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

TUESDAY, 30 JUNE 2015
ROOM 578, CITY HALL
SAM SHERMAN JR., CHAIR

PRESENT
Sam Sherman Jr., chair
Dominique Hawkins, AIA, NCARB, LEED AP
Melissa Long, Office of Housing and Community Development
Robert Thomas, AIA

Jonathan Farnham, Executive Director

ALSO PRESENT
Meg Sowell, Real Estate Strategies, Inc.
Stephen Kazanjian, Real Estate Strategies, Inc.
Shahied Dawan, Universal Companies
Thomas Chapman, Esq., Blank Rome
Jeff Kurtz, Dranoff Properties
Amanda Mazie, Dranoff Properties
Peter Angelides, ESI
Brian Wentz, Keast & Hood
Harvey Levin, Keystone Appraisal Co.
Jeff Pastva, JDavis Architects
Ben Altman, Allied Construction
Jody Arena, Allied Construction
Robert Powers, Powers & Co.
Michael Gross
Lauren Vidas, South of South Street Neighborhood Association
Peter Elliot, Office of Councilman Kenyatta Johnson
Patrick Grossi, Preservation Alliance
Bill Chenevert, South Philly Review
Ashley Hahn, PlanPhilly

CALL TO ORDER
Mr. Sherman called the meeting to order at 9:05 a.m. Ms. Hawkins and Long and Mr. Thomas joined him.

DRAFT

ADDRESS: 1524-34 SOUTH ST
Project: Demolish historic building except façade, restore façade, construct four-story building
Review Requested: Final Approval
Owner: Universal Community Homes
Applicant: Thomas Chapman, Blank Rome LLP
History: 1920; Royal Theater; Frank E. Hahn, architect
Individual Designation: 9/7/1978
District Designation: None
Preservation Easement: Yes
Staff Contact: Jon Farnham, jon.farnham@phila.gov, 215-686-7660

OVERVIEW: This application proposes the demolition of all but the front façade of the Royal Theater at 1524-34 South Street and the construction of a mixed-use, retail and residential building on the lot behind the façade and on adjacent lots. The application claims that the building cannot be used for any purpose for which it is or may be reasonably adapted. In other words, the application claims that the forced retention of the building would induce a financial hardship on the owner.

The Historical Commission individually designated the Royal Theater in 1978. The theater is not located in a historic district and no interior spaces in the building have been designated as historic. The Historical Commission has jurisdiction over the exterior envelope of the building, i.e. the four exterior walls and the roof, and the site.

The Royal Theater consists of a lobby on South Street and an auditorium at the rear extending back to Kater Street. The front façade is brick with stone and metal accents. The side and rear facades are unornamented brick. The side facades include flush metal exit doors. All rear openings have been infilled. The building is in very poor condition. Water and vegetation have severely damaged the exterior. All interior finishes, fixtures, and features have been lost.

Section 14-1005(6)(d) of the historic preservation ordinance prohibits the Historical Commission from approving a demolition unless it finds that the demolition is necessary in the public interest, or 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. Section 9.4 of the Commission's Rules & Regulations elaborates, stating that 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.

The Historical Commission's financial hardship consultant has analyzed the application and has concurred with its findings, concluding that "the redevelopment of the Royal is not economically feasible without significant public subsidies."

On June 23, the Architectural Committee reviewed the application. It deferred to the Committee on Financial Hardship on the hardship aspects of the application, but recommended approval of the restoration and construction aspects of the application, pursuant to Standards 6 and 9, provided the Historical Commission finds that the building cannot be used for any purpose for which it is or may be reasonably adapted, pursuant to §14-1005(6)(d).

DISCUSSION: Mr. Farnham presented the application to the Committee on Financial Hardship. Attorney Tom Chapman, property owner's representative Shahied Dawan, developers Jeff Kurtz and Amanda Mazie, consultant Peter Angelides, engineer Brian Wentz, appraiser Harvey Levin, architect Jeff Pastva, contractors Ben Altman and Jody Arena, and preservation consultant Robert Powers represented the application.

Mr. Chapman introduced his team of consultants. He noted that the Preservation Alliance holds an easement on the front façade of the building. He reported that the property has been rezoned by ordinance and the project approved by the Planning Commission. He asserted that the proposed project is perhaps the last chance to save the façade of the historic building.

Mr. Dawan provided a history of the property including Universal's efforts to redevelop and maintain the Royal Theater. He stated that Universal Community Homes was founded by music legend Kenneth Gamble. Universal has developed hundreds of units of affordable housing in the area of the Royal Theater as well as hundreds of thousands of square feet of commercial space, operates 11 charter schools with 6,000 students, and provides social services to low and moderate-income Philadelphians.

Mr. Dawan reported that, in 2000, Universal was approached by the Preservation Alliance, the owner the Royal Theater, and eventually purchased the Royal for $280,000. In 2001, Universal formed a development team with Kravco/Downtown Works, Penrose Properties, and Parkway Corp. for the development of a cultural district on 1400-1600 of South Street with the Royal as the anchor building. Funding and government support could not be organized to move the project forward and eventually the project was abandoned. In 2002, Universal performed $72,000 worth of restoration work at the Royal including pointing the front facade. Between 2002 and 2004, Universal performed basic maintenance at the site including snow, graffiti, and vegetation removal. In 2005, Universal developed a scheme at a cost of $175,000 for an entertainment district to be located on the 1400 and 1500 of South Street with the Rhythm & Blues Hall of Fame at the Royal as the anchor facility. The plan did not obtain strong City and State support for implementation and was eventually abandoned. In 2005, Mural Arts installed murals on the front façade of the building. Also in 2005, the House of Blues studied the potential of the Royal as a facility, but determined that such a project was not feasible because of the lack of adequate loading and parking and because of the size of the building. Mr. Dawan stated that the building was in poor condition when Universal obtained it. In 2007, Vitetta completed a project manual for the Phase I of the stabilization of the Royal Theater. Universal spent $127,000 for the stabilization of the Royal to install the cast iron piping for the water to run off the roof and into a drainage system. Mr. Dawan explained that, because all potential developers claimed that the property was too small for redevelopment of the historic building, Universal acquired and demolished several adjacent properties. In 2008, the southeast corner of the building was rebuilt. In 2009, at a cost of $50,658, Universal installed new gutter and drainage system to reduce water infiltration into the building. In 2012, the Commonwealth awarded Universal a $2,250,000 grant to redevelop the site. Universal applied to the Historical Commission to demolish the building under the hardship provision, but the application was rejected as incomplete because Universal had not attempted to market the property. Mr. Dawan explained that Universal hired a realtor and placed the building on the market. Universal received two offers on the property and accepted one, which had several contingencies. After eight months of due diligence, the buyer rescinded the offer because it could not identify a feasible redevelopment project. At that time, Universal approached the other potential buyer, who had made the second offer. However, by that time, the second buyer was no longer

interested. In 2013, the Commonwealth withdrew the grant because the project was not ready to proceed. In 2013, Universal partnered with Dranoff Properties to seek a new redevelopment project for the site. As they have planned for a project, Universal has continued to maintain the property. Mr. Chapman added that Universal is a non-profit. He noted that the building had been vacant for about 30 years when Universal purchased it and was already in very poor condition at the time of the purchase. Mr. Dawan agreed that the building was in very poor condition when Universal purchased it. Mr. Dawan also reported that it has always been Universal's intention to redevelop the property; it did not buy it to speculate on it. He observed that Universal has spent hundreds of thousands of dollars stabilizing and maintaining the building. Mr. Sherman stated that it appears that Universal has spent at least $500,000 on maintenance. Mr. Dawan suggested that it has spent much more.

Mr. Wentz, a structural engineer, submitted additional photographs. He stated that the building has been in deteriorated condition for many years. He reported that he did his first assessment of it in 2013. He assessed it again in 2015. It has deteriorated parapets. The southeast corner of the building has been rebuilt. It has deteriorated mortar joints and needs 100% pointing. There are many cracks on the exterior façade. He showed photographs. The walls are deteriorated. The buttresses of the exterior walls may need to be rebuilt. There are concrete steel beams and floors in the front of the building. The steel is corroded, causing the concrete to spall and crack. The reinforcement is exposed. The roof trusses are delaminated and in bad condition. The extent of the corrosion is unknown. Repair will be difficult. The roof continues to leak. Water infiltration is leading to more deterioration. The building is in very poor shape. Mr. Chapman noted that the engineer's report is preliminary and a more complete inspection would likely disclose numerous other problems and reveal that the building is in much worse condition. Mr. Wentz agreed. Mr. Wentz stated that the roof trusses are likely in very poor condition.

Mr. Angelides documented the bases and results of his financial hardship analysis with a Powerpoint presentation. He stated that he is a financial consultant and a professor at the University of Pennsylvania. He presented his conclusion first: "There is no use to which the Royal Theater may be reasonably adapted given the cost of renovations and the revenues that can be expected by those uses."

Mr. Angelides explained that he considered seven alternative adaptive reuses for the building and calculated the cost to renovate for the uses with all by-right subsidies and the revenue generated by those projected uses. He stated that he compared the cost to undertake each of the projects with the value created by undertaking those projects. In every case, he concluded that one would be creating significantly negative value, meaning that the project would not be financially feasible. The negative values range from $6.5 million to almost $12 million. None of the projects is feasible. Each results in a destruction, not a creation, of value.

Mr. Angelides stated that the Royal Theater is in very poor condition. It is located mid-block, not a corner, which is preferable. He explained his methodology. He first determined what kinds of uses might work, given the space, location, zoning, and other factors. He stated that he considered every conceivable use that makes sense. He conducted interviews with brokers and others knowledgeable about real estate in the area. He also conducted his own independent research. He investigated comparable venues and determined costs, revenues generated, etc. for them. He then developed economic models for the various potential uses. He stated that he used construction cost estimates generated by Allied Construction. He stated that he considered incentives such as federal and state historic rehabilitation tax credits. He did not

consider RACP grants. He did not consider New Market Tax Credits because it is not in an eligible zone. He did include a tax abatement in his modeling. He stated that he tried to be completely realistic in his estimations and assumptions. He stated that he did sensitivity analyses to test his assumptions. He stated that he assumed that the improvements could be financed with a bank loan, but that is probably not a realistic assumption based on the revenues forecast to be generated.

He stated that the reuse scenarios were predicated on the fact that the building is a large box that is located at the middle of a block. The floor slopes and the building is in poor condition. It is a specialized structure.

Mr. Angelides stated that he considered the following reuse scenarios: retail, single-screen movie theater, two-screen movie theater, live performance venue, residential, mixed-use retail and residential, and mixed-use retail and commercial. He showed a chart summarizing the costs and returns for each of the projects. The cost to reuse ranges from about $9 to $13 million.

Mr. Angelides discussed the retail scenario first. He stated that retail likes to be located on corners with wide street frontages. Retail likes deep properties, but not too deep, like this one. He explained that the current South Street West retailers are primarily smaller shops. They are local stores, with very few national brands. He stated that the foot traffic was not likely to attract a large retailer. He stated that local retailers would be more interested in subdividing the available space at the Royal, which is very large for retail. The Royal is not an ideal retail space. It is not on corner. The 1500 block of South is not prime location. It has an undesired interior décor and a sloping floor. It is a larger space than most retailers want and it is a deeper space than most want. It is not on Chestnut or Walnut Street. It is not attractive to national retailers. Mr. Angelides stated that asking rents for retail space in this area are mostly in the $20s. He stated that, after speaking with brokers in the area, he used $25 as a reasonable per square foot rental rate. Based on that rate and a triple-net lease, the space would produce about $250,000 annually. Operating income would be about $200,000 per year. That income would not support more than $9 million in redevelopment costs. The net present value would be significantly negative. There would be no return. The net value of the retail project would be significantly negative.

Mr. Angelides then described the potential move theater projects, 400 seats for single-screen theater and 175 seats each for a double-screen theater. Single-screen theaters are generally not being constructed these days; it is not a viable for-profit business model. Likewise two- and four-screen theaters are not being built. Movie theaters in Philadelphia have an average of 7.8 screens. He provided information about existing theaters in Philadelphia and stated that the movie-ticket revenue per screen ranges from about $160,000 to $600,000 and the average is about $400,000. Most of that revenue goes to the movie studios. Most of the money is made on the concessions. Concession revenue is generally about half of ticket sales. The single-screen revenue would be about $0.75 million; the two-screen would be about $0.5 million per screen. Net income from the theaters would be about $100,000 and $400,000 respectively. That income is not enough to justify the cost of development. The net operating income would be positive, but the cash flow would be negative because of the debt service. In no year does money come in; it is always going out. The theater projects are infeasible. The negative numbers are significant, which is not surprising given the state of the movie theater industry.

Mr. Angelides then discussed his analysis of a live performance venue. He stated that the Royal could not accommodate large productions owing to loading difficulties, but could allow for the staging of smaller shows. He stated that he considered various arrangements for the venue including flexible seating with 600 with chairs only and also 175 with round tables. It would accommodate limited types of performances owing to the small stage size and lack of a fly tower. Also, several local theaters are currently facing or have succumbed to financial difficulties including the Prince Music Theater, Suzanne Roberts Theater, Plays & Players, and the Society Hill Playhouse. Most theaters lose money on an operating basis, but make it up with contributions. Mr. Angelides displayed the results of his analysis of the Royal as a performance venue and concluded that such a project was not financially feasible.

Next, Mr. Angelides considered a residential development. He noted that the neighborhood is primarily a residential one. He stated that one could create three floors of residential units in the existing building. The building would require significant rehabilitation to be used for residential. The building and site are not conducive to residential. The building is oddly shaped for a residential development. One would need to create many windows on the side facades and those windows would face onto party walls because the property only includes five feet of open space on each side of the building. Also, the ground floor is literally located at ground level. The residential space would not be highly desirable and the building would include some space that would not generate revenue, but would still require investment. The Royal is situated an ideal residential neighborhood. Residential units in the neighborhood average 1,274 square feet and $20.74 per square foot in yearly rent. Residential space would occupy all three floors, accounting for 23,000 square feet with 22 units in total. A fully rehabilitated Royal is estimated to attract yearly rents of $21 per square foot. He stated that such a project would not be financially viable. He stated that he tested the model by adjusting the rent from $21 to $28 per square foot at the request of the Historical Commission's consultant and found that the project would still not be financially viable by a significant margin. Mr. Sherman stated that, to command higher rents, the building would need to provide amenities like parking. Mr. Angelides observed that there would be no amenities in this project; no parking, doorman, or other amenities.

Next, Mr. Angelides considered a mixed-use, retail and residential development with one floor of retail and one of residential. He stated that the retail would rent for $25 per square foot and the residential for $21. The project produces a positive net operating income, but not a positive cash flow. It results in a significant negative net present value. Mr. Angelides stated that the numbers were very similar for a mixed-use, retail and commercial development with offices on the upper floor. It, too, would not be financially feasible. He stated that, in summary, there is no use to which the Royal Theater may be reasonably adapted given the cost of renovations and the revenues that can be expected by those uses. No scenario comes close to being financially viable.

Mr. Chapman stated that he has other team members in attendance today, but will not call them to testify unless requested by the Committee.

Mr. Sherman called on the Commission's consultants to present their findings. Meg Sowell introduced herself and her colleague Stephen Kazanjian. She stated that they were retained by the Historical Commission to review the application and assess its claims. She stated that they analyzed all of the documents submitted in the application, inspected the building inside and out, interviewed the applicants including Peter Angelides and Jeff Kurtz, and they modeled alternate scenarios with Mr. Angelides. She noted that they connected Patrick Grossi of the

Preservation Alliance with Dranoff Properties, allowing him to tour the building. She stated that they conducted interviews with representatives of the Preservation Alliance, South of South Street Neighborhood Association, South Street West Business Association, and Center City Residents Association. She stated that they spoke with other developers. During every conversation, they asked about potential reuses for the building, but no one ever offered a viable reuse. She stated that they explored all of the reuses that had been considered since the Preservation Alliance purchased the building in 1998. She noted that numerous parties had considered numerous reuses since 1998, but none of them had proved viable. People have tried very hard to reuse the building, but to no avail, she observed. She stated that they tested all of the assumptions in Econsult's analyses of the potential reuses for the property. Ms. Sowell concluded that their independent analyses resulted in a determination that there is no financially feasible reuse for the building. "Redevelopment of the Royal is just not financially feasible without significant public subsidies. We could find a scenario that worked to produce a value that was a positive value at all." Ms. Sowell stated that, in addition to their independent analysis, which produced no feasible reuses, no one they interviewed was able to suggest a feasible reuse. She stated that everything that might work had been tried to no avail. The income that can be produced is not sufficient to cover any rehabilitation. The building has several inherent limitations, its lack of parking, mid-block location, and very poor condition.

Ms. Sowell introduced her colleague, Mr. Kazanjian. He stated that they tested all of the numbers used in the Econsult analyses. He explained that they discovered that the Pennsylvania Historical & Museum Commission had provided a $50,000 grant for work on the building. Therefore, he directed Econsult to reduce the costs in the analyses by $50,000. The revision did not change the results. Mr. Kazanjian stated that he analyzed the potential rents in the area and concluded that a rehabilitated Royal might command residential rents higher than the $21 per square foot number used by Econsult. Therefore, he directed Econsult to increase the rents in the analyses to $28. Econsult did not agree with the $28 number, but humored him and implemented the revision. That revision, too, produced no change in the results, which remained negative. Mr. Kazanjian reported that he asked Econsult to model a different retail-residential configuration with a small retail space and three floors of residential. That proposal also produced no positive results. Mr. Kazanjian questioned the construction cost estimates, which were prepared by Allied Construction, because no formal report providing a breakdown of the estimates was provided. Mr. Kazanjian asked Econsult to undertake sensitivity testing on the construction costs, decreasing them by 20% across the board. The soft costs were also reduced by 20%. However, even with the reduction in the hard and soft costs, the models indicated that all of the projects would produce negative values. Mr. Kazanjian concluded that any rehabilitation project for the existing building would be financially infeasible.

Ms. Sowell stated that they determined that attempts to find a viable reuse for the Royal have been ongoing since 1998. A string of different parties have sought to reuse the space, but none has been successful. A string of capable developers, who undertake these sorts of projects, have considered the Royal and have walked away because they could not identify a feasible project. Even a grant from the Commonwealth was not enough to push a project forward. The building has continued to deteriorate, despite Universal's efforts to maintain it. Mr. Kazanjian mentioned that there is a sink hole in the auditorium, which would add complexity and cost to any renovation. Ms. Sowell stated that a fire damaged the projection room area. Ms. Sowell stated that the building has greatly deteriorated, especially from water infiltration and vegetation. The renovation of the existing building would not be an easy one.

Ms. Sowell stated that the building was offered for sale on the open market. The first potential buyer walked away after many months of due diligence. The second potential buyer also chose not to purchase the property.

Ms. Sowell explained that she and her colleague interviewed a staff person at the Pennsylvania Historical & Museum Commission about that agency's restrictive covenant on the property, which was put in place in 2008 and runs for 15 years. She stated that the agency will have to decide whether to release the owner from the covenant. Also, the Preservation Alliance holds an easement on the front façade of the building. She also noted that the building is on the National Register of Historic Places and may be the subject of a rescission if this plan goes forward. She stated that there are many regulatory steps beyond those of the Historical Commission. Ms. Hawkins asked if the Pennsylvania Historical & Museum Commission had issued any written statement or opinion on the matter. Ms Sowell replied that it had not. The staff member they interviewed, Karen Arnold, stated that the decision regarding the covenant would be made by the agency's staff; it would not require a public review. Mr. Kazanjian noted that the state agency has received an application from the developer, but has not yet processed it. He added that the agency's representative indicated that its process and that of the Historical Commission were independent and one need not depend on the other.

Mr. Thomas asked the engineer whether he had developed a plan to support and stabilize the front façade during the demolition and construction. Mr. Kazanjian noted that the Preservation Alliance was concerned about the safeguards for the front façade, so he had connected the Alliance with the developer. Mr. Wentz, the engineer, stated that shoring towers would be erected around the front façade prior to any demolition. The façade would be braced and stabilized. Ms. Sowell added that she believes that the Alliance was assured that the façade would be safeguarded during the construction process. Mr. Kurtz, the project manager, stated that he has assured the Alliance that the façade will be safeguarded. He observed that they may find a way to incorporate the shoring of the façade into the new construction. Mr. Kurtz committed to doing everything necessary to protect the façade.

Peter Elliot of the Office of Councilman Kenyatta Johnson stated that the property has been vacant and blighted for several decades. He informed the Committee that the Councilman supports the application. He stated that this proposal makes sense and there are no viable plans to save the building.

Patrick Grossi of the Preservation Alliance stated that he has met with representatives of the developer and is looking forward to reviewing the final plans for the stabilization of the façade. Mr. Grossi asked how the façade would be restored. Mr. Kurtz replied that the application includes architectural drawings for the restoration of the front façade. He explained that that they have recently uncovered some original features, finding that existing windows survive. Those windows match the windows shown in the original architectural drawings. He stated that they will either retain and rehabilitate the existing features on the façade or, if too deteriorated, replicate them in kind.

Lauren Vidas, the president of South of South Street Neighborhood Association, stated that her organization strongly supports the plan and looks forward to the redeveloped site.

Mr. Thomas asked whether the developer plans to commemorate the history of the site through interpretive signage or other mechanisms. He noted that the Fidelity Market stood on the site

prior to the theater and the market building may have been incorporated into the theater. Mr. Kurtz stated that he is open to the idea of a plaque or other interpretive signage regarding the history of the site. He also noted that they are considering the possibility of some sort of community space within the development, given that the building was used for community gatherings for such a long time. Mr. Thomas asked if there is a state historic marker at the property. There is not a marker now, but one could be considered.

Ms. Hawkins stated that the building has been vacant for 40 or 50 years. It would be sad for the city to lose it as a performance venue and civic space, but the long vacancy has had an impact on the building. It is in very poor condition and is well beyond what can be reused and rehabilitated. She concluded that this is exactly the type of situation for which the hardship component of the ordinance was written. She stated that this circumstance brings great sorrow to her, as a protector of historic buildings, but this building is beyond the point of being rehabilitated. She stated that the application materials clearly demonstrate that this building cannot be feasibly reused.

COMMITTEE ON FINANCIAL HARDSHIP RECOMMENDATION: Ms. Hawkins moved that the Committee on Financial Hardship recommend that the Historical Commission find that the building at 1524-34 South Street cannot be used for any purpose for which it is or may be reasonably adapted, pursuant to §14-1005(6)(d) of the Philadelphia Code. 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. Furthermore, pursuant to Section 9.4 of the Historical Commission's Rules & Regulations, the applicant has satisfied the affirmative obligation in good faith to attempt the sale of the property, to seek tenants for it, and to explore potential reuses for it. Mr. Thomas seconded the motion, which passed unanimously.

ADJOURNMENT

ACTION: Ms. Hawkins moved to adjourn at 10:15 a.m. Mr. Thomas seconded the motion, which passed unanimously.

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