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San Francisco, CA 94110

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2208 Mission Home Owners Association
2208 Mission Street
San Francisco, CA 94110

Subject: PLEASE READ Unit 201 Project

I implore you to carefully read and understand the business logic within this letter.

Background:

I completed my undergraduate studies at UC Berkeley. I am licensed with the California Department of Real Estate (DRE) as a Realtor and as a Real Estate Broker. I am also licensed with the Nationwide Mortgage Licensing System (NMLS) as a Mortgage Loan Originator. In the next few weeks, I will be submitting a license application to the Contractors State License Board (CSLB) for a Class B - General Building Contractor License. I manage a vertically integrated real estate company which performs purchases, sales, lending, mortgages, construction, and property management services for real estate. I have professionally evaluated thousands of properties and been involved in three transactions within the 2208 Mission Street building during the last ~2.5 years. I have read through extensive disclosures and documents associated with 2208 Mission Street while representing multiple buyers of units in the building and while serving on the 2208 Mission Street HOA board, so I am familiar with the buildings history. I am also very familiar with condo value dynamics in San Francisco.

Equity and the best financial interest of owners:

The majority of home owners net worth is tied to the equity in their residence. This equity is often relied upon by owners as their principal life savings. The higher this equity, the more savings owners have for their retirement. The equity in a residence can be accessed by these owners through a variety of methods that include (but not limited to) Reverse Annuity Mortgages (RAM), Home Equity Lines of Credit (HELOC), or through the sale of the owners property. In each one of these scenarios, an appraisal is performed to determine the property's appraised value. Access to the owner's equity is based directly on the appraised value of their property. Appraisals are governed by the Uniform Standards of Professional Appraisal Practice (USPAP), which was adopted by Congress in

1989. For residential properties of 4 or less units (which includes condominiums), an appraisal is performed by an appraiser using the Sales Comparison Approach. The Sales Comparison Approach uses comparable property sales to come up with the appraised value for a specific property. When a unit in a building sells, it acts as a sales comparable for every other unit in the building with adjustments made for inherent differences between the units. The higher the price that comparable units sell for, the higher the appraised value will be for other units in the building, the larger each owners equity savings will be, and the more secure each owners life savings will be for their retirement.

If an owner wants to access equity via a RAM or HELOC, their lender will order an appraisal and allow the owner to borrow up to a certain percentage of their properties appraised value. If an owner chooses to sell their property, then the buyer's bank will order an appraisal and the bank will only lend up to a certain % of the appraised value. So for example: If a property were under contract to sell for $1.1M and the Buyer was using a loan product with a typical 80% loan to value but the appraisal came in at only $1M, then the bank would only lend up to $800k (which is 80% of the appraised value) and the Buyer would either have to back out of the deal or pay an additional $100k out of pocket to cover the difference between the contract value and the appraised value. There is typically an appraisal contingency in real estate contracts that allows buyers to back out of deals if the property doesn't appraise for the contract value. The less a property appraises for, due to low comparable values, the less the owner would have in equity savings. The bottom line is that the higher the appraised value, the larger the equity, the more money will be available for all owner equity savings.

Given that people rely upon the equity in their properties for their primary means of savings, and it is the fiduciary duty of an HOA to take actions that promote the best interests of owners, an HOA must act to increase property values and refrain from taking actions decreasing property values which would decrease owners equity savings.

<u>Supply and Demand:</u>
Market value of properties are driven by supply and demand, and although an HOA board cannot have a direct material effect on supply, an HOA board does have a direct material effect on demand. Demand is the amount of interest and competition for a specific property. The greater the number of parties who are interested in a property, the greater the market demand, the greater the market value, the greater the comparable sales values, and the greater the resulting owners' equity savings. The HOA thus has a direct fiduciary responsibility to take actions that increase the amount of interest and demand for each unit in a building so that all owners can gain equity savings in their units. A board that takes actions or inaction that reduce the applicant pool of potential buyers

resulting in reduced competition demand and reduced property values would substantially harm the financial well being of all owners in the building.

When potential buyers are looking to purchase a condo they would typically read the HOA meeting minutes. An HOA that discourages and rejects alterations is reflected in meeting minutes and has the effect of significantly reducing the interest and competition demand for units in the building. Many buyers want to be able to make reasonable alterations. If potential buyers see that a board makes alterations difficult, the result is a significantly reduced potential group of buyers (less demand) and lower property values.

Dollars spent by an owner on alterations increases the number of interested parties, increases demand, and increases competition which adds value to their unit. Since each unit would act as a sales comparable for every other unit in the building, those dollars spent by individual owners would add value to every other unit in the building, which would increase the equity savings of every other owner in the building.

CC&Rs:

CC&Rs require that the HOA create and sends out Alteration Approval Procedures annually that stipulate requirements for the board to quickly approve alterations. The CC&R requirement for the board to issue annual Alteration Approval Procedures is designed specifically because it is an HOA's responsibility to add value to all owners by encouraging owners to pursue alterations that add value to their units which directly adds equity value to everyone in the building.

Alterations are very common across millions of condos in the USA and there is a solution to all potential concern. An HOA must help owners work through potential concerns in a constructive manner. Actively taking steps to impede or delay alterations that add significant value to all owner equity savings is fundamentally against the fiduciary mandate of an HOA board.

Reducing Risk and Insurance:

Reducing risk is also an important facet addressed by HOAs approving alterations. An understanding of the business fundamentals of insurance is essential for reasonable risk assessment. Insurance policies are underwritten by insurance companies with Actuaries who professionally calculate risk based on mathematics. These insurance companies have developed standardized systems for hedging against risk in the form of policies that cover millions of alterations to condos all over the USA. In the unfortunate and unlikely event of an accident at an insured property, an insurance adjuster is assigned who calculates the cost of repair, so that the insurance company can issue payments. If you've ever been in a car accident and have been offered an insurance settlement you'd know that the value of the settlement is often greater than, but not less than the actual cost of repairing the damages. This is why Howard, the owner of the grocery store below the unit with the proposed alterations, is not concerned with potential damage that may result from the construction. Howard understands that in the unlikely event of an accident, he would be reimbursed by an amount likely greater than but not less than the actual cost of the damages and loss of income. Insurance policies are available for virtually anything and umbrella liability coverage can be increased beyond the value of any damage that could possibly result from such alterations. Alteration can be completed while addressing potential associated risk and making sure that in the unlikely event of an issue the building is protected via insurance.

Risk is further reduced because the policies incentives are structured in a way to discourage the holder of the insurance policy from making policy claims for reimbursement. In the unlikely event of damages requiring an insurance claim, even though the resulting losses would be covered by the insurance company, the mere fact that a claim occurred is pegged to the policy holder for years and the policy holder would ultimately end up paying for the claim through significantly higher future recurring annual insurance premiums. Extremely unlikely doomsday scenarios are not reasonably justifications for alteration denials. Insurance policies have been designed and tested to address the exact risk associated with these fringe scenarios where damage theoretically could, but is very unlikely to occur.

These insurance fundamentals also apply to HOA boards that make insurance claims for litigation coverage. The belief that the HOA is shielded from legal costs because of insurance coverage is a miscalculation. It may be through substantially increased future annually recurring policy premiums, but one way or another an HOA will end up paying for incurred legal costs. Increased annual insurance premiums create increase annual recurring operating costs in perpetuity and the only way to pay for these increased annual recurring operating costs is higher HOA fees.

In summary:
Every dollar wasted on legal costs between an HOA and an owner is one less dollar spent on adding value to everyone in the building. Due to the vast number of condo units in the USA, a reasonable solution to possible concerns associated with alterations has already been established.

Denying alteration requests has multiple negative impacts on the entire association:

1. It deprives other owners of increased property value and equity savings by removing higher comparable property values that would result from the alterations
2. It reduces the pool of parties who would be interested in purchasing units in the building which decreases demand and decreases all property values in the building and decreases all owner equity savings
3. It increases HOA fees to pay for higher operating costs resulting from higher annual recurring insurance premiums
4. It is a waste of everyones times and money

These types of alterations are so common that there are companies (Digital Concrete Scanning Services, Bay Line Cutting and Coring) who specialize in these exact types of alterations.

Our Request:

There has been a drain pipe in our kitchen for months. We are unable to fully open our fridge and freezer. Our child, who was born while we live with a drain pipe in our kitchen, will soon be able to crawl and it is going to be impossible to child proof our home unless we finish construction. We have no choice but to move this drain pipe, which all experts agree will not cause any issues to the building. We have even hired another architect to confirm that these alterations won't cause any issues to the building. We are happy to address any specific concerns the HOA has. However, it is not possible for us to stop using whatever means necessary to complete these alterations. A child is now involved. We kindly request that the board put aside any personal grievances and understand that these alterations will only benefit the entire HOA. Time is of the essence.

Thank you in advance,

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