

February 26, 2015

VIA ELECTRONIC MAIL

Senate Committee on Veterans and Emergency
Preparedness

Chair Senator Brian Boquist
Senator Peter Courtney
Senator Laurie Monnes Anderson
Senator Alan Olsen

State Capital
900 Court Street NE
Salem, Oregon 97301

Re: Testimony in favor of SB 85

Chair Boquist and Senators Courtney, Anderson and Olsen:

My name is Walt McMonies and my business address is c/o Lane Powell PC, 601 S.W. Second Avenue, Suite 2100, Portland, Oregon 97204. I am here to testify in favor of SB 85 on behalf of the Masonry Building Owners of Oregon ("MBOO.") MBOO is an Oregon non-profit trade association representing the owners of some 125 unreinforced masonry ("URM") apartment and commercial buildings principally located in Portland, Salem and Eugene. As you may know, although URM buildings do well in fire, windstorm and flood, they are particularly vulnerable to the sustained and violent lateral forces generated in a major earthquake.

Most URM owners in MBOO are seriously considering seismically upgrading their buildings. Not only do they want to protect their investment and the people or businesses that rent from them, but there are other market forces in play. For instance, the cost of earthquake insurance (required by many lenders) is inexorably increasing and it is now written primarily by Lloyds of London basis with a 10 to 20% deductible. Major lenders such as Chase and Fannie Mae will not make loans on URM buildings unless they are seismically retrofitted to achieve a probable maximum loss ("PML") of 20% or less. Finally, the City of Portland and other jurisdictions are seriously considering making the seismic upgrading of URM buildings mandatory in the Building Code, without the need of a "trigger" such as a change of use.

So why aren't seismic retrofits happening at a faster rate? Cost. Seismically upgrading a URM to "life/safety" standards (the lowest acceptable standard) costs from \$20 to \$40 a square foot, or \$800,000 to \$1.6 million for a 40,000 square foot apartment or commercial building. The typical URM building owner simply does not have sufficient savings or cash flow to undertake an expensive seismic upgrade and would necessarily need to borrow a substantial percentage of the project cost. Borrowing, however, usually requires collateral and our typical URM building owner probably has a first mortgage encumbering his building which mortgage likely prohibits the owner from granting even a small second mortgage and even if the purpose is to raise construction financing. If the URM building is historic and meets other requirements, it might qualify for the 20% of expenditure federal Historic Rehabilitation Tax Credit, but this program (again) imposes a lot of requirements.

An added disincentive to undertaking a seismic upgrade is the slow return on such investment. Converting an older apartment building from a communal washer/dryer room to individual unit washer/dryers might cost \$80,000, but would allow a \$40 a month increase in rent, and assuming 32 units, a \$15,360 increase in annual rent and a 5.2 year payback. By contrast, an \$800,000 seismic upgrade of the same building might only allow a \$40 a month increase in rent, increasing annual rent by \$15,360, a \$10,000 reduction in insurance cost and, on refinancing, a loan with an interest rate 75 basis points lower (for a \$15,000 annual savings on a \$2 million loan), for total savings of \$40,360 and a 20-year pay back.

Some might argue that if URM buildings are so expensive to upgrade, why bother? Just demolish them or at least mothball them. This argument is shortsighted because:

1. URM apartment buildings are part of the fabric of the urban core and typically provide more affordable, close-in "workforce housing" in the urban core of cities like Portland.
2. URM commercial buildings are part of the fabric of Main Street in many cities and towns and provide less expensive retail and office space to start-up ventures and creative businesses.
3. Although it may cost up to \$40 a square foot to seismically upgrade a URM building, it likely would cost anywhere from \$120 to \$200 a square foot to replicate it and replacement post-disaster will take many months.
4. Post-disaster we will need resilient housing and commercial buildings able to house the newly homeless and all the emergency workers coming in to help us rebound.

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MBOO also believes that the resiliency of Oregon after a major subduction zone earthquake is in part dependent on minimizing the loss of housing, as well as retail and office space from a major event. Multifamily housing (i.e. apartment buildings) in general and historic URM apartment buildings, in particular, are important for their contribution to workforce housing and to the architectural fabric of Oregon cities and towns.

Given the vulnerability of URM buildings to a major earthquake and the technological feasibility of seismically upgrading a URM, it is important that the owners of these building have the financial ability to upgrade them.

SB 85 would allow local governments to raise and distribute funds to URM owners to increase the financial feasibility of seismic upgrades. It doesn't dictate what might work in all places; it allows local jurisdictions to look at how it can help bridge the financial barriers that exist by creating a local financing program or facilitating private financing. Participation would be voluntary for both owners and local jurisdictions.

There is no one thing that will ensure that URM buildings are made seismically resilient or that upgrades are financial feasible, but this bill is one way to help, and I urge your support of SB 85.

Very truly yours,



Walter W. McMonies

WWM:am
cc: Cheyenne Ross, Committee Administrator