

SAN FRANCISCO DISCLOSURES AND DISCLAIMERS ADVISORY
*(This form is intended to supplement the California Association of REALTORS®
Form SBSA, "Statewide Buyer and Seller Advisory")*

This Advisory is intended for use in San Francisco.

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INTRODUCTION:

This Advisory contains important information regarding the purchase of real property located in San Francisco. This Advisory was revised as of July 2013. The information in this Advisory may change over time, and new issues may develop, and laws and regulations may change at the federal, state, county, city and/or private, local level.

Sellers must understand the importance and significance of their disclosure obligations. Sellers need to take the time to truthfully, carefully and fully complete all aspects of the disclosure documents. Sellers must disclose anything that is known to them that materially affects value or desirability of the Property. Sellers who need help in completing their disclosure obligations should consult with their own attorney. Brokers are not in a position to determine the legal sufficiency of any disclosure.

For Buyers, this is not intended to be a comprehensive guide to buying real estate, but rather is intended to educate Buyers and to inform Buyers that, in purchasing something as complex and valuable as real estate, Buyers have a legal responsibility to protect themselves by taking precautions to investigate all issues that may affect their decision, including the issues detailed in this Advisory, as well as any other issues which may impact the past, present and/or future condition, use, development potential, value or desirability of the Property, or the price to pay for the Property.

Buyers should read this Advisory in conjunction with: (a) all disclosures received from Sellers and the real estate Brokers involved in the transaction including, amongst other documents, the Real Estate Transfer Disclosure Statement (“TDS”) and the Seller Property Questionnaire (“SPQ”), if the Seller is required to complete those forms; (b) all reports of inspections by professionals regarding the Property; (c) all reports and disclosures from third parties and governmental agencies; and (d) the results of Buyer’s own investigations.

Buyers are responsible for conducting their own investigations into the issues discussed in this Advisory, as well as any other issues that are not covered in this Advisory, to the extent that those additional issues may affect the Buyers’ determination of the past, present and/or future condition, use, development potential, value or desirability of the Property. Do not just rely on real estate brokers or Sellers as sources for all information. Buyers are strongly advised to conduct their own investigation. Buyers are urged to engage licensed professionals to evaluate all aspects of the Property, and to consult all appropriate governmental agencies. Buyers should thoroughly and thoughtfully inspect and evaluate the Property and, in so doing, meet their obligation to protect themselves, including regarding those facts which are known to or within the diligent attention and observation of the Buyers.

Further, Buyers are urged to conduct such additional and further investigations and inspections regarding any issues as may concern Buyers which are raised in those advisories, disclosures, inspections, and/or reports received by Buyers. Buyers’ right to conduct certain types of investigations may be limited by the Purchase Agreement.

Some of the issues that are covered in this Advisory are point-of-sale requirements, or retrofit requirements that may also be triggered by remodeling efforts or efficiency requirements. In addition, there are many laws, regulations and ordinances which may impact Buyer’s plans for remodel, expansion or change of use after the purchase, which are too detailed to be covered in this Advisory. Buyers should be aware of the fact that the apparent or current use of a property is not a guarantee that such use complies with applicable laws, including zoning ordinances. Buyers must investigate the applicability of these requirements to the past, present and future sale, purchase, ownership, use and/or development of the Property.

All such Buyer investigations should take place prior to the Buyer’s removal or waiver of any inspection contingency.

Buyers must bear in mind that a Property may contain defects and deficiencies of which neither Sellers nor Brokers are aware. Buyers should also recognize that not all issues or conditions can be objectively determined - even by professional investigations. Further, some issues can have varying impacts on different people since some people may be more sensitive than others, for example, to sounds and odors.

Although licensed to list, sell and lease real estate, Brokers may not have expertise on the issues in this Advisory. Given Buyer's legal duty to exercise reasonable care to protect himself or herself regarding facts that are known to or within the diligent attention or observation of a buyer, Buyer is urged to investigate, without limitation, (a) all public records which may affect the Property; (b) neighborhood conditions which may affect the property; (c) the items in the following paragraphs of this Advisory, (d) the condition of the foundation, roof, plumbing, heating, air conditioning, electrical, mechanical, energy and water efficiency, security, appliances/personal property, pool/spa, and all other systems and components, and (e) all laws, regulations, and ordinances that may affect Buyer's intended use of the Property. Broker will not be investigating these issues for Buyer unless agreed to in writing.

The California Association of REALTORS® does not warrant or guarantee the accuracy of the information contained in this Advisory or the adequacy of the information contained herein as it relates to a specific real property transaction. Any representations about the issues in this Advisory made by third parties have not been verified by Brokers and need to be independently confirmed by Buyers

A. GENERAL ADVISORIES

1. GENERAL CONDITIONS

Real estate markets are cyclical. It is impossible to predict what the market conditions will be at any given time. The ultimate decision of what amount to offer on any given property rests with the buyer. Buyers need to decide what they are willing to pay for a property in light of market conditions and their own financial resources. Buyers also must decide what type of offer they are willing to make in recognition of market conditions existing at the time of their offer. Purchase price is not a simple calculation based upon square footage but an agreement as to what the Buyer will pay and what the Seller will accept.

Real estate brokers traditionally recommend that Buyers protect themselves by conditioning their purchase of the Property on an inspection of the Property so that the Buyers can be assured that the Property meets their needs. In some markets, many Buyers are choosing to forego that sage advice so that their offer is more attractive to the Seller. If, after making an offer without a property condition contingency, a Buyer becomes aware of an aspect of the condition of the Property that affects its value or desirability, the Buyer may still be required to proceed to purchase the Property or possibly pay damages to the Seller, which may be the deposit in escrow. If Buyer learns of a condition that must subsequently be repaired the Buyer may have to pay to correct those problems and after escrow closes, the Buyer may have no legal recourse against any of the parties in the transaction including the Seller, the Brokers or the inspectors.

Waiving the right to have a contingency regarding the property condition does not waive the Buyer's right to inspect the Property, even if the Property is being sold "AS IS". Regardless of whether there is a property condition contingency, Broker recommends that prospective Buyers have the Property thoroughly inspected by their own experts prior to the close of escrow.

The lender's approval of financing includes the lender's determination that (A) the Buyer is creditworthy and can afford to make the mortgage payments and (B) that the Property appraises for at least the principal amount of the loan. Even if a Buyer has obtained a prequalification or pre-approval letter from a lender, the lender may not ultimately approve the loan. Denial of a

loan may be because the lender's appraiser determines that the Property's fair market value is less than the amount of the purchase price or if the Buyer's financial/employment situation has changed or because the lender's policies have changed. If there is no financing contingency and the Property does not "appraise", the Buyer may not be able to afford to make up the difference between the loan amount applied for and the loan amount actually offered by the lender. Under those circumstances, the Buyer may not be able to perform on Buyer's contractual obligations. This could then result in the Buyer paying damages to the Seller. It is a serious risk for a Buyer to forego including a financing contingency in their offer if they intend to secure a loan.

2. SHORT SALES

Seller and Buyer are advised that the sale of the Property will probably result in a "short sale" if there is insufficient equity in the Property to pay off all of the liens, including deeds of trust, judgments, unpaid taxes and any other debts that have been recorded against the Property and/or the closing costs, including real estate commissions. Sellers facing mortgage difficulties have several options besides a short sale, including a loan modification, foreclosure, deed in lieu of foreclosure and bankruptcy; each seller's situation is different. The Seller's decision as to which of these options are chosen may affect the Seller's taxes, credit rating, and/or future options. Brokers and their agents cannot, and will not, provide tax, credit and/or legal advice regarding these possible options, or how any of these issues may affect any sale of the Property. Because of these important issues, prior to proceeding with a short sale, Sellers are strongly urged to consult with a Certified Public Accountant, credit consultant, and/or an attorney specializing in real property, taxation and bankruptcy issues prior to deciding which option best meets their needs. To the extent that Seller fails to obtain this necessary advice, Seller is acting against the advice and recommendation of Broker.

In a short sale, Seller's lender(s) are not obligated to approve the short sale and they are not obligated to provide any type of response regarding the short sale during any set period of time. If there are two or more lenders on the property, this further complicates the transaction which may take even longer. Frequently, lenders may ask parties other than the seller to contribute money before they will approve the short sale. The short sale cannot close until all lenders and parties are in agreement on these issues. There is potential liability for any party who tries to circumvent or "work around" the lender(s)' terms and conditions either through escrow or outside of escrow. All payments to be made by any party to anyone as part of the Buyer's acquisition of the Property must be fully disclosed to all lenders and approved by all lenders.

3. BANK-OWNED ("REO") PROPERTIES

"REO" stands for "real estate owned" which is how banks and other lenders categorize real property that they have taken back on either a foreclosure or a "deed in lieu" of foreclosure. When a bank is the seller, there are substantial differences in the way the transaction proceeds, as compared to how it typically works when the seller is a person. These differences include, but are not limited to, the following:

Depending on whether the REO seller acquired the property through foreclosure, the seller may not be required to give the buyer a Transfer Disclosure Statement ("TDS") describing the condition and features of the property, or to complete other important disclosure forms regarding natural hazards, taxes, bonds and assessments affecting the property, earthquake safety information, and information about nearby industrial and military weapons sites.

REO properties may also be "distressed" as a result of neglect and/or vandalism. While lender/sellers who have acquired property by foreclosure do not have to complete a TDS, they are still required to disclose any known conditions or defects affecting the value or desirability of the property such as repairs completed by the lender/sellers or their agents, and make other required disclosures. However, those disclosures may be of little value in light of a lender/seller's limited knowledge of the property.

Buyer is advised to fully investigate the condition of the property including obtaining any and all necessary inspections by appropriate experts. Brokers and agents advise against closing escrow without obtaining and understanding all legally-mandated disclosures from Seller, and securing all necessary inspections and investigations as recommended.

The lender/seller may give you a verbal “acceptance” of your offer. Such acceptances are generally not binding, in the absence of other writings sufficient to constitute an agreement to sell. If you are in doubt as to whether you have a binding agreement, you should consult your own real estate attorney.

REO lender/sellers usually will attach a lengthy Addendum to the standard form purchase agreement, or may even require the use of their own contract form. These addenda and contracts have been drafted by the attorneys for the lender/seller and generally are drafted to favor the lender/seller. It is strongly recommended by your Broker that you review this Addendum or contract with a qualified California real estate attorney, because real estate licensees are not qualified or competent to give you advice on legal documents drafted by attorneys for other parties.

If you receive such a lender/seller Addendum or contract, read it thoroughly for understanding since it will affect your contractual rights. Some clauses may limit or take away your legal rights in certain circumstances, or limit your recovery against the lender/seller. Some clauses may impose per diem charges for delays in closing. Other clauses may require you to hold the lender/seller harmless and release the lender/seller from certain potential liabilities. Again, your Broker strongly recommends that you get any questions you may have answered by your attorney.

4. FLOORS AND WALLS

The personal property of the Seller may make a visual inspection of floors and walls difficult. The existence of certain types of flooring, such as carpeting and rugs, as well as certain types of wall coverings, such as wallpaper and paneling, as well as furniture prevent inspectors and brokers from inspecting the condition of the floors and walls beneath those materials. When exposed, these areas may exhibit a different pattern of wear or shade of color. If the Buyer desires to determine the condition of the floors and walls beneath such coverings, Buyer will need to secure the written authorization of Seller to conduct investigations with appropriate professionals since removal of floor coverings may be required.

5. TEMPERED GLASS

Many homes contain glass that IS NOT tempered in locations where tempered glass IS now required by building regulations. Buyer is advised to have a contractor’s inspection to identify the presence of any glass that is not tempered before removing a physical inspection contingency on a prospective purchase of real property. Buyer should consider replacing any non-tempered glass with tempered glass to reduce the risk of injury.

6. CONDOMINIUMS, COMMON INTEREST DEVELOPMENTS AND HOMEOWNERS ASSOCIATIONS

Properties located in a Common Interest Development (or “CID”, which is a broad term commonly used to describe a condominium, co-op, planned unit development, etc.) are usually managed by a homeowners’ association, (“HOA”), pursuant to a Declaration of Covenants, Conditions and Restrictions (“CC&Rs”) which govern the use of the property, assessments and costs for maintaining the HOA and common areas. The Seller should request that the Homeowners’ Association provide certain required documents regarding the HOA operation and expenses to meet the Seller’s disclosure obligations under Civil Code Section 1368.

It is strongly recommended that Buyers receive the current HOA documents from the HOA rather than from an earlier transaction. Buyers should receive and review the HOA response to the request from the Seller for HOA documents (Page 2 of C.A.R. form HOA). Buyers need to carefully examine all of the documents that are provided regarding the HOA and compare the documents with the list of required disclosures specified in the HOA form from the California Association of REALTORS®. If any document(s) are missing, Buyer should send a written request to the Seller that the Seller provide the missing documents and/or provide a written explanation for why the document(s) were not included with the other HOA documents. Buyers should retain the services of experts, such as attorneys, accountants or others who specialize in reviewing HOA documents to determine the adequacy of the reserves and assessments, and whether or not the Property is suitable for Buyer’s intended uses. In reviewing the adequacy of

assessments and reserves, Buyers should also request and obtain any available information about intended maintenance, repairs or improvements that may be contained within HOA documents.

Due to noise and other factors, the CC&Rs and Rules and Regulations from the HOA may restrict the use, the type of alterations/improvements, floor and/or wall material that can be used in certain units and/or the number, size and/or type of pets. Buyers should carefully review the CC&Rs and other HOA documents and directly contact the HOA Board to determine whether or not the Property can be used for Buyer's intended purposes. Buyer should also determine whether or not the Property meets Buyer's subjective personal preferences.

Many Condominiums and other Common Interest Developments have been involved in or are presently involved in litigation regarding the design, construction, maintenance and/or condition of all or a part of the Development. Whether or not these lawsuits are successful, litigation is expensive and the cost of such legal actions may impact not only the adequacy of the HOA reserves but also the amount of current or future assessments. When an HOA is involved in a lawsuit, it can make it very difficult to refinance or obtain financing on a unit. Therefore, Buyers are urged to investigate the existence of any pending lawsuit.

Occasionally issues arise in the purchase of Property in a Common Interest Development regarding parking and/or storage spaces associated with a single interest or unit in the Development. Parking space(s) and storage space(s), if any, may be described in a Condominium Map/Plan or in the Preliminary Title Report issued by a Title Company. In some cases the HOA assigns parking and storage spaces. Buyers should determine for themselves whether or not the allotted parking space(s) are adequate to park the Buyers' vehicle(s) in the assigned spaces by actually parking in those spaces. The actual markings, striping and numbering of these space(s) may not accurately reflect the actual spaces and may be in conflict with the space(s) designated in the recorded documents. It is therefore crucial that Buyer personally determine that the parking and storage space(s) that are designated in the recorded documents are actually being transferred to Buyer and that those space(s) are acceptable for the Buyers' intended needs and uses of the Property.

Many HOA's prohibit or limit an owner from renting or leasing some or all units owned by a particular owner depending on when the prohibition or restriction was enacted. An owner in a CID may be exempt from any such limitation. However, generally any exemption will not apply to a prohibition that was in effect before the owner acquired title to his or her unit. Investor buyers in a CID should be sure to check which rent prohibitions are in effect; and inquire of the HOA if they are planning on implementing any such prohibitions which might go into effect prior to the close of escrow.

The existence of HOA insurance does not necessarily mean that there is insurance coverage for any given single interest or unit in the Development, an owner's remodeling or upgrade efforts and/or the owner's contents. See Insurance information below.

7. INSURANCE

During the inspection contingency, Buyer should consult with an insurance broker to determine the cost of homeowners' insurance, including CID owners' policy in the case of a CID purchase, as well as the types of coverage that may be available and any conditions that the insurance company is going to impose. For example, many insurance companies are refusing to provide homeowners' insurance coverage unless certain retrofit requirements are met, such as installation of safety glass and/or fireplace spark arresters and a gas shut-off valve. The fact that an insurance company may require these repairs does not necessarily mean that the Seller is obligated to pay for and/or make the repairs requested by the insurer. In addition, prior claims submitted by Buyer on other properties may affect the final cost of the homeowners' insurance on the property being purchased by Buyer. In certain situations, Buyers can end up in breach of the purchase agreement if they are unable to obtain financing as a result of the failure to obtain adequate homeowner's insurance. Buyer should investigate these matters thoroughly prior to removing their inspection contingency.

8. RE-KEYING

Buyer is advised that all locks should be re-keyed immediately upon close of escrow for the Buyer(s) safety and security of their person(s) as well as their personal belongings. Alarms, if any, should be serviced by professionals and codes should be changed. Garage door openers and remotes should be re-coded.

9. ONLINE PHOTOS

Sellers and Buyers are advised that photos of their property will be included in the MLS listings and, perhaps, on the listing broker's website. It is now common that such photos will subsequently be added to other brokers' websites, and various national listing aggregation sites such as Realtor.com, Trulia, Zillow, and others. From there, photos may be copied on to other websites as well, with or without the permission of the host site. After the close of escrow, or a termination of a listing, sellers and buyers are advised it is not possible for the listing or selling broker to remove these photos from websites over which they have no control.

10. FAIR HOUSING AND SERVICE/COMPANION ANIMALS

When rental properties are offered to the public, the owner and real estate agent must act in compliance with all Fair Housing laws and regulations including but not limited to providing unrestricted access to potential tenants with service/companion animals. Landlords are required under Fair Housing laws to provide a "reasonable accommodation" for tenants with disabilities; in the case of tenants with disabilities this includes allowing the tenant to occupy the rented residence with the service/companion animal. The landlord may not charge a "pet deposit" or otherwise charge the tenant for the service/companion animal in any manner different from a tenant without such an animal. Any property owner renting their property should consult with a California real estate attorney specializing in landlord/tenant and Fair Housing issues for advice on any matters related to Fair Housing and service/companion animals.

11. WET WEATHER CONDITIONS

At times, this area may have months with heavier than usual rainfall. During these times, hillside properties may be susceptible to earth movement and drainage problems. Properties on flatlands may be susceptible to flooding. Properties which may not have experienced water intrusion into or under the property in the past may experience these conditions as a result of weather-related phenomena. Sellers are obligated to disclose to buyers those material defects or conditions known to them which affect the value or desirability of the property; however, not all Sellers may be aware of recent changes in the conditions of the property or its improvements caused by unusually wet weather. Because of these factors, it is recommended that, in addition to a home inspection, Buyer have such additional inspections by inspectors or engineers regarding these conditions as Buyer may desire.

B. SAN FRANCISCO SPECIFIC ADVISORIES

12. UNSTABLE HILLSIDES

Many of San Francisco's hills include active or potentially active landslide areas. Many of the geologic forces which have shaped California are still active today. The only way to determine the nature of the soil and bedrock under a structure, and how these forces may affect the structure, is with a geologic or geotechnical inspection and report.

13. SAN FRANCISCO CLIMATE CONDITIONS

The San Francisco area exhibits several micro climates. Buyer is advised that these areas are subject to frequent strong winds, wind-driven rain, fog, salty sea air and mist, and direct sunlight, any of which, alone or in combination, can impact the condition of the land as well as prematurely age the interior and exterior of structures. Erosion, warping and cracking of surfaces, failed seals on dual-paned windows, deterioration of roofing material, and water intrusion, among other problems, are not uncommon with such properties, and thus these properties require regular, thorough maintenance. Buyer is advised to fully investigate these conditions and the increased maintenance and repairs that may be needed for any Property located in these coastal areas.

14. SAN FRANCISCO BAY REGULATIONS

The San Francisco Bay Conservation and Development Commission ("BCDC") is charged with the responsibility of restoring Bay wetlands and marshes, preventing wetlands and mudflats from being filled, and supporting the continued and productive use of salt ponds. Properties abutting San Francisco Bay, its tidelands and marshes, may be subject to the jurisdiction of the BCDC which may limit building, and impose other requirements on property owners. Buyers of such property are urged to contact BCDC at (415) 352-3600.

15. REAL PROPERTY TAXES AND ASSESSMENT DISTRICTS

The Purchase Agreement addresses payment of real property taxes and assessments relating to the Property. As part of their negotiations for the Purchase Agreement, the parties may decide how to prorate such taxes and assessments; payments on bonds and assessments and their assumption by Buyer; and payment of Mello Roos and other Special Assessment District bonds and assessments that are now a lien on the Property.

The existence of Mello-Roos and 1915 Bond districts will be reported in a report by a Natural Hazard Disclosure (NHD) company. Most other assessment districts will be reported in the Preliminary Title Report from the title company. Still others may be disclosed by Seller or local disclosure. The Seller's tax bill alone does not necessarily reflect all of the costs related to taxes and assessments on real property. If there is a question as to whether an existing bond or assessment will be prorated as of the close of escrow, or whether Seller will pay off the bond or assessment at close of escrow, Buyer is advised to discuss the matter with the appropriate District prior to removal of the appropriate inspection or title contingency, and to address responsibility for payment of taxes and assessments in the negotiations for the Purchase Agreement. Information regarding Property Tax Reassessment may be found at <http://www.sfassessor.org/index.aspx?page=76> and on Transfer Taxes at <http://www.sfassessor.org/index.aspx?page=77#TTAX>.

16. REPORT OF RESIDENTIAL BUILDING RECORD

Local law requires that owners of one or more dwelling units obtain and deliver to buyers a Report of Residential Building Record ("3R") prior to selling the property. The San Francisco Department of Building Inspection (DBI) will issue the 3R for any building containing residential units, upon request using the following form:

<http://www.sfdbi.org/Modules/ShowDocument.aspx?documentid=232>.

The fee for the report is shown on the form. The time to produce the report can be several weeks.

Seller is advised to instruct their listing agent to order a 3R report on their behalf, as soon as the listing agreement (CAR Form RLA) is signed. Review and approval of the 3R by the Buyer is a condition of the purchase contract (CAR form PA-SF).

The body of the report purports to list the building permits taken out for the property, back to the New Construction one. However, if the original construction was prior to the April 1906 earthquake, that permit will not be shown, as the Building Department lost its records in the fire which followed. The 3R report does not include permits for Electrical or Plumbing work. Those DBI departments maintain their own permit history, by address.

The codes on the line items are explained on the second page of the report. Note however that all permits prior to 1950 will show as 'N' (New), rather than 'C' (Completed), as the City did not issue Job Cards or record the Final Completion of permitted work prior to that time. The report also shows the Original and Current Permitted Use of the building, as an "n-Family Dwelling". The Current Permitted Use shown on that report has more credence with the Planning Department than the Assessor's records for the property. If the Permitted Use is missing or "Unknown", Buyer should contact the Planning Department and inquire whether or not this can be corrected or otherwise addressed prior to removing Buyer's inspection contingencies.

The accuracy of 3R reports is less than 100%, as records have been lost, mis-filed, or not copied accurately over the years. If the existence or absence of a particular permit is important, then Buyer should retain a qualified permit researcher to investigate further. The 3R report is not a guarantee that the work performed under any of the listed permits was done in compliance with applicable laws. Therefore, Buyer should conduct his or her own investigation regarding such work.

17. EXISTING HOUSING STOCK

Many properties in this area have been built under different building codes. Regardless of the age of the Property, Buyers should have the Property inspected by a competent property inspector and to have any additional inspections that are recommended in any inspection report, or as may be necessary or desired by Buyers to determine the actual condition of the Property. The Property's components, appliances, fixtures, systems and materials may have varying degrees of remaining useful life and may be subject to failure without notice. In addition, not all components, improvements or fixtures of the Property may comply with current code, zoning, health and safety, setback requirements, religious or cultural preferences. Some homes contain appliances, products or manufactured materials, such as Chinese dry wall, which may be defective, create problems with the use or value of other aspects of the home and/or may be subject to manufacturer or governmental recall and/or a class action lawsuit. All homes include many components which require ongoing maintenance. Deferred maintenance will decrease the lifespan and/or functionality of many of these components. Buyers should seek reliable advice from appropriate professionals and to plan/budget for maintenance and future repairs.

18. PERMIT ISSUES

Some improvements to property such as repairs, remodels and additions may have been done without a required permit. One such example would be where an additional living unit ("in-law unit") is being rented by the Seller but the required permit/permits was/were not obtained for the in-law unit. An improvement that is made without the required permit can, among other things, have a negative impact on value, lending, appraisals, require a retrofit, impact habitability, preclude insurance coverage and/or result in fees, penalties, government and/or civil enforcement actions.

Also, there are significant restrictions affecting an owner's right to construct or improve garages in San Francisco. Therefore, if it is Buyer's intention to build a garage or improve an existing garage, Buyer is strongly advised to consult a qualified architect, engineer and/or contractor before removing any inspection contingencies.

19. NONCONFORMING ROOMS, ALTERATIONS OR ADDITIONS

Buyers are advised that any rooms, alterations or additions to the property which were made or constructed without necessary permits or certificates of completion ("nonconforming improvements") may be subject to fines, permit costs, construction costs, and other expenses to bring into conformity. In some cases, nonconforming improvements may be subject to removal by local building inspection and code enforcement agencies. Nonconforming rental units may be required to be vacated and possibly removed. It might not be possible to legalize such

nonconforming improvements because of zoning or permit issues and/or other legal or regulatory limitations. San Francisco Department of Building Inspection and code enforcement agencies may conduct random inspections of properties for permit, code and other violations while the property is being marketed. Such nonconforming improvements may also be discovered when anyone applies for a permit to do work on the property either before or after escrow closes. Whenever nonconforming uses are discovered, the then-current owner could face expensive repairs, permit fees and other costs and/or even removal of the nonconforming improvement.

While sellers are obligated to disclose any known nonconforming improvements, the Seller may not be aware of some or all illegal improvements or uses especially those that were made prior to the Seller's ownership of the property. In addition, real estate brokers and agents are not required by law to inspect public records and cannot determine the legal status of improvements based solely on their required visual inspection of the property. For these reasons, Buyers are strongly urged to investigate possible nonconforming improvements by personally contacting the local building inspection and code enforcement agencies as well as obtaining the advice of contractors, architects, engineers or other professionals regarding the status and condition of the property prior to removing inspection contingencies.

20. CODE COMPLIANCE AND ENFORCEMENT

If this is not a new property, not all aspects, components and structures on the property may comply with current code. This may be because code requirements have changed since the improvements were first constructed or, in some cases, improvements may have been made by the current owner, or even by prior owners without the knowledge of the current owner. Real estate brokers are not qualified to identify code violations. If the San Francisco Department of Building Inspection discovers the code violations, whether as part of a random inspection, an application to perform future work or in response to a complaint, the current owner may be required to bring the property into current code compliance or remove or demolish the portion of the property that is in violation. Prior to removal of the inspection contingency, Buyers should have the home inspected by a qualified home inspector who can comment on local codes, regulations and practices regarding enforcement.

21. APARTMENT LICENSE FEES

DBI recovers part of its costs by charging an Apartment License Fee to owners of 3-unit or larger apartment buildings and condominiums. This fee is added to the property tax bill annually. The fee varies according to the age of the building (pre- or post-1979) and the number of units and can be found at www.sfdbi.org.

22. RENT ORDINANCE FEE

The San Francisco Residential Rent Stabilization and Arbitration Board ("Rent Board") recovers part of its operating costs through a per-unit fee charged to landlords for each residential dwelling unit subject to the San Francisco Residential Rent Stabilization and Arbitration Ordinance ("Rent Ordinance"). This fee is also added to the property tax bill annually. 50% of the fee may be charged to the tenant living in the unit on November 1 of each year, either billed to them or deducted from their security deposit interest. (Additional information about the Rent Board fees can be found on the Rent Board's website at www.sfrb.org and on CAR form SDC-SF).

23. TENANT SECURITY DEPOSITS

Landlords may collect a "security deposit" from tenants, not to exceed two months rent for unfurnished units and three months rent for furnished units. All amounts held, whether described as key deposits, last month's rent, pet deposit, etc., are included in the definition of security deposit. The handling of security deposits is primarily governed by State Law. Upon departure of the tenant, the security deposit must be returned within 21 days. Any deductions (for damages or additional cleaning, for example) must be itemized and made pursuant to specific procedures that should carefully be followed to avoid potentially significant penalties for the wrongful withholding of a security deposit.

Additionally, in San Francisco, local law requires landlords to pay simple interest on all security deposits held for at least one year at a rate determined annually by the Rent Board and published on their website. (See www.sfrb.org and CAR form SDC-SF).

24. RESIDENTIAL RENT STABILIZATION AND ARBITRATION ORDINANCE

On June 13, 1979 an Ordinance was signed into law, which re-established rent control in San Francisco. Buildings completed after that day were exempted (in order not to discourage new construction), owner-occupied buildings of four units or less were exempt, and the annual rent increase limit was to be set annually by the Board in the range of 4% to 7%. Those last two provisions were changed by the passing of a ballot measure in November 1992, so that generally *all* pre-1979 buildings are now included, whether owner-occupied or not, and annual rent increases became limited to 60% of the Bay Area Consumer Price Index. The allowable annual rental increases are published by the Rent Board on its website at www.sfrb.org.

In addition to limiting the amount of rent that can be charged, the Rent Ordinance also generally limits the right of a landlord to terminate a tenancy to circumstances where a “just cause” reason is present. There are 16 “just cause” reasons authorized by the Rent Ordinance, including grounds such as the non-payment of rent, the breach of a lease covenant, creating or permitting a nuisance, an owner-move-in, or the invocation of the Ellis Act. Terminating a tenancy of a rent-controlled tenant in San Francisco can be very difficult, and landlords can incur significant liability for wrongful endeavors to do so. Therefore, if the Property is occupied by tenants, Buyer is urged to consult with a qualified real estate attorney.

The Rent Ordinance also requires that a seller of a building containing two or more residential units, one or more of which will be delivered vacant at the close of escrow, disclose the legal ground for the termination of the tenancy in each vacant unit and whether the unit was occupied by an elderly or disabled tenant at the time the tenancy was terminated. (See CAR Form VUD-SF). As such terminations can impact the use of vacant rental units even after the sale; Buyer is again urged to consult a qualified real estate attorney for advice on such issues.

The Rent Control Ordinance is further refined by a set of Rules and Regulations established and updated regularly by the Rent Board. The Rules and Regulations can be found on the Rent Board website at www.sfrb.org. However, since this is a complex area and the penalties for not following the established rules can include triple damage payments, Buyers and Sellers are advised to consult a qualified landlord/tenant attorney when negotiating the sale or purchase of rental property.

The above-described limitations do not constitute an exhaustive list of all the restrictions imposed by the Rent Ordinance or its Rules and Regulations. Real estate brokers are not qualified to explain all of the ramifications of the applicable State and local law. Therefore, Buyers are strongly advised to seek the advice of a qualified California real estate attorney who specializes in landlord/tenant issues in San Francisco.

25. OWNER MOVE-IN EVICTIONS

The Rent Ordinance authorizes an owner to move into an occupied rental unit in the Property, and thereby terminate the tenancy of any occupants in possession. However, the Ordinance restricts the right of an owner to do so in a number of material respects.

First, the owner move in eviction (“OMI”) typically requires that an owner intend to occupy the unit as his or her principal place of residence for at least three years. Second, the Rent Ordinance generally only allows an OMI eviction from one unit in the Property. If the Seller or a prior owner has done an OMI eviction, Buyer generally may not do an OMI eviction from any unit in the Property except the one specific unit that was the subject of the prior OMI eviction. Third, the Rent Ordinance generally prohibits an owner from doing an OMI eviction if any tenant in the unit: (1) is 60 years of age or older and has lived in the unit for at least ten (10) years; (2) is disabled and has lived in the unit for at least ten (10) years; or (3) is catastrophically ill and has lived in the unit for five (5) years or more. This type of tenant is commonly referred to as a “Protected Tenant”. The Rent Ordinance provides further definition on what does and does not qualify an occupant as a protected tenant for purposes of an OMI.

There are other limitations on an OMI eviction, and the above is not intended to be an exhaustive list.

In addition to authorizing OMI evictions, the Rent Ordinance also allows Relative Move-In (“RMI”) evictions in certain circumstances. The RMI eviction too, is subject to a number of significant restrictions. For example, an RMI can generally only be done for certain relatives (the landlord’s grandparents, grandchildren, parents, children, brother or sister, or the landlord’s spouse or the spouses of such relations) who intend to occupy the unit as their primary residence for at least 36 consecutive months. Further, an RMI can generally only be done if the owner either lives in the Property or is simultaneously pursuing an OMI eviction to evict a tenant from another unit.

There are also additional limitations on an owner’s right to pursue an RMI eviction, and the above is not intended to be an exhaustive list.

When proceeding with either an OMI or RMI eviction, the owner is required to pay relocation payments to the displaced tenants (see paragraph 25 below).

Given the complexities involved with both an OMI and an RMI eviction, it is strongly recommended that Buyer request from Seller a copy of the “Request for Protected Tenant Status Information and Tenant Declaration Regarding Protected Status” (CAR Form PTSI-SF), which form should be completed by any tenants then in possession of the property before removal of Buyer’s contingencies. It is likewise recommended that Buyer review the completed forms carefully, and obtain the advice of a qualified California real estate attorney who specializes in landlord/tenant issues in San Francisco, with respect to the OMI/RMI restrictions and how they may apply given the content of the completed PTSI-SF form. Buyer is advised to obtain such advice before removing the inspection contingencies.

26. TENANT RELOCATION PAYMENTS

Under the Rent Ordinance, Landlords are required to pay relocation payments to tenants who are evicted for: owner/relative move-in under Section 37.9(a) (8); demolition or permanent removal from housing use under Section 37.9(a) (10); or substantial rehabilitation under Section 37.9(a) (12). Landlords had also historically been obligated to also pay those amounts to tenants temporarily evicted for capital improvement work under Section 37.9(a)(11), however, as of the date of publication of this Advisory, a new State law has recently been passed superseding that provision in certain situations. Buyer is advised to consult a qualified California real estate attorney who specializes in landlord/tenant issues in San Francisco about that issue.

Also as of the date of publication of this Advisory, the amount of the relocation payment owed to each authorized occupant, regardless of age, who has resided in the unit for at least one year, is \$5,153 with the maximum amount due per unit of \$15,460; however additional amounts are due for each elderly or disabled tenant, or households with minor children. The amounts are adjusted each year by the Rent Board, and current relocation payment amounts can be found on the Rent Board’s website at www.sfrb.org.

Broker is not qualified to give any legal advice regarding evictions or relocation payments and Buyer is advised to seek the advice of a qualified California real estate attorney who specializes in landlord/tenant issues in San Francisco.

27. ELLIS ACT

As an alternative to continuing to rent units in the Property, Buyer can choose to terminate the tenancies of all occupied rental units by invoking the provisions of California Government Code Sections 7060 - 7060.7 (the “Ellis Act”). Section 37.9(a) (13) of the Rent Ordinance provides that the Ellis Act is a just cause for eviction.

However, as with an OMI/RMI, there are a considerable number of limitations on the Ellis Act process and invoking the Ellis Act also can have significant implications for the use of the Property in the future.

Generally, those limitations prevent the immediate re-rental of units that were occupied at the time the Ellis Act was invoked, and provide certain rights for tenants who are evicted pursuant to the Ellis Act to return to the Property. The amount of time that those restrictions apply, as well as how much rent can be charged upon a re-rental and whether prior occupants have a right to return, are each complex issues about which Buyer is advised to obtain the advice of a qualified California real estate attorney who specializes in landlord/tenant issues in San Francisco.

The limitations imposed by the Rent Ordinance for Ellis Act evictions also include the obligation to pay relocation expenses. The obligation to pay those expenses mirror, but do not exactly overlap, those discussed above in Section 25. If Buyer is contemplating the use of the Ellis Act as a means of recovering possession of units at the Property, the Buyer is advised to seek the advice of a qualified California real estate attorney who specializes in landlord/tenant issues in San Francisco on the relocation payment obligation and how it is distinct from those discussed in Section 25.

Furthermore, as restrictions imposed by the Ellis Act continue to affect a property even after sale, Buyer is advised to obtain any and all records that may be available from Seller and from the Rent Board about any prior Ellis Act evictions at the Property. Failure to comply with the re-rental restrictions of the Ellis Act and Rent Ordinance can subject the owner to significant liability, either in the form of a claim by a departed tenant or by the City and County of San Francisco, **Buyer is therefore urged to consult a qualified California real estate attorney who specializes in landlord/tenant issues in San Francisco to fully appreciate and understand the effect of the Ellis Act on the Property.**

28. SELLER OCCUPANCY AFTER CLOSE OF ESCROW

Under the Rent Ordinance, a seller of real property who continues to occupy the property after the close of escrow may acquire tenant's protection rights, which may make it difficult for Buyer to recover possession of the newly purchased property in the event that a dispute arises thereafter. If Buyer wishes to allow the Seller to occupy the property after the close of escrow, Buyer is urged to consult with a qualified California real estate attorney who specializes in landlord/tenant issues in San Francisco to assess the risks and benefits of such an arrangement.

29. CONDOMINIUM CONVERSION ORDINANCE

Since 1982, local laws in San Francisco have severely limited the conversion of apartment buildings to condominiums. In summary, no buildings containing 7 or more residential units could be converted, and a lottery system was in place allowing no more than 200 units to be created annually from 2-6 unit apartment buildings (the "Lottery"). The only exceptions to the Lottery system were 2-unit buildings with both units owner-occupied. Such buildings could bypass the Lottery and begin the conversion process after both units had been simultaneously owner occupied for a year.

In June 2013 a new ordinance was passed suspending the Lottery system for 10 to 12 years and making further restrictions on entry to it, if and when it does resume. Those restrictions include eliminating all buildings with more than 4 residential units and increasing the owner-occupancy requirements for 3 and 4-unit buildings, such that any building entering the lottery can only have one unit with a tenant in place. In the interim, a schedule of permissions to convert for buildings which have met the prior requirements to enter the Lottery has been created. New conversion fees of as much as \$20,000 per unit will be charged and lifetime leases must be offered to non-purchasing tenants. The procedures and other processing fees for conversion may be found at:

<http://www.sfdbi.org/Modules/ShowDocument.aspx?documentid=142>.

Certain buildings are ineligible for condominium conversion based on past tenant "No-Fault Evictions." ("No Fault Evictions" include OMI, RMI, Ellis Act, permanent removal of rental units and capital improvement evictions.) Buyer is advised to investigate past No-Fault Evictions if the Property is being purchased with the intention to convert the units to condominiums. As the conversion restrictions apply regardless of whether the evictions were done by the Seller or a prior owner, if Buyer intends to convert the Property to condominiums, Buyer is also urged to consult a qualified California real estate attorney who specializes in landlord/tenant issues and condominium conversions in San Francisco before removing the inspection contingency.

30. TENANCIES IN COMMON

Tenancy in Common (or "TIC") is a form of ownership by which all of the owners of the property (the "co-tenants" or "tenants-in-common") own undivided interests in the entire property, in percentages set forth in their respective deeds. By agreement, the owners may assign to one another specific occupancy and other rights. Usually, all of the owners are fully liable for the mortgage, unless each owner has secured an individual loan for his/her TIC interest, and the mortgage generally cannot be modified without the consent of the lender and all of the owners. These are extremely complex relationships requiring, among other matters, a carefully written TIC agreement setting forth the rights and responsibilities of all of the owners, including rights of exclusive occupancy of specific units, parking or storage spaces, financial obligations, restrictions on use, use of common areas, restrictions on subsequent sales and dispute resolution mechanisms. Brokers are not qualified to review and analyze TIC agreements. Prior to purchasing a TIC property, Buyer is strongly urged to seek the advice of a qualified California real estate attorney to review any existing TIC agreement, and to otherwise advise Buyer regarding the nature of this unique form of real estate ownership in general, and specifically this particular TIC arrangement. See CAR Form TICD-SF.

31. RESIDENTIAL ENERGY CONSERVATION ORDINANCE

The San Francisco Residential Energy Conservation Ordinance requires that prior to the transfer of title of any residential building the seller or their broker must: (a) obtain a valid energy inspection by a qualified energy inspector; (b) install all required conservation measures as itemized in a form specified by the Department of Building Inspection ("DBI"); (c) furnish to the buyer a copy of the completed inspection form, showing compliance with required energy conservation measures; and (d) record a certificate of completion with the county recorder's office no later than the transfer of title.

However, this inspection is not required for a residential property where a proof of compliance with the Energy Conservation Ordinance has been recorded with the DBI and the county recorder's office. No seller is required to spend more than one percent of the purchase price or one percent of the assessed value of the building, whichever is greater, to comply with the ordinance. Further, in the case of one- or two-unit buildings, the cost of compliance shall not be greater than \$1,300.

The responsibility for compliance with the ordinance may be transferred by seller to buyer provided that before transfer of title (a) a valid energy inspection has been performed; (b) a written agreement is signed by seller and buyer wherein buyer agrees that the energy conservation measures will be installed within 180 days after transfer; and (d) seller agrees that funds equal to one percent of the purchase price will be deposited in escrow.

Further information on this ordinance can be obtained from DBI at (415) 558-6088.

32. WATER CONSERVATION ORDINANCE

Water conservation inspections are required prior to each sale of most residential buildings, regardless of prior energy and water compliance certification. Unless an exemption applies, the following water conservation measures are required to be complied with:

- Low-Flow Showerheads: Any showerhead with a maximum flow of more than 2.5 gallons per minute must be replaced. All showers may have no more than one showerhead per valve.
- Faucet and Faucet Aerators: An aerator with a flow rate of 2.2 gallons per minute or less must be installed on all sink faucets.
- Efficient Toilets: All toilets with a maximum rated water consumption of more than 1.6 gallons per flush must be replaced.
- Leak Repair: All plumbing leaks must be located and repaired.

Contact the Water Department at (415) 551-3000 for detailed information regarding compliance and exempt properties and transfers.

33. BOILER ORDINANCE

Some homes in San Francisco contain boilers, which generate steam for heat or for domestic hot water production. Homeowners who have boilers on their property must maintain their boiler in safe operating condition and also maintain a current "Permit to Operate Boiler." The permit must be renewed annually and displayed near the boiler. For more information, visit: [www.sfdbi.org/ftp/uploadedfiles/dbi/Key Information/BoilerInspectionProgram.pdf](http://www.sfdbi.org/ftp/uploadedfiles/dbi/Key%20Information/BoilerInspectionProgram.pdf)

34. UNDERGROUND STORAGE TANKS (USTs)

Tanks buried in front of residential property were used for the storage of oil for steam heat systems, beginning in the late 1800's. They can be identified by a number of indicators - a filler cap in the sidewalk; a breather spout attached to an exterior building wall (which allowed air to be displaced from the tank as it was refilled); a fire-brick enclosed boiler room in the basement; and, sometimes still in place, an electrical box on a wall in the boiler room labeled "Oil Burner". The tanks were abandoned over time as the fuel source was replaced with piped natural gas. Article 21 of the San Francisco Health Code requires owners to "close" any remaining disused tanks, by either removing them, or filling them with concrete and taking out a license, to be renewed annually, to continue to own it in place. Removal is the preferred approach, but can become expensive if the tank has deteriorated and oil has leaked into the soil below, thereby causing contamination and requiring remediation. A professional inspection is recommended. CAR Form USTD-SF gives more detail and the purchase contract, CAR Form PA-SF, can be used to determine who pays for the inspection if a Buyer suspects that a UST may still be in place and has not been given any evidence to the contrary. Owners of real property in San Francisco are advised to retain prior UST inspection reports and certainly, if one has been removed, to retain for future owners the closure documentation.

35. UNREINFORCED MASONRY AND SOFT-STORY BUILDINGS

In 1992, a San Francisco Ordinance required that Unreinforced Masonry Buildings (UMBs), identified as such by DBI, be retrofitted to a minimum "bolts-plus" standard. By now most of the brick buildings identified on DBI's "UMB list" have been so retrofitted. Concerns have also been voiced for some years about wood-frame apartment buildings, typically of 3 stories or more, usually on corners, which have a number of openings at the ground level for garage access, thereby creating a "soft-story". Buyers and Sellers of such buildings can anticipate an ordinance requiring a retrofit of such buildings in the near future. Further information may be found at www.sfdbi.org.

36. TREES AND VEGETATION

According to the Department of Public Works, there are about 100,000 street trees in the city of San Francisco. The majority of these are cared for and maintained by the fronting property owner, but there are about 24,000 trees in the care of DPW. Because DPW does not have the resources to properly care for these trees, however, the responsibility for these trees is being transferred over the next seven years to the fronting property owners, who will be responsible for pruning and regular care. Consult this website for more information about San Francisco's urban forestry: www.sfdpw.org.

It is also important to note that a property owner must obtain a permit to either plant or remove a tree. Often the permit for planting a tree can be obtained at no cost. Removing a tree without a permit subjects the property owner to fines.

37. HAZARDOUS WASTES ORDINANCE

San Francisco residents must divide household waste into three bins: recycling, compost and landfill waste. In addition to that, there are several types of hazardous waste that must be handled separately: batteries are to be placed in a plastic bag and left on top of one of the collection bins; cooking oil should be poured into leak-proof containers and delivered to a collection site; old medications are accepted at most pharmacies for disposal; paint can be disposed of at Recology's Hazardous Waste Collection Facility or many hardware stores in the city; syringes and needles can be dropped off in a "sharps" container at most pharmacies in San Francisco, and fluorescent light bulbs and tubes can be dropped off at neighborhood collection sites, which can be found here: www.sfenvironment.org/recyclewhere.

C. RECOMMENDATION TO RETAIN AN ATTORNEY AND ACCOUNTANT

In addition to the professional service providers you will retain to inspect and analyze the property you are purchasing or selling, a situation may arise during the course of your transaction that requires you to either make an important decision, or select a plan of action that could result in significant legal consequences and substantial impact on your personal finances. The most prudent and best plan is for you to identify a certified public accountant and real estate attorney, in advance of the sale or purchase of your property, so that you can quickly contact and seek the proper financial and/or legal advice and guidance if needed during the transaction. If you are considering a 1031 exchange, also contact an exchange accommodator to discuss the proper method and timing of the exchange.

D. THE PARTIES ACKNOWLEDGE THE FOLLOWING REGARDING BROKER

- Broker does not warrant or guarantee the condition of the Property. Broker shall not be responsible for failure to disclose to Buyer facts regarding the condition of the property where the condition (i) is unknown to Broker or (ii) is not capable of being seen by Broker because it is in an area of the property that is reasonably and normally inaccessible to a Broker;
- Broker has not verified square footage or size of structures or land, boundary lines of the property, representations made by others (including but not limited to the Seller), information contained in inspection reports or in the Multiple Listing Service or that has been copied therefrom, or in advertisements, flyers or other promotional material, or any other matters described in this Disclosures and Disclaimers Advisory, unless otherwise agreed in writing;
- Broker does not guarantee and shall not be responsible for the services or products provided by others to or on behalf of Buyer or Seller and does not guarantee and shall not be responsible for the quality, adequacy, completeness or code compliance of repairs made by Seller or by others;
- Broker does not decide what price Buyer should pay or Seller should accept; and
- Broker is not qualified to give legal, tax, insurance or title advice.
- Brokers lack professional expertise in all of the above, and do not verify the results of any inspections or guarantee the performance or reports of any inspection or professional service.
- Buyers and Sellers are free, and advised, to investigate and choose their own service providers to conduct investigations and advise them on these and all matters related to the sale and purchase of real property.

In these and all other matters referred to in this Disclosures and Disclaimers Advisory, Buyer and Seller are advised to seek any desired assistance from appropriate qualified professionals. Nothing any broker or sales agent may say will change the terms or effect of this Advisory.

THE UNDERSIGNED ACKNOWLEDGE RECEIPT OF ALL 16 PAGES OF THIS ADVISORY.

Buyer: _____ Date: _____
BUYER ONE

Buyer: _____ Date: _____
BUYER TWO

Seller: _____ Date: _____
SELLER ONE

Seller: _____ Date: _____
SELLER TWO