

RISK ASSESSMENT™

April 02, 2007.



Commercial Investor

Inspector - Bob Pace
Confidential and Proprietary

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Commercial Investor
Santa Barbara, CA.



Commercial Real Estate Inspectors
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RISK ASSESSMENT

This is an assessment of the five major systems - Plumbing, Electrical, Heating and Air Conditioning, Structure and Roofing along with an assessment of any other current maintenance issues for the site.

This assessment will cover three aspects of these systems per industry standards, namely:

1. What Maintenance/Repairs are needed immediately for each system.
2. What is the expected useful life left in each system.
3. What costs are expected over the next five years for each systems.

Note: The cost estimates are industry standards per the R.S. Means book - 2007 Building Construction Cost Data 20th Annual Western Edition. These may vary depending on the specifics of this location.

This RISK ASSESSMENT is to give the client an educated cost estimate by todays recognized standards. No implied warrantee is given.

ADDRESS: Santa Barbara, CA

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| <i>CLIENT: Commercial Investor</i> | <i>April 02, 2007.</i> |
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PLUMBING:

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| <p>1) What Maintenance/Repairs are needed immediately for the Plumbing System: None other than routine tenant repairs.</p> <p>2) The expected useful life left in the Plumbing System: 40 - 60 Years.</p> <p>3) What costs are expected over the next five years for the Plumbing System: Routine site repairs. \$500-\$1,000/year</p> | <p>TOTAL COSTS: \$500 - \$1,000</p> |
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ELECTRICAL:

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| <p>1) What Maintenance/Repairs are needed immediately for the Electrical System: None other than routine tenant repairs.</p> <p>2) What is the expected useful life left in the Electrical System: 40 years for the basic system other than Switches and Fixtures.</p> <p>3) What costs are expected over the next five years for the Electrical System: General lighting and fixtures \$500 - \$1,000/year</p> | <p>TOTAL: \$500 - \$1,000</p> |
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HEATING AND COOLING:

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| <p>1) What Maintenance/Repairs are needed immediately for the Heating and Air Conditioning system:</p> <p>A. Due to the systems all being approx. 10 years old and this being approx. 2/3's through the expected useful life of this type of system it is advised to have each system fully serviced at this time. Added costs will most likely develop due to this more detailed examination. Cost for this service is from \$100 - \$150 for each unit. Total for all units is approx. \$1,300 - \$2,000 if all units are done at the same time.</p> <p>2) What is the expected useful life left in the Heating and Air Conditioning System:</p> <p>A. Approx. 5 - 7 years for each roof package unit.</p> <p>3) What costs are expected over the next five years for the Heating and Air Conditioning System:</p> <p>A. Yearly maintenance for each unit - Approx. \$100 - \$150 per unit.</p> | <p>\$1,300 - \$2,000</p> <p>\$1,300 - \$2,000</p> |
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B. Replacement costs per unit - Approx. \$6.,000 - \$7,500 per unit at todays prices.

Due to the systems being approx. 10 years and the expected useful life of this type of system being approx. 15 - 17 years it is likely that at least some of the systems will require extensive repairs if not replacement within these next five years. Routine yearly maintenance will usually help to prolong the life for the systems. Over the next 5 years expect to spend \$10,000 - \$20,000 of repairs/replacements other than routine maintenance.

TOTAL COSTS:
\$15 - \$25,000

ROOF:

1) What Maintenance/Repairs are needed immediately for the Roofing System:

A. Both of the low slope roofing systems are at the end of the expected useful life. Both of these system are in need of major maintenance or replacement. Replacement of the low slope systems is recommended at this time due to numerous moisture stains listed in the report inside the units and to the observed condition of the roofing material.

B. It is recommended that both buildings low slope roofing systems and the sloped tile roofing systems be fully evaluated by a qualified roofing specialist and that any needed repairs/replacements are made to help ensure a leak free condition.

C. It is recommended to have reflective coatings installed on the low slope roofing systems to help lower the effects of solar heating and lower cooling costs.

2) What is the expected useful life left in the Roofing System:

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| <p>A. The low slope roofing systems have an expected useful life of 10 - 15 years. This low slope system appear to be at the end of it's life due to it's condition, sings of past repairs and moisture intrusion noted in the units.</p> | |
| <p>B. The sloped tile systems appear to need only routine maintenance at this time and appear to have approx. 15 - 25 years of life left in them.</p> | |
| <p>3) What costs are expected over the next five years for the Roofing System:</p> | |
| <p>A. Replacement of the low sloped systems is usually approx. \$3 - \$4 per sq. ft. There is approx. 11,000 s.q. ft. of low sloped roofing between both surfaces. Approx. \$33,000 - \$44,000 for replacement of the low sloped roofing.</p> | <p style="text-align: right;">COST \$33 - \$44,000</p> |
| <p>B. Complete evaluation of both roofs by a qualified roofing specialist to include all recommended repairs/replacement needed \$250 - \$500.</p> | <p style="text-align: right;">\$500</p> |
| <p>C. Reflective coating over both low slope roofing systems if built up type roofing material is used - \$1.50 - \$2.00 per sq. ft. X 11,000 sq. ft. = \$17,000 - \$22,000.</p> | <p style="text-align: right;">\$17 - \$22,000</p> |
| <p>D. Minor repairs and maintenance to the tile roofing sections - \$1,000</p> | <p style="text-align: right;">\$1,000</p> |
| | <p style="text-align: right;">TOTAL COSTS: \$50 - \$65,000</p> |

STRUCTURE:

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| <p>1) What Maintenance/Repairs are needed immediately for the Structural System: None</p> | |
| <p>2) What is the expected useful life left in the Structural System: 60 - 90 Years.</p> | |
| <p>3) What costs are expected over the next five years for the Structural System: None</p> | <p style="text-align: right;">TOTAL COSTS:</p> |

| | |
|--|-------------|
| | NONE |
|--|-------------|

GENERAL MAINTENANCE & REPAIRS:

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| <p>1) What Maintenance/Repairs are needed immediately currently for the Site:</p> <p>A. Patching and Painting of the exterior of both buildings is recommended at this time. \$35,000 - \$55,000</p> <p>B. Maintenance of the planting areas with some sprinkler repairs. \$1,000.</p> | <p>\$35 - \$55,000</p> <p>\$1,000</p> |
| <p>2) What costs are expected over the next five years for the Site:</p> <p>A. The parking area will require resealing and re-striping. Approx. 10,000 sq. ft. at \$1.00 per sq. ft. = \$10,000.</p> <p>B. General Maintenance of the site and minor repairs \$500 - \$1,000 per year.</p> | <p>\$10,000</p> <p>\$500 - \$1,000</p> <p>TOTAL COSTS: \$47 - \$67,000</p> |

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| <p>TOTAL COMBINED ESTIMATED EXPENSES OVER THE NEXT FIVE YEARS:</p> | <p>\$113 - \$159,000</p> |
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INSPECTION CONDITIONS

CLIENT & SITE INFORMATION:

DATE OF INSPECTION: April 02, 2007.
TIME OF INSPECTION: 12:00 PM.
CLIENT NAME: Commercial Investor.
ADDRESS: Santa Barbara, CA.
INSPECTOR: Bob Pace.

CLIMATIC CONDITIONS:

WEATHER: Clear.
TEMPERATURE: 70's.

BUILDING CHARACTERISTICS:

BUILDING TYPE: Two Commercial Buildings.
STORIES: One.

UTILITY SERVICES:

UTILITIES STATUS: The utilities were on.

OTHER INFORMATION:

BUILDING OCCUPIED: Yes.
CLIENT PRESENT: Yes.

PAYMENT INFORMATION:

TOTAL FEE: \$XXXX.
PAID BY: Check. #XXXX.

DEFINITIONS AND STANDARDS

TERMS OF THE INSPECTION:

- SERVICEABLE:** It is the inspectors opinion that this item is doing the job for which it was intended and exhibits normal wear and tear.
- NEEDS ATTENTION:** It is the inspectors opinion that this item is in need of further investigation and/or repairs or appears to be at the end of its service life. The inspector has made the client aware of this situation by calling it "needs attention" in the report and it is then the clients responsibility to take appropriate action concerning the situation with the appropriate professional during the inspection contingency period and prior to the close of escrow.
- NOT ACCEPTABLE:** It is the inspectors opinion that this item is either a safety hazard or not functioning properly, The inspector has made the client aware of this situation by calling it "not acceptable" and it is then the clients responsibility to take appropriate action concerning the situation with the appropriate professional during the inspection contingency period and prior to the close of escrow.
- STANDARDS:**
- A. The report conforms to the Standards and Practices of the California Real Estate Inspection Association and the Business and Professions Code which defines a real estate inspection as a survey and basic operation of the systems and components of a building which can be reached, entered, or viewed without difficulty, moving obstructions, or requiring any action which may result in damage to the property or personal injury to the inspector. The purpose of the inspection is to provide the Client with information regarding the general condition of the building(s). Cosmetic and aesthetic conditions shall not be considered.
 - B. A real estate inspection report provides written documentation of material defects discovered in the inspected building's systems and components which, in the opinion of the Inspector, are safety hazards, are not functioning properly, or appear to be at the ends of their service life. The report may include the Inspector's recommendations for correction or further evaluation.
 - C. Inspections performed in accordance with these Standards of Practice are not technically exhaustive and shall apply to the primary building and its associated primary parking structure.

PLUMBING SYSTEM

While some plumbing observation may be code related, this inspection does not determine if the system complies with code. Supply and waste lines are inspected only where they are accessible and while operating accessible fixtures and drains. Performance of the water flow can vary during different times of the day and performance of the drain during actual usage is undetermined. Drain blockage is common in vacant property.. It is advised to have any underground drain lines examined by a specialist with a camera to determine their actual condition. The following are not included; inaccessible supply or waste lines, leaks in inaccessible areas such as walls, underground or the crawl space, the interior of pipes for mineral or corrosive clogging, water hammering, solar equipment or water temperature, and the condition of shower pans or if a shower will leak when used. No water testing of any type is performed. The type of copper, whether it is M, L, or K, is not part of this inspection and will not be determined. The gas system is not tested for leaks and any underground or hidden gas lines are specifically excluded from this report. Determining the operation of sewer ejection systems is excluded from this inspection and it should be examined by a specialist. The angle stops under sinks and other plumbing valves, such as the main shut off valve, are not turned or tested.

MAIN WATER SUPPLY LINE:

MAIN WATER LINE

MATERIAL:

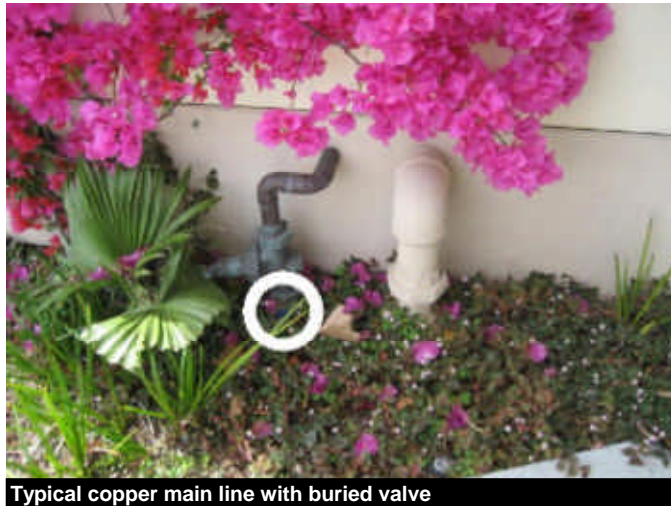
Copper piping is viewed coming out of the ground by both the buildings and as the main line runs underground from the street to the buildings, this appears to be the main water line for both buildings.

MAIN WATER SHUT

OFF LOCATION:

On the right side of the building of the left building and most of the front of the right building.

CONDITION:



Typical copper main line with buried valve

Needs Attention, many of the main shut off valves are at least partially blocked.

WATER SUPPLY PRESSURE REGULATOR:

CONDITION: There was a pressure regulator observed on the water supply system. It is not known how well or if it is functioning as all its parts are enclosed inside the regulator casing.

WATER PRESSURE: Serviceable in all units.

INTERIOR WATER SUPPLY LINES:

WATER SUPPLY
PIPING MATERIAL: The interior piping that supplies the water throughout the buildings is made of copper.

CONDITION: Serviceable.

WASTE LINES:

WASTE LINE
MATERIAL: The piping that takes the waste water to the sewer system is a combination of different materials where visible.

CONDITION: A representative examination of the visible waste lines found that those examined were working properly.

GAS SYSTEM:

SEISMIC GAS SHUT
OFF VALVE: There is no automatic seismic gas shut-off valve on the main gas line. This may need to be installed before the close of escrow in some areas but it may not be required in Santa Barbara but is recommended for safety.

GAS METER
LOCATION:



All the meters are located on the right side of the rear building in the parking lot.

CONDITION:

It is advised to have the gas provider inspect the gas system to determine its condition and check all the gas appliances and fixtures. This is usually a free service.

WATER HEATER:

LOCATION:

See each unit for individual locations and conditions.

PLUMBING COMMENTS:

**WASTE LINE
COMMENTS:**

The waste lines that go out to the sewer system are installed underground and are not visible. Their condition is unknown. The only way to determine what is going on with them is to have them checked out with a camera by a specialist to determine their true condition and any needed repairs.

**GENERAL
COMMENTS:**

The majority of the water supply pipes, waste lines and gas lines are underground, in walls or installed in concealed parts of the structure and thus are not visible. Their condition cannot be determined and no representation is made as to their status.

ELECTRICAL SYSTEM

Electrical features are operated with normal controls. The general wiring, switches, outlets and fixtures are randomly checked in accessible areas. Wiring in the main box is inspected by removing the cover if accessible. While some observations may be code related, this inspection does not determine if the system complies with code. The inspection does not determine electrical capacity, determining over current capacity for any item including appliances, comparing circuit breaker capacity to installed appliance listings, interior or exterior low voltage wiring or fixtures, telephone, security, intercom, stereo, cable or satellite TV, remote controls or timers. The exterior lighting, landscape lighting or any lighting outside the footprint of the building is not inspected. Light bulbs are not removed or changed during an inspection. This inspection does not certify or warrant the system to be free of risk of fire, electrocution or personal injury or death.

There are two main panels. One for each building.

MAIN ELECTRICAL SERVICE:

TYPE OF ELECTRICAL SERVICE:

The electricity is supplied by an underground line.

ELECTRICAL SERVICE TO THE BUILDING:

Serviceable.

MAIN PANEL LOCATION:

The right building has an electrical closet at the right rear of the building as you face it from the street.

The left building has an electrical closet in the rear as you face it from the street.

MAIN PANEL AMPERAGE:



Right building main panel.

Service Amperage - 800 amp Stand up panel in the right building.

The left building has a 1200 amp stand up panel.



TYPE OF CIRCUIT PROTECTION DEVICE: Disconnect switches.

MAIN PANEL CONDITION: Serviceable for both buildings.

MAIN PANEL CIRCUIT BREAKERS: Serviceable.

GROUNDING SYSTEM COMMENTS:

COMMENTS: The connection of the grounding wires to the grounding system is not visible. It should be connected to a grounding rod and/or the cold water piping system but in many cases these connections are not observable and are covered over within the building.

ELECTRICAL SUBPANELS:

SUBPANEL LOCATION: Each unit has at least one sub panel in it. Each is a 200 amp sub panel.

SUBPANEL CONDITION:



Serviceable.

INTERIOR ELECTRICAL WIRING:

TYPE OF WIRING: The wiring in the unit consists of plastic coated wires.

TYPE OF WIRING
CONDUIT: The conduit that carries the wiring is a combination of different types.

WIRING CONDITION: Serviceable.

OUTLETS:

CONDITION: A representative sampling of outlets were tested and those that were checked were found to be in working order.

SWITCHES:

CONDITION: A representative sampling of switches were checked and those that were tested were found to be in working order.

FIXTURES:

CONDITION: Serviceable.

EXTERIOR ELECTRICAL:

CONDITION: The exterior lighting outside the building such as in the yard, planters and on the grounds is not part of the inspection.

FIRE SUPPRESSION & SAFETY SYSTEMS

FIRE SAFETY SYSTEMS: This type of building is required to have certain fire safety items. These are items such as exit signs and fire extinguishers. It is advised to check with the local Fire Marshall to determine if this building meets current fire safety regulations.

ELECTRICAL COMMENTS:

ELECTRICAL WIRING COMMENTS: Low voltage lighting and wiring is excluded from a standard property inspection including outdoor lights, phone lines, security systems and speaker systems. Regular voltage exterior lighting is also excluded.

ELECTRICAL COMMENTS: The wiring is enclosed within the walls and ceilings and other parts of the structure. It is not visible and its condition cannot be fully determined. No representation is made as to its status.

HEATING AND COOLING SYSTEM

While some observations may be code related, this inspection does not determine if the system complies with code. Weather permitting the systems are operated with normal controls. In order not to damage the system, the air conditioners are not activated if the outdoor temperature is below 65 degrees. Gas furnaces are not checked for carbon monoxide leakage or fire risks. There are carbon monoxide and fire detection devices which can be purchased and installed, which we recommend. Air ducts and registers are randomly checked for air flow. Heat exchangers are specifically excluded from the inspection. They are visually obstructed by the design of the system and a complete inspection requires special tools and disassembly, which is beyond the scope of the inspection. The following items are beyond the scope of the inspection; balance of the air flow, capacity or velocity of the air flow, humidifiers, air duct cleanliness, the ability of the system to heat or cool evenly, the presence of toxic or hazardous material or asbestos, system refrigerant levels, cooling or heating capacity to determine if its sufficient for the building, electronic air filters, solar equipment, programmable thermostats and determining the remaining life of the system. Window A/C's are not built in units and therefore not inspected.

Each unit space in the buildings has a similar type heating and cooling unit. The description below is the general description for each unit. All units were found to be functioning.

There are a total of 5 units on the right building and 8 units on the left building. A total of 13 units all together.

HEATING AND COOLING SYSTEM:

Each unit is supplied by at least one unit that services it. Some have more than one.

HEATING SYSTEM:

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|------------------------|--|
| LOCATION: | The heating units are located on the roof. |
| LOCATION CONDITION: | Serviceable. |
| SYSTEM TYPE: | The furnaces are gas-fired forced air systems. |
| FAN AND MOTOR: | Serviceable. |
| CONDITION: | Serviceable. |
| THERMOSTAT: | Serviceable. |
| COMBUSTION AIR: | Serviceable. |
| VENTING: | Serviceable. |

DUCTING AND AIR FLOW:

Serviceable.

GENERAL COMMENTS:

It is advised to keep all the units serviced and cleaned on a periodic basis to ensure safe and properly functioning systems. It is beyond the scope of the inspection to inspect the inner working of the furnaces including the firebox. This can and should be done by a licensed heating contractor at this time.

COMMENTS:



Abandoned equipment

There is some abandoned equipment on the roof of the left building. This appears to be over what used to be a restaurant as disclosed by the current tenant.

COOLING SYSTEM:

LOCATION:

The condenser for the air conditioning is located on the roof for all units.

TYPE:

The air conditioning systems are roof package type, this is where the heating and cooling are packaged together in one unit outside the building.

SYSTEM CONDITION:

Serviceable.

CONDENSATE LINE:

Serviceable.

ELECTRICAL DISCONNECT:

Serviceable.

HEATING AND COOLING COMMENTS:

COMMENTS:

Per the California Energy Commission, "Beginning October 1, 2005, Title 24 of the Building Energy Efficiency Standards requires that ducts be tested for leaks when a central air conditioner or furnace is installed or replaced. Ducts that leak 15% or more must be repaired"

A property inspection will not be able to determine if this air loss exceeds the maximum allowed of 15%. This test can only be done by a qualified technician and is beyond the scope of this inspection. It is advised to consult with a qualified specialist on this matter as the examination may determine that repairs or replacement of the ducting system is required.

PICTURES:





Typical service panel sticker

HEATING & COOLING SYSTEM:

Each unit is a Carrier roof package type unit.

Each appears to be a 4 "ton" unit installed in either 1996 or 1997. This means that all units are approx. 10 years old.

The generally expected life for this type of unit is approx. 15-17 years. This means that all units are approx. 2/3's through their expected useful life. By industry standards within the next 5 years service will be needed on an increasing basis and expect some of the units to need some major work.

Proper maintenance for these units is to have them serviced at least once per year and ideally twice. A complete service and filter change is typically \$100 - \$200 per unit depending on the degree of service and the number of units serviced at one time in one location. If done individually expect approx. \$150 per year per unit for routine maintenance.