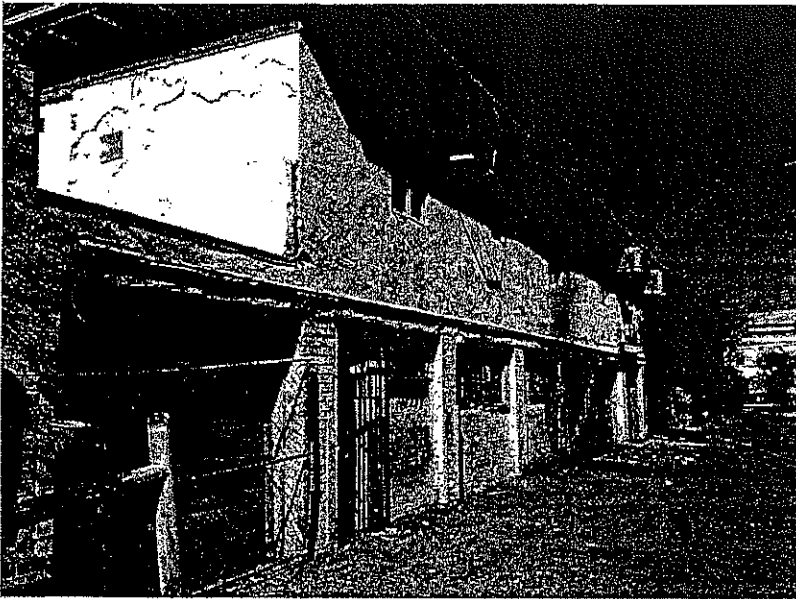


CAPITAL NEEDS ASSESSMENT

Downtown Motor Hotel
383 South Stone Avenue
Tucson, Arizona 85701

For: Bethel Development, Inc.
201 Bradenton Avenue Suite 120
Dublin, Ohio 43017

February 21, 2014



ACANTHUS ARCHITECTURE & PLANNING, PC

1130 East Missouri Avenue, Suite 110
Phoenix, Arizona 85014

Phone: (602) 274-5000
Fax: (602) 274-7455
Email: Info@AcanthusArchitecture.com

www.AcanthusArchitecture.com



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Certification

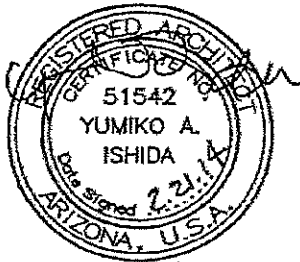
This Capital Needs Assessment is an independent, experienced third party opinion of the overall physical condition of Downtown Motor Hotel in Tucson, Arizona. This Assessment was prepared to identify significant deferred maintenance, existing deficiencies, and material building code violations that affect the property's use and/or its structural or mechanical integrity.

The development is seeking funding through Arizona Department of Housing (ADOH) Low Income Housing Tax Credit program. This report is prepared in accordance with the ADOH standards as described in its 2014 Qualified Allocation Plan.

Acanthus Architecture & Planning, PC, is a professional architectural firm with 42 years of experience in multifamily design and consultation and has prepared numerous capital needs assessments in accordance with ADOH standards. Yumiko A. Ishida, AIA, CSBA, LEED® AP, is a registered architect in the State of Arizona and has been instrumental in the development of a wide variety of multifamily projects, both new construction and rehabilitation, as architect of record, project manager, and/or sustainability consultant.

Acanthus Architecture & Planning, PC, has no financial interest in the development.

The above statements are true and correct to the best of the undersigned knowledge and belief.



EXPIRES: 12/31/16

Yumiko A. Ishida, AIA, CSBA, LEED® AP

ACANTHUS ARCHITECTURE & PLANNING, PC



Introduction

This Capital Needs Assessment presents the findings of the assessment of physical condition and cost comparison of rehabilitating Downtown Motor Hotel versus demolishing the existing structure and constructing new residential units. The Assessment is based primarily on the observations made during a site visit on January 29, 2014, by Yumiko Ishida of Acanthus Architecture & Planning ("Architect"). Custodian of the property, Mr. Richard Buethe, was present during the visit to provide information and access to the interior of the building. The building is mostly boarded up and not occupied, except by the Custodian, whose primary role is to monitor and discourage vandals from further damaging the property. The Custodian lives in the former motel manager's residence onsite on behalf of the current property owner. Mr. Mark Shoemaker of Bethel Development ("Developer") was interviewed to obtain information on the future development plans of the site.

The following resources were reviewed in the preparation of this report:

A.L.T.A. Survey by Engineering and Environmental Consultants, Inc, dated 01/16/14
State of Arizona Historic Property Inventory Form by Tucson Historic Preservation
Foundation dated Sep 1, 2013
City of Tucson Zoning Ordinance

Project Data

Location: Downtown Motor Hotel
383 South Stone Avenue
Tucson, Arizona 85701

Building: One- and Two-Story Structure Constructed in 1941

Zoning: C-3

General Description

The site is more or less rectangular with the west property fronting Stone Avenue and the east side on an alley. The existing structure is U-shaped and primarily single-story with four rooms on the second floor on the east end of the property over what appears to be former garages accessed from the alley.

The original first floor plan for the Motor Hotel shows 19 covered carport spaces and 15 motel rooms. Stairs are shown leading to a second floor to serve 4 additional motel rooms above.

The subject property is not registered as historic, but is adjacent to Armory Park Historic District and a Historic Property Inventory Form has been completed by Tucson Historic Preservation Foundation, however there have been significant changes to the original site plan and elevations

over the years. The Developer's intention is to restore parts of the building fronting Stone Avenue, in recognition of the modern international style inspired facade's contribution to the historic neighborhood.

Definitions

- Excellent:** Component of system is in "as new" condition, requiring no rehabilitation and should function in accordance with expected performance.
- Good:** Component or system is sound and performing its function, although it may show signs of normal wear and tear. Some minor rehabilitation work may be required.
- Fair:** Component or system falls into one or more of the following categories: a) Evidence of previous repairs not in compliance with commonly accepted practice, b) Workmanship not in compliance with commonly accepted standards, c) Obsolete, and/or d) Approaching end of expected performance. Repair or replacement is required to prevent further deterioration or to prolong expected life.
- Poor:** Component or system has either failed or cannot be relied upon to continue performing its original function as a result of having exceeded its expected performance, excessive deferred maintenance, or state of disrepair. Present condition could contribute to or cause the deterioration of other adjoining elements or systems. Repair or replacement is required.

Estimated Repair Costs

The repair costs estimated in this Assessment assumes the existing building would be rehabilitated to provide motel rooms with minimum code parking, and the current Custodian's residence restored as the front desk and manager's office and sleeping area.

The opinions or probable replacement costs are based on the Architect's general knowledge of building systems and the multifamily construction industry. When appropriate, standard sources such as RSMeans Building Construction Cost Data were used to develop opinions of probable costs. No competitive quotations were obtained from contractors as this is beyond the scope of this report. The actual cost to remedy deficiencies and deferred maintenance items that were identified may vary significantly from estimates and competitive quotations from contractors.

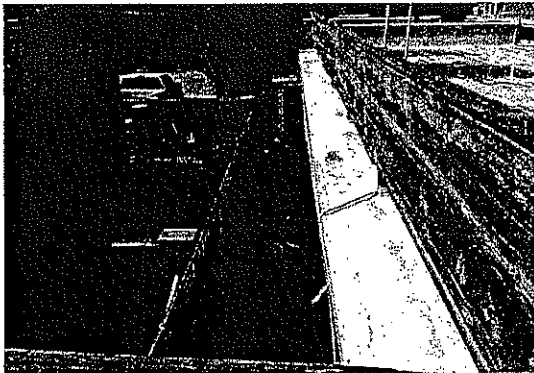


Severe damage to the ceiling

Site and Common Area Deficiencies

The site is approximately 0.5 acres. The ground gradually slopes towards the west across the whole property. The asphaltic pavement in the center area is approximately 30 feet wide and 200 feet deep, which does not provide sufficient parking space for 29 motel rooms. A concrete pad with a vertical curb is located in front of the front doors of the rooms located on the ground level. The concrete pad is narrow, leaving no room to install a curb ramp complying with ADA. Both the asphalt and concrete pavements are in poor condition.

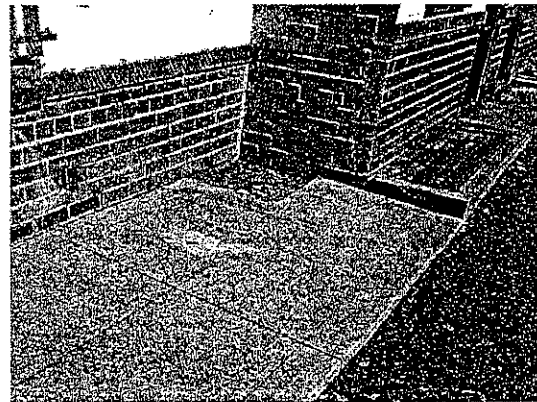
Parts of the concrete pavement adjacent to the building have openings serving as planters. Most of the planters are devoid of plants and filled with brick pavers. The few plants present are overgrown and in some instances prevent access to front doors of rooms. Behind the ground floor rooms, along the north and south property lines, are narrow outdoor areas with some shrubbery, but mostly filled with trash.



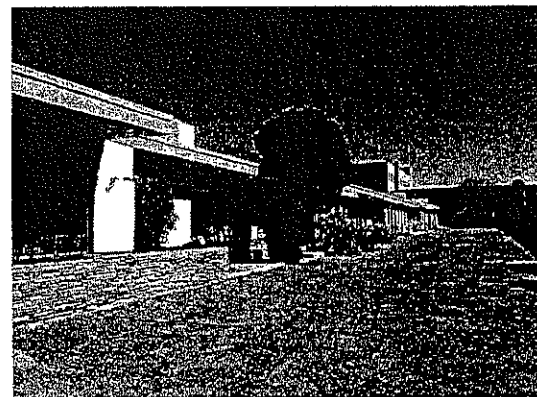
Yard filled with trash.

There are no usable common areas on the property, indoors or outdoors. In general, the property has become a feral-life refuge. Dog food and a water trough are set out on the alley side. One of the planters in front of a room is filled with cat litter and animal feces. Numerous pigeons roost in the roof of the two-story portion of the property.

Electricity continues to be provided to the property. Gas is available but the service has been discontinued. Water service has been discontinued except for the Custodian's residence.



Planter is filled with brick. Cracks are visible on exterior wall.



Asphalt is worn. Plants are too close to building.

Site Critical Repair Items

The site currently lacks code minimum parking. In a rehabilitation, the carports shown on the original plan from 1941 would need to be restored to provide sufficient parking. Costs for restoring the carports are discussed in the section of the Assessment on Building Exterior Critical Repair Items. The following are estimated cost of other critical site repair items:

• Provide ADA accessible routes, including ramps, to all common spaces and designated accessible room	\$ 2,400.
• Provide landscaping and irrigation per current city ordinance	\$10,000.
• Provide site lighting for security	\$ 7,200.
• Repair and resurface asphaltic pavement	\$ 12,000.
Subtotal	\$ 31,600.
15% Contingency	\$ 4,740.
Total Site Repair Estimate Without Taxes and Fees	\$ 36,340.

Building Exterior and Structural Systems Deficiencies

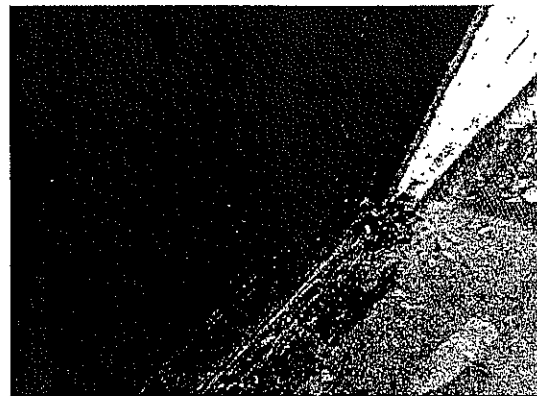
The building exterior walls are constructed of masonry blocks on the first floor and wood frame on the second floor. The masonry is painted while the wood frame walls are finished with stucco on the outside. The condition of the masonry walls are fair to poor. The wood frame walls are in extremely poor condition. The front doors of the rooms are only 30" wide and have a step at the threshold, making all rooms not accessible. Many of the doors do not close or lock properly.



Fire damage on the alley side.



Step at 1st floor entry door.



Damages at 2nd floor entry door.

The stairs leading to the second floor are constructed of wood, which is splitting and buckling, creating an extremely hazardous condition. The second floor landing and balcony, leading to the four second floor rooms, is sagging and has numerous holes. The balcony appears to be covered with built-up roofing and is in extremely poor condition with holes throughout.



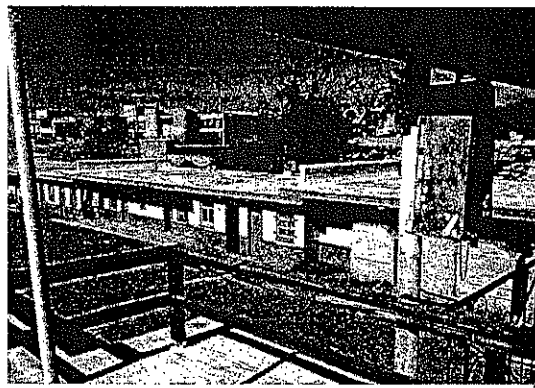
Hole in stucco wall.



Sagging treads at exterior wooden stair case.



Hole in balcony.



Precarious balcony rail.

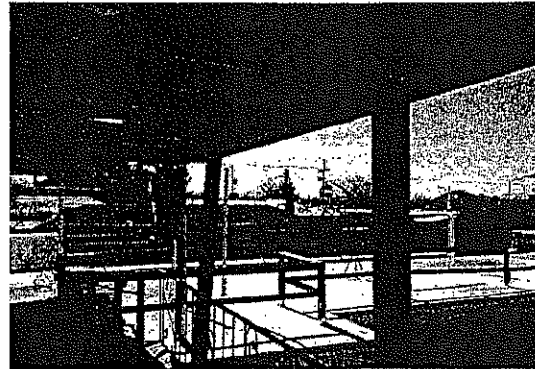
The roofs are low slope and finished with built-up roofing and white elastomeric coating. There are areas with evidence of water ponding. Parts of the eaves on the single-story portion of the building have been retrofitted with sheet metal over wood fascias and vinyl soffit boards with perforations for ventilation. Exposed fascia boards are buckling and in extremely poor condition.



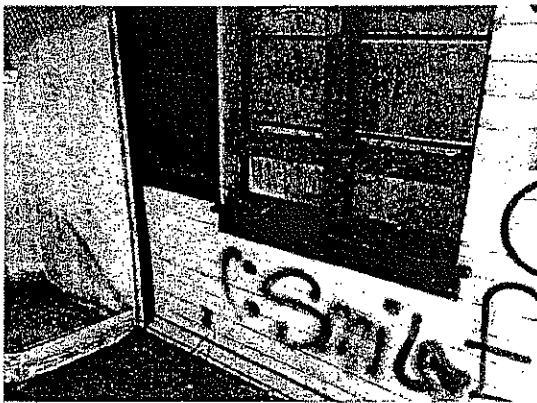
Damage to eaves and soffits.

The roof over the second floor balcony is held precariously in place with a mix of metal tubes and exposed wood posts and beams. Dry rot is present at locations where the structural wood supporting the roof is visible.

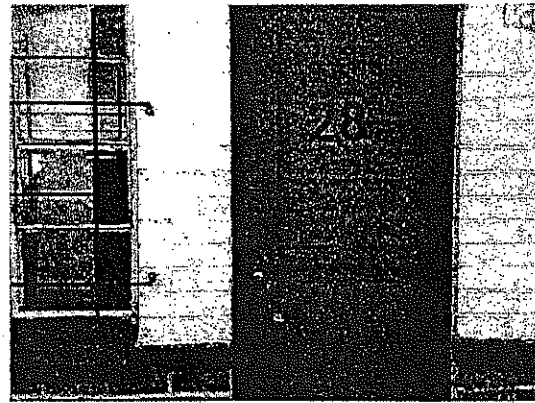
Typical windows are fixed and steel frame. The single-pane glazing is missing in many locations and the windows are boarded up.



Balcony roof support is leaning.



Interior view of boarded up window.



Typical fixed window next to typical entry door.

Building Exterior Critical Repair Items

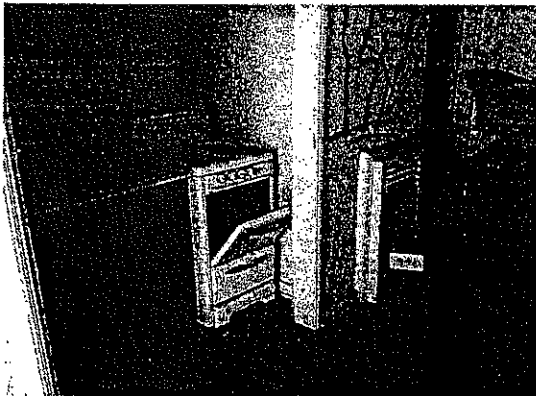
With the exception of the masonry walls, all exterior building components are in extremely poor condition and are not salvageable. As discussed under Site Critical Repair Items, building repair cost include removal of walls to restore former carports. The following are estimated cost of critical building exterior repair items:

- Reconstruct wood frame walls and balcony roof support of the second floor \$ 40,000.
- Replace roof structure \$ 55,000.
- Install new roofing \$ 30,000.
- Install new attic insulation \$ 12,000.
- Install new soffit and fascia boards \$ 3,600.
- Reconstruct exterior stairs \$ 15,000.
- Remove exterior walls and reinforce structure to restore 19 carport spaces \$ 38,000.

• Widen entry doorways to accommodate 36" doors for accessibility	\$ 20,000.
• Repair and reinforce masonry walls	\$ 10,000.
• Repaint exterior walls	\$ 12,000.
• Replace main entry doors	\$ 6,600.
• Replace exterior service doors	\$ 4,000.
• Replace windows	\$ 21,200.
Subtotal	\$267,400.
15% Contingency	\$ 40,110.
Total Exterior Repair Estimate Without Taxes and Fees	\$307,510.

Interiors

Interior flooring is either ceramic tile or VCT. Party walls are constructed in masonry every three or four rooms; otherwise they are wood frame. Where the exterior and party walls are masonry, the interior side is painted. Wood frame walls are either finished with gypsum boards or plastered on the interior side. The ceilings are finished with gypsum board or acoustical tiles or the wood rafters are painted and left visible.

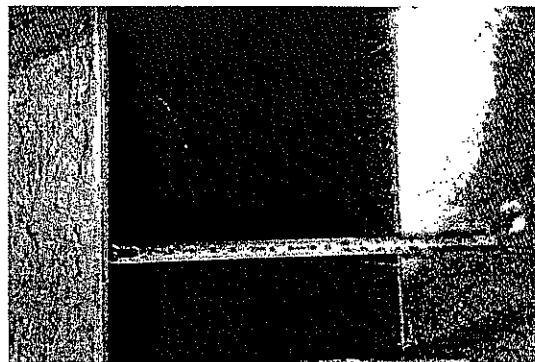


Oven door does not open fully.



Hole in wall from removed ductwork.

Most of the rooms are provided with a kitchenette, typically with missing or broken appliances. The exceptions are the Custodian's residence and Suite #9, once used as a manager's office, which are equipped with a full kitchen. Bathrooms are provided with a toilet, wall mounted sink, and a tub or a shower. None of the bathrooms are ADA compliant. Where showers are provided, they are not usable as the opening is only 15 inches.



Opening to the shower stall is too narrow.

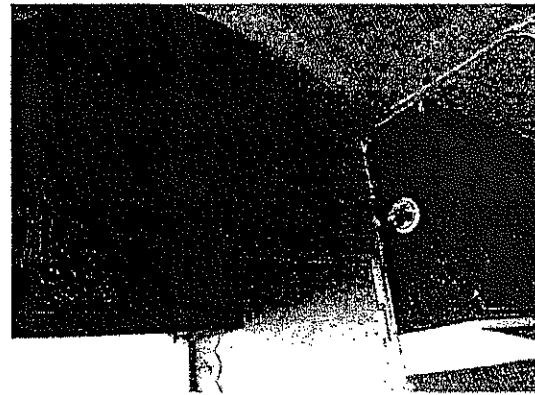
All motel rooms are in extremely poor condition. Common deficiencies include roof leaks, sagging ceilings, insulation spilling out of the ceiling, holes in walls, peeling paint, mold, graffiti, animal feces, ceiling that have fallen through, and pests.



Toilet is too close to the heater.



Extensive damage to the ceiling.



Cabinets and a broken fire alarm..

Interior Critical Repair Items

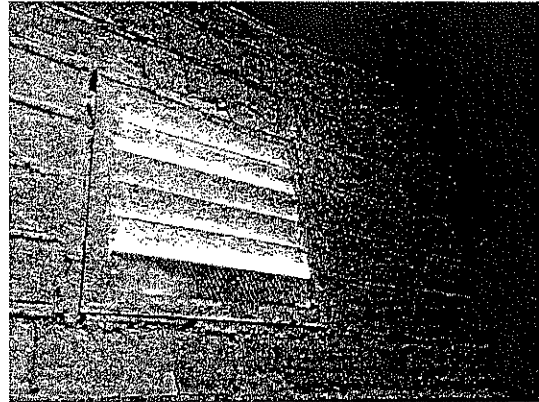
Asbestos and lead are likely present in the in the building due to its age. Remediation will be required during a renovation. The following are estimated cost of critical interior repair items:

• Asbestos and lead abatement and monitoring	\$ 40,000.
• Remodel 1 room to be designated accessible	\$ 30,000.
• Replace flooring throughout	\$ 96,000.
• Finish ceilings with gypsum board throughout	\$ 20,000.
• Repair damaged interior walls	\$ 20,000.
• Replace all interior doors	\$ 8,000.
• Paint all interior walls and ceilings	\$ 36,000.
• Replace all kitchenette cabinets, counters, sinks, and appliances	\$ 40,000.
• Remodel bathrooms to be usable	\$ 20,000.
• Replace all bathroom fixtures	\$ 40,000.
• Replace all lighting fixtures	\$ 9,000.
Subtotal	\$359,000.
15% Contingency	\$ 53,850.
Total Interior Repair Estimate Without Taxes and Fees	\$412,850.

Mechanical, Plumbing, and Electrical Systems

No mechanical cooling is provided for the ground floor rooms, except for a few rooms with boarded up holes in the exterior wall where they may have been retrofitted with through-wall AC units. There are louvered openings in the exterior walls. Radiators were used for heating. According to the Custodian and Developer, sheds attached to the north and south sides of the building contain water heaters, but they were locked and not accessible at the time of the Architect's visit. Based on the condition of the rest of the property, it is assumed that they are in poor condition and need to be replaced. For the second floor rooms, compressors hang or used to hang on the exterior wall. All heating and cooling equipment inspected by the Architect was in extremely poor condition and are not operable, except for those serving the Custodian's residence.

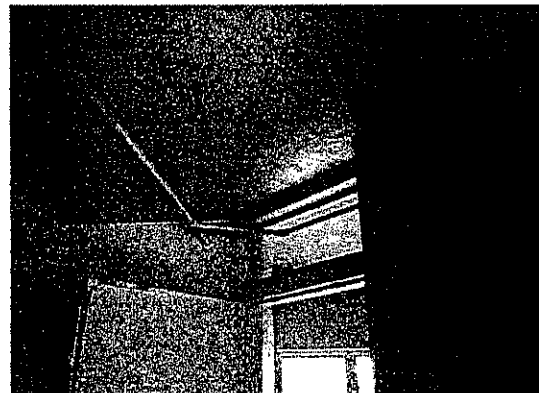
Based on the age of the original structure, the plumbing lines are likely to include iron piping. There are no records of upgrades and since the building has been vacant for approximately 10 years, there are no records of plumbing malfunctions either. The Architect was unable to verify the functionality of the plumbing system since water service is discontinued. In light of the condition of all other aspects of the existing building, it is more than likely the plumbing systems require upgrading. There are no fire protection systems installed.



Vent opening in exterior wall.



Rusted cage where AC equipment used to hang.



Exposed piping indoors.

Building Systems Critical Repair Items

The following are estimated cost of critical mechanical, plumbing, and electrical systems repair items:

• Provide new heating and cooling systems	\$ 80,000.
• Provide new hot water heaters	\$ 16,000.
• Install fire sprinkler system	\$ 90,000.
• Install smoke and fire detectors	\$ 1,500.
• Upgrade water and sewer piping	\$110,000.
• Install exhaust fans in bathrooms	\$ 4,000.
• Replace electrical outlets and add GFI where required	\$ 60,000.
• Upgrade electrical panels and service	\$120,000.
Subtotal	\$481,500.
15% Contingency	\$ 72,225.
Total Systems Repair Estimate Without Taxes and Fees	\$553,725.

Conclusions

The downtown location of the subject property suggests that the best use of the site is demolition and replacement with a multifamily project of a density more commensurate to the surroundings. The existing structures shows signs of extreme deterioration, code violating modifications, and general neglect, constituting a threat to human health, safety, and public welfare.

Should the existing property be rehabilitated to provide code compliant dwellings, the current site layout can only accommodate 19 motel rooms. The total estimated cost of the most critical repair items are as follows:

• Site	\$ 36,340.
• Building Exterior	\$ 307,510.
• Unit Interior	\$ 412,850.
• Mechanical Systems	\$ 553,725.
Total Critical Repair Estimate	\$1,310,425.

This amount translates to \$68,970 per room, exclusive of soft costs, permits, and other fees, which is excessive for rehabilitation of motel rooms. The zoning of the property allows up to 44 new apartment units to be developed on the site, which would better accommodate the market demand for diverse housing in the area.

This Assessment substantiates that the existing structure on the site has outlived its economic usefulness, and that demolition is a more cost effective option than rehabilitation.



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Limitations

This report and analysis is based upon observations of the visible and apparent conditions of the property and its major components on the dates of assessment. Although care has been taken in the performance of this assessment, Acanthus Architecture & Planning makes no representations regarding latent or concealed defects which may exist, and no warranty or guarantee is expressed or implied. This report is made only in the best exercise of our ability and judgment. Conclusions in this report are based on estimates of the age and normal working life of various items of equipment and appliances. Predictions of life expectancy and the balance of useful life are necessarily based on industry and/or statistical comparisons. It is essential to understand that actual conditions can alter the useful life of any item. The previous use/misuse, irregularity of servicing, faulty manufacture, unfavorable conditions, acts of God and unforeseen circumstances make it impossible to state precisely when each item would require replacement. The client herein should be aware that certain components with the above referenced property may function consistent with their purpose at the time of the assessment, but due to their nature are subject to deterioration without notice. Unless otherwise noted, all building components are assumed to meet the building code requirements in force at the time of construction. Conclusions reached in this report assume responsible ownership and competent management of the property. Information provided to us by others is believed to be reliable, but we assume no responsibility for the accuracy thereof. The report was prepared for the exclusive use of the Owner. No other individual or entity shall be entitled to rely upon the report without Acanthus Architecture's written consent. If another individual or entity relies on the report, such individual or entity shall indemnify and hold Acanthus Architecture and the report preparer harmless for any damages, losses, or expenses incurred as a result of such use.



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With four decades of experience in multifamily architecture, Acanthus Architecture has a well-earned reputation for cost-conscious design with service tailored specifically to a developer's needs. Four unique characteristics separate Acanthus Architecture from other firms as the ideal architecture firm for any developer's project:



Horizontal Project Management Style

One Project Manager will be assigned who handles all aspects of your project - from conception through construction administration. This "horizontal" structure ensures personal service. Your Project Manager will develop exclusive knowledge of your project from all your collective instructions and design choices. All Acanthus Project Managers are experienced, capable, and have a professional license or degree.



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Acanthus Architecture has established long-term professional relationships with a select group of specialists with extensive multifamily experience. Our relationships with these select civil (local to site), structural, MPE engineers, and landscape architects as well as with multifamily specialized contractors, enables us to find the most effective approach for each of your project designs.



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Acanthus Architecture integrates architectural and structural drawings, which means that architectural and structural drawings are one and the same. With these especially well-coordinated construction documents, your project will experience a fluid and contiguous construction process.



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Acanthus Architecture believes good design is responsible design and responsible design is sustainable design. Acanthus utilizes proven building practices, such as efficient framing methodologies, along with integrating current building technologies as appropriate. Acanthus incorporates sustainable strategies per your funding source requirements into our standard details and specifications.

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Acanthus Architecture's Awards of Distinction:

- City of Tempe Award for Design Excellence (Twice Awarded)
- Arizona Multifamily Housing Association's Award for "Best Multifamily Property in the State" (1995)
- City of Flagstaff's Award for Best Multifamily Development

Acanthus Architecture has been designing LIHTC developments in the State of Arizona for a decade. We are well-versed in providing the architectural documents necessary for the State of Arizona's Qualified Allocation Plan, and are well known for our fast turnaround time for developing preliminary designs.

Respectfully,

Yumiko A. Ishida, AIA, CSBA, LEED® AP
Vice President

Peter J. Swingle, RA
Vice President

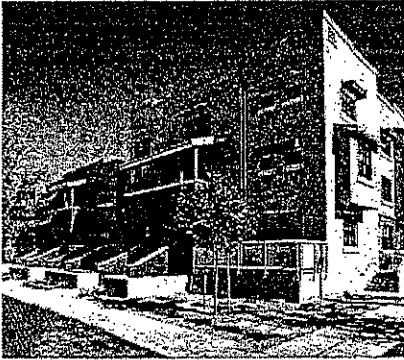




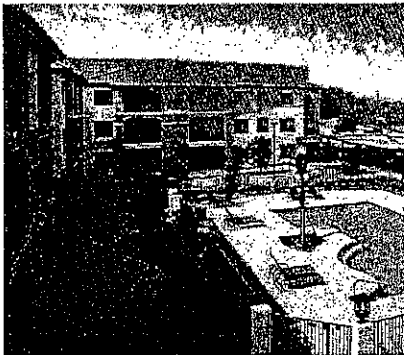
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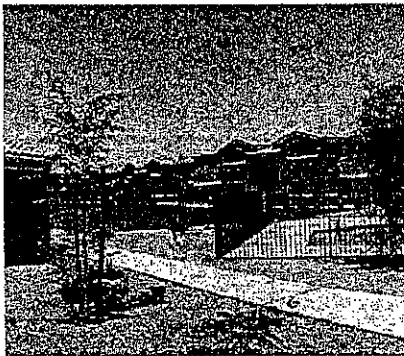
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Lofts at McKinley



Amber Pointe Apartments



La Posada Apartments



Center Ridge Apartments

Acanthus LIHTC Project Experience:

Washington Pointe Apt's.	Phoenix, AZ	54 Units
La Posada 2 Apartments	Yuma, AZ	64 Units
Villas at Pasadena Apartments	Phoenix, AZ	36 Units
Lofts@10 Apartments	Phoenix, AZ	78 Units
San Tierra Apartments	Santa Fe, NM	86 Units
The Lofts at McKinley	Phoenix, AZ	60 Units
Glendale Enterprise Lofts	Glendale, AZ	28 Units
La Terraza Apartments	Farmington, NM	72 Units
La Posada Apartments	Yuma, AZ	80 Units
Amber Point Apartments	Phoenix, AZ	56 Units
Center Ridge Apartments	Payson, AZ	48 Units
Casamera Apartments	Gallup, NM	71 Units
La Mariposa Apartments	Yuma, AZ	72 Units
Los Altos Apartments	Las Cruces, NM	72 Units
Canyon Run Apartments	Prescott, AZ	84 Units
Four Hills Apartments	Las Cruces, NM	76 Units
Mira Vista Apartments	Las Cruces, NM	76 Units
Somerset Villas Apartments	Kingman, AZ	72 Units
Villa Serena Apartments	Yuma, AZ	80 Units
La Mirada Apartments	Yuma, AZ	80 Units

Acanthus CNA and Rehab Experience:

Coffelt-Lamoreaux Apartments	Phoenix, AZ	HUD RAD
Parkcrest Apartments	Kingman, AZ	LIHTC
Barrio Nuevo Apartments	Guadalupe, AZ	LIHTC
Villas at Pasadena Apartments	Phoenix, AZ	LIHTC
Lofts@10 Apartments	Phoenix, AZ	LIHTC
San Tierra Apartments	Santa Fe, NM	LIHTC
Norwood Apartments	Glendale, AZ	LIHTC+HUD
Cochise Apartments	Phoenix, AZ	HUD NSP
Mesa Ridge Apartments	Mesa, AZ	HUD 221(d)
Park Lee Alice Apartments	Phoenix, AZ	HUD 221(d)
Arborwood Apartments	Phoenix, AZ	HUD 221(d)

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- Medical Rehabilitation Developments
- Sustainable Systems Analysis & LEED Administration