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February 27, 2015

VIA ELECTRONIC MAIL

Senate Finance and Revenue Committee
Senator Mark Hass, Chairman
Senator Herman Baertschiger, Jr.
Senator Brian Boquist
Senator Chris Edwards
Senator Chuck Riley
State Capital
900 Court Street NE
Salem, Oregon 97301

RE: SB 565/ The Revitalize Main Street Act/ In Support

Chairman Hass and Senators Baertshiger, Boquist, Edwards and Riley:

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 writing and hope to testify before your committee next week in support of SB 565, the Revitalize Main Street Act (the "Bill").

I represent the Masonry Building Owners of Oregon ("MBOO"). MBOO consists of some 25 families who own approximately 125 unreinforced masonry ("URM") apartment and commercial/office buildings in Portland and other locales in the Willamette Valley. URM apartment and commercial buildings are important to Oregon because (i) the apartments provide affordable workforce housing (often renting for a dollar a month less per square foot than new construction), (ii) the commercial buildings provide reasonably priced Class B and C retail and startup/incubator office space on Main Streets throughout the state and (iii) most URM buildings are contributors to the historic and architectural fabric of the cities and towns where they are located.

Unfortunately, many URM buildings are in need of major upgrading to comply with the Fire Code, ADA, energy conservation and seismic requirements.

SB 565 is designed to spur the rehabilitation of historic buildings. This is particularly timely given the significant risk in the next 50 years of an M 8.0 to M 9.0 Cascadia subduction earthquake and tsunami impacting the Oregon Coast and the earthquake Western Oregon.

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URM buildings, although they perform well in fire, windstorm or flood, are vulnerable to earthquakes. This earthquake risk is motivating local jurisdictions to impose more stringent seismic upgrading requirements on building owners. Yet there are significant barriers to funding these costly upgrades, ranging from lack of access to loans to insufficient equity in buildings and limited return on investment. Without workable ways to surmount these financial barriers, historic buildings and their benefits will be lost to demolition or collapse in a major earthquake.

Our members understand the value of upgrading their buildings; however, without viable financial tools they face daunting financial hurdles as follows:

1. Historic rehabilitation projects are expensive: seismic upgrading work alone to “life safety” or Bolts Plus standards might cost anywhere from \$20 to \$40 a gross square foot and can be disruptive to tenants, frequently requiring them to end their tenancy or a least move out during the work in their space;
2. Older buildings (URMs typically date from about 1910 to 1935) have much higher operating expenses (45% of gross revenue versus 30 to 35% for a new building) so there is less net cash flow to fund improvements or service debt incurred to fund improvements. In small towns, these building’s operating expenses are approximately the same, but the income is much less.
3. The typical commercial building has an existing first mortgage loan from an institutional lender and the holders of such loans in general will not allow the property owner to encumber the property with additional (subordinate) debt, hence borrowing the construction cost of a major renovation, including seismic rehabilitation, is often not feasible. This problem needs fixing, but not through SB 565. Rather SB 85 authorizing local governments to make loans or facilitate private financing of seismic rehabilitation may be a partial solution.
4. In the current financial environment, the investment in amenities and other improvements to a commercial building increases “curb appeal” and “pays back” the owner quickly as tenants find them desirable. Unfortunately a seismic upgrade does not “pay-back” quickly. For example, after a “life safety” seismic upgrade costing (say) \$800,000 for a 40,000 square foot building, the owner’s insurance premiums for earthquake insurance might go down by \$5,000 to \$10,000 a year and a new mortgage loan on the property may have a more favorable interest rate by 50 to 75 basis points (saving \$15,000 a year in interest on a \$2 million loan), but the building may not have increased its curb appeal sufficiently to justify a rent increase beyond (say) \$40.00 per unit per month or \$15,360. At a combined benefit of \$40,360 a year,

Chair Hass
Senators Baertschiger, Jr., Boquist, Edwards
and Riley
February 27, 2015
Page 3

the \$800,000 cost of seismic upgrading will be paid back in 19.82 years (ignoring interest). By contrast, plumbing and installing washer dryers for 32 apartment units, which currently lack them, might cost \$80,000 but will be recouped in 5.2 years as rent can be increased by \$40 a month.

SB 565 will provide a critical tool to overcome those financial barriers. Owners of historic buildings who undertake a rehabilitation project could apply for a rebate or reimbursement of 25% of their qualifying project expenditures, thereby effectively reducing the rehabilitation cost by one quarter. If also coupled with the 20% federal Historic Rehabilitation Tax Credit, the owner would get back 45% of his expenditures, making the project much more feasible at an effective cost of \$550,000 as opposed to \$1 million. If SB 565 does not pass, many historic commercial buildings on Main Street and elsewhere will remain empty shells subject to vandalism, fire, weather, and earthquake damage and eventual demolition. Without a state Historic Rehabilitation grant program, necessary seismic retrofitting will be much less likely to occur and when the "Big One" earthquake occurs many of the some 3,000 URM buildings in Western Oregon will suffer major damage or collapse, many of their occupants and bystanders will be injured or killed, and the enterprises housed in these buildings will be severely stressed if not put out of business.

SB 565 targets and gives a preference to renovations of buildings outside Portland, often on the Main Streets of rural towns. We understand the need for this preference as the economics of rural renovation projects are much harder. For example, rent for a 1000 square foot commercial space in Pendleton might be \$10 a square foot, while the rent for an equivalent space in Portland could be \$25 a foot, but the renovation cost might be the same.

Thank you for your attention. Please pass SB 565 out of committee.

Very truly yours,



Walter W. McMonies

WWM:am

cc: Anna Grimes