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To: Nogler, Tim (COM)
Subject: Public Hearing testimony
Attachments: Plan redesigning due to 2009 IRC model code and WSEC proposed changes.doc; R313 Cost Analysis 2009 IRC; WSEC Proposed Costs - Adair Homes.xls; Chuck Analysis.xls

Importance: High

Tim,

With the limited time available for verbal testimony at the public hearing on 9/29/09 I wanted to follow up with this written testimony to supplement the documents I submitted. Please have this submitted as written testimony for the benefit of the Council in its deliberations.

I will reference each document I submitted below so it would help if this e-mail was arranged as a sort of cover page for all the documents. I am also attaching file copies if they are needed for your processing.

Price Increase Impact Assessment:
This was compiled from information supplied by Adair's lender partners. The key issue that does not allow much additional cost to be added to a new Adair Home project right now is appraised values. It does not matter if a Consumer can afford a higher payment amount. Appraised values do not recognize and give like value for increased costs from fire sprinklers or additional energy conservation measures. Projects have declined in appraised value due to market conditions. Appraised values are generated from comparable sales which at this time are much lower in price than in prior years. The unique thing about Adair Homes which allows us to serve people with more limited means to build a home is that we have sources of funding that will recognize the difference between total project hard costs and appraised value as equity which makes the LTV ratio acceptable for the loan to be approved. If that LTV margin is reduced by any amount the loan will not be available. There are other factors as well that put the ability to get funding at risk. The debt to income ratio will climb as the house price increases which also put the ability to fund a loan in jeopardy. Also if the LTV ratio exceeds set limits mortgage insurance is required and this then pushes the total monthly payment amount over what the Consumer can afford to pay. To put a face to this aspect of the issue see the cases in point below.

1) Eric and Ashley Greer - Daughter Emily

Saved for 4 years to be able to buy a house. Have great Debt to Income (meaning they are living the right way). Wanted a new, safe house to raise their 1 year old. Project cost - $176,000 ANY significant increase would have pushed their Loan to Value (LTV) above an acceptable level for construction loan and they would still be apartment dwelling. Both have jobs and are buying a house the right way (low debt and making Homeownership a top fiscal priority).

2) Norman and Jeanette McKinley - Children grown

Been saving all their life to buy property and have worked the last 5 years to eliminate debt. Norman has worked for the City for the last 17 years and Jeanette works for a bank. Again, good DTI ratio, but even a 10% increase in price would have pushed their LTV above the threshold to make this work. Is it right to take away the dreams of people who have worked their whole life to afford them?

3) Miguel Arteaga - 4 Children

Works 2 jobs to move his family from where they don't have to be in a "bad part of town". We had to try two different house plans just to make it work on a lot he could afford. Project cost $170,252. ANY increase in price would have pushed this family over the LTV threshold.

Many of our buyers are good buyers who prepare to buy a house, save, work down their debt, etc. ALREADY, SDC fees and permit fees are making it hard for families like these to afford a safe place to raise their families. ANY increase that has an effect on value will take away the dreams of these families.

I did the best I could do make sure the cost to Consumer calculations were as accurate as possible with there being so many things that have been added to the 2009 IRC model code and the proposed changes to the WSEC. Even if I am off and on the high side by 5% in my estimates (and I do not believe I am) it does not change the fact that the cost increases created by what is under consideration will, in combination, devastate Adair Homes ability to serve our clients in Washington State.

If this is also true for other home builders, and I have no reason to believe it is not, then the supposed increase in life safety and energy conservation represented by proponents of residential fire sprinklers and further energy conservation measures will not happen because new homes will be unattainable for the vast majority of families. They will remain in existing housing of some sort.

2009 IRC – Section R313 Automatic Fire Sprinkler Systems (AFSS):
Proponents of residential fire sprinklers never speak to total cost to consumers. Rather they cite net cost of construction and some rather unheard of low figures at that. The calculations that I have submitted are very much in line with what the mainstream of thought has been on per sq ft and other costs. I have included those things which affect the final costs to the Owner because they are real and affect the price that will be paid for the home. Considering the financial circumstances noted in the Price Increase Impact Assessment the 5.4% - 17% possible increase in price to Consumers for their home from the addition of AFSS would eliminate up to 85% of families we built for last year from qualifying for their loan.

Proponents of AFSS cite success stories in which infrastructure cost trade offs helped make sprinklers more affordable. These are of limited overall value in mitigating the financial impact of sprinklers. Cost benefits to the land developer do not equate to costs savings for the home builder as the two are not always the same party. Further, rural builds, major remodeling, replacement dwellings, and infill projects would not have this financial benefit.

Proponents of AFSS say that public safety will increase if sprinklers in homes are mandatory. I believe the real world tells us the opposite. Mandatory residential fire sprinklers will put far more people at risk of death in a fire than those it might protect from such. All experts agree that low income families and the elderly are most at risk for death in a fire because they live in older and often substandard conventional and mobile homes. As new homes are made more and more unattainable financially we relegate more and more of our population to remain in substandard housing. This has resulted in needless deaths that modern yet affordable housing would have prevented.

I found it quite callous for someone who testified at the hearing on 9/29 on this topic to equate the cost of 3 lattes' a week or month or something to the added cost (net cost not final cost) of AFSS. Not only is such a comment glaringly inaccurate, this is insulting to families that are struggling to make a living already, trying to economize, and find any way they can to afford a home of their own at present costs. In his world everyone may have the option to spend frivolously on

overpriced flavored coffee drinks. In the real world of those I serve they have already eliminated every unnecessary expense they have just to get a home….and still some cannot do so.

I find something odd about some in fire service who have voluntarily outfitted their own homes with AFSS. They evidently did so because they are convinced that sprinklers are worth the cost. Good for them if they can afford to do so or if they forego something else to do so. That's their decision and I would support that they can do that. However, in making AFSS mandatory they wish to remove the privilege of personal choice from others and decide for them what is best. In fact, they are saying that having fire sprinklers is so important that it would be better not to have a new home at all rather than one without fire sprinklers. I guess that's easy to say if you're not the one thus priced out! Perhaps they know that they will never succeed in their vision quest for all homes to have fire sprinklers if they rely on the need to make a convincing argument to individuals who then can weigh the facts and make an informed choice because the case for need is not that statistically compelling and the cost is too high.

Proponents of AFSS make it seem that unless sprinklers are mandatory for all residences no new homes will have them. That ignores that many homes right now do have fire sprinklers installed. Some are done voluntarily (those with the means and desire can have one), some by special arrangement on plat development, and a number due to fire flow issues and requirements that already exist in the fire codes. In other words, the homes where it makes sense to incorporate fire sprinklers already get them installed. Making them mandatory for all homes is unnecessary and restricts availability of new homes to too many people.

The Code Council should show prudence and act on behalf of those who are most at risk in this matter and act to eliminate Section R313 from adoption. To coordinate that with other code sections the IRC TAG already identified what town home provisions of the 2006 IRC should be retained so that no compromise of current standards inadvertently occurs.

Pricing Analysis with all Proposed Changes to the WSEC (3 documents):
These estimates calculate the impact on 3 home plans that Adair builds. The total cost increase percentage of around 20% is great enough in itself so as to eliminate 89% of the families we built homes for last year (see Price Increase Impact Assessment).

Some may say that these proposed energy conservation measures will save huge amounts of electricity. Even if true, and some would dispute that, it will only occur if the homes thus specified actually get built. My cost calculations and the impact this would have who can afford a home say otherwise. Any assessment of energy savings is based on an assumption that new home construction will continue at some pace based on projections which in turn is based on past experience. That will not happen if these measures are adopted. In fact, Adair Homes will build so few homes as to make operation in Washington State potentially unviable. The same must be true for other home builders as well.

Further, my past experience is that as utility companies ask for rate increases as the demand for their "product" decreases. This due to fixed costs which now need to be recouped over less sales volumes. So Consumers will see no real cost savings over time.

The portions of the proposed amendments having the most impact are those contained in what is titled Chapter 9 with its chart of measures to be met for compliance. The elimination of that chapter would go a long way in reducing the cost impact of what has been proposed. If that occurred the proposal to adopt a revised version of Chapter 11 of the 2009 IRC would be much closer to the proposed changes to the WSEC (less Chapter 9).

Plan Redesigning due to 2009 IRC model code and WSEC proposed changes:
I have tried not to overlap costs from one thing to another in my analysis. So I left the developmental costs as a separate item. These costs need to be covered to convert all plans,

engineering, calculations, construction detailing, and training of personnel over to these new codes.

The 2009 IRC has built in cost increases outside of fire sprinklers. The publication titled "Significant Changes to the IRC – 2009 Edition" is s useful guide in seeing what they are. They range from carbon monoxide detectors to provisions for topographical wind effects to attachments of exterior stairways, to greater seismic provisions in Chapters 3, 4 and 6 and on. The one cost savings item I could identify was the removal of some provisions on Chapter 4 for lateral support of foundation walls. However, Washington already has an amendment which struck these provisions so there is no actual savings opportunity.

My estimate of the cost increase for the 2009 IRC, less fire sprinklers, but including conversion of documentation is about 5% to the price of the home itself. I am not sure how Adair will absorb these costs at this time but I do know that those we serve cannot afford this increase. One can see that from the financial analysis for loans I have submitted. Even a 5% increase in the price of a home will eliminate 68% of our Customers from buying a home.

General commentary:
In times past one could expect the national code development process to result in a good rational, reasonable consensus of what should be done to construct a home. My observation is that the national process is in a state of disarray for two main reasons.

One is activists with their own agenda bent on getting what they want. Such zealots ignore the affect on real people sure that if their radical position prevails they will have made their mark on the world. Mandatory residential fire sprinklers are one that fits this, in my opinion. Another is an ad-hoc wall bracing committee which was formed to try to adjust the seismic provisions that needed a little clarification but instead resulted in the sweeping changes we see in the 2009 IRC. Much of which was change for change sake and which makes it nearly impossible to navigate through the provisions. The simple language code we are supposed to have is long gone. This group has determined it should continue in existence and continue to produce more and more of what we see in this version of the model code.

The second is the sheer volume of code change proposals submitted and the need for committees to burn through them to get done. Combine this with the activists pushing their ideas and you get things voted in that are not well thought out, at the last moment, and at odd hours.

Both of these factors result in items that are not always fully developed to the point that all issues have been addressed. The result is a document with serious flaws that are found once the new model code gets published and enough people read it and see what has occurred. It means that the present code version, whatever it is, is safer to stay with than to jump on the band wagon of a new model code. By the time the mid-cycle review starts (which is right after the new code is published) there are whole sections that end up rewritten or dropped entirely. This is not speculation on my part. Just think back a bit to the lateral bracing for foundations in Chapter 4 and the setback requirements in Chapter 3 from the 2006 IRC to find good examples of this.

It is my view that the SBCC should rethink the point in time when a new model code will be considered for adoption. In today's climate, it would seem much better to wait a year or two after publication of a new model code to consider adopting it as the code for Washington. Let the dust settle and the errors become known before Washington citizens are collateral damage to a code development system that seems out of control at present. I am not sure you have the statutory latitude to do what I suggest but it is what is needed.

ADAIR HOMES

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