

**MEETING OF THE COMMITTEE ON FINANCIAL HARDSHIP
OF THE PHILADELPHIA HISTORICAL COMMISSION**

**TUESDAY, 22 OCTOBER 2019
ROOM 18-029, 1515 ARCH STREET
DAN MCCOUBREY, ACTING CHAIR**

CALL TO ORDER

START TIME IN AUDIO RECORDING: 00:00:25

The Acting Chair called the meeting to order at 1:15 p.m. The following Committee members joined him:

Committee Member	Present	Absent	Comment
Robert Thomas, AIA, Chair		X	Recused
Dan McCoubrey, FAIA, LEED AP BD+C, Acting Chair	X		
Kelly Edwards, MUP	X		
Melissa Long, Division of Housing & Community Development	X		
Meredith Trego, Department of Planning & Development	X		

The following staff members were present:

Jonathan E. Farnham, Ph.D., Executive Director
Kim Chantry, Historic Preservation Planner II

The following persons were present:

William O'Brien, Manayunk Law Office
Lisa Lamprou, Manayunk Development Corporation
Gwen McCauley, Manayunk Development Corporation
Patrick Grossi, Preservation Alliance for Greater Philadelphia

ADDRESS: 106-08 AND 110 GRAPE ST

Proposal: Demolish buildings

Review Requested: Final Approval

Owner: Dan Nedusin

Applicant: William O'Brien, Manayunk Law Office

History: 106-08 Grape Street, c. 1930; 110 Grape Street, c. 1835

Individual Designation: None

District Designation: Main Street Manayunk, 12/14/1983

Staff Contact: Kim Chantry, kim.chantry@phila.gov, 215-686-7660

BACKGROUND: This application proposes to demolish a one-story garage at 106-08 Grape Street and a three-story residential building at 110 Grape Street. Section 14-1005(6)(d) of the historic preservation ordinance prohibits the Historical Commission from approving a complete demolition of a contributing resource in a historic district unless the Historical Commission finds that issuance of the demolition permit is necessary in the public interest, or unless the Historical Commission finds that the building cannot be used for any purpose for which it is or may be reasonably adapted, i.e. that compelling the preservation of the building would cause the owner to suffer a "financial hardship." This application claims that the building cannot be used for any purpose for which it is or may be reasonably adapted. The financial hardship application will be reviewed by the Architectural Committee and Committee on Financial Hardship as well as the Historical Commission.

The Manayunk Development Corporation ("MDC"), a non-profit charitable organization, submitted the application. The application includes a cover letter from the MDC that explains that the MDC, a 501(c)(3) charitable entity, seeks to develop the site as office, meeting, and retail space. The cover letter concludes that "Considering the building's weak contributing stature, its severe deterioration and the community benefit of the proposed redevelopment, the Commission is urged to allow demolition of 110 Grape Street." The application includes an affidavit from the current owner, which is not the Manayunk Development Corporation, but is instead a for-profit real estate company. The application includes architectural plans for a new building to be constructed on the cleared site, but they appear to be included for information only and not for review for approval. The building permit application included with the application describes the work as demolition only and does not mention any new construction. The application includes a report from a historic preservation consultant that opines that 106-08 Grape Street is classified as non-contributing in the historic district and 110 Grape Street is classified as contributing. The report concludes that the building at 110 Grape Street lacks historical significance and integrity. The application includes an engineer's report that concludes that the building at 110 Grape Street is severely deteriorated and suffers from structural defects. Finally, the application includes a financial analysis that seeks to demonstrate that the building at 110 Grape Street cannot be used for any purpose for which it is or may be reasonably adapted.

The MDC submitted a similar application without the financial analysis to the Historical Commission in the spring of 2019. The Historical Commission tabled that application for a period not to exceed six months to give the applicant an opportunity to supplement it with the requisite financial analysis. The applicant failed to submit the financial analysis during the tabling period and the Historical Commission had no choice but to deny the application in September 2019. The applicant subsequently resubmitted the application with a financial analysis.

COMMITTEE ON FINANCIAL HARDSHIP, 22 OCTOBER 2019

PHILADELPHIA HISTORICAL COMMISSION

PHILADELPHIA'S PRINCIPAL PUBLIC STEWARD OF HISTORIC RESOURCES

The building at 110 Grape Street is a small, two-and-one-half story rowhouse built about 1835. It is about 1,457 square feet in size. A garage was inserted into the front façade at some point in the twentieth century. The house has been vacant for decades and is in very poor condition. The application includes a construction cost estimate for a mixed-use commercial and residential project of \$1,155,052, or \$792.76 per sf. The financial analysis consists of a discounted cash flow analysis over 10 years with various assumptions about interest rates to borrow, rental rates, vacancy rates, operating expenses, and appreciation rates. Using the construction cost estimate of \$1,155,052, the analysis predicts negative cash flows every year and a net present value for the project of negative \$796,179.

After receiving and reviewing the financial analysis, the staff informed the applicant that it considered the estimated construction cost of \$1,155,052 to be unrealistically high. Subsequently, the applicant adjusted the construction cost to \$700,000, or \$480.44 per sf. Using the new construction cost, the revised analysis predicts negative cash flows every year and a net present value for the project of negative \$458,695.

The staff considered the second construction cost estimate, \$480 per sf, to be high as well. The staff undertook a sensitivity analysis to determine the impacts of adjusting the various assumptions, especially the construction cost estimate. To do so, the staff reverse-engineered the financial analysis. Using a more reasonable construction cost of \$350 per sf or \$510,000 total and discounting the purchase price to \$0 to reflect a property of no value, but leaving the other assumptions constant, the staff found that the project over 10 years would still produce negative cash flows every year and a negative net present value for the project. The staff concluded that the financial analysis demonstrates that the building cannot be used for any purpose for which it is or may be reasonably adapted.

STAFF RECOMMENDATION:

The staff recommends that the Historical Commission:

- acknowledge that the Chapter 8 of the Property Maintenance Code does not provide a mechanism for reviewing this application proposing demolition;
- invoke Section 18 of the Rules & Regulations and apply the “financial hardship” provisions of the Rules & Regulations to this application even though it was designated under Chapter 8 of the Property Maintenance Code;
- concur with the classifications provided by the inventory for the Main Street Manayunk National Register Historic District that the property at 106-08 Grape Street is Noncontributing and the property at 110 Grape Street is Contributing, even though that inventory was not adopted by and is not binding on the Historical Commission;
- acknowledge that the complete demolition of the contributing resource triggers the demolition prohibition in Section 14-1005(6)(d) of the historic preservation ordinance;
- decline to apply the provisions of Section 10 of the Rules & Regulations, titled “Financial Hardship and Non-Profit Organizations,” because a non-profit does not currently own the property;
- decline to take the poor condition of the building at 110 Grape Street into account when determining whether the building can or cannot be used for any purpose for which it is or may reasonably be adapted because the current owner has owned the property since 1991 and has had a responsibility to keep the building in good repair;

- find that, despite its inflated construction costs, the financial analysis demonstrates that the building cannot be used for any purpose for which it is or may be reasonably adapted; and,
- approve the application, pursuant to Section 14-1005(6)(d) of the historic preservation ordinance.

START TIME OF DISCUSSION IN AUDIO RECORDING: 00:00:25

PRESENTERS:

- Ms. Chantry presented the application to the Committee on Financial Hardship.
- Attorney William O'Brien, and Lisa Lamprou and Gwen McCauley of the Manayunk Development Corporation represented the application.

DISCUSSION:

- Mr. O'Brien described the Manayunk Development Corporation (MDC), its history and achievements, and its vital role in the continued growth of Manayunk. He explained that the MDC seeks to utilize this site for its permanent home, which will involve the construction of a contextual four-story mixed-use building. The review of the design of that building is not before the Committee today, but rather, will come before the Architectural Committee and Historical Commission at a later date, should approval be granted for the demolition of 110 Grape Street.
- Mr. McCoubrey explained that the Architectural Committee recommended denial of the application for demolition, pursuant to Standard 9, but did not take into account the financial hardship component of the application, and acknowledged that the condition of the building is quite poor. He stated that the Architectural Committee agreed that the Historical Commission would need to find a hardship for the building to be approved for demolition.
- Mr. McCoubrey observed that the façade of 110 Grape Street has been altered from its historic appearance. Others agreed. He stated that rehabilitating a building in this condition would cost as much, if not more, than new construction. Committee members commented that the interior of the building is completely stripped and would be expensive to rehabilitate, owing to its current condition.
- Mr. O'Brien stated that his financial consultant performed two analyses, one using the construction cost estimate developed by Daniel J. Keating Company, and one reduced to an arbitrary estimate.
- Mr. Farnham explained that he undertook a sensitivity analysis to determine the impacts of adjusting the various assumptions, especially the construction cost estimate. To do so, he reverse-engineered the financial analysis using MS Excel. Using a more reasonable construction cost of \$350 per sf or \$510,000 total and discounting the purchase price to \$0 to reflect a property of no value, but leaving the other assumptions constant, he found that the project over 10 years would still produce negative cash flows every year and a significant negative net present value for the project. He stated that he also tried \$240 per sf or \$350,000 total for the renovation and that produced negative cash flows. He concluded that the staff found that the building cannot be used for any purpose for which it is or may be reasonably adapted.
- Mr. Farnham explained that the Main Street Manayunk Historic District is unusual for the Historical Commission's historic districts. It was created by City Council, before the Historical Commission was given the authority to create historic districts. There

was no inventory created at the time that City Council voted to create the historic district and give regulatory authority to the Historical Commission. Over the years, the Commission has relied on the Main Street Manayunk National Register historic district inventory as a guide to make decisions about Contributing and Non-contributing attributions. The district inventory is old, and some of the categories that were used at the time do not reflect current practice. That inventory assigns a Contributing attribution to the building at 110 Grape Street, but there is a range of Contributing and this building is on the lower end of the spectrum.

- Ms. Lamprou stated that the MDC appreciates the historic character of the Main Street Manayunk historic district, but that this building has been neglected for many years and will continue to sit vacant and not contribute to what makes the area special. Ms. McCauley remarked that the building cannot contribute to the historic district in its current state.
- Mr. McCoubrey commented that hardship cases are often brought to the Commission by developers, but this application is coming from a non-profit organization, and so there is also a public interest component.
- Ms. McCauley stated that the MDC approached the current property owner about acquiring the property, and has entered into a lease-purchase agreement that is dependent upon approval of demolition.

PUBLIC COMMENT:

- Patrick Grossi of the Preservation Alliance commented that the building appears to have suffered from demolition by neglect by the current owner and potentially the prior owner. He stated that there needs to be an effective strategy in place to prevent similar situations moving forward, and that it is unfortunate that an 1830s house would be left to rot in an historic district. He stated that, based on the financial analysis provided by both the applicant and the staff, it appears to be a reasonable claim of hardship and the Alliance does not oppose the application for demolition at this time, owing to the finding of financial hardship.

COMMITTEE ON FINANCIAL HARDSHIP FINDINGS & CONCLUSIONS:

The Committee on Financial Hardship found that:

- Chapter 8 of the Property Maintenance Code does not provide a mechanism for reviewing this application proposing demolition;
- Section 18 of the Rules & Regulations authorizes the Historical Commission to apply the “financial hardship” provisions of the Rules & Regulations to this application even through it was designated under Chapter 8 of the Property Maintenance Code;
- The classifications provided in the inventory for the Main Street Manayunk National Register Historic District correctly attribute a Non-contributing status to the property at 106-08 Grape Street and a Contributing status to the property at 110 Grape Street;
- The poor condition of the building at 110 Grape Street could be considered demolition by neglect because the current owner has owned the property since 1991 and has had a responsibility over the past 28 years under the Property Maintenance Code as well as Section 13.2 of the Rules & Regulations to keep the building in good repair.

The Committee on Financial Hardship concluded that:

- Owing to the extremely poor condition, the limited square footage, and the existing configuration of the building at 110 Grape Street, the financial analysis performed by

both the applicant and the staff demonstrates that the building cannot be used for any purpose for which it is or may be reasonably adapted.

COMMITTEE ON FINANCIAL HARDSHIP RECOMMENDATION: Mr. McCoubrey moved that the Committee on Financial Hardship recommend to the Historical Commission that the building at 110 Grape Street cannot be used for any purpose for which it is or may be reasonably adapted; that the sale of the property is impracticable; that rental cannot provide a reasonable rate of return; and that other potential uses of the property are foreclosed; pursuant to Section 14-1005(6)(d) of the Philadelphia Code. Ms. Trego seconded the motion, which passed unanimously.

ITEM: 106-08 and 110 Grape St.					
MOTION: Finding of financial hardship					
MOVED BY: McCoubrey					
SECONDED BY: Trego					
VOTE					
Committee Member	Yes	No	Abstain	Recuse	Absent
Robert Thomas				X	X
Dan McCoubrey	X				
Kelly Edwards	X				
Melissa Long	X				
Meredith Trego	X				
Total	4				

ADJOURNMENT

The Committee on Financial Hardship adjourned at 1:44 p.m.