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

WEDNESDAY, 22 FEBRUARY 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
Meredith Keller, Historic Preservation Planner I

ALSO PRESENT

Paul Steinke, Preservation Alliance for Greater Philadelphia
Patrick Grossi, Preservation Alliance for Greater Philadelphia
Kathy Dowdell
David Traub, Save Our Sites
Nancy Weinberg, Save Our Sites
William Binderman, Save Our Sites
Neil Sklaroff, Esq., Ballard Spahr
David Gest, Esq., Ballard Spahr
Dustin Downey, Southern Land Co.
George Thomas, CivicVisions
Jan Vacca, The Harman Group
Fred Baumert, Keast & Hood
Clara Wineberg, AIA, Solomon Cordwell Buenz
Peter Angelides, Econsult
Alan Greenberger
Matthew Ritsko, Intech Construction
Thomas Adams, Pennoni
Angelo Fatiga, Pennoni

CALL TO ORDER

Mr. Thomas called the meeting of the Committee on Financial Hardship to order at 1:00 p.m. Mses. Royer and Trego and Mr. McCoubrey joined him.

ADDRESS: 1918-20 SANSOM ST
Proposal: Complete demolition
Review Requested: Final Approval
Owner: 1911 Walnut Street LLC
Applicant: Neil Sklaroff, Ballard Spahr LLP
History: 1910; Dolan Garage
Individual Designation: None
District Designation: Rittenhouse Fitler Residential Historic District, Contributing, 2/8/1995
Staff Contact: Jon Farnham, jon.farnham@phila.gov, 215-686-7660

OVERVIEW: This application proposes the complete demolition of the building at 1918-20 Sansom Street. The property is not individually designated, but is classified as Contributing in the Rittenhouse Fitler Residential Historic District. The building was constructed as a garage in 1910 and subsequently housed offices for a construction company, marketing firm, and other businesses before being converted for use as a funeral home. The building has been vacant since 1997.

Section 14-1005(6)(d) of the preservation ordinance limits the Historical Commission to approving demolitions in two instances only, when the demolition is necessary in the public interest, and when the building cannot be reasonably adapted for any purpose. The application contends that the building is in very poor condition and therefore cannot be used for any purpose for which it is or may be reasonably adapted. The case that the building cannot be reused is made in an affidavit with supporting exhibits. The affidavit recounts the recent history of the property and attempts to redevelop it. The exhibits include a series of reports by consultants regarding the existing conditions at the property as well as schematic architectural designs, construction cost estimates, and financial analyses for three proposed reuses, restaurant/retail, single-family residential, and office. The application concludes that none of the likely reuses is financially feasible.

The Historical Commission retained a consultant, RES, with expertise analyzing the feasibility of the adaptive reuses of historic buildings to assess the application and make a recommendation to the Historical Commission regarding the validity of its claims. The consultants are here today and will present their findings and conclusions to you.

The application is being reviewed by the Committee on Financial Hardship and Architectural Committee before being presented to the Historical Commission. The Committee on Financial Hardship has the primary role in the review, evaluating the claim that the building cannot be reasonably adapted for any purpose and offering a recommendation to the Commission. The Architectural Committee will play a secondary role, potentially advising the Commission on the architectural aspects of the application. The Historical Commission will consider the recommendations from both committees and make a final decision.

STAFF RECOMMENDATION: In light of the consultant’s conclusion, the staff recommends that the Historical Commission find that the building cannot be used for any purpose for which it is or may be reasonably adapted, that the owner has demonstrated that the sale of the property is impracticable, that commercial rental cannot provide a reasonable rate of return, and that other potential uses of the property are foreclosed, and approve the complete demolition, pursuant to Section 14-1005(6)(d) of the preservation ordinance.

DISCUSSION: Mr. Farnham presented the application to the Committee on Financial Hardship. Attorneys Neil Sklaroff and David Gest, developer Dustin Downey, preservation consultant George Thomas, engineers Jan Vacca and Fred Baumert, architect Clara Wineberg, economist Peter Angelides, consultant Alan Greenberger, construction cost estimator Matthew Ritsko, industrial hygienist Thomas Adams, and environmental engineer Angelo Fatiga represented the application.

Mr. Sklaroff introduced the members of the development team. He reported that his client, 1911 Walnut LLC and Southern Land Co., purchased the property and several adjacent properties in February 2015. He stated that this application relates to the proposed demolition of the building at 1918-20 Sansom Street only. His client will submit additional applications for the renovations of the buildings at 1904 and 1906-16 Sansom and the new construction on the remainder of the site. He reported that he submitted an application to the Historical Commission in October 2015 to demolish the three buildings on Sansom Street: the Rittenhouse Coffee Shop, the Warwick Apartments, and the Garage. Since that submission, Southern Land has been working with neighboring stakeholders, the City Planning Commission, and the Office of Council President Clarke to create a plan of development. Pursuant to those discussions, Southern Land is narrowing its request and now seeks approval for the demolition of the Garage building only. The Rittenhouse Coffee Shop and Warwick will not be demolished. The renovation and new construction work on the other sites will be submitted under separate applications.

Mr. Sklaroff explained that his team analyzed the Garage and has documented that analysis in several reports included in the application. He stated that he would like to call on his experts to verify and explain the reports.

Mr. Baumert, a structural engineer with Keast & Hood, stated that he has significant experience with historic buildings. Mr. Sklaroff noted that his curriculum vitae is included in the application. Mr. Baumert stated that he prepared a report on the building in question, which was included with the application. He stated that he visited and inspected the building twice, once with a masonry contractor. He stated that he inspected every aspect of the interior and exterior of the building. Mr. Baumert stated that the building is in “very poor condition.” It has suffered from significant water infiltration. The roof, drains, and masonry envelope have all failed and allowed water to enter the building. It has suffered numerous freeze-thaw cycles. The steel beams supporting the floor slabs are in very poor condition, especially where they pocket into the walls. Mr. Baumert stated that he was originally retained to determine what work would need to be undertaken to preserve the building, but shifted his thinking once he was aware of the condition of the building. He summarized his recommendations to preserve the building. The steel beams would need to be strengthened and, in some cases, replaced. To replace the front beam, which is in the worst condition, a portion of the front wall would need to be dismantled and then reconstructed. The front wall is in “pretty grave condition.” Water has damaged the inside and outside of the wall. The brick is “coming apart,” owing to the moisture and freeze-thaw cycles. The brick and mortar have reverted to clay and sand. Salt and other materials have leached out of the wall and stained it; the stains cannot be removed. “The only prudent approach for any owner would be to entirely disassemble that [front] wall. It is just not sound at this point, couldn’t be relied on.” The side walls are in similar but less dire condition. Various campaigns of maintenance work have used a very hard, cement-based mortar that has damaged the brick. The faces of the brick are spalling off because of the hard mortar. Mr. Baumert stated that, if one could maintain the walls rather than replacing them, the building would need to be dried out owing to the extensive saturation. It would take as long as two years to dry out the building. He stated that the building suffers from mold. Mr. Sklaroff asked Mr. Baumert if he still agrees with the list of recommendations included on page 2 in his report. Mr. Baumert reviewed the recommendations and stated that he still agrees with them. Mr. Sklaroff stated that Mr. Baumert would answer any questions posed by the Committee. The Committee asked no questions.

Mr. Sklaroff stated that Mr. Fatiga's curriculum vitae was included in the exhibit, but that for Mr. Adams was not. He distributed copies of the curriculum vitae for Mr. Adams. He directed the Committee to the reports in the exhibit binder. Mr. Adams stated that he conducted an environmental building survey at the site in which he inspected for chemical, industrial, and biological hazards. He found mold, guano, asbestos, lead-based paint, mercury, and other contaminants. Mr. Adams explained that his company, Pennoni Associates, has significant experience in this field. He stated that he started doing this work in 1986 and has conducted surveys of about 150 buildings. He stated that his colleagues are also highly qualified and licensed. He stated that they found asbestos in floor tile, mastic, window glazing, and roofing material. They would need to be abated before any work. He stated that they found fluorescent light tubing, ballast, mercury switches, batteries, and ozone-depleting substances. He stated that he discovered mold and significant amounts of bird guano. He stated that they also found lead-based paint. All need to be addressed to make the building safe. He reported that the asbestos would cost $36,000 to remove. The universal waste material would cost $6,000 to abate. The mold and bird guano would cost $80,000 to abate. The lead-based paint would cost $30,000 to abate. The total remediation would cost $182,000. The City would require an inspector on site, which would cost 20% of the total abatement costs.

Mr. Fatiga stated that he conducted a Phase 1 environmental site assessment. He stated that they reviewed documents about the property as well as inspecting the property. He stated that they looked for Recognized Environmental Conditions. They looked at photographs and other documents to understand the use of the property over time. He stated that they identified a 2,000 gallon heating oil tank buried in the basement. He stated that he recommends soil borings to determine whether there is soil contamination at the site. Mr. McCoubrey asked Mr. Fatiga if he suspected other environmental contaminants, given that the building was used as a garage. Mr. Fatiga responded that he believes that his assessment is complete and has identified the only Recognized Environmental Condition. Mr. Thomas asked if the environmental costs to clean up the site differed depending on whether it would be demolished or reused. Mr. Adams explained that the asbestos abatement would need to be undertaken in either case, but the other abatements would not necessarily need to be undertaken if the demolition occurred from the outside.

Mr. Sklaroff directed the Committee's attention to a report by consulting engineers Edwards & Zuck on the mechanical, electrical, plumbing, and fire protection systems in the building. He noted that the engineers concluded that those systems do not exist in the building.

Mr. Sklaroff stated that Mr. Angelides will discuss the alternative scenarios for reuse in detail later in the presentation. He explained that they considered many possible reuses, but concluded that three were the most likely for success. They excluded the others because Mr. Angelides concluded that they have no possibility of feasibility in the marketplace. He stated that they engaged an architect to develop schematic plans for each of the three likely reuses, restaurant/retail, single-family residential, and office. Mr. Sklaroff introduced Ms. Wineberg, the architect. He stated that the architectural plans can be found at Exhibit J in the application materials. Ms. Wineberg stated that her firm studied various potential reuses for the building in consultation with Southern Land and Mr. Angelides. She stated that they considered the designs from a programmatic standpoint, a building code standpoint, and a market viability standpoint. She stated that they considered restaurant/retail, single-family residential, and office uses. She stated that they considered code, life-safety, and lighting and ventilation issues. They considered how a program would be fitted into the existing shell. They looked at achieving ADA compliance and installing an elevator. They considered mechanical equipment. For the restaurant use, the explored how and where the seating would be placed. For the residential use, they confronted difficulty because of the inability to install windows in the side facades, which sit on the property lines. She stated that they undertook multiple studies and considered a multi-family residential use, but decided that single-family was the most viable. Mr. Sklaroff noted that the building, which covers the entire lot, cannot be fenestrated at the sides, which greatly limits its residential use. Mr. Thomas asked if they considered a central light well or skylights. Ms. Wineberg responded that they did consider such interventions. Mr. Thomas asked her why she found the building unable to be adapted for residential use. Ms. Wineberg responded that there is a design path to a residential use; however, the limitation is economic, not architectural. While one could design a residential adaptation of the building, it would not be financially feasible to construct it.

Mr. Sklaroff noted the report at Exhibit K, in which consulting engineers Edwards & Zuck propose new mechanical, electrical, plumbing, and fire protection systems for each of the three scenarios for the building.

Ms. Vacca discussed her report at Exhibit L. She stated that she is a structural engineer. Her firm reviewed the Keast & Hood analysis of the structure as well as the architect's schematic plans and proposed the structural remediation and improvement necessary for reuse. She concluded that it is always possible to undertake structural improvements; the real question is whether the work is financially feasible.

Mr. Thomas asked Mr. Sklaroff to present his expert to answer some questions about Exhibit M. George Thomas, preservation consultant, approached the table to address the Commission. Mr. Thomas asked George Thomas how he concluded that the property would be ineligible for historic preservation tax credits. George Thomas contended that the National Park Service's tax credit program has shifted from an adaptive reuse program to a restoration program. He stated that, given the extent of the repairs to the front façade proposed by Fred Baumert, the structural engineer, it is unlikely that the Park Service would approve the project for tax credits. Mr. Thomas asked about the other two buildings, the Warwick and the Rittenhouse Coffee Shop. Mr. Sklaroff stated that they are no longer proposing to demolish those two buildings. He explained that some of the consultants' reports were rewritten to account for the change in scope, while others were retained in full and address all three buildings. However, they are only proposing to demolish the building at 1918-20 Sansom, the so-called Garage. He stated that Southern Land generously intends to develop the Warwick and the Rittenhouse Coffee Shop with Project Home as affordable housing. Those buildings will be the subject of a separate application. Mr. Thomas asked if tax credits will be sought for the Warwick and the Rittenhouse Coffee Shop rehabilitations. Mr. Downey replied that they will seek housing tax credits, but not historic tax credits for those buildings. The rehabilitation of those buildings will be viable with the 9% housing credit and a substantial donation from Southern Land. Mr. Sklaroff stated that Mr. Angelides will show with his financial analyses that the Garage building cannot be feasibly adapted for a new use, even with the historic tax credit. Mr. Sklaroff contended that whether or not the building would be eligible for the tax credit is irrelevant because adding the tax credit will not result in a feasible project.

Mr. Ritsko of Intech Construction discussed the construction cost estimates at Exhibit N in the application. He explained that he has 16 years of experience and his colleagues have additional experience to generate construction cost estimates. He stated that he relied on the expert reports presented earlier as the basis of his cost estimating. He stated that he and others at his firm visited the site and inspected the building and also reviewed all of the expert reports. He stated that they established a scope of work and then prepared a detail cost estimate for each of the three reuse scenarios. He stated that each of the three scopes is different, but similar. Each of the cost estimates is about $3 million. He stated that his company has 30 years of collective experience working on construction cost estimating in Philadelphia. Mr. Ritsko explained that he has presented two versions of the cost estimates. The first version of the estimate is the original Intech estimate. Then the City's independent construction cost estimator, ICI, reviewed the estimate and made suggestions. The second version of the estimate is the original Intech estimate reconciled with the ICI corrections. Mr. Ritsko explained that the estimate also changed slightly when the two buildings to the east were removed from the project. It costs more to dry out the Garage alone than it costs to dry it as part of a larger drying project with the other buildings. He stated that the items that changed between the first and second versions were the drying costs and the kitchen cabinet correction offered by ICI. He stated that the estimates were not adjusted for the escalation of construction costs from 2015 to 2017. Also, the building has deteriorated more over the intervening time. The Keast & Hood report specified a drying time of 24 months; in the cost estimates, it was reduced to eight months. Mr. Ritsko explained that the drying includes heaters, fuel for the heaters, and someone to operate the heaters. He stated that the costs per building increase when you are drying only one building. Mr. McCoubrey noted that the address on the estimates is incorrect. It is 1918-20, not 1916-18. Also, the client's name is spelled incorrectly. Answering Ms. Royer's question, Mr. Ritsko explained that the estimates call for the replacement of the face and backup brick on the front façade and partial replacement at the sides.

Mr. Angelides stated that he has prepared several financial feasibility analyses for applications to the Historical Commission and many, many more for other venues. In preparation for his work on this project, he reviewed all of the expert reports and discussed the project with the experts. The costs for the proposed reuse projects were derived from the expert reports including the architectural plans and the construction cost estimates. Mr. Angelides stated that he established the revenues that would be achievable from those projects by looking at the marketplace and discerning comparable rental and sales prices. He stated that he inserted the costs and the revenues into a standard real estate pro forma and determined that in all cases the results were negative, that no project was feasible. Mr. Angelides displayed a Powerpoint presentation.

Mr. McCoubrey asked a question of Mr. Ritsko while Mr. Angelides was setting up his Powerpoint presentation. He asked whether Intech has used the higher or lower abatement cost in its estimate; he noted that there were two abatement costs provided, with the lower one provided by the subcontractor. Mr. Ritsko responded that they used the lower, subcontractor cost. Mr. Downey added that his company sought the lower subcontractor cost because he wanted to truly determine whether a project was viable.

Mr. Angelides stated that he is a Principal at Econsult Solutions, Inc. and teaches at the University of Pennsylvania. Econsult specializes in the analyses of economic development, transportation, and real estate projects and in public policy and finance. He provided his conclusion first. He stated that there is no use to which 1918-1920 Sansom Street may be reasonably adapted given the cost of renovations and the revenues that can be expected by those uses. The preservation ordinance asks whether the building can be reused in an economically viable way and the answer is: No, it cannot be reused in an economically viable way. He stated that he analyzed three scenarios, restaurant/retail, single-family residential, and office. For the restaurant/retail use, the total project cost is projected to be $4.5 million, the annual net operating income would be $100,000, the completed project value would be $1.0 million, the value created would be -$3.5 million, and the net present value would be -$2.1 million. For the single-family residential use, the total project cost is projected to be $4.2 million, the sales income would be $1.8 million, the completed project value would be $1.3 million, the value created would be -$2.9 million, and the net present value would be -$2.0 million. For the office use, the total project cost is projected to be $4.5 million, the annual net operating income would be $100,000, the completed project value would be $0.7 million, the value created would be -$3.8 million, and the net present value would be -$2.4 million. In general, one would lose about $2 million on a $4 million investment.

Mr. Angelides showed a map of the 1918-1920 Sansom Street location and displayed a current photograph of the building. He stated that it was built as a private parking garage in 1910, renovated in 1950, and most recently used as a funeral home. It has been vacant since 1997 and, because of that vacancy, the building faces significant challenges to be put back into use. He displayed a photograph of the deteriorated condition of the interior and explained that all systems need replacement, extensive water infiltration, steel support beams corroded, and extensive mold and asbestos.

Mr. Angelides explained that he not only undertook financial analyses, but also conducted numerous interviews to understand the current state of the marketplace. He looked at comparable rents and sales in the area and talked to experts in those fields. He stated that he looked at financing costs, construction costs, development costs, and operating costs as well as operating revenue. He explained that he also considered incentives. He noted that the only as-of-right incentive is the Philadelphia tax abatement. He stated that he also considered other potential subsidies like low-income housing subsidies, historic tax credits, New Market Tax Credits, and RACPs, but noted that they are not guaranteed, but only potentialities. He stated that the historic tax credit is not included in his base analysis, but is included in a variation and does not change the conclusions. He concluded that his analysis is predicated on realistic assumptions for revenues and costs. However, it does include one unrealistic assumption. It assumes that a bank would provide a loan based on the construction costs. A bank would not provide a loan based on construction costs, but would only loan on the value created, which is lower.

Mr. Angelides discussed the three reuse scenarios. He stated that the configuration of the building limits options. It is a long, narrow space. It lacks windows on the sides and has no possibility of windows on the sides; skylights could be installed. It has low ceiling heights. He displayed architectural plans and discussed the gross and net space for the three reuse scenarios. He discussed the retail scenario first. He stated that retail renters like corners and wide street frontages. He noted that the major retail corridors in the area are Walnut Street and Chestnut Street. Retailers like to locate with other retailers. Sansom Street retail is focused on lower value uses. The block of Sansom Street around 1918-1920 is not a developed or inviting streetscape. The architectural plans show that the building would provide 4,312 square feet of retail space over two floors. He contended that 1918-1920 Sansom Street is not ideal retail space. It is not on a corner. It has an undesirable interior layout. It is a larger space than most retailers want and a deeper space than most want. The 1900-block of Sansom Street is not prime location. He displayed a table of current asking rents for comparable, nearby retail space. The rents varied from about $20 to about $50 per square foot. He reported that his analysis assumes $52 per square foot for the ground floor and $27 per square foot for the second floor. He reported that the retail use would generate $100,000 in net annual income when accounting for vacancy and operating expenses. He stated that the development cost for the retail scenario is $4.5 million and concluded that the operating income would not support such an investment. He stated that the net present value for the retail scenario would be -$2.1 million; there would be no return on investment; and the net value of project would be -$3.5 million. He stated that retail or restaurant is not a feasible reuse scenario.

Mr. Angelides then discussed the residential scenario. He stated that this scenario presumes that the building would be used as a single-family residence. Single-family units in the area usually sell for $300 per square foot to $500 per square foot. The inability to install windows in the side facades severely limits the number of bedrooms. The building at 1918-1920 Sansom Street, fully rehabbed, is estimated to sell for $341 per square foot. He displayed tables of recently completed and current sales of comparable, nearby properties. The sales ranged from $204 to $578 per square foot. The house would sell for $1.91 million. The cost to sell would be $150,000. The net revenue from the sale would be $1.76 million. He noted that the 1900-block of Sansom would be a strange location for a single-family house. It would be the only single-family house on the block. He reported that the development cost would be $4.2 million, but the net revenue would only be about $1.8 million, today, but $1.91 when it would be ready for sale. The residential project would have a net present value of -$2.0 million; no return on investment; and a net value of -$2.9 million. He concluded that residential is not a feasible reuse scenario. Mr. Thomas asked Mr. Angelides if he factored in the value of parking that could be provided with this house; he noted that it has two street frontages. He also noted that this block is currently “bleak,” but will be improved by projects on both sides of the street. Mr. Angelides stated that he cannot count on the nearby developments. He suggested that the residential hi-rise project proposed for the lot across the street may be stalled. Regarding the garage, he stated that Moravian may be too narrow for a garage, but, assuming that a garage can be installed, adding a garage would reduce the living space. He stated that, from a square footage perspective, the living space and the parking space have about the same value; adding parking would not change the overall value of the project; “they would more or less balance out.” Mr. Thomas asserted that the loss of living space would be minimal, especially in such a large house. Mr. Angelides stated that, given that living and parking space have the same value and all of his calculations were based on the value of the total square footage, the overall value of the property reused as a residence would not change with the inclusion or exclusion of parking. The value added with the inclusion of parking would offset by the value lost with the reduction of living space. Mr. Angelides concluded that the house is so far from profitability that any minor variations in value resulting in the inclusion of parking would not come close to making the project feasible. He stated that the parking space would have to add millions of dollars of value to make the project feasible; it simply would not do that.

Mr. Downey noted that his company will be constructing new retail space with 18-foot ceilings on the adjacent parking lot and intend to ask $55 per square foot, which is only $3 more than Mr. Angelides has estimated for the retail space in this building, which would be much less desirable. Ms. Trego asked if the residential model takes into account the prices that have been achieved for brand-new townhouses in the area. She stated that this house would essentially be brand new. Mr. Angelides stated that his model did take into account such new townhouses. He stated that he considered the prices of new, large townhouses under construction on 22nd Street and on Van Pelt Street. He stated that those properties are selling for about $2 million, but are superior to the residence that could be achieved at this site.

Mr. Angelides then discussed the office scenario. The schematic architectural plans propose a 4,104 square foot leasable office building. It would likely be a single-tenant office space because of the size and layout. The building would result in Class B office space owing to configuration, low ceilings, and low natural light. He displayed a table of asking rents for comparable office space in the area. He explained that asking rents are between $18 and $26 per square foot. He estimated an achievable rent of $23 per square foot for this building. He stated that his model predicts a total annual revenue of $95,000. Factoring annual operating expenses of $30,000, it would produce a net annual income of $65,000. The development cost would be $4.5 million, which is greatly in excess of the value generated. The net present value would be -$2.4 million; there would be no return on investment; and the net value of project would be -$3.8 million. Commercial office space is not a feasible reuse scenario for this property. Mr. Downey added that his adjacent project will have brand-new Class AA office space with floor-to-ceiling windows and 16-foot ceiling heights at $32 per square foot. He stated that, as a real estate professional, he would value the Class B space in the building in question at $10 less than his Class AA space. Mr. Angelides stated that his firm recently obtained office space for itself of about the size in question. The analysis his firm undertook very recently for its new office space showed that the proposed rents used in the rental scenario were very reasonable.

Mr. Angelides stated that he considered several other scenarios, but concluded that the three he presented were the three best cases. The others were even less feasible. He displayed a table summarizing his results and showing that none of the scenarios would produce a feasible project. Mr. Angelides stated that he conducted a variety of sensitivity analyses to determine the effects of adjusting assumptions on the outcomes. He displayed a table with his results. He tested the outcomes when removing all land costs; adding in federal and state historic tax credits; using ICI's costs estimates; adding 20% to the rents and sales prices; and combining all four sensitivity tests. Even when simultaneously removing all land costs, adding in federal and state historic tax credits, using ICI's costs estimates, and adding 20% to the rents and sales prices, there is no scenario that is close to feasible. The best case scenario, single-family residential, is still $900,000 in the red with all of the adjustments to the financial model. Mr. Angelides concluded that there is no use to which 1918-1920 Sansom Street may be reasonably adapted, given the cost of renovations and the revenues that can be expected from those uses. No reuse project is feasible.

Meg Sowell and Stephen Kazanjian of Real Estate Strategies-RES Advisors, the independent consultants retained by the City to analyze the application, presented their conclusions. Ms. Sowell provided a summary of her decades of experience with housing and commercial rehabilitation projects as the developer of the historic Jekyll Island Hotel. She stated that Mr. Kazanjian ran a redevelopment corporation and redeveloped several historic buildings in Germantown. She relayed that Mr. Kazanjian developed his expertise in financial analyses as a bank underwriter. Ms. Sowell directed the Historical Commission to their report. She stated that she agrees with the analysis undertaken by Mr. Angelides. She stated that she and her partner were unable to identify any feasible reuse for the building in question. She stated that they looked and tried very hard to find a feasible reuse for it, but did not. She stated that her company has been involved with this case on behalf of the Historical Commission since November 2015. She stated that her process was like that of the applicants. She stated that the Southern Land team undertook the sensitivity analyses at her request. She said that her only "big gripe" with the application was the conclusion by consultant George Thomas that the building would not be eligible for the federal historic preservation tax credit. She requested that Mr. Angelides rerun his analyses assuming that the tax credit was available. She explained that ICI, which was mentioned earlier, stands for International Construction, Inc. a construction cost estimating firm based in Philadelphia. She stated that her firm retained ICI as a subcontractor to evaluate the construction cost estimates prepared for the applicant by Intech. ICI tested every assumption in Intech's estimates and requested revisions, which were undertaken. Ms. Sowell stated that the preservation ordinance requires an applicant claiming hardship to demonstrate that the sale of the property in question is impracticable. She noted that the affidavit does not indicate that this property was placed on the open market for sale to see if anyone would be able to feasibly reuse it. She acknowledged that the Commonwealth Court decision in the 400 S. 40th Street case indicates that the Historical Commission need not compel a property owner to market the property for sale with a broker if the financial analyses demonstrate that such an effort would be futile. She observed that the only attempts to market this property were as a part of the larger assemblage and not this property alone. She noted that the application essentially argues that, in light of the financial analyses of the reuse scenarios, any attempt to sell the property in question would be futile. She stated, however, that that futility has not been demonstrated with the marketing of the property by a broker. Ms. Sowell pointed out that ICI and Intech sought to reconcile their cost estimates, but some differences for the scenarios remain. She noted, however, that, even if one factored in all of the lower cost estimates, there is no avenue to a financially feasible project. She stated that ICI worked very hard to find ways to reduce the cost estimates, but could not find a way to a feasible project.

Ms. Sowell stated that they concluded that industrial, garage parking, hotel, and residential apartment uses were not at all likely to be feasible. For example, only eight apartments or 10 hotel rooms would fit within the building and the resulting cost per apartment or room would be very high. These options are not financially feasible. Ms. Sowell stated that they evaluated the projected rents of Mr. Angelides for the restaurant-retail use to determine whether they were still valid. She stated that they considered comparable spaces in the area that are on the market now and verified the rents projected by Mr. Angelides. She stated that their numbers were very close to his. She stated that there is room to adjust the restaurant-retail project to make it feasible; the costs and the revenues are too far apart. She confirmed that, even if one zeroed all land costs, added in federal and state historic tax credits, used ICI's lower costs estimates, and added 20% to the revenue, there was no feasible project. She stated that they analyzed the single-family house scenario. She stated that they added a two-car garage, a rooftop garden, and few other amenities to the project. She noted that Sansom Street will be improving and a residence will not be out of place. She stated that they looked carefully at current residential pricing in the 19103 zip code. She stated that they estimated a sales price of $409 per square foot for the 4,200 square foot structure. The estimated sales price was $1.7 million. She concluded that there is no possible way to build the house for $1.7 million; it would cost much more. They concluded that there is no feasible residential project. She stated that they reviewed the office space price projected by Mr. Angelides in 2015 and found that it had not changed. Ms. Sowell agreed with his estimate of $25 per square foot for office space. She concluded that the office conversion would not be financially feasible. Ms. Sowell stated that "sadly, the conclusion on this one is that there is not a financially feasible solution, a way to do the renovation which will produce even a break-even or even close to a break-even for whoever might choose to do it." Mr. Kazanjian agreed.

Patrick Grossi of the Preservation Alliance for Greater Philadelphia stated that his organization is voicing non-opposition to the demolition of this building. He explained that the original hardship application called for the demolition of all three buildings, but, as it is before the Committee, two of the three buildings will be repurposed for affordable housing. The developers have made many concessions to immediate neighbors and stakeholders as to the project as a whole, not necessarily having to do with preservation. He suggested that the door surround and other ornamental features on the front façade may be able to be repurposed. He concluded that, for the reasons stated, the Alliance is voicing non-opposition to the demolition.

Paul Steinke of the Preservation Alliance for Greater Philadelphia stated that the Alliance was established in 1996. The buildings in question along Sansom became vacant in 1997. The Alliance has fought for their preservation ever since. Public and private redevelopment proposals have come and gone. This project seems to have a possibility of success. These buildings have deteriorated over time. The two buildings being preserved are "true local landmarks." He stated that the proposal for this building is "largely credible." He stated that he agrees with the analysis regarding the building's viability for feasible reuse. Mr. Steinke stated that he takes demolition very seriously, but, in this case, is not opposed. He concluded that the Alliance does not oppose this project. He stated that they would welcome the preservation of the door surround or façade.

Mr. Grossi objected to the claim made by consultant George Thomas that this building and the others would not be eligible for historic preservation tax credits. The deteriorated interior would make such a project easier, not more difficult. Mr. Grossi stated that George Thomas is absolutely incorrect. Bob Thomas, the chair of the Committee, agreed that George Thomas is wrong, but noted that the tax credits would not change the conclusions of the analyses.

David Traub of Save Our Sites stated that it is regrettable that the Preservation Alliance is not opposing the hardship application. He stated that he is a member of the Preservation Alliance and claimed that he was not consulted regarding the organization's position on the hardship application. He suggested that the Preservation Alliance should have polled its membership before taking a position on the hardship application. Mr. Traub selectively quoted from Judge Carrafiello's Court of Common Pleas decision in the Parking Authority case for this property of 2004. He stated that "if economic advantage were the sole standard … then virtually any historic building could be demolished when a more economically advantageous use could be foreseen." Allowing the demolition of designated buildings creates cynicism and discourages new designations, he claimed. Southern Land knew that the buildings were designated, he claimed. He claimed that Judge Carrafiello "upheld" the preservation of these buildings. He claimed that Southern Land inflicted the hardship on itself by purchasing designated buildings. He stated that Inga Saffron reported that Southern Land was unaware of the condition of the buildings when it purchased them. He added that Southern Land stated that it would incorporate the historic buildings into its tower project. He stated that there was a lack of imagination in the financial analyses. Mr. Traub stated that he was not knowledgeable of the nuances of the financial hardship law, but objected to the financial analyses and asserted that the building could be incorporated into the larger project. He suggested keeping the first 20 feet of the Garage building. He suggested connecting the retained space to the new building next door. It could be "a dress shop or what have you." He stated that the cost to rehabilitate the building are "miniscule" compared to the millions for the tower project. He said that it was an "insult" to hear the claim that it is "economically unfeasible." "It doesn't fit in the interest of our preservation effort that many people are involved in." Mr. Traub stated that Save Our Sites acknowledges "that there are hardships with a small 'h,' undoubtedly, but this is not a hardship with a capital 'H.' It just doesn't meet that standard. There are just too many factors that enter into to it." The façade and 20 or 25 feet of the building should be retained and restored and incorporated into the new construction.

Juanda Myles stated that she is a graduate of the Citizen Planning Institute. She stated that she wished she had reviewed the application beforehand. She stated that she wished she had participated in the discussion regarding the demolition of the Gimbel's Building and the Civic Center. She spoke about the Civic Center and its demolition. She stated that we have diverse industries in Philadelphia. She stated that Center City is beautiful. She discussed California and Baltimore. She stated that Philadelphia is the last to redevelop its city center. She spoke about San Jose. She spoke about Powelton Village. She stated that Sansom Street is a working street. She stated that she loves the street. She stated that she does not like New York because the buildings look like they are going to fall on you. She spoke about the next block west on Sansom and its theater, movie theater, and comedy club. She spoke San Jose and its Victorian houses. She spoke about the movie theaters that have been lost in Center City and how a movie and a $1 slice of pizza used to make a nice night out. She noted that the CVS pharmacy on Chestnut Street used to be a theater. Mr. Thomas asked Ms. Myles to focus on the merits of the application. Ms. Myles suggested a public-private partnership to save the building on Sansom Street. She referred to an unnamed site and noted that the owners are not interested in her ideas for that site. Mr. Thomas again asked Ms. Myles to focus on the merits of the application. Ms. Myles stated that she would like an opportunity to review the application. She stated that she would like to think about the space and noted that not everything needs to be large. She stated that the beauty and ambience could be retained while getting the full value out of the building. She stated that mixed use makes sense. She talked about vacancy rates and tax credits. She stated that the building could be profitable if given a long time to turn a profit. She mentioned housing. She asked about extending the tax abatement period. Mr. Thomas again asked Ms. Myles to focus on the merits of the application and not speak in generalities. Ms. Myles stated that the city needs more low-income housing. Mr. Thomas stated that she needed to direct her comments to the merits of the application, the costs to reuse and the revenues that the reuses might generate. Mr. Thomas stated that this is not a case of demolition by neglect; the owner recently purchased the properties. Ms. Myles asked if the Commission was discussing the Rittenhouse Coffee House. Mr. Thomas stated that they were discussing the Garage building. Ms. Myles noted that Kate's Place is nearby and suggested that men and women staying at Kate's Place should be separated by sexes. The men should have their own building. There could be retail on the first floor. There is not enough housing for workers in Center City. She suggested housing for former addicts. Mr. Thomas asked Ms. Sowell if it is financially feasible to convert the property into something like that that Ms. Myles is suggesting. Ms. Sowell replied that it would not be financially feasible to convert the property for such uses.

Mr. Sklaroff asked to respond to a statement by Mr. Traub. He explained that Judge Carrafiello's Court of Common Pleas decision in the Parking Authority case, to which Mr. Traub referred, addressed the demolition in the public interest provision in the preservation ordinance, not the financial hardship provision. The judge opined that an economic advantage to the city did not rise to the level of necessity in the public interest and then reversed the Historical Commission's approval of the application as necessary in the public interest. The judge's decision had nothing to do with the matter before the Historical Commission today. Mr. Traub countered that the judge's decision "stands as a principle which we must take into account." Mr. Traub stated that, if this application is approved, then any hardship application for any little building can be approved. He concluded that the judge's decision provides a general principle. Mr. Sklaroff disagreed, explaining that the historic preservation ordinance authorizes the Commission to approve demolitions when the applicant demonstrates that there is no feasible reuse for a building, which we call the hardship provision. Mr. Sklaroff stated that the judge's opinion had nothing to do with financial hardship; he was considering an approval under an entirely different provision with entirely different set of review criteria.

Mr. Traub claimed that only three members of the Committee were present and five were needed for a quorum. Mr. Thomas responded that there were four members present and only three are required for a quorum. Mr. Farnham agreed with Mr. Thomas. Mr. Traub stated that, regardless of the rules, this is an important application and all five should be present. Mr. Thomas replied that the fifth member of the Committee recused, owing to a potential conflict.

Mr. Farnham read from the pertinent section of the historic preservation ordinance and the Rules & Regulations. He read from Section 14-1005(6)(d) of the ordinance, Restrictions on Demolition.

> No building permit shall be issued for the demolition of a historic building … unless the Historical Commission finds that the building … cannot be used for any purpose for which it is or may be reasonably adapted. In order to show that building … cannot be used for any purpose for which it is or may be reasonably adapted, the owner must demonstrate that the sale of the property is impracticable, that commercial rental cannot provide a reasonable rate of return, and that other potential uses of the property are foreclosed.

He then read from Section 9.4 of the Rules & Regulations.

> To substantiate a claim of financial hardship to justify a demolition, the applicant must demonstrate that the sale of the property is impracticable, that commercial rental cannot provide a reasonable rate of return, and that other potential uses of the property are foreclosed. The applicant has an affirmative obligation in good faith to attempt the sale of the property, to seek tenants for it, and to explore potential reuses for it.

He noted that the Commonwealth Court opined on whether a property actually had to be listed with a broker for sale to satisfy the stricter interpretation of the ordinance offered by the Rules & Regulations. He explained that a panel of judges at the Commonwealth Court opined that: "We agree that the regulation does not require the Property to be listed for sale with a third party broker if the facts establish that such a listing would be futile." Mr. Farnham stated that the test is designed to determine whether anyone with a profit motive could find a feasible reuse for the property. It is not designated to determine if there is anyone who would purchase the property for other reasons, without seeking to reuse it for a profit. Mr. Farnham stated that any motion, regardless of how the Committee decides, should take into account the primary test and three subtests in the ordinance.

Ms. Royer asked if the properties along Sansom Street at 1904, 1906-16, and 1918-20 Sansom have been consolidated. Mr. Sklaroff stated that they have not been consolidated, but the properties have one Office of Property Assessment property tax account. He stated that the properties are considered by the Historical Commission in the district inventory and by the

Department of Licenses & Inspections to be separate properties. There has never been a zoning permit to consolidate the properties. The properties were conveyed as separate properties. Mr. Sklaroff stated that he has requested that the Office of Property Assessment return to separate accounts for the properties. They should not have been grouped as one account without a zoning permit. Mr. Traub stated that selling the one little property in question would be irrelevant. He claimed that there are many uses for this building. It should be incorporated into the larger development.

Mr. Thomas stated that this Committee offers advisory, non-binding recommendations to the Historical Commission, which makes the final decision. He questioned whether the Committee should place restrictions on the granting of the demolition permit based on other events like the finalization of financing for the larger project or the issuance of the building permit for the new building. He stated that the project might not occur and the Commission might want to protect the building until there are assurances that the project will occur. Mr. Sklaroff responded that that might be merited if the application proposed partial demolition and the remaining piece of the building was going to be incorporated into the new project. He pointed out that the facts regarding the lack of a feasible reuse for the existing building do not change, whether the subsequent development occurs or not. He stated that the owner bears an ongoing annual carrying cost for the building of $135,000. He explained that Southern Land has worked very hard to cooperate and collaborate with the preservation community and surrounding neighbors on the project. He asked the Committee not to place conditions on the demolition; the property continues to blight the neighborhood and create unnecessary costs for the owner.

Mr. Downey stated that Southern Land has worked for more than two years with the Preservation Alliance, community stakeholders, and others to craft a plan that almost everyone agrees on. He stated that they have respected every party. Mr. Downey stated that the Committee has his word that the other two buildings, the Coffee Shop and the Warwick, will be rehabilitated for housing with Project Home. He stated that Southern Land is giving Project Home the tax credits and $2 million to undertake the project. The buildings will be used as 35 efficiency apartments for people below 60% median income. He stated that Southern Land has made that commitment. He stated that Southern Land will also greatly improve this block of Sansom Street with retail development. He explained that they have worked very hard to keep truck and parking traffic from their new building off Sansom. He stated that his team has explored numerous ways to integrate the Garage building into the project, but simply cannot make it work. The building sits at the "knuckle" of the site. It is the point that links the Walnut Street land to the Sansom Street land. Without this site, the entire project, which will bring so many benefits, is infeasible. The entire project will "unravel" without it. Mr. Downey stated that he will make every effort to save the Garage door surround and reuse it on site. Mr. Traub interrupted. Mr. Thomas asked Mr. Traub to allow the speaker to finish. Mr. Downey stated that Southern Land is also donating to Greenfield Elementary School and the Friends of Rittenhouse Square. He concluded that this project is "the honest best we can do." He stated that they have looked at every possible way to save this building, but there is no financially feasible reuse for it. He stated that he needs the Historical Commission's support to be able to give the other buildings to Project Home. He asked the Committee not to condition the approval on having financing in place because Southern Land needs to obtain the approval before it can finalize its financing. Placing such a requirement on the demolition would create a "chicken and egg situation." Mr. Sklaroff noted that they originally applied to demolish all three buildings on Sansom Street, but they have pulled back from that position to try to save the two buildings to the east, the more significant buildings. He claimed that they could have made the cases for the lack of feasible reuses for those buildings, but they are instead subsidizing their reuses. Mr. Traub called out, asking what they would do for the Garage building. Mr. Downey started to explain that they will attempt to remove and reuse the door surround. Mr. Traub repeatedly interrupted him, asking why he would not save the entire front façade or the windows. Mr. Traub claimed that “Oliver Bair is being held emotionally by virtue of the good thing that you are doing and I think that that’s a bad precedent. We want you to do good things and we thank you but we also want you to keep that tiny little Oliver Bair building, or at least a portion thereof. I know that you can do it, but I just think that you don’t want to do it, like many developers. It can be done and there are many ways to do it. In terms of the total budget of your project … it’s miniscule.” Mr. Thomas asked Mr. Traub to hold his comments until given the floor and to avoid repetition.

Mr. Farnham cautioned the Committee against conditioning the demolition on aspects of the subsequent project if the Committee finds that the building cannot be used for any purpose for which it is or may be reasonably adapted. He explained that, if the Commission finds that there is no feasible reuse for the building, it is obligated to take some action to prevent the exercise of its regulatory authority from remove all value from the property. He observed that the Commission must act constitutionally. Mr. Thomas noted that he and his business partner bought a building for $30,000, invested $200,000 in its renovation, and were left with a building worth $35,000. Property owners can make such investments, but the Commission cannot compel owners to make such investments. The Commission cannot require an owner to find “an angel,” Mr. Thomas observed.

COMMITTEE ON FINANCIAL HARDSHIP RECOMMENDATION: Mr. McCoubrey moved that the Committee on Financial Hardship recommend to the Historical Commission that the building at 1918-20 Sansom Street cannot be used for any purpose for which it is or may be reasonably adapted; that the owner has demonstrated that the sale of the property is impracticable because the application shows that a listing for sale with a third-party broker would be futile; that commercial 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.

ADJOURNMENT

The Committee on Financial Hardship adjourned at 3:42 p.m.