

Capitola Planning Commission

Agenda Report



Meeting: October 20, 2022

From: Community Development Department

Subject: Monarch Cove Inn

Project Number: #21-0267

Location: 620 El Salto Drive, Parcel Numbers 036-143-31, 036-142-27, and 036-142-28

Project Description: Proposed amendments to the Zoning Code, Zoning Map, and General Plan Land Use Map to change the Monarch Cove Inn property from a Visitor Serving base zone to R-1 Single-Family Residential base zone with a Visitor Serving overlay zone. The proposal involves development within the Coastal Zone and is not effective unless certified by the California Coastal Commission.

Environmental Determination: Categorically Exempt under Section 15061(b)(3)

Background: In 2020, the City of Capitola adopted a comprehensive Zoning Code update that applied to the subject Monarch Cove Inn properties within the coastal zone. In April 2021, the Coastal Commission certified the Zoning Code resulting in the updated code applying throughout the city, including in the coastal zone but specifically excluded all sections relating to the Monarch Cove Inn properties.

At the April 15, 2021, Coastal Commission meeting, the Coastal Commission staff did not recommend support for the proposed policy changes to the Monarch Cove Inn property. The Monarch Cove Inn subtopic generated extended and specific discussion. During discussion, several Coastal Commissioners were receptive to the request to change the zoning, and no Commissioners declared opposition. The Coastal staff maintained their position and noted loss of Visitor Serving resources, iconic views, and lack of replacement resources as justification for maintaining the property as Visitor Serving. Ultimately, discussion concluded in advising the Monarch Cove Inn owner and the City of Capitola to bring the proposal back before the Coastal Commission as a separate item for consideration.

Link to April 15, 2021, Coastal Commission meeting (Item 11.c.):

https://cal-span.org/meeting/cc_20210415/

Following the Coastal Commission meeting, Coastal staff further advised that the city should contract with a third-party consultant to assess the Monarch Cove Inn's profitability and real estate value. The Inn's owner had stated during the April 15, 2021, Coastal Commission meeting that they were operating at a sustained loss and had tried unsuccessfully in the past to reposition, upgrade and expand the property to reestablish financial stability. Permit history shows that the owner made major development proposals in 2001 and 2014 to add buildings, guest rooms, guest facilities, and amenities in effort to upgrade and modernize the property. Both proposals were met with significant opposition by the surrounding neighborhood and the 2014 project was ultimately withdrawn. The city has contracted with Kosmont Companies to prepare a Feasibility Study and Broker Assessment of Value to evaluate the owner's statements regarding profitability and financial positioning (Attachments #3 and #4).

Discussion: The city's Planning Commission and City Council previously supported the proposed Zoning Code text, Zoning Map, and General Plan Map amendments in 2021. The owner has stated a need to transition the property to R-1 (single-family) to eventually close the Monarch Cove Inn and return the

property to a single-family use in their retirement and for flexibility in estate management. The property is not currently permitted to be used as an R-1 use, due to the base zone being Visitor Serving. The proposed change to R-1 with a Visitor Serving overlay would allow the owner to close the existing Monarch Cove Inn on their own timeline and maintains the possibility that the estate or a future owner could reestablish a permitted Visitor Serving use.

Property Overview

The 620 El Salto Drive property is located at the end of a narrow private road. It was developed as a single-family estate in the late 1890's with the construction of an approximate 4,000 square foot main house. The property had been operated over the years as an inn, bed and breakfast, and family compound but formally became a visitor serving facility called the Monarch Cove Inn in 1991. The property has 11 guest rooms within three structures but performs better financially as a venue for outdoor weddings and special events.

The property is surrounded by single family residences and is located at the dead end of a residential street. Over the years, neighborhood density increased, and the property became increasingly less compatible with the quiet neighborhood around it. Due to adjacent neighbor complaints about noise and parking on city streets, the property now operates under a Conditional Use Permit (CUP) since 2001. The CUP restricts special events to no more than two per week and six per month. Events during the week (M-F) are limited to 40 people, during weekends they are limited to 75 people and all events must end by 6 P.M., which negatively impacts revenue from weddings substantially.

In 2014, the owner applied to the city for an expansion of the facility into a 41-room hotel complex that would retain the historic Victorian Inn, demolish and replace the two cottages, replace the garage area with a subterranean garage for 56 cars, meeting rooms and kitchen facilities. The owner had incurred a significant soft cost investment in progressing the project to a point that a full Environmental Impact Report was prepared, but the project application was ultimately withdrawn by the owner due to substantial community opposition.

Feasibility Study

Kosmont's analysis of the Monarch Cove Inn property concludes that the hospitality operations currently yield an inadequate return on investment of less than 4% annually and do not justify continued operations as a hospitality venue. In consideration of the long-term capital investment required, continued hotel use of the property is not financially feasible.

The report concludes that in combination with current resident sentiment being generally opposed to expansion of hospitality uses, no financially feasible or impactful upgrades to the property can be expected to be approved by the city.

Broker Opinion of Value

The Broker Opinion of Value considers the property's zoning, allowable uses, current market conditions, and other relevant information to evaluate the range of fair market value of the property.

For the hotel use, Kosmont estimated stabilized long term net operating income and used market cap rates to estimate the "As Is" value of continued hotel operations. This analysis does not include mortgage interest or other financing costs. The value of the property as a hotel use is \$3.1 million.

For the residential use, Kosmont compiled per acre land sale comp data and made adjustments as appropriate given the Property's allowable density and location to estimate the value of the Property for residential redevelopment and as a single-family residence, which was its original use. The average value for those two residential scenarios is \$4.25 million (\$3.9 million and \$4.6 million).

Proposed General Plan and Zoning Map Amendments

The only necessary General Plan and Zoning Map amendments are to change the Zoning Map and General Plan Land Use Map designations from Visitor Serving to R-1 Single Family Residential with a Visitor Serving Overlay (attachments #2 and #3).

Proposed Zoning Text Amendments

The proposed zoning text amendments include adding the Monarch Cove Inn property to Chapter 17.28 Visitor Serving Overlay Zone, deleting Chapter 17.30, which only applies to the Monarch Cove Inn Visitor Serving District, and minor edits to Chapter 17.72 Landscaping where Visitor Serving properties are referenced. The proposed text in Chapter 17.28 Visitor Serving Overlay Zone is the same text that was proposed for Coastal Commission certification on April 15, 2021. During the 2021 updated, the land use table (Table 17.21-1), was updated to add single-family dwelling as a Conditional Use on the Monarch Cove property subject to the requirements of notes 3 and 12, as follows:

[3] Single-family dwellings shall comply with development standards in the single-family residential (R-1) zoning district.

[12] Allowed in conjunction with overnight accommodation use (at least one on property) or grant of public access to a viewpoint.

Staff is not suggesting additional changes to the previously supported notes at this time. However, the Planning Commission may recommend additional revisions to the City Council.

CEQA: The Zoning Code and General Plan Land Use Map Amendments are exempt from the requirements of CEQA pursuant to CEQA Guidelines Sections 15061(b)(3), the commonsense exception that CEQA applies only to projects which have the potential for causing a significant effect on the environment and 15183, projects consistent with a community plan, general plan or zoning.

Recommendation: Accept presentation on the Zoning Code, Zoning Map, and General Plan Map Amendments and consider forwarding a positive recommendation to the City Council.

Next Steps: The Planning Commission's recommendation will be forwarded to the City Council for consideration. If the City Council adopts some or all the proposed amendments, the City of Capitola and the owner will jointly file an application for Coastal Commission review of the amendments.

Attachments:

1. Proposed Zoning Code Amendments in underline and strikeout format
2. Proposed Zoning Map Amendment
3. Proposed General Plan Land Use Map Amendment
4. Feasibility Analysis, August 29, 2022 – Prepared by Kosmont Companies
5. Broker Opinion of Value, August 29, 2022 – Prepared by Kosmont Companies

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