for an extended period of time? | | X | |
| 5) | What system is used by management to monitor the timely preparation of units? ➤ Onsite and the make ready board are used to monitor timely preparation of vacant units. | | | |
| 6) | How often are occupied units inspected? ➤ Occupied units are inspected quarterly. | | | |
| 7) | How often are vacant units inspected? ➤ Management stated that vacant units are inspected weekly. | | | |
| 8) | How many vacant unready units are in progress of being made ready? ➤ Ten vacant units are in the process of being made ready. | | | |
| 9) | What is the company policy on the number of days to turn vacant units? ➤ Management stated that the policy for turning vacant units is 3 to 5 business days. | | | |

COMMENTS:

Observation:

- The 10 vacant units currently average 22.4 days of vacancy. All 10 of the units currently need a full turn. It is clear that the management policy of turning vacant units in 3-5 business days is not being accomplished. It is recommended that management investigate the needs of the maintenance staff and implement a plan of action to adequately schedule and complete the work needed to make the units ready or outsource the make ready services to a 3rd vendor in order to turn the units in a timely manner.

Findings:

- The make ready board and Availability Report are not aligned with the current communities occupancy. During the time of the inspection, unit 6520 was found on the "vacant leased ready" section of the availability report. However management informed TSAHC that the unit is currently occupied. Additionally, management was unable to provide TSAHC with documentation to support the household was eligible at the time of initial occupancy. Management must provide documentation to support the household was eligible at the time of move in or certify the household under current circumstances using current rent and income limits. Documents must be submitted to TSHAC no later than November 23, 2014.
- The availability report reflects that unit 6524 is "vacant leased ready". After an inspection of the unit, it was determined that a full make ready is needed. The accuracy of the availability report is instrumental to the success of the leasing staff and imperative to the community's vacancy rate. Management must submit an updated availability report that reflects accurate information to TSHAC no later than November 23, 2014.

| BUDGET MANAGEMENT | YES | NO | N/A |
|--|-----|----|-----|
| 1) How many bids are solicited in order to obtain materials, supplies, and services? ➤ Three bids are solicited for landscaping and capital expenses. Pest control, trash, and supplies are a national account that is bid out at the beginning of the budget year. | | | |
| 2) Have there been any large unexpected repairs or purchases that have negatively affected the budget? ➤ The property has not had any unexpected repairs that the budget will not be able to recover from. | | | |
| 3) Explain YTD variances of 10% or greater. | | | |
| <u>Expense Items that Varied by 10% or Greater from the Budget for Year to Date Operations Ending</u> (Please note that a positive variance is under budget and a negative variance is over budget.) | | | |

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| EXPENSE ITEM | ACTUAL | BUDGET | VARIANCE | % | EXPLANATION |
|----------------|----------|----------|-----------|--------|---|
| Administrative | \$15,817 | \$11,902 | -\$3,915 | -32.9% | Office Supplies, Professional fees, Real Page |
| Leasing | \$728 | \$300 | -\$428 | -143% | Signage |
| Services | \$35,752 | \$43,812 | \$8,060 | 18.4% | Landscaping – August (8,735.83) |
| Turn Over | \$16,237 | \$4,800 | -\$11,437 | -238% | Painting Materials and Contracting, Contract repairs and Other turn over expenses |
| Utilities | \$87,415 | \$71,552 | -\$15,863 | -22.2% | Vacant Electric, Water, Sewer |

COMMENTS: Management explained the items in detail that are currently over budget. The items included the unexpected Real Page software expenses that affected the administrative expense, the increase of utility expense due to the use of Conserve (a utility management and billing service) charging extra fees, and an incorrectly budgeted item regarding turn over expenses. Capstone Management estimated a 1% turnover ratio across the board for the Rainbow portfolio. Peppertree is over budget on the turnover expense because their turnover percentage is currently 17%.

| REVENUE | | | |
|--------------------------------------|-----------|--------------------------------|-----------|
| FOR THE MONTH OF <u>AUGUST, 2014</u> | | YEAR TO DATE | |
| Gross Potential | \$101,978 | Gross Potential | \$808,896 |
| Budgeted Rental Income | \$102,300 | Budgeted Rental Income | \$812,418 |
| Actual Rental Income Collected | \$98,659 | Actual Rental Income Collected | \$780,881 |
| Variance + (-) | -\$2,366 | Variance + (-) | -\$21,412 |
| Other Revenue | \$1,203 | Other Revenue | \$3,477 |
| Total Collected | \$99,862 | Total Collected | \$784,358 |
| Budgeted | \$101,900 | Budgeted | \$809,435 |
| Variance + (-) | -\$2,038 | Variance + (-) | -\$25,077 |

COMMENTS:

| ACCOUNTS PAYABLE | YES | NO | N/A |
|---|-------------------|----|---------|
| 1) Is the payable report up to date? | X | | |
| 2) Is the property in good standing with all vendors? | X | | |
| 3) How often are invoices processed? ➤ Invoices are processed daily. | | | |
| COMMENTS: | 0-30 Days: | | \$4,176 |
| | 30-60 Days: | | \$0 |
| | 60 Days and Over: | | \$0 |
| | TOTAL | | \$4,176 |

| DELINQUENCIES | YES | NO | N/A |
|--|-------------------|----|----------|
| 1) Is the delinquency report up to date? | X | | |
| 2) What is the rent collection policy? ➤ Rent is due on the 6 th and rent collection letters are sent on the 7 th . After the 10 day notice expires, a 3 day notice to vacate (NTV) is given. | | | |
| 3) When is legal action taken against delinquent accounts? ➤ Evictions are usually filed around the 20 th | | | |
| 4) Does the property currently have any resident(s) under eviction? | | X | |
| 5) Does Housing have any outstanding balances? | | X | |
| COMMENTS: Observation: • The Delinquency and Prepaid report provided dated as of October 9, 2014 reflects a total balance of \$27,134 with a 30 days delinquent balance of more than \$21,184 (78%). The | 0-30 Days: | | \$5,950 |
| | 30-60 Days: | | \$5,721 |
| | 60 Days and Over: | | \$15,463 |
| | | | |

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|--|-------|--|----------|
| subsidy balance is \$4,031 (15%); it appears that the majority is due to the housing process not being completed timely for recent move ins. Twelve units (8%) have a balance due greater than \$1,000 with a balance that extends more than 30 days. The twelve units that have large balances make up \$23,298 of the overall delinquent balance which is about 86%. The Delinquent and Prepaid report contains many notes regarding payment arrangement and leniency regarding nonpayment of rent. It is strongly suggested that a more diligent approach regarding the rent collection policy be implemented and put in place. Rent collection letters and notices to vacate need to be posted punctually and evictions need to be filed and followed through. | TOTAL | | \$27,134 |
|--|-------|--|----------|

| RETURNED CHECKS | YES | NO | N/A |
|---|-----|----|-----|
| 1) Total number of returned checks in the past 3 months: | | 0 | |
| 2) Has the manager collected and deposited all returned checks? | X | | |
| 3) Is the manager following company policy on returned checks? | X | | |

COMMENTS:

| PERSONNEL | YES | NO | N/A |
|---|-----|----|-----|
| 1) Does owner/agent have a system/procedure for providing field supervision of on-site personnel? | X | | |
| 2) Does the property appear to be adequately staffed? | X | | |
| 3) Is overtime being controlled? | X | | |
| 4) Were requested pre-audit reports submitted on time? | X | | |
| 5) Does it appear that personnel are team oriented? | X | | |
| 6) Are name tags/photo IDs being worn by the maintenance personnel? | X | | |
| 7) Was management staff prepared for the site visit? | X | | |
| 8) Has staff turnover occurred since the last site review? | x | | |
| 9) How often are staff meetings held? ➤ Staff meetings are held every other week and as needed. | | | |
| 10) Have personnel been trained in Fair Housing? | X | | |
| 11) List training staff has received in the past year. ➤ Staff utilizes the Grace Hill and Elizabeth Moreland training programs. A list of some courses completed this year includes TAA training, sexual harassment, and conflict resolution. | | | |

COMMENTS:

| OWNER PARTICIPATION | YES | NO | N/A |
|---|-----|----|-----|
| 1) Does the owner have access to the software system utilized to manage the property? | X | | |
| 2) How often are reports submitted to the owner? ➤ The owner pulls reports at their own discretion. | | | |
| 3) What is the dollar amount of an unbudgeted or over budget expense that requires owner approval for the release of funds? ➤ The manager needs to seek approval for anything over budget or items not budgeted. | | | |
| 4) Are the funds for needed capital improvement items, turning of units, and marketing campaigns released by the owner according to what has been budgeted? | X | | |

COMMENTS:

| SUMMARY OF OBSERVATIONS AND FINDINGS |
|--------------------------------------|
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