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

MONDAY, 3 APRIL 2017
ROOM 18-029, 1515 ARCH STREET
BOB THOMAS, CHAIR

PRESENT
Bob Thomas, AIA, chair
Dan McCoubrey, AIA, LEED AP BD+C
Rachel Royer, LEED AP BD+C
Meredith Trego, Manager of Real Estate Development, Development Services

Jonathan Farnham, Executive Director
Randal Baron, Historic Preservation Planner III

ALSO PRESENT
James Savard, Core Realty, Inc.
Paul Steinke, Preservation Alliance for Greater Philadelphia
Patrick Grossi, Preservation Alliance for Greater Philadelphia

CALL TO ORDER
Mr. Thomas called the meeting of the Committee on Financial Hardship to order at 11:00 a.m. Mses. Royer and Trego and Mr. McCoubrey joined him.

ADDRESS: 1100-02 N DELAWARE AVE
Proposal: Construct rooftop addition, claim of financial hardship
Review Requested: Final Approval
Owner: Core Realty, Inc.
Applicant: James Savard, Core Realty, Inc.
History: 1921; Edward Corner Marine Merchandise Warehouse; A. Raymond Raff, builder
Individual Designation: 10/9/2015
District Designation: None
Staff Contact: Randal Baron, randal.baron@phila.gov, 215-686-7660

OVERVIEW: This application proposes to construct a three-story addition on a three-story industrial building. The application seeks to justify the construction of the addition that would be highly conspicuous and therefore does not satisfy preservation standards with the claim that the building's condition is so severely compromised that it cannot be feasibly rehabilitated without the income that will be derived from the large addition.

The historic building was designated in October 2015, after the applicant revealed plans to demolish the building. It has been vacant for an extended period of time and suffers from extensive termite damage to its wood structure. As a result, the exterior brick walls are failing; the compromised wood structure is no longer tying the brick walls together and the walls are pulling away from one another. Temporary bracing has been installed around the entire structure to support the exterior walls.

The application proposes to rebuild the internal structure and reattach the restored brick walls to it. It also proposes to construct a three-story addition atop the restored building. The owner claims that the added income from the additional floors will defray the cost of the expensive structural work. Section 14-1005(5) of the preservation ordinance indicates that the Historical Commission may consider "financial hardship" when reviewing a building permit application for alteration. Section 9.4 of the Rules & Regulations likewise indicates that an applicant may justify an alteration that does not satisfy the standard review criteria with a substantiated claim of financial hardship. The Rules & Regulations indicate that an applicant seeking a hardship exemption for an alteration must demonstrate that the property cannot be used for any purpose for which it is or may reasonably be adapted and, to do so, has an obligation to explore potential reuses for it. The application includes 10-year pro formas for a mixed-use retail and residential renovation with and without the proposed addition. Without the addition, the project will result in a -$943,480 net value created and an internal rate of return of 3.96%. With the addition, the project will result in a $320,343 net value created and an internal rate of return of 14.41%.

The application seeks final approval, but the architectural plans are not detailed. The staff suggests that the Committees and Commission consider the hardship petition as a request for final approval, but the architectural segment of the application as a review in concept, meaning that, if the hardship exemption is granted, the project would be reviewed a second time from an architectural perspective once the design is further developed.

STAFF RECOMMENDATION TO THE COMMITTEE ON FINANCIAL HARDSHIP: The application demonstrates that, owing to the structural deficiencies resulting from the termite damage, the building cannot be used for any purpose for which it is or may reasonably be adapted without the alteration and, therefore, the hardship exemption should be granted to allow for the three-story addition, pursuant to Section 14-1005(5) of the preservation ordinance.

DISCUSSION: Mr. Baron presented the application to the Committee on Financial Hardship. Developer James Savard represented the application.

Mr. Baron explained that the hardship application proposes an alteration, rather than a demolition. Mr. Savard distributed two pages of additional information that detail the cost of rehabilitation. He explained that his development company purchased the property in 2008, which includes a vacant lot to the north, for $3.9 million. He explained that he has given the existing building a value of $1.75 million or approximately 45% of the total cost of the development project. He noted that his company intended to demolish the structure, until it was listed on the Philadelphia Register of Historic Places in 2015. He stated that the company obtained a permit to demolish had received approval the building, but had not moved forward with the demolition because the plans for the redevelopment were not finalized. In the exploration of the rehabilitation with their engineer, they discovered severe structural deficiencies resulting from water and termite damage, as well as rust jacking. The cost for rehabilitation would have produced a deficit of $1.2 million if the building were rehabilitated for mixed use without an addition. Factoring in the historic tax credit would still have produced a deficit of $900,000. Options for two- and three-story additions to the historic structure were considered to help offset the cost of rehabilitation. Mr. Savard explained that, with an acquisition cost of $1.75 million, it would work out to approximately $175,000 per unit with no addition on the building. He stated that land acquisition costs in Philadelphia average about $30,000 to $45,000 per unit and, even with the addition, he will be spending $70,000 per unit. He stated that when he underwrote it under CMX3 zoning as a completely new structure, it came out to approximately $45,000. He stated that the acquisition is one factor of the hardship, and the second factor is the remedial work needed to rehabilitate the building. The estimates that Mr. Savard received totaled approximately $500,000 and included rebuilding the structure or "chassis" to support the roof; rebuilding the walls that have rust jacking over all the windows; and repairing other cracks and fissures in the masonry. He noted that $500,000 divided by the existing 12,000 square feet works out to approximately $41 per square foot. With an addition, he continued, the cost would be approximately $20 per square foot. This figure, he clarified, does not include the acquisition or land cost. Mr. Savard indicated that the cost of the historic windows adds about $3 per square foot, while elevators and the cost of the pump for sprinklers is almost the same for the building with and without the addition. Referring to his supplemental cost sheets, Mr. Savard stated that the important figure to consider is the $20 per square foot cost differential.

Paul Steinke, the executive director of the Preservation Alliance for Greater Philadelphia, requested a copy of the projected construction costs. Mr. Savard responded that he would prefers not to disseminate that information. Mr. Thomas explained that, when information is submitted to the Historical Commission, it becomes public, except in the case of personal tax forms and other personal financial information. Mr. Savard provided a copy to Mr. Steinke.

Ms. Trego asked how this piece of the larger assemblage was given a value of 45% of the total assemblage. Mr. Savard responded that this piece of the assemblage has the building on it and the other portion is simply a vacant lot that will partially be used for parking and open space. He continued that his company has also lost money on the carrying costs for the property of approximately 8% since 2008, although those costs not included on the pro forma. Mr. Savard confirmed for Mr. Thomas that the new addition would double the square footage of the existing building. Mr. Thomas asked for more detail on the existing building's condition. Mr. Savard responded that the foundation is crumbling and needs to be rebuilt, as does the bulging façade. The foundation will be underpinned. He stated that all of the window headers need to be replaced, along with the surrounding brick, and they will need to open the roof to add piers and drive the piles. He stated that termites have destroyed both the first and second floors, and the pile driving will cost virtually the same, whether two or three stories are added.

Mr. Thomas opened the floor to public comment. Mr. Steinke asked about the façade materials for the new construction. Mr. Thomas commented that the architectural details of the proposed addition are not part of the financial hardship discussion. He asked Mr. Steinke to limit his questions to the matter before the Committee. Mr. McCoubrey commented that the Architectural Committee reviewed this addition as an in-concept proposal. The Committee objected to the design as presented and suggested that the addition needed to be redesigned. Mr. Savard stated that the addition will be metal and glass. Mr. Thomas compared this application to the application for the Episcopal Cathedral project on Chestnut Street. In that case, the Commission allowed some demolition and new construction to support the restoration of the cathedral building. Mr. Steinke asked if the applicant has considered constructing on the other part of the parcel rather than on top of this building. Mr. Savard responded that the rest of the land is programmed for other uses and is being developed. Mr. Farnham noted that the other part of the parcel is not designated, and it would be unprecedented to ask someone to fund one project through profits from another parcel. Mr. Baron commented that this project is very similar to the Commission's approval of the addition on the Lippincott Building, where the cost of the cleanup of toxins from the printing that took place in the building was offset by a rooftop addition. Mr. Thomas agreed that that was indeed similar.

COMMITTEE ON FINANCIAL HARDSHIP RECOMMENDATION: Mr. McCoubrey moved that the Committee on Financial Hardship recommend to the Historical Commission that the application demonstrates that, owing to the structural deficiencies resulting from termite damage, the building cannot be used for any purpose for which it is or may reasonably be adapted without the addition, therefore, the hardship exemption should be granted to allow for an addition, pursuant to Section 14-1005(5) of the preservation ordinance. Ms. Royer seconded the motion, which passed unanimously.

ADJOURNMENT
The Committee on Financial Hardship adjourned at 11:40 a.m.