

March 31, 2015

**VIA ELECTRONIC MAIL**

House Committee on Veterans and Emergency  
Preparedness

Chair Representative John Lively  
Vice Chair Representative Deborah Boone  
Vice Chair Representative Sal Esquivel  
Member Representative Paul Evans  
Member Representative John Huffman  
Member Representative Julie Parrish  
Member Representative Carla Piluso

State Capital

900 Court Street NE

Salem, OR 97301

Attn: Bryan Guiney, Committee Administrator

Re: Testimony in Favor of SB 85

Chair Lively, Vice Chairs Boone and Esquivel and Members:

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. This letter should serve as written testimony in favor of SB 85 which recently passed out of the Senate and is now in your Committee. I am writing 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 on a "surplus lines" basis (less regulated) 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 building 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 cash on hand or operational 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 borrowing additional funds and/or granting even a small second mortgage and even if the purpose is to raise construction financing for the building. 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 which intimidate many smaller owners.

An added disincentive to an owner from undertaking a seismic upgrade is the slow return on investment. For example, 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 the same \$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 interest 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 cities like Portland, Salem, and Albany.
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 \$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 (12 to 18), during which time the owner may have no income but will continue obligated on her mortgage.
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.

MBOO also believes that the resiliency of Oregon after a major subduction zone earthquake will be at least in part dependent on minimizing the loss of housing, as well as retail and office space, from a major earthquake event.

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 them 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 financially feasible, but this bill is one way to help. I urge your support of SB 85.

Very truly yours,

LANE POWELL PC



Walter W. McMonies  
On behalf of MBOO

WWM:am

House Committee on Veterans and Emergency Preparedness  
March 31, 2015  
Page 4

bcc: Commissioner Steve Novick  
Carmen Merlo  
Susan Steward  
Gwenn Baldwin  
Steve Rose  
Elizabeth Tilbury

710500.0001/6303256.1