THE CITY OF SAN DIEGO

Report to the Historical Resources Board

DATE ISSUED: January 12, 2017 REPORT NO. HRB-2017-004

ATTENTION: Historical Resources Board
Agenda of January 26, 2017

SUBJECT: **ITEM 7 – 1122 4th AVENUE (HRB 291 – CALIFORNIA THEATER) – CENTRE CITY PLANNED DEVELOPMENT PERMIT/SITE DEVELOPMENT PERMIT NO. 2014-76**

APPLICANT: Sloan Capital Partners LLC represented by Marie Lia

LOCATION: 1122 4th Avenue, 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 (SDP) 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 permit findings and mitigation measures associated with Planned Development/Site Development Permit No. 2014-76 for the demolition of the designated historical resource located at 1122 4th Avenue (HRB 291- the California Theater) 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 California Theater is located at 1122 4th Avenue in the Downtown Community Planning area. The building was originally constructed ca. 1926-1927 in the Spanish Colonial Revival style. The building originally combined offices, shops, and a theater. It was San Diego's fifth major playhouse when it was constructed and considered to have the finest and most modern equipment. The grand opening for the theater was April 22, 1927 and the building operated in some capacity as a theater until 1976. On October 24, 1990, the property was designated by the Historical Resources Board based on its history as San Diego's fifth major playhouse, as a good example of Spanish Colonial Revival style design, as an example of John Paxton Perrine's work as a principal architect of West Coast Theaters, and for its role in the development and exploitation of films in the 1920s.

The property was evaluated by in a Historical Resources Technical Report by AECOM in July 2015. The report concluded that the property is eligible under National Register Criterion A and California Register Criterion 1 for its local significance associated with the booming development of downtown San Diego in the 1920s; and eligible for the National Register Criterion C and the California Register Criterion 3 for is local significance of a good example of a Spanish Colonial Revival style building.

Consistent with the Mitigation Monitoring and Reporting Program (MMRP) for the Downtown Plan, Mitigation Measure HIST-A.1-1 was implemented. If a property is determined eligible for the National Register or the California Register it requires the property to remain on site and any work to the property be consistent with the U.S. Secretary of the Interior's Standards. Since this Mitigation Measure cannot be met and the proposed work will result in a project that adversely impacts a designated resource that is eligible for the National Register and the California Register, a supplement to the Downtown Final Environmental Impact Report (FEIR) was required. The existing Downtown FEIR does not suffice as California Environmental Quality Act (CEQA) review for the project, hence the requirement for a Supplemental EIR with associated Findings (Attachment 2).

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 (PC) 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).

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

The three required Supplemental Findings and supporting information are provided in Attachment 4 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 demolish the existing theater and associated office building. The proposed construction would consist of a 40 story mixed-use tower with ground floor retail, residential units, and above and below grade parking. The 40 story tower would be accompanied by a nine story tower in the location of the existing office building (Attachment 6). As part of the SDP analysis, the applicant developed and evaluated a Base Project and five less environmentally damaging alternatives. The first scenario named the *Base Project* is the proposed project that would demolish all improvements on the site and construct the project noted previously. The second scenario named *Alternative 1* would remove all existing improvements on the site, construct the 40 story tower and the nine story tower with reconstruction of two facades of the original California Theater at 4th Avenue and C Street. The third scenario named *Alternative 2* would remove the theater portion, construct a 40 story tower and retain and rehabilitate the existing nine story tower. The fourth scenario named *Alternative 3* would remove the theater portion with the exception of the first floor C Street retail area. The first floor retail area would be retained and rehabilitated with the 40 story tower in lieu of the theater area. This alternative would also retain and rehabilitate the 9 story tower. The fifth scenario named *Alternative 4* would remove the theater portion and retain the ground floor C Street façade along with the nine story tower. This alternative would include a 20' wide galleria running north to south between the nine story tower and any new construction from the ground floor through the ninth floor. The final scenario named *Alternative 5* would rehabilitate all existing improvements on the site consistent with the US Secretary of the Interior's Standards (Standards). This alternative would not include any new construction.

The Base Project and each Alternative were evaluated by the London Group to determine their economic feasibility (Attachment 4).

The Base Project assumes that the entire site is cleared and a new mixed use project is developed. The project includes 282 condominium units and 10,900 SF of retail space with above and below grade parking. The total estimated net sales revenue is $201.5 million with an estimated construction cost of $175.4 million. This would result in a net profit of $26.1 million.

Alternative 1 which is similar to the Base Project with the replication of the 4th Avenue and C Street facades of the nine story tower would have the same estimated net sales revenue of $201.5 million. The estimated construction costs would be slightly higher at $177.5 million. This would result in a reduction in profit by approximately $2.1 million to $24 million.

Alternative 2 which demolishes the theater portion and retains the nine story tower would accomplish the same project design as the Base Project (282 condominium units, 10,900 SF of retail space and on-site parking). The estimated net sales would be the same as the previous scenarios at $201.5 million. The estimated construction costs would be increased to $183.6 million with an estimated net profit of $17.9 million.

Alternative 3 which demolishes the theater portion and retains the C Street façade and the 9 story tower would result in the same project design as the Base Project and the previous alternatives and the same estimated net sales revenue of $201.5 million. The estimated construction costs are $187.1 million with a net profit of $14.4 million.

Alternative 4 is similar in retention of historic fabric as Alternative 3 and includes a 20' galleria between the existing and the proposed towers. This design comprises a total of 647,000 SF and includes seven levels of underground parking with 282 condominiums and 10,900SF of retail space. The net sales revenue is the same as the Base Project at $201.5 million. The estimated construction costs for this alternative would be $216.2 million which would result in a $14.5 million project loss.

Alternative 5 which would rehabilitate the building consistent with the Standards would also include restoration of their original uses. This restoration would include a 2,000 seat theater, 29,350 SF of office space and 4,640 SF of retail. Rehabilitation costs are estimated at $40.8 million. Research by the London Group indicated that the reuse and rehabilitation of the former theater portion for theater purposes would result in a break-even prospect. Based on their information, most theaters struggle to cover their operating costs and are reliant on donations. A developer who would invest in rehabilitating the theater would not receive any value or significant income to recover the cost of rehabilitation.

The office component provides a value of $4.9 million for 29,350 SF at $168/SF. These rents are in line with Class B office space downtown. The retail space would have an estimated value of $2.1 million for the 4,640 SF at $446/SF consistent with retail space in the downtown area.

With the values of the office and retail combined, the total value for Alternative 5 would be $7 million. With the estimated construction costs of $40.8 million, this alternative would result in a loss of $33.8 million.

Based on the conclusions by the London Group the economically feasible option is the Base Project with a net profit of $26.1 million realized over a three year period. The relatively low profit margin is also considered marginally financeable. Alternative 1 diminishes the overall returns on the project without enhancing the revenue or the value of the property resulting in a project that would likely be unable to receive financing due to the low margin on gross revenue. Alternatives 2, 3, and 4 result in a project that is not economically feasible or financeable. These Alternatives do not provide enough profit margin for private investors or other sources of capital to achieve their required minimum rates of return. Based on the London Group's experience, a mixed-use redevelopment project requires the margin on gross revenue to exceed 10% for a project to be economically feasible and to qualify for project financing. Not exceeding the 10% would result in a project not being built because the financial risk to capital is too great. Alternative 2, 3, and 4 do not achieve a margin on gross revenue of 10% and are not economically feasible. Alternative 5 would be consistent with the Downtown MMRP, but would result in a net loss of $33.8 million which demonstrates that a subsidy of at least an equal amount would be required to break even on the investment. Alternative 5 is not economically feasible.

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 5). 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%. Based on the experience of KMA the target for profit should be at least 15% of the project value in unadjusted dollars. The higher profit threshold reflects the risk associated with for-sale residential development in this location. The KMA adjustments resulted in values that were below the target of 15% and below the 10% required by the London Group. Information from KMA indicated that none of the projects were economically feasible as none of them meet the necessary thresholds for financing.

In conclusion, based on the information provided and the analysis completed by the London Group, the only economically feasible project is the Base Project. According to the information compiled by KMA none of the projects are economically feasible or financeable. 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 proposed is the minimum necessary to afford relief and accommodate the development of the site in accordance with the density and other provisions of the Planned District Ordinance. The applicant has agreed to implement measures identified in the FEIR Mitigation, Monitoring and Reporting Program (MMRP) pertaining to the demolition of the California Theater. 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. Additionally, mitigation required as part of the Addendum to the FEIR include architectural salvage of any architectural material for donation to museums, archives curation facilities, the public and nonprofit organizations prior to demolition; and an interpretive display and material that could be in a brochure format and will also be installed at the site. 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.*

As noted previously under Supplemental Finding 1, the Base Project is the only economically feasible project based on the information compiled by London Group. The proposed Alternatives would reduce the profit margin which would subsequently result in projects that were not financeable.

In October of 2009, a Preliminary Structural Study was completed by Tony Court of A.B. Court & Associates in response to a request from the San Diego City Attorney's Office. In summary, the report detailed the poor and failing conditions of the building. When the property was designated in

1990, the owners at the time provided information on the poor condition of the building and requested that it not be designated. The San Diego Community Foundation, the owners at that time, had a report prepared by Thomas R. Vreeland, FAIA and rehabilitation cost analysis by Neilsen Construction Company that was provided to the HRB staff at the time of designation. At that time, staff indicated that the information was provided too late to adequately evaluate it prior to the hearing and there was no formal review of the information to confirm its veracity. While the current owners have done nothing to arrest the deterioration of the building, it is assumed that building was already in an advanced stage of disrepair when it was purchased in 2008.

Additionally, after the Easter earthquake in 2010, there was new damage that was visibly apparent on the exterior. The 2009 study was updated by Flores Lund engineering firm in 2011. The conclusions were similar to the 2009 study. It was also theorized that the building had the "...maximum potential for collapse..." Since that time, the building has been ordered vacated, closed and secured pursuant to the orders from the City's public safety officials. Without the Base Project and the demolition of the historic resource, the owner would be unable to develop the property and would suffer economic hardship.

Based on this information, and the information compiled for the economic hardship, there is no beneficial use of the property. 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 California Theater. 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. 2014-76 for the demolition of the designated historical resource located at 1122 4th Avenue (HRB Site #291- California Theater) as presented.

Elyse W. Lowe

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Attachments:

1. Civic San Diego's Staff Report dated January 6, 2017 (under separate cover)
2. Supplemental Downtown Final Environmental Impact Report (Downtown FEIR) (under separate cover)
3. Draft Centre City Development Permit/Neighborhood Use Permit/Site Development Permit 2014-76 (under separate cover)
4. Findings (under separate cover)
5. Keyser Marston Associates Memo dated October 7, 2016 (under separate cover)
6. California Theater Plan (under separate cover)