

CAPITAL IMPROVEMENTS POLICIES & PROCEDURES

Campus View Condominiums

The CC&Rs and the Ground Lease for the Campus View Condominiums provide that the approved resale price of a condominium unit may be increased by the recognized value of certain capital improvements or upgrades, provided that the Owner pays for such improvement/upgrade and obtains the prior approval of the University for a capital improvement/upgrade credit. Though the approved items are included in the calculation for determining the sales price, they are not increased by the Price Adjustment Index in recognition that they are generally items that decline in value and must eventually be replaced or further upgraded. The approved capital improvements/upgrades are also depreciated in accordance with the standard depreciation schedule approved by the University. The purpose in allowing the depreciated value of qualified improvements to increase the resale price of the condominiums is to encourage owners to maintain and improve the units to a high standard of habitability and, at the same time, maintain affordability of the units. These policies and procedures shall be interpreted consistent with these objectives.

To assist in substantiating and obtaining approval to add all or a portion of the cost of capital improvements/upgrades to the sales price, the following policies and procedures have been established.

1. Ineligible Costs and Other Limitations: (list is illustrative, not exhaustive)

- a. **Removable Items.** No items will be approved which are normally expected to be removed upon sale (e.g., free-standing appliances, furnishings, tools, window drapes, etc.).
- b. **Depreciable Life.** The upgrade program will be reflective of real market conditions. There is a limited list of items eligible for capital improvement and upgrade approval. The limitations and restrictions under this program are imposed so as to keep the prices of the unit affordable for the next buyer. A standard straight-line depreciation schedule will apply to each approved capital improvement and upgrade. (See Depreciation Guidelines attached.)
- c. **Homeowner Labor.** No credit shall be given for the value of homeowner labor performed in connection with any capital improvement or upgrade.
- d. **Maintenance/Removal.** No credit will be given for costs associated with routine maintenance of a unit (e.g., painting, appliance repair, plumbing repairs, shower door replacement, etc.). No credit will be given for costs incurred by an Owner in connection with the removal of any improvement, including but not limited to, removal of any approved capital improvement or upgrade. If an approved capital improvement that has a remaining depreciable life is removed by an Owner, the remaining value of that improvement will be deducted from the total capital improvement/upgrade credits associated with that unit.
- e. **No Value Items.** Capital improvements and upgrades which are regarded by the University in its sole discretion to be unusual, undesirable or adding little or no value to the condominium unit for future owners will not be approved for credit.
- f. **Replacements.** In the event an Owner desires to replace a previously approved capital improvement or upgrade with a new or different approved capital improvement or upgrade, the value of the remaining depreciable life of the previously approved upgrade will be deducted from the total capital improvement/upgrade credits associated with that unit.

Example: Owner B purchases a Unit and decides to replace a one-year-old Amana range with a new \$5000 Viking range. The previous credit given for the Amana range was \$2500 with a 10-year straight-line depreciation schedule (which was included in the sales price Owner A paid for the unit). After one year, the remaining undepreciated credit is \$2250. The University will remove the Amana range's undepreciated credit of \$2250 from the depreciation schedule and add the replacement upgrade credit of \$2250 (or less depending upon the value assigned to the new upgrade).

- g. **Excessive Cost.** Credits given for an approved upgrade or capital improvement will not normally reflect a dollar for dollar credit for actual costs incurred. In determining the credit to be assigned to the improvement/upgrade, the University will apply a credit that in the University's sole discretion reflects the value added to the unit (from a real market resale perspective) and yet, at the same time, maintains affordability of the unit.

Example: Owner A proposes to install \$15,000 worth of office built-ins (desk, shelves, etc.) in a bedroom of his unit. In the real market, the addition of built-in office furniture may or may not add value depending on the number of bedrooms in the unit, the quality of construction, the style of the built-ins, etc. The University may determine that the built-ins will add no value due to style, quality, or location. For instance, if there are only 3 bedrooms and the improvement has reduced the number of bedrooms available to two, the value of the unit may actually be reduced. Alternatively, the University may determine that an improvement of this sort is eligible for only partial credit. The University determines that a \$4000 credit should be applied to the improvement, to be depreciated over 5 years. After five years, the value of the improvements to the unit will be \$0. The University may also condition approval of this capital improvement on the Owner's agreement to remove the improvement and restore the bedroom to its original condition upon resale of the unit back to the University.

- h. **Personal Taste Decorative Items** - Items of decor which are unique or personal to the taste may be regarded to add little or no value to the next Owner (e.g. wallpaper, special trim, etc.) and little or no credit may be allowed.
- i. **Maximum Allowed** - In accordance with the CC&Rs and/or Ground Lease, the total of all approved capital improvements and upgrade credits may not exceed 10% of the approved Resale Price (price paid by University to Owner upon resale of condominium back to the University). If the total approved credits exceed the 10% limit, they will be adjusted at the time of sale and only the amount of credits not exceeding the 10% limit will be added to the resale price.
- j. **Owner Must Pay Cash Consideration for Improvement.** No credit will be given for any improvement or upgrade unless an Owner provides satisfactory proof that he or she has paid cash consideration for the improvement or upgrade. No credit will be given for improvements or upgrades paid for with insurance proceeds. No credit will be given for improvements or upgrades paid for by the University unless the University approves of such credit in writing. No credit will be given for improvements or upgrades paid for by a third party. Additionally, the depreciable life of an item will not be adjusted if it is replaced with funds provided by an insurance policy, the University or another third party.

Example: Unit A leaks water into Unit B. Unit A's insurance company agrees to replace the water damaged wood flooring in Unit B. The damaged wood flooring previously received an upgrade credit of \$5000 with a 10-year depreciable life. The damaged wood flooring is now two years old. Consequently, the credit associated with the flooring is now \$4000 and it has a remaining 8-year depreciable

life. After the damaged wood flooring is replaced with a new wood floor, the credit associated with the flooring remains at \$4000, and the depreciable life remains at 8 years even though the flooring is new. The rationale is that the Owner did not pay for the improvement and to adjust the credit and/or depreciable life would result in the Owner receiving a higher resale price by reason of improvements he did not pay for. This would violate the purposes and objectives of the program which are to encourage Owners to invest their own money in the unit in order to maintain the unit at a high standard of habitability and, at the same time, to maintain affordability of the units.

2. **Advance Approval Required:** All improvements should be submitted for advance approval before any actual expenditures are made. The Advance Approval Request form should be submitted at least 30 days in advance of the proposed project start date. If the upgrade is commenced without the approval of the University, the upgrade may not be approved as a capital improvement unless there is a showing of special circumstances (for example, emergency replacement over the weekend). Judgment as to special circumstances will be within the discretion of the University. Approval of the actual amount to be credited or added to the resale price shall be reserved until submittal of the Final Approval Request Form with the appropriate invoices. The University reserves the right to inspect the capital improvement or upgrade before Final Approval is issued.

3. **Advance Approval Procedure:**

- a. Complete the Capital Improvement Advance Approval Request form. Be as **detailed and descriptive** as possible to assist the University in evaluating the request pursuant to these policies. Attach legible copies of all written estimates, if any.
- a. Send the **original** of the above items to the Real Estate Operations Office for initial approval.
- b. Upon initial approval, Real Estate Operations will send the signed approval to the Owner; then the Owner may proceed with the actual expenditures. Even though the upgrade may be approved, the cost will not be added to the resale price until the documentation of the expenditure is completed and submitted using the Final Approval Request form, and such Final Approval is signed by the University.

4. **Final Approval Procedure:**

- a. Complete the Capital Improvement Final Approval Request form. Attach legible copies of all receipts and forms of payment (i.e. canceled checks, credit card statements, etc.). No requests will be processed without proper proof of payment.
- b. Send the **original** of the above items to the Real Estate Operations Office for approval.
- c. Upon the University's execution of the Final Approval Request form, the Real Estate Operations office will add the approved cost to the resale price formula and file the original form and receipts in the permanent file for the unit.
- d. The Real Estate Operations Office will send the copy of the approved Request form to the Owners for their records.
- e. The official records regarding the Resale Price will be available for inspection at the Real Estate Operations Office.
- f. **Six Month Limitation for Final Approval** - To be eligible for a capital improvement or upgrade credit, the Owner must promptly submit a completed Final Approval Request form (attaching evidence of payment for the capital improvement or upgrade), but in no case later than six (6) months from the date of installation of the capital improvement or upgrade.

5. **Burden**: The burden is on the homeowner to prove the incremental value of the upgrade and that the upgrade should be added to the unit price pursuant to these policies.

6. **Election to Proceed without Approval**: Upgrades made without advance approval are done so at the Owner's risk that they may not be added to the resale price. If they are deemed to detract from the marketability or desirability of the Unit, the Owner may be responsible for removing the item and returning the unit to its original condition upon resale back to the University. Failure to return the Unit to its original condition may result in a reduction of the resale price.

7. **Amendment of This Policy**: The University reserves the right to make reasonable amendments to these policies and procedures for the benefit of the project. The amount of a credit given for a previously approved capital improvement or upgrade shall not be affected by any such amendment.

Example: Owner A receives a \$1000 credit for garage cabinets. Two years later, the University amends its policy to state that no credit will be given for any garage cabinets. The credit previously given to Owner A for the garage cabinets remains intact and will be included in the resale price subject to depreciation.

Date Policy Approved by University: 4/11/2006

Encl: Depreciation Guidelines
Capital Improvements Advance Approval Request
Capital Improvements Final Approval Request