THE CITY OF SAN DIEGO

Report to the Historical Resources Board

DATE ISSUED: January 12, 2017 REPORT NO. HRB-2017-005

ATTENTION: Historical Resources Board
Agenda of January 26, 2017

SUBJECT: **ITEM 8 – 1610 Union Street and 320 West Cedar Street (HRB 282 – Oscar H. Millard Rental) – CENTRE CITY PLANNED DEVELOPMENT PERMIT/SITE DEVELOPMENT PERMIT NO. 2016-39**

APPLICANT: JMan at KLofts LLC represented by Marie Lia

LOCATION: 1610 Union Street and 320 West Cedar Street, 92101, Downtown Community, Council District 3

DESCRIPTION: Recommend to the Planning Commission adoption of the mitigation measures and findings associated with the site development permit as presented or recommend inclusion of additional permit conditions related to a designated historical resource.

STAFF RECOMMENDATION

Staff recommends that the Historical Resources Board recommend to the Planning Commission adoption of the findings and mitigation measures associated with Planned Development/Site Development Permit No. 2016-39 for the demolition of the designated historical resource located at 1610 Union Street and 320 West Cedar Street (HRB Site #282- Oscar H. Millard Rental) as presented.

BACKGROUND

The City's Land Development Code Section 126.0503(b)(2) requires a recommendation from the Historical Resources Board prior to the Planning Commission decision on a Site Development Permit (SDP) when a historical district or designated historical resource is present. The HRB has adopted the following procedure for making recommendations to decision-makers (Historical Resources Board Procedures, Section II.D):

> When the Historical Resources Board is taking action on a recommendation to a decision-maker, the Board shall make a recommendation on only those aspects of the matter that relate to the historical aspects of the project. The Board's recommendation action(s) shall relate to the cultural resources section, recommendations, findings and mitigation measures

of the final environmental document, the Site Development Permit findings for historical purposes, and/or the project's compliance with the Secretary of the Interior's Standards for Treatment of Historic Properties. If the Board desires to recommend the inclusion of additional conditions, the motion should include a request for staff to incorporate permit conditions to capture the Board's recommendations when the project moves forward to the decision maker.

The Oscar H. Millard Rental property was constructed in 1894 in the Queen Anne style. The house was designed by John B. Stannard. The house is located in the Downtown Community Planning Area. The house was originally constructed as a rental property and purchased by Oscar H. Millard in 1902. Millard owned a number of rental properties in the San Diego area and believed that a well maintained property attracted tenants. In 1952, an office/garage was constructed on the west side of the property addressed as 320 West Cedar Street. The property was evaluated and designated by the HRB on August 22, 1990. Since the date of designation, unpermitted work has occurred on the property. The property received a number of citations from the City's Code Enforcement Section.

The property was evaluated in a Historical Resources Technical Report dated December 2016 by Marie Lia and Kathleen Crawford. The report was provided to supplement the designation information which was limited. The report evaluated the property for the National Register and the California Register. Due to the unpermitted modifications, the property was evaluated based on its previous condition prior to the modifications. Through the report it was determined that the property was not significant for either the National Register or the California Register.

ANALYSIS

When development is proposed with a designated historical resource on site, it must comply with regulations of San Diego Municipal Code, Chapter 14, Article 3, Division 2. (SDMC § 143.0210(a).) The regulations provide that it is unlawful to demolish a designated historical resource unless the proposed development cannot to the maximum extent feasible comply with the regulations, and a deviation is granted pursuant to a Site Development Permit (SDP) with supplemental findings for substantial alteration of a designated historic resource. (SDMC §§ 143.0251(a); 143.0260; 125.0504(i); 143.0210(e)(2)(C).)

The Planning Commission decides whether or not to grant the SDP, and whether the historic resources discussion and mitigation measures are sufficient. HRB's role in this process is to make recommendations to PC regarding its decision on the SDP. § 126.0503(b)(2). HRB Procedures provide that HRB's recommendation shall relate to the following: (1) historical resources discussion and mitigation measures in the environmental document; (2) the supplemental SDP findings for historic properties; and (3) the project's compliance with the Secretary of the Interior Standards. HRB Procedures § II(D).

Impacts related to the proposed demolition would be reduced through implementation of the required mitigation measures found in the Downtown Final Environmental Impact Report (Downtown FEIR) Draft Consistency Evaluation for the 1610 Union and 320 West Cedar Street project (Attachment 2). Findings for the demolition of a designated historical resource are required for approval of the permit, consistent with Municipal Code Section 126.0504(i).

Based on the information provided the rehabilitation and the retention of the property is not feasible due to the high rehabilitation costs, the compact size of the lot, and the inability to receive financing for such a project.

The three required Supplemental Findings and supporting information are provided in Attachment 5 and are summarized below.

1. *There are no feasible measures, including a less environmentally damaging alternative that can further minimize the potential adverse effects on the designated historical resource or historical district.*

The proposed project would be to demolish the existing building and construct two buildings on a separated parcel, Lot A and Lot B. Lot A at the west end would have an eight-story cast in place concrete building with a gross square footage of 31,722 which includes 13,374 SF of livable space with private decks in 35 units and 1,438 SF of commercial space. The second building on Lot B at the east end would be a four-story single family building with a roof top deck and the capability of office space on the bottom floor. It should be noted, that after the Findings were completed the project unit size was modified slightly to 43 dwelling units in the eight-story building and the single family building was changed to five-stories. The project also provides parking on site (Attachment 6). The staff analysis and discussion is based on the previous project, however the modified project did not significantly alter the Findings.

As part of the SDP analysis, the applicant identified and evaluated four scenarios. The first scenario named the *Base Project* is the proposed project that would demolish the existing improvements and redevelop the site with two lots and two buildings. The second scenario named *Alternative 1* would rehabilitate the existing structures on the site per the Standards. The third scenario named *Alternative 2* would rehabilitate the historic structure on the site, remove the non-historic garage and commercial space and construct a new two-story apartment building in its location. The last scenario named *Alternative 3* would relocate the historic structure and demolish the garage and the office space.

The Base Project and each Alternative were evaluated by the London Group to determine their economic feasibility (Attachment 5).

The Base Project assumes that the entire site is cleared, and the lot is divided into Lot A and Lot B. Lot A would allow for the construction of an eight-story cast in place concrete building with 13,374 of livable space in 35 units each with private decks. Lot B would allow for a four-story single family residence with a roof top deck and the capability of an office use on the first floor. The 33 market rate rental units would generate a monthly rental rate of $1,465 each and two very low income level rentals would generate a monthly rental rate of $709 each. The gross annual rent revenue from Lot A is estimated at $591,118. The Base Project assumes the sale of the rental property on Lot A in the fifth year after construction at an estimated value of $11,449,537. The new single family residence on Lot B would be sold when completed at a forecasted price of $2.6 million. The total profit generated from this proposal would be forecasted at $1.94 million. This would provide a Margin of Revenue of 13.8% when divided by the Gross Sales Revenue ($14 million). Based on the experience of the London Group, redevelopment projects need a Margin of Revenue 10% or greater to qualify for project financing. Based on this information the Base Project is considered economically feasible.

Alternative 1 would maintain and rehabilitate both structures.   The historic house would cost $603,900 to rehabilitate. It would have a forecasted sale price of $1,225,000. The garage and the commercial structure have an estimated rehabilitation costs of $285,600. It has a forecasted sale price of $300,347. The total project costs are forecasted at $3,116,852 while the total gross sales revenue is only forecasted to be $1,525,347 which results in a financial loss of $1,667,772. This Alternative is considered not economically feasible.

Alternative 2 would rehabilitate the historic house per the U.S. Secretary of the Interior's Standards at a cost of $603,900 with a forecasted sale price of $1,225,000. This alternative would also consist of redeveloping the garage and the commercial space. The new construction would consist of a two-story apartment building with 1,200SF and a cost of $350,000. It would be sold in its fifth year after construction with a forecasted cost of $726,657.   The total project costs are forecasted at $3,207,108, but the total sales value is only projected to be $1,951,657 which would result in a $1,255,451 loss in value. Alternative 2 would result in a financial loss of $1,417,825. This alternative would not be economically feasible.

Alternative 3 would relocate the historic structure and rehabilitate it at its new location. A search was conducted by the firm of Overland, Pacific & Cutler. They searched for a vacant lot that was for sale in an older neighborhood within the City of San Diego. A potential lot of 11,731 SF at 2810 L Street was identified at a cost of $895,000. Other lots that were identified included: a steeply sloped lot at Florida and Upas of 7,246 SF with an existing duplex that would still allow for additional units at a cost of $950,000; a vacant 1.21 acre site at 0000 Hixon Street for $149,000 (for which the low price suggests some deficiency with the site); two vacant lots at 849-867 Ninth Avenue under the same ownership as surrounding parcels with a price set as "negotiable" which suggests a multi-million dollar price; and a 15,750 SF lot in Golden Hill for $2.4 million. Based on this information, the best relocation site is the one located at 2810 L Street. Once relocated and rehabilitated, the forecasted sale price is $600,000. Total projects costs, which include the relocation and the new construction are $14,920,415. This alternative would result in a financial loss of $1,502,281 from the Base Project.

Based on the conclusions by the London Group the economically feasible option is the Base Project. Alternative 1 and 2 are not economically feasible due to the high rehabilitation costs, the compact size of the lot, and the more expensive construction methods and materials. These elements create projects costs that are greater than the revenues resulting in a financial loss of $1.4 million to $1.7 million. Relocating the house, as noted in Alternative 3 would also result in high moving costs, rehabilitation costs with a low sale price resulting in a Margin of Revenue at 3% which is well below a financeable project.

In an effort to ensure that the analysis by the London Group was adequate Civic San Diego requested a peer review from Keyser Marston Associates (Attachment 4). As part of the peer review, Keyser Marston Associates (KMA) adjusted selected inputs and assumptions that resulted in different conclusions from the London Group with respect to the relative economic feasibility of each development alternative. The London Group analysis indicates that to achieve economic feasibility and financing a redevelopment project requires a profit exceeding 10%. The KMA adjustments resulted in values that were below the 10% noted by the London Group.

In conclusion, based on the information provided and the analysis completed by the London Group, the only reasonably economically feasible project is the Base Project. Supplemental Finding 1 can be made.

2. *The deviation is the minimum necessary to afford relief and accommodate the development and all feasible measures to mitigate for the loss of any portion of the historical resource have been provided by the applicant.*

The deviation from the standard protective historic resource regulation is the minimum necessary to afford relief and accommodate development of the site. The applicant has agreed to implement measures identified in the FEIR Mitigation, Monitoring and Reporting Program (MMRP) pertaining to the demolition of the Oscar H. Millard Rental. They have provided Historic American Building Survey documentation of the existing property which includes a photo survey of the property and measured drawings of the exterior features. The measured drawings also provide information on the original features of the building and the modifications that have occurred. Therefore, the Supplemental Finding 2 can be made.

3. *The denial of the proposed development would result in economic hardship to the owner. For purposes of this finding, "economic hardship" means there is no reasonable beneficial use of a property and it is not feasible to derive a reasonable economic return from the property.*

The proposed Base Project will generate a profit of $1,940,942 which represents a Margin on Revenue of 13.8%, in the 10% to 15% spectrum for investor returns, and therefore financially feasible. Both Alternative 1 and 2 are not economically feasible due to the high construction costs and the compact size of the lot which result in project costs exceeding revenues and negative profit margins. These negative returns equate to an inability to receive funding. Alternative 3 would provide a Margin on Revenue of 3%, well below the required 10% to achieve financing. Each of the three Alternatives do not achieve the necessary Margin of Revenue to be financeable and would create an economic hardship to the owner. Therefore, Supplemental Finding 3 can be made.

CONCLUSION

Staff concurs that the proposed mitigation measures and permit conditions provided to the HRB are sufficient to reduce the identified impacts to the Oscar H. Millard Rental. Therefore, staff recommends that the Historical Resources Board recommend to the Planning Commission adoption of the findings and mitigation measures associated with Planned Development/Site Development Permit No. 2016-39 for the demolition of the designated historical resource located at 1610 Union Street and 320 West Cedar Street (HRB Site #282- Oscar H. Millard Rental) as presented.

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Attachments:

1. Civic San Diego’s Staff Report dated January 6, 2017 (under separate cover)
2. Downtown Final Environmental Impact Report (Downtown FEIR) Draft Consistency Evaluation for the 320 West Cedar Project dated December 23, 2016 (under separate cover)
3. Draft Centre City Development Permit/Neighborhood Use Permit/Site Development Permit 2014-76 (under separate cover)
4. Keyser Marston Associates Memo dated November 3, 2016 (under separate cover)
5. Findings (under separate cover)
6. 320 West Cedar Street Plans (under separate cover)