

Texas State Affordable Housing Corporation

Salem Village

5201 John Stockbauer, Victoria, TX 77904

Owner: RHAC-Salem Village, LLC

Date Built: 1981

Management Company: : Capstone Real Estate Services

Property Manager: Rachel Medrano

Inspection Date & Time: February 3, 2017 at 8:30AM

Inspector's Name: James Matias

| | | | |
|-------------------------------------|-------|---|-------|
| Occupancy at Time of Report: | 94.3% | Average Occupancy Over Last 12 Months: | 96.9% |
| Number of Units: 105 | | | |
| Number of One Bedrooms: | 40 | Number of Two Bedrooms: | 46 |
| Number of Three Bedrooms: | 17 | Number of Four Bedrooms: | 2 |

| 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: The property and the buildings appeared to be in great condition on the day of the onsite visit. The landscaping was well maintained, the perimeter fence was in good condition, and the property was free of litter. During the previous year's onsite visit, the reviewer noted the property's dumpsters were overflowing and debris or bulk items were left around the dumpster enclosures. Based on visual observation the site the exterior of the property is well-kept and the dumpsters and enclosures are free of overflowing trash and bulk items.

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: |
| Burglary | | |
| Theft | 2 | Theft (1), Identity theft (1) |
| Criminal Mischief | | |
| Personal Assault | 2 | |
| Drug Related Activity | 1 | |
| Gun Related Activity | | |
| Domestic Violence | | |
| Disturbance | 3 | |

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|---|--|
| Other | |
| 2) Does the property utilize a crime prevention agreement? | |
| ➤ The property utilizes the community rules within its lease to address crime on the property. The property does not have a crime prevention agreement. | |
| 3) What pro-active measures is the property taking to address crime on the property? | |
| ➤ In an effort to address crime on the property, the community host regular crime watch meetings, provides Zapata security patrol for 32 hours per month, and maintains a relationship with the Victoria Police Department whom occasionally drives through the property. | |
| 4) How often is a light check conducted on the property? Who performs light checks on the property? | |
| ➤ The manager stated that she completes the light checks weekly. | |
| COMMENTS: | |

| SECURITY PROGRAM Part II | YES | NO | N/A |
|--|-----|----|-----|
| 1) Is the Staff trained to address 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: The Regional Manager stated the last risk assessment was conducted in October of 2016. | | | |

| 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 (describe) | | | X |
| 8) When are property licenses and permits renewed? | | | |
| ➤ The property does not have any facilities that require licenses or permits. | | | |
| 9) Where are vendor insurance records/binders maintained? | | | |
| ➤ Vendor compliance records are maintained at the corporate office. | | | |
| 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 unit turnovers? | X | | |
| COMMENTS: The property uses the Blackhorse key tracking 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? | | | |

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|--|------------------|--|--|
| ➤ On average, it appears that all work orders are completed in 4.5 days. | | | |
| 5) Does the maintenance area have properly documented MSDS material and chemicals labeled properly? | X | | |
| 6) How often are Pest Control services provided? ➤ Pest control services are provided monthly and as needed. Each unit is serviced quarterly on the exterior and annually on the interior. | | | |
| 7) What is the policy for following up on completed service requests? ➤ The Manager stated that one out of 10 completed work orders gets a follow up phone call. | | | |
| 8) What is the property's after-hours emergency policy? ➤ All emergency calls are directed to the Property Manager. | | | |
| 9) What capital improvements have been scheduled or completed for this budget year? ➤ No capital improvements have been completed to date for this budget year. Scheduled capital improvements include wood rot replacement and new paint throughout the entire community. The wood rot and paint was scheduled for 2016 but was pushed back to 2017. Also scheduled for 2017 are asphalt patches, seal coat of the parking lot and restriping, mulch for the playground, and 6 flat roof decks for the HVAC units. | | | |
| Detail of Ongoing Repairs and Replacements Completed in Last Budget Year | | | |
| 10) Unit Interior and Appliance upgrades ➤ In 2016 windows and appliances were replaced as needed. | | | |
| 11) Building Exterior and Curb Appeal repairs ➤ In 2016 four roof replacements were done for the HVAC decks. | | | |
| 12) Amenity upgrades ➤ There were not any amenity improvements in 2015. | | | |
| 13) Other repairs or replacements ➤ For units 1C and 12A hand rails and ramps were added for ADA compliance. | | | |
| Number of service requests received: | 36 (see comment) | | |
| Number of requests open from prior periods: | 0 | | |
| Number of service requests completed: | 30 | | |
| Number of service requests completed within 24 hours: | 17 | | |
| Number of outstanding service requests: | 5 | | |
| COMMENTS: One work order was canceled. | | | |
| Observation: | | | |
| <ul style="list-style-type: none"> On the day of the site visit, management or maintenance did not provide a preventive maintenance schedule. Management stated that preventive maintenance is being completed, but it is not documented. It is strongly recommended that the maintenance staff have a written preventive maintenance log to keep track of the preventive maintenance performed. | | | |

| MARKETING | | | |
|--|------------|----------------|----------------|
| 1) Complete the table below with the most recent information available. | | | |
| SOURCE | COST | # of Prospects | # of Leases |
| Drive-By/Word of Mouth | \$0 | 0 | 0 |
| Flyers | \$0 | 0 | 0 |
| Resident Referral | \$0 | 0 | 0 |
| Locator Service | \$0 | 0 | 0 |
| Printed Advertising | \$0 | 0 | 0 |
| Internet Advertising | \$0 | 0 | 0 |
| Other Source | \$0 | 0 | 0 |
| TOTAL | \$0 | Unknown | Unknown |
| The rental activity reflected in the above table was for the month of January 2017. | | | |
| | 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 and therefore they do not have any marketing expenses. | | | |
| Observation: | | | |
| <ul style="list-style-type: none"> Management informed the reviewer that the property does not document any walk-in or phone-leads on the Traffic Report. Although the property is 100% occupied and has a waiting list, it is essential to know when and where your traffic comes from. It is suggested that management start entering all traffic onto a report and identifying the source that drove the prospect to the | | | |

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community so management will know how to properly market the property if the future demands it.

| LEASE RENEWAL | YES | NO | N/A |
|--|----------------|-----------|------------|
| 1) Does it appear that an effective lease renewal program is in place? If no, please comment below. | X | | |
| 2) What percentage of residents renewed last month, past 6 months, and past 12 months? | Current: | 6 months: | 12 months: |
| | | | 69% |
| 3) What percentage of move-outs in the last 12 months were due to eviction/non-payment of rent or "skip"? | 5.7% (2 units) | | |
| 4) When are the lease renewal/rent increase notices sent to residents? <div style="margin-left: 20px;">➤ Recertification notices are sent to residents 120 days prior to their annual recertification. Recertification reminders are sent at 90, 60 and 30 days. Rent increase notices are sent 30 days in advance.</div> | | | |
| 5) Are individual files being reviewed to determine renewal/non-renewal status? | X | | |
| 6) How are renewals and re-certifications tracked and monitored? <div style="margin-left: 20px;">➤ The Capstone compliance department monitors the renewal and recertification process through Onesite.</div> | | | |
| 7) Are rent increases being implemented? | X | | |
| 8) When was the last rent increase implemented? What was the average rent increase? <div style="margin-left: 20px;">➤ Gross rent changes are implemented annually according to the HUD regulated rent limits.</div> | | | |
| 9) How many households are currently on month-to-month leases? <div style="margin-left: 20px;">➤ None</div> | | | |
| 10) What is the charge for month-to-month leases? <div style="margin-left: 20px;">➤ N/A</div> | | | |
| COMMENTS: | | | |

| VACANT/MAKE READY UNITS | | | |
|--|---|----|-----|
| 1) Number of vacant units at time of activity report: | 6 | | |
| 2) Number of completed made ready units at time of activity report: | 3 | | |
| 3) Number of completed one bedroom units at time of activity report: | 1 | | |
| 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: | 2 | | |
| 6) Number of uncompleted made ready units at time of activity report: | 3 | | |
| 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: | 3 | | |
| 9) Number of uncompleted three bedroom units at time of activity report: | 0 | | |
| Units Walked | | | |
| Unit # | Brief Description | | |
| 3A | 1x1, Vacant, Ready | | |
| 9B | 2x1, Occupied, ADA, 2 holes in the wall, 1 inoperable smoke detector, and a hole in the shower tile. | | |
| 18B | 2x1, Occupied | | |
| 18D | 3x1, Vacant, Almost Ready, Sink Cap missing | | |
| 19C | 2x1, Vacant, Full turn needed, 1 smoke detector missing, broken light fixture | | |
| 21A | 4x2, Occupied, Both toilets had broken seats, the living room fan did not have a globe on the light, four sets of broken blinds | | |
| 22A | 3x1, Vacant, Ready | | |
| 25C | 2x1, Vacant, Full turn needed (see observation below) | | |
| 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? If so, please comment below. | X (see comments) | | |

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| 5) What system is used by management to monitor the timely preparation of units? |
| ➤ Management uses a make ready board and Onsite's availability report to monitor the timely preparation of units. |
| 6) How often are occupied units inspected? |
| ➤ Management stated that occupied units are inspected quarterly. |
| 7) How often are vacant units inspected? |
| ➤ Management stated that vacant units are inspected at least weekly. |
| 8) How many vacant units are in progress of being made ready? |
| ➤ Three units are in progress of being made ready. |
| 9) What is the company policy on the number of days to turn vacant units? |
| ➤ The company policy on the number of days to turn a vacant unit is 3-5 business days. |

COMMENTS: Prior to the submission of this report, completed work orders for the repairs needed for units 9B, 18D, 19C, and 21A were sent to the reviewer. The only item not completed is the hole in the shower in unit 9B. Management stated they are in the process of getting bids for this work order since it is not something that the maintenance staff can complete.

Observation:

- **Unit 25C has been vacant for 144 days. A full make ready remains needed on this unit. The resident was asked to leave because management determined that an infestation was due to her poor housekeeping. In addition the resident was painting various aspects of the unit, including walls, light fixtures and fans without authorization. The unit was left in extremely bad condition; all walls, ceiling and trim will need paint, all plumbing and light fixtures will need to be replaced, and the cabinets and floors will likely need to be changed. Although a large amount of work is needed for this unit, it is expected that after 5 months much more progress would be made. Management stated that the goal is to have this unit back on-line and available by the end of February 2017.**

| BUDGET MANAGEMENT | | | |
|--|--|--|--|
| 1) How many bids are solicited in order to obtain materials, supplies, and services? | | | |
| ➤ Management collects three bids to obtain materials, supplies, and services. | | | |
| 2) Have there been any large unexpected repairs or purchases that have negatively affected the current budget? | | | |
| ➤ There have not been any major repairs that have negatively affected the budget. | | | |
| 3) Explain YTD variances of 10% or greater. | | | |
| ➤ See below | | | |

Expense Items that Varied by 10% or Greater from the Budget for Year to Date Operations Ending

(Please note that a positive variance is under budget and a negative variance is over budget.)

| EXPENSE ITEM | ACTUAL | BUDGET | VARIANCE | % | EXPLANATION |
|-------------------------|----------|----------|------------|-------|--|
| Administrative Expenses | \$25,312 | \$20,577 | \$4,735 | (23%) | Office Equipment, Real Page, Professional fees |
| Leasing Expenses | \$39 | \$1,067 | \$1,028 | 96% | Promotions and Entertainment, Newsletter |
| Maintenance Expenses | \$16,723 | \$10,452 | (\$6,271) | (60%) | Electric/Lights, Plumbing, Cleaning Supplies |
| Service Expenses | \$64,354 | \$53,240 | (\$11,114) | (21%) | Trash removal, Sub Contracting |
| Turnover Expense | \$2,282 | \$3,080 | \$798 | 26% | Cleaning (Contract) |

COMMENTS: The property experienced large plumbing expenses for hydro jetting lines and sending cameras down with an auger. These expenses were the main reason the Maintenance Expense is over budget to date.

| REVENUE | | | |
|-------------------------------------|-----------|-----------------------------------|------------|
| FOR THE MONTH ENDING: DECEMBER 2016 | | YEAR TO DATE AS OF: DECEMBER 2016 | |
| Gross Potential | \$68,836 | Gross Potential | \$814,620 |
| Budgeted Rental Income | \$67,393 | Budgeted Rental Income | \$797,331 |
| Actual Rental Income Collected | \$63,646 | Actual Rental Income Collected | \$777,960 |
| Variance + (-) | (\$3,747) | Variance + (-) | (\$19,371) |
| Other Revenue | \$629 | Other Revenue | \$9,732 |
| Total Collected | \$64,275 | Total Collected | \$787,692 |
| Budgeted | \$69,120 | Budgeted | \$816,025 |
| Variance + (-) | (\$4,845) | Variance + (-) | (\$28,332) |

COMMENTS: The other revenue was much lower than budgeted because in the middle of the year after the budget was submitted, the community contracted with a new coin op service for the laundry facility. They community use to own the machines and collect 100% but now they collect less revenue. The benefit the community gets is newer machines that are much more reliable.

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| 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? ➤ Management stated that invoices are processed weekly. | | | |
| COMMENTS: The property has a \$77 credit at a local lumber company. | 0-30 Days: | | \$0.00 |
| | 30-60 Days: | | \$0.00 |
| | 60 Days and Over: | | (\$77.08) |
| | TOTAL | | (\$77.08) |

| 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 1 st and late after the 5 th . On the 6 th a 10-day notice is sent. Around the 17 th a 3-day Notice to Vacate (NTV) is sent. | | | |
| 3) When is legal action taken against delinquent accounts? ➤ Management stated evictions are filled around the 20th of the month. | | | |
| 4) Does the property currently have any resident(s) under eviction? | | X | |
| 5) Does Housing have any outstanding balances? | X | | |
| COMMENTS: Based on the delinquent and Prepaid Report from 2/3/2017 housing has a balance of \$5,660. Management stated the housing balance is due to interim housing recertifications and new move-ins. Observation: • Seven units with an average balance of \$2,385 make up 60% of the total delinquent balance. All of these individual balances are over 60 days in age. The notes on the Delinquent and Prepaid Report reflect that 10 day notices have been sent. However, in most delinquent cases the notes do not reflect that 3 day NTV is sent or that eviction has been filed. It is strongly suggested that the policy outlined in items 2 and 3 in this section are followed. | 0-30 Days: | | \$12,641 |
| | 30-60 Days: | | \$5,340 |
| | 60 Days and Over: | | \$9,853 |
| | TOTAL | | \$27,834 |

| 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 (see comment) | | |
| 9) How often are staff meetings held? ➤ Staff meetings are held monthly. | | | |
| 10) Have personnel been trained in Fair Housing? | X | | |
| 11) List training staff has received in the past year. ➤ In the past year staff has completed a series of Grace Hill and Elizabeth Moreland trainings. | | | |
| COMMENTS: The lead maintenance changed in December 2016 and the assistant manager position just became open in the beginning of February 2017. | | | |

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| 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 obtains reports weekly and as they desire. | | | |
| 3) | What is the dollar amount of an unbudgeted or over budget expense that requires owner approval for the release of funds? ➤ Two hundred dollars is the maximum a regional manager can spend without approval if an item is over budget or unbudgeted. | | | |
| 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

No Findings.

Observations:

- Management informed the reviewer that the property does not document any walk-in or phone-leads on the Traffic Report. Although the property is 100% occupied and has a waiting list, it is essential to know when and where your traffic comes from. It is suggested that management start entering all traffic onto a report and identifying the source that drove the prospect to the community so management will know how to properly market the property if the future demands it.
- Unit 25C has been vacant for 144 days. A full make ready remains needed on this unit. The resident was asked to leave because management determined that an infestation was due to her poor housekeeping. In addition the resident was painting various aspects of the unit, including walls, light fixtures and fans without authorization. The unit was left in extremely bad condition; all walls, ceiling and trim will need paint, all plumbing and light fixtures will need to be replaced, and the cabinets and floors will likely need to be changed. Although a large amount of work is needed for this unit, it is expected that after 5 months much more progress would be made. Management stated that the goal is to have this unit back on-line and available by the end of February 2017.
- Seven units with an average balance of \$2,385 make up 60% of the total delinquent balance. All of these individual balances are over 60 days in age. The notes on the Delinquent and Prepaid Report reflect that 10 day notices have been sent. However, in most delinquent cases the notes do not reflect that 3 day NTV is sent or that eviction has been filed. It is strongly suggested that the policy outlined in items 2 and 3 in this section are followed.



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