

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

Report prepared by: Brian Froelich, Senior Planner

Chapter 17.28

VISITOR SERVING OVERLAY ZONE

Sections:

- 17.28.010 Purpose of the visitor serving overlay zone.
17.28.020 Land use regulations.
17.28.030 Development standards.

17.28.010 Purpose of the visitor serving overlay zone.

A. General. The purpose of the visitor serving (-VS) overlay zone is to provide the visiting public with a range of opportunities to enjoy Capitola's coastal location. The -VS overlay zone accommodates a range of visitor serving uses including overnight accommodations, dining establishments, and active and passive recreational facilities. Specific permitted uses depend on the resources present on the site and the surrounding land use and environmental context. The -VS overlay zone implements policies to maintain and enhance visitor serving uses in Capitola consistent with the general plan and local coastal program (LCP).

B. Visitor Serving Overlay Subzones. The -VS overlay zone is divided into subzones (see Figure 17.28-1) with unique land use and development standards:

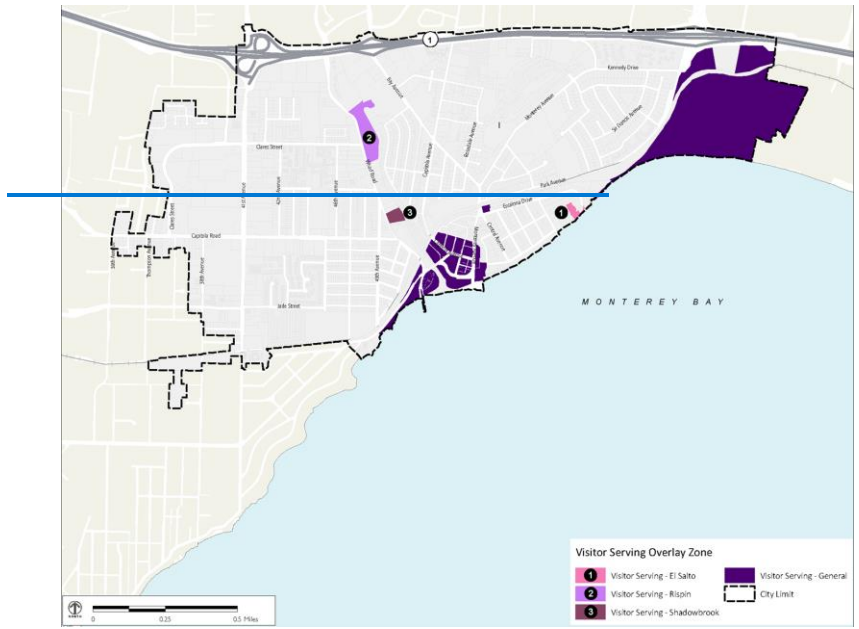
1. Visitor Serving – Rispin (VS-R). Applies to the Rispin site (APNs 035-371-01 and 035-371-02).
2. Visitor Serving – Shadowbrook (VS-SB). Applies to the Shadowbrook site (APN 035-111-04).

[3. Visitor Serving - Monarch Cove Inn \(VS-MC\). Applies to the Monarch Cove Inn site \(APN 036-143-31 & 036-142-27\) and the portion of parcel 036-142-28 that is located between the two Monarch Cove Inn parcels.](#)

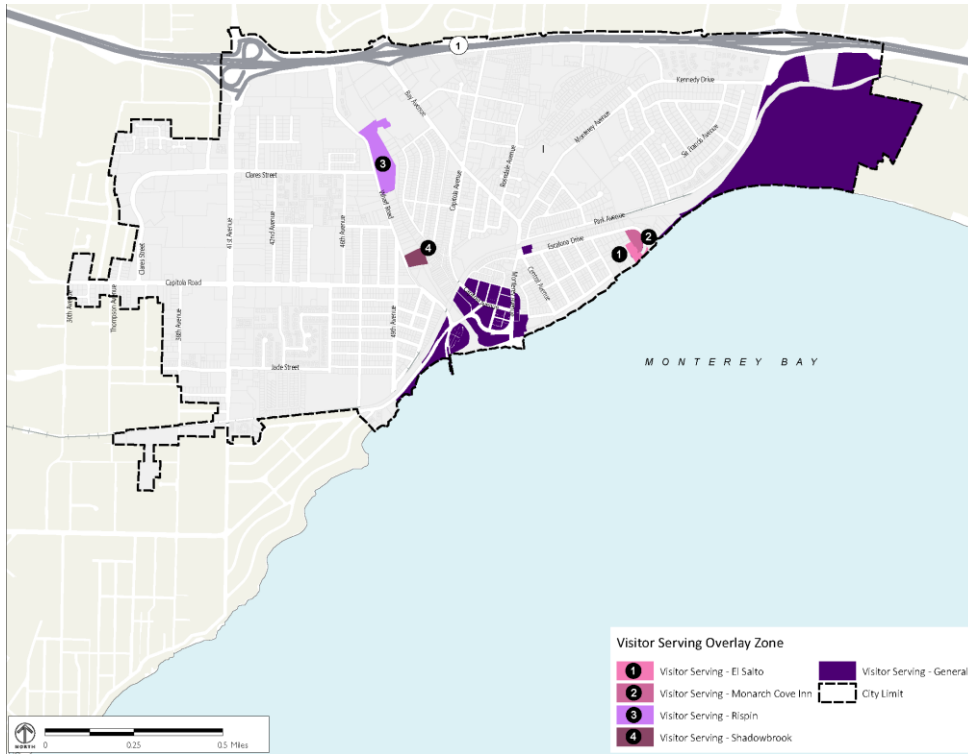
[34. Visitor Serving – El Salto \(VS-ES\). Applies to the El Salto site \(APN 036-143-35\).](#)

[45. Visitor Serving – General \(VS-G\). Applies to all other parcels with a visitor serving subzone overlay designation. The -VS zoning overlay designation on the Inn at Depot Hill site \(APNs 036-121-38 and 036-121-33\) acts as both the base zoning district and an overlay district \(i.e., the permitted land uses identified in Table 17.28-1 are the only permitted land uses allowable on the site and the applicable land use regulations and development standards are limited to those identified in this chapter\).](#)

Figure 17.28-1: Visitor Serving Districts



The Capitola Municipal Code is current through Ordinance 1051, passed April 28, 2022.



(Res. 4223, 2021; Ord. 1043 § 2 (Att. 2), 2020)

17.28.020 Land use regulations.

A. Permitted Land Uses. Table 17.28-1 identifies land uses permitted in the -VS overlay subzones.

Table 17.28-1: Permitted Land Uses in the Visitor Serving Overlay Zone

Key	Permitted Use	-VS Subzones				Additional Regulations
		VS-G	VS-R	VS-SB	VS-ES	
P	Permitted Use					
A	Administrative Permit required					
M	Minor Use Permit required					
C	Conditional Use Permit required					
—	Use not allowed					

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Key P Permitted Use M Minor Use Permit required C Conditional Use Permit required - Use not allowed	-VS Subzones					Additional Regulations
	VS-G	VS-R	VS-SB	VS-MC	VS-ES	
Residential Uses						
Employee Housing	C [1]	-	-	☒	-	
Multifamily Dwellings	C [2][11]	-	-	☒	C [2]	
One Caretaker Unit for On-Site Security	C	C	C	☒	C	
Single-Family Dwellings	C [3][11]	-	-	☒ [3][12]	C [3]	
Public and Quasi-Public Uses						
Community Assembly	C	C	-	☒	-	
Cultural Institutions	C	C	-	☒	-	
Day Care Centers	C	-	-	☒	-	
Habitat Restoration and Habitat Interpretive Facilities	C	C	C	☒	-	
Parks and Recreational Facilities	C	C	-	☒	-	
Public Parking Lots	C	C	-	☒	-	
Public Paths and Coastal Accessways	C	C	C	☒	C	
Public Safety Facilities	C	-	-	☒	-	
Public Wharfs	C	-	-	☒	-	
Schools, Public or Private	-	-	-	☒	-	
Commercial Uses						
Business Establishments that Provide Commercial Places of Amusement or Recreation, Live Entertainment, or Service of Alcoholic Beverages	C [4]	C [4]	C	☒	-	
Business Establishments that Sell or Dispense Alcoholic Beverages for On-Site Consumption	C	C	C	☒	-	
Restaurants						
Full Service	C [5]	C [5]	C [5]	☒	-	
Lodging						
Hotels, Inns, Bed and Breakfast, and Hostels	C	C	-	☒	C	
Campgrounds [6]	C	-	-	☒	-	
Recreational Vehicle Parks	C	-	-	☒	-	
Vacation Rentals	-	-	-	☒	-	
Utilities, Major	C	C	C	☒	C	
Utilities, Minor	P	P	P	☒	P	

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Wireless Communications Facilities	See Chapter 17.104					
Other Uses						
Access Roadways	C	C	C	C	C	
Accessory Structures and Uses, New	C [7]	C	C	C	C	
Accessory Structures and Uses Established Prior to Primary Use or Structure	C	C	-	C	-	
Change of Visitor Serving Commercial Uses within a Structure	C [8]	-	-	C	-	
Food Service Accessory to a Lodging Use [9]	C	C	-	C	C	
Home Occupations	C	-	-	C	-	Section 17.96.040
Expansion of a Legal Nonconforming Use within an Existing Structure	C	-	-	C	-	
Legal Nonconforming Use Changed to a Use of a Similar or More Restricted Nature	C	-	-	C	-	
Live Entertainment	C	C	C	C	-	
Offices Accessory to Visitor Serving Use	C	C	C	C	-	
Parking Areas to Serve the Primary Use	C	C	C	C	C	
Retail Accessory to a Visitor Serving Use	C	C	-	C	-	
Temporary Assemblages of People, such as Festivals, Fairs, and Community Events	C [10]	C [10]	C [10]	C [11]	-	
Weddings	C	C	C	C	-	

Notes:

- [1] Permitted only as an accessory use.
- [2] Multifamily dwellings shall comply with development standards in the multifamily residential, medium density (RM-M) zoning district.
- [3] Single-family dwellings shall comply with development standards in the single-family residential (R-1) zoning district.
- [4] May not be located within two hundred feet of the boundary of a residential zoning district.
- [5] Drive-up and car service is not allowed.
- [6] May include moderate intensity recreational uses, including tent platforms, cabins, parks, stables, bicycle paths, restrooms, and interpretive facilities.
- [7] Intensification of the primary use is not allowed.
- [8] The new use may not change the nature or intensity of the commercial use of the structure.
- [9] Permitted only to serve guests of the lodging use.
- [10] Events may not exceed ten days and may not involve construction of permanent facilities.
- [11] Prohibited on the former Capitola Theater site (APNs 035-262-04, 035-262-02, 035-262-11, and 035-261-10) and the Inn at Depot Hill (APNs 036-121-38 and 036-121-33).
- [12] Allowed in conjunction with overnight accommodation use (at least one on property) or grant of public access to a viewpoint.
- [13] Limited to a single two-day or less event per year.

B. Civic Uses in the VS-R Overlay Subzone. The planning commission may allow additional civic uses in the VS-R overlay subzone beyond those specifically identified in Table 17.28-1 if the planning commission finds the additional civic use to be consistent with the purpose of the VS-R overlay subzone and compatible with existing uses present on the site. (Res. 4223, 2021; Ord. 1043 § 2 (Att. 2), 2020)

17.28.030 Development standards.

A. General. Table 17.28-2 identifies development standards that apply in the -VS overlay zone outside of the mixed use village (MU-V) zoning district.

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Table 17.28-2: Development Standards in the Visitor Serving Zoning Districts

	-VS Overlay Zone	Additional Standards
Parcel Area, Minimum	5,000 sq. ft.	
Impervious Surface, Maximum	VS-R: 25% VS-SB, <u>VS-MC</u> and VS-ES: 50% [1] VS-G: No maximum	
Floor Area Ratio, Maximum	0.25	
Setbacks, Minimum	See Section 17.28.030(B)	
Height, Maximum	30 ft.	Section 17.28.030(C)

Note:

[1] In the VS-SB overlay subzone, the impervious surface requirement applies to the parcel located directly adjacent to Soquel Creek. In the VS-ES overlay subzone, the impervious surface calculation excludes the portion of parcel 036-142-28 located outside of the Monarch Cove Inn.

B. Setbacks. The following setback requirements apply in the -VS overlay zone:

1. The planning commission may require front, side and rear setbacks through the design review process to provide adequate light and air, ensure sufficient distance between adjoining uses to minimize any incompatibility, and to promote excellence of development. Where a side or rear yard abuts residential property, a setback of at least ten feet shall be provided.
2. Front and exterior side yards shall not be used for required parking facilities.
3. For the visitor serving El Salto parcels located adjacent to the bluff top, new development shall adhere to the setback and development provision provided in the LCP natural hazards policies and in Chapter 17.68 (GH Geologic Hazards District).
4. To protect the waters and riparian habitat of Soquel Creek, new development on the Shadowbrook Restaurant and Rispin parcels shall adhere to the LCP natural systems policies and Chapter 17.64 (Environmentally Sensitive Habitat Areas).

C. Height Exceptions. With a recommendation from the planning commission, the city council may approve additional height up to a maximum of thirty-six feet in the -VS overlay zone outside of the MU-V zoning district when all of the following findings can be made:

1. The proposed development and design is compatible with existing land uses in surrounding areas, the general plan, and the LCP.
2. Streets and thoroughfares are suitable and adequate to serve the proposed development.
3. The proposed development does not produce shadows which may adversely affect the enjoyment of adjacent streets, buildings, or open space.
4. Major public views of the shoreline, as identified in Capitola’s local coastal program, are not blocked by the proposed development.

D. Landscaping. See Table 17.72-2 in Chapter 17.72 (Landscaping) for minimum required landscaping requirements for visitor serving properties.

E. Lighting. In addition to outdoor lighting standards in Section 17.96.110 (Outdoor lighting), the following lighting requirements apply in the -VS overlay zone:

The Capitola Municipal Code is current through Ordinance 1051, passed April 28, 2022.

1. All exterior lighting shall be minimized, unobtrusive, down-directed and shielded using the best available dark skies technology, harmonious with the local area, and constructed or located so that only the area intended is illuminated and off-site glare is fully controlled and that light spill, sky glow and glare impacts are minimized.

2. Lighting of natural areas (such as creeks, riparian areas, the beach, etc.) shall be prohibited past the minimum amount that might be necessary for public safety purposes, except when temporarily permitted in conjunction with a temporary event.

3. The location, type and wattage of exterior lighting must be approved by the community development director prior to the issuance of building permits or the establishment of the use.

F. Coastal Development Permit. If a proposed development is located in the coastal zone, it may require a coastal development permit (CDP) as specified in Chapter 17.44 (Coastal Overlay Zone). Approval of a CDP requires conformance with the CDP findings for approval as specified in Section 17.44.130 (Findings for approval). (Res. 4223, 2021; Ord. 1043 § 2 (Att. 2), 2020)

Chapter 17.30

VISITOR SERVING DISTRICT – MONARCH COVE INN

Sections:

- ~~17.30.010 — Applicability.~~
- ~~17.30.020 — Purpose.~~
- ~~17.30.030 — Architectural and site approval.~~
- ~~17.30.040 — Conditionally permitted uses — Monarch Cove Inn.~~
- ~~17.30.050 — Accessory uses.~~
- ~~17.30.060 — Height.~~
- ~~17.30.070 — Lot area.~~
- ~~17.30.080 — Lot coverage.~~
- ~~17.30.090 — Yards.~~
- ~~17.30.100 — Parking.~~
- ~~17.30.110 — Loading areas.~~
- ~~17.30.120 — Landscaping and lighting.~~

~~17.30.010 — Applicability.~~

~~The regulations set forth in this chapter apply to the Monarch Cove Inn parcels. (Res. 4223, 2021)~~

~~17.30.020 — Purpose.~~

~~The purpose of the V-S district is to accommodate the visiting public with a range of opportunities to enjoy the city of Capitola's coastal location. (Res. 4223, 2021)~~

~~17.30.030 — Architectural and site approval.~~

~~A design permit shall be secured for the establishment and conduct of any conditional or accessory use in a V-S district as provided in Chapter 17.120. (Res. 4223, 2021)~~

~~17.30.040 — Conditionally permitted uses — Monarch Cove Inn.~~

~~The following are the conditionally permitted uses allowed on the Monarch Cove Inn parcels and the portion of parcel 036-142-28 that is located between the two Monarch Cove Inn parcels:~~

- ~~A. Accessory structures and accessory uses appurtenant to any conditionally allowed use;~~
- ~~B. Hotels, motels, hostels, inns; bed and breakfast lodging;~~
- ~~C. Food service related to lodging;~~
- ~~D. Assemblages of people, such as festivals, not exceeding ten days and not involving construction of permanent facilities;~~
- ~~E. Accessory structures and uses established prior to establishment of main use or structure;~~
- ~~F. Habitat restoration; habitat interpretive facility;~~
- ~~G. Live entertainment;~~
- ~~H. Public paths;~~
- ~~I. Business establishments that provide commercial places of amusement or recreation, live entertainment, or service of alcoholic beverages and that are located within two hundred feet of the boundary of a residential district;~~
- ~~J. Weddings;~~
- ~~K. Business establishments that sell or dispense alcoholic beverages for consumption upon the premises;~~

~~L. Other visitor serving uses of a similar character, density, and intensity as those listed in this section and determined by the planning commission to be consistent and compatible with the intent of this chapter and the applicable land use plan;~~

~~M. Offices and limited retail use, accessory to visitor serving uses;~~

~~N. One caretaker unit for the purpose of providing on-site security;~~

~~O. Access roadway;~~

~~P. Residential use by the owners and their family members of up to one unit per parcel on the three parcels, as long as a minimum of six guest bedrooms are available for visitor serving use within the three parcels;~~

~~Q. Nonfamily residential use during the off-season months (November through April). (Res. 4223, 2021)~~

17.30.050 — Accessory uses.

The following are accessory uses permitted in a V-S district:

~~A. Signs complying with the applicable regulations set forth in the sign ordinance;~~

~~B. Accessory uses and buildings customarily appurtenant to a permitted use. (Res. 4223, 2021)~~

17.30.060 — Height.

No structures shall exceed thirty feet in height. Exceptions up to thirty-six feet in height may be granted subject to approval by the city council upon the recommendation of the planning commission when the following findings can be made:

~~A. The proposed development and design are compatible with existing land uses of surrounding areas and the general plan;~~

~~B. Streets and thoroughfares are suitable and adequate to serve the proposed development;~~

~~C. The proposed development does not produce shadows which may adversely affect the enjoyment of adjacent streets, buildings or open space;~~

~~D. Major public views are not blocked by the proposed development. (Res. 4223, 2021)~~

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17.30.070 — Lot area.

The minimum lot area required shall be five thousand square feet. (Res. 4223, 2021)

17.30.080 — Lot coverage.

There shall be no specific maximum lot coverage set except as follows:

~~A. Sufficient space shall be provided to satisfy off-street parking and loading area requirements, notwithstanding that all parking may be provided within a structure(s);~~

~~B. Front yard and open space requirements shall be satisfied;~~

~~C. For the Monarch Cove Inn parcels, the allowable impervious site coverage (e.g., buildings, paving, decks, etc.) is fifty percent. (Res. 4223, 2021)~~

17.30.090 — Yards.

~~A. Front, side and rear yard setbacks may be required through design permit approval in order to provide adequate light and air, assure sufficient distance between adjoining uses to minimize any incompatibility and to promote excellence of development. Where a side or rear yard abuts residential property a setback of at least ten feet shall be provided.~~

~~B. Front yards and corner lot side yards shall not be used for required parking facilities.~~

~~C. For the Monarch Cove Inn parcels located adjacent to the bluff top, new development shall adhere to the setback and development provisions provided in the LUP's natural hazards policies and in certified zoning Chapter 17.68 (GH Geologic Hazards District). (Res. 4223, 2021)~~

~~**17.30.100 — Parking.**~~

~~Parking standards shall be as provided in Chapter 17.76. (Res. 4223, 2021)~~

~~**17.30.110 — Loading areas.**~~

~~Loading areas shall be as provided in Chapter 17.76. (Res. 4223, 2021)~~

~~**17.30.120 — Landscaping and lighting.**~~

~~A minimum of five percent of the lot area shall be landscaped to ensure harmony with adjacent development in accordance with architectural and site approval standards. For the visitor serving Monarch Cove Inn parcels, fifty percent of the parcels shall consist of landscaped or open space areas. The planting of invasive plant species is prohibited. All exterior lighting shall be unobtrusive, harmonious with the local area and constructed or located so that only the area intended is illuminated and off-site glare is fully controlled. The location, type and wattage of the exterior lighting must be approved by the community development director prior to the issuance of building permits or the establishment of the use. (Res. 4223, 2021)~~

Chapter 17.72

LANDSCAPING

Sections:

- 17.72.010 Purpose.
- 17.72.020 Applicability.
- 17.72.030 Water efficient landscape design and installation ordinance.
- 17.72.040 Landscape plans.
- 17.72.050 Required landscape areas.
- 17.72.060 Landscape standards.
- 17.72.070 Landscape maintenance.

17.72.010 Purpose.

This chapter establishes landscaping standards to enhance the aesthetic appearance of developed areas in Capitola and to promote the efficient use of water resources.

17.72.020 Applicability.

A. Multifamily and Nonresidential Projects. The following multifamily and nonresidential projects shall comply with all requirements of this chapter:

1. Construction of new structures.
2. Additions that increase the floor area of a multifamily or nonresidential structure by three thousand square feet or more.

B. Single-Family Residential Projects.

1. New single-family homes shall comply with all requirements of this chapter.
2. If existing landscaping is disturbed or new landscaping is added as part of a remodel or addition to an existing single-family home that requires a design permit, the new landscaping shall comply with the standards in Section 17.72.060 (Landscape standards). The city will evaluate compliance with these standards based on the plans and materials submitted as part of the design permit application. Submittal of a landscape plan for the entire site in accordance with Section 17.72.040 (Landscape plans) is not required.

C. Coastal Development Permit. A proposed development that is located in the coastal zone may require a coastal development permit (CDP) as specified by Chapter 17.44 (Coastal Overlay Zone) and the findings for approval of a CDP as specified in Section 17.44.130 (Findings for approval).

17.72.030 Water efficient landscape design and installation ordinance.

In addition to the requirements of this chapter, all applicable development in Capitola shall also comply with the applicable water provider's (i.e., the city of Santa Cruz water department or Soquel Creek Water District) landscape water use efficiency ordinance. If conflicts occur between the applicable water provider's landscape water use efficiency ordinance and the zoning code, the more restrictive policy to conserve water shall control.

17.72.040 Landscape plans.

A. Landscape Plan Required. Projects subject to the requirements of this chapter shall submit a landscape plan as part of planning permit applications (e.g., design permit/coastal development permit applications) and subsequent building permit applications.

B. Required Contents. Landscape plans shall include the following features and information:

1. Site boundaries.
2. Existing conditions on the property, including contours and existing structures.

3. Structures immediately adjacent to the property.
4. New structures and improvements proposed as part of the development project.
5. Existing landscaping, trees, and vegetation to be retained specifying plant location, species, and size. Details of all existing trees shall also include tree diameter measured forty-eight inches above existing grade and outer limit of tree canopy and a label identifying if the tree will remain or be removed.
6. New landscaping proposed as part of the development project specifying plant location, species, and size.
7. Irrigation plan specifying the location, type, and size of all components of the irrigation system.
8. Proposed grading.
9. Additional information as determined by the community development department to demonstrate compliance with the requirements of this chapter.

C. Review and Approval. The community development department shall review all landscape plans to verify compliance with this chapter. Landscape plans shall be approved by the review authority responsible for approving the planning permits required for the proposed project.

D. Changes to Approved Landscape Plans.

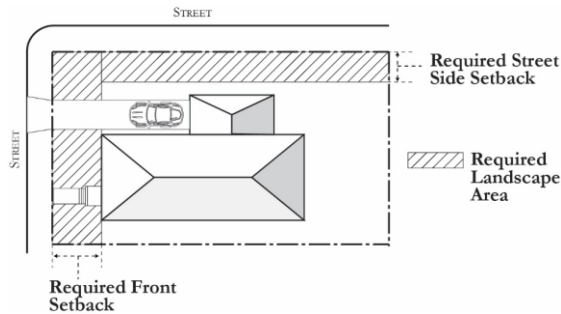
1. Substantial modifications to an approved landscape plan shall be allowed only by the review authority which approved the landscape plan.
2. The community development director may approve minor modifications to a landscape plan previously approved by the planning commission. Minor modifications are defined as changes to a landscape plan that do not alter the general design character of the landscaped area or alter a feature of the landscaped area specifically required by the planning commission.

17.72.050 Required landscape areas.

A. Residential Zoning Districts.

1. All required front and street side setback areas, excluding areas required for access to the property, shall be landscaped and maintained. See Figure 17.72-1.
2. Landscaping may consist of any combination of living plants, such as trees, shrubs and grass with related natural features, such as rock, stone, or mulch; and may include patios, courtyards, and outdoor dining areas. Artificial grass may be used within required landscaping areas. Decorative hardscape featuring pervious materials is permitted within required landscaping areas when combined with natural vegetation.

Figure 17.72-1: Required Landscape Area in R-1 Zoning District



B. Nonresidential Zoning Districts.

1. Except in the I zoning district, all required front and street side setback areas shall be landscaped, excluding areas required for access to the property and public or quasi-public open space such as courtyards and outdoor seating.
2. The minimum landscaped area on a site is shown in Table 17.72-1.
3. In the MU-V and MU-N zoning districts, up to seventy-five percent of the minimum landscaped area may be occupied by outdoor dining areas, courtyards, and other similar quasi-public areas with planning commission approval. Hardscape areas counting towards landscaping requirements must contain aboveground planters and other similar features that incorporate greenery and plantings into the space design. In all other zoning districts these areas may not count toward landscaping requirements.

Table 17.72-1: Minimum Landscaped Area in Nonresidential Zoning Districts

Zoning Districts	Minimum Landscaped Area
MU-V, MU-N, C-R, C-C, CF, I	5%
P/OS, PD, -VS	As determined by the permit approval process

C. Visitor Serving Properties. Minimum required landscaping for certain-visitor serving properties are shown in Table 17.72-2. Minimum landscaping requirements are intended to ensure harmony with adjacent development in accordance with architectural and site approval standards. The planting of invasive plant species is prohibited.

Table 17.72-2: Minimum Landscaped Area for Visitor Serving Properties

Property	Minimum Landscaped Area
Rispin site	75% as either landscaped areas in developed areas of the site, or unlandscaped natural areas in areas subject to conservation easements
Shadowbrook restaurant parcel and visitor serving El Salto and Monarch Cove parcels	50% landscaped area or undeveloped open space
<u>All other visitor serving properties</u>	<u>5%</u>

17.72.060 Landscape standards.

A. General Standards. The following standards apply pursuant to Section 17.72.020 within all zoning districts:

1. Plant Selection. A minimum of ninety percent of plants and trees shall be drought-tolerant as defined by the Water Use Classification of Landscape Species (WUCOLS). Native plants adapted to the local climate are preferred.

2. Plant Selection Along Blufftop, Beach, or ESHA. Native plants adapted to the local climate shall be required within fifty feet of the blufftop edge, the beach, or ESHA. See Chapter 17.64 (Environmentally Sensitive Habitat Areas) for habitat requirements.

3. Storm Water Management. The landscape plan shall incorporate storm water management controls in compliance with the Regional State Water Resources Control Board.

4. Turf Lawns.

a. Turf areas shall be limited to twenty-five percent of the landscaped area. The planning commission may approve larger areas if the lawn area provides functional open space.

b. Drought-tolerant grass species shall be used exclusively.

c. Turf shall not be used on berms, slopes, or median islands where runoff is a problem.

5. Slopes. Turf and high water use plants shall not be planted on berms and slopes greater than twenty-five percent.

6. Plant Groupings. Where irrigation is proposed, plants shall be grouped in separate hydrozones (i.e., plants within each irrigation valve area shall have the same watering requirements).

7. Water Features. Decorative water features (e.g., fountains, ponds, waterfalls) must be approved by the planning commission and shall have recirculating water systems. Automatic fill valves are not recommended for use within water features.

8. Watering Times. Watering shall be limited to between eight p.m. and ten a.m.

9. Public Safety. Plant species shall be selected and located so that at maturity they do not interfere with pedestrian, bicycle, or vehicular circulation or safety and do not conflict with overhead lights, or utility lines.

B. Irrigation and Water Efficiency. Irrigation systems shall be designed to avoid runoff, low head drainage, overspray, and other similar conditions where water flows outside of landscaped areas. Irrigation systems shall feature the following equipment:

1. Irrigation systems shall meet a minimum irrigation efficiency standard of the applicable water provider.

2. Separate landscape water meters for landscape areas exceeding ten thousand square feet for single-family residential uses and five thousand square feet for all other uses.

3. Irrigation controllers capable of percent adjustment, multiple programming, and rain sensor.

4. Overhead sprays shall have a precipitation rate of no more than three-quarters of an inch per hour.

5. Separate valves and circuits based on water use and sun exposure. Separate valves for turf and nonturf and berm areas are required.

6. Sprinkler heads and emitters selected for proper area coverage, application rate, operation pressure, adjustment capability, and ease of maintenance.

7. Rain-sensing override devices are required for all irrigation systems.

8. Drip or bubble irrigation is required for all trees. Bubblers should not exceed a flow rate of one and one-half gallons per minute.

9. State-approved backflow prevention devices shall be installed on all irrigation systems.

C. Timing of Installation. Landscaping systems shall be installed prior to final building permit inspection or certification of occupancy.

17.72.070 Landscape maintenance.

The following landscape maintenance requirements apply to multifamily and nonresidential properties:

A. General. Landscape areas shall be maintained in a neat and healthful condition at all times.

B. Mulch. Mulch shall be periodically added to the soil surface in all landscape areas.

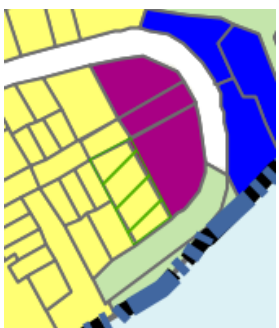
C. Replacement of Dead or Dying Plants. Plants that are dead or severely damaged or diseased shall be replaced by the property owner.

D. Removal of Landscaping. Any removed mature landscaping shall be replaced with landscaping of similar size and maturity as that which was removed. Trees may only be removed and/or replaced in accordance with the city's tree ordinance, Chapter 12.12.

E. Irrigation Systems. Irrigation systems shall be maintained in a fully functional manner as approved by the city and required by this chapter. Watering schedules should be adjusted periodically to reflect seasonal variations.

Zoning Map/LCP-IP Proposed Modifications for Monarch Cove Inn Parcels

Existing Land Use: Visitor Serving



Proposed Land Use: R-1 Single-Family Residential with Visitor Serving Overlay



Residential Zoning Districts

- R-1 - Single-Family Residential
- RM-L - Multi-Family Residential, Low Density
- RM-M - Multi-Family Residential, Medium Density
- RM-H - Multi-Family Residential, High Density
- MH - Mobile Home Park

Mixed-Use Zoning Districts

- MU-V - Mixed Use Village
- MU-N - Mixed Use Neighborhood

Commercial and Industrial Zoning Districts

- C-R - Regional Commercial
- C-C - Community Commercial

I - Industrial

Other Zoning Districts

- P/OS - Parks and Open Space
- CF - Community Facility
- PD - Planned Development

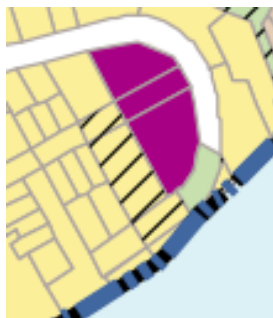
Overlay Zones*

- AHO - Affordable Housing
- CZ - Coastal Zone
- VRU - Vacation Rental Use
- VR - Village Residential
- VS - Visitor Serving

*See Local Coastal Program Habitats Map for boundaries of Environmentally Sensitive Habitats Area Overlay Zone.

General Plan and Local Coastal Program Land Use Map Proposed Modifications for Monarch Cove Inn Parcels

Existing Land Use: Visitor Serving



Proposed Land Use: Single-Family Residential with Visitor Serving Overlay



Residential Designations

- Single-Family Residential (R-1)
- Multi-Family Residential (R-M)
- Mobile Home (R-MH)

Mixed-Use Designations

- Village Mixed-Use (MU-V)
- Neighborhood Mixed-Use (MU-N)

Other Designations

- Parks and Open Space (P/OS)
- Public/Quasi-Public (P/QP)
- Visitor Serving (VS)

Commercial/Industrial Designations

- Regional Commercial (C-R)
- Community Commercial (C-C)
- Visitor Accommodations (VA)
- Industrial

Overlays

- Visitor Serving (VS)





August 29, 2022

Mr. Brian Froelich
Senior Planner
City of Capitola
420 Capitola Ave.
Capitola, CA 95010

Re: Monarch Cove Inn Feasibility Analysis

Dear Mr. Froelich:

Kosmont & Associates, Inc. doing business as Kosmont Companies (“Consultant” or “Kosmont”) is pleased to present our findings relative to the California Coastal Commission request for a feasibility analysis of future hospitality use for the historic Monarch Cove Inn, an 11-room hotel (“Property”) on 1.4-acres owned by the Blodgett family (“Owner”), and located at 620 El Salto Drive in Capitola (“City”).

BACKGROUND

In 2020, the City initiated a zoning change for the subject Property from Commercial to R-1. As part of the Local Coastal Plan review, the California Coastal Commission (“CCC”) requested an independent 3rd party study to assess the feasibility of the Property to continue as a visitor serving facility. The main house was built in 1886 and has undergone extensive renovations, but overall amenities are lacking compared to competitive facilities limiting achievable room rates.

Due to its small size of 11 rooms and regulations limiting special events (i.e., weddings), the Property has been unable to generate sufficient net operating income to cover the annual debt service. CCC wants to know if there are any modifications that can be made to allow the Property to operate profitably (e.g., additional rooms, restaurant, special event facilities).

To address CCC concerns, the City retained Kosmont Companies to provide an independent assessment of the hotel operations and the financial feasibility of adding new facilities to the Property.

Consultant toured the Property and met with Owner to understand operating challenges, and see the historic financial performance records. Consultant worked with City staff to understand the terms of the existing Conditional Use Permit.



Hotel Description

The 620 El Salto Drive Property is located at the end of a narrow cul-de-sac street. It was developed as a single family estate in the late 1890's with the construction of a ~4,000 SF main house. The family also owned most of the property along El Salto Drive. Over the years many parcels were sold to other individuals who built single family homes.

In 1991, the family converted the property into a visitor serving facility called the Monarch Cove Inn. While primarily a hospitality facility, the major source of revenue was outdoor weddings and special events prior to CUP restrictions, generating over \$250,000 per year in operating income that often exceeded the hotel room revenue.

The Property is surrounded by single family residences to the north and west and the Pacific Ocean on the south. In the 1880's the property was surrounded by a 60 foot wide Escalona Drive right of way connecting to Grand Ave. The majority of Grand Avenue has been eroded away and right of way is now a pedestrian path.

The Property is comprised of 4 parcels. In the 1989 General Plan, the City designated three parcels as Visitor Serving (V-S) with the fourth parcel 036-143-36 zoned Parks and Open Space (P/OS).

Due to adjacent neighbor complaints about noise and parking on city streets, the lodging has been operates under a Conditional Use Permit since 2001, that 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 and during weekends they are limited to 75 people, which negatively impacts revenue from wedding substantially.

Another factor that has restricted guest attendance is parking. The subject Property currently has approximately a dozen parking spaces on site. Guests used to be able to park on offsite lots and drives that were privately owned. As those parcels were sold and developed, parking became an problem for the community. Property now must arrange for offsite parking and shuttle systems to bring guests at significant cost.



Subject Property





Hotel Operations

Kosmont gathered hotel market data for the Santa Cruz/Capitola submarket from Smith Travel Research (STR) to understand the competitive hotel market room rates and occupancy rates for the time frame pre-Covid up to the current year.

The Property has extraordinary maintenance needs with an acre of gardens and three Victorian buildings requiring a full time handyman and full time gardener. Engineering assessments have also identified the need for a new foundation and a seismic retrofit that would cost approximately \$800,000.

Table 1 shows that despite increasing hotel operating revenues, expenses have climbed faster resulting in lower net operating income and cash flow during the past 8 years.

Table 1

Monarch Cove Inn Financial Performance									
	2014	2015	2016	2017	2018	2019	2020	2021	
Occupancy Rate	47%	72%	78%	81%	79%	64%	55%	82%	
Average Daily Rate	\$ 193	\$ 178	\$ 176	\$ 171	\$ 178	\$ 200	\$ 173	\$ 193	
Room Revenue (net of TOT)	\$ 364,000	\$ 516,000	\$ 552,000	\$ 557,000	\$ 564,000	\$ 515,000	\$ 382,000	\$ 634,000	
Other Revenue	82,000	97,000	54,000	46,000	58,000	42,000	14,000	29,000	
Total Revenue	\$ 446,000	\$ 613,000	\$ 606,000	\$ 603,000	\$ 622,000	\$ 557,000	\$ 396,000	\$ 663,000	
Operating Costs	\$ 317,000	\$ 355,100	\$ 433,000	\$ 463,200	\$ 463,000	\$ 387,000	\$ 357,400	\$ 523,400	
Net Operating Income	\$ 129,000	\$ 257,900	\$ 173,000	\$ 139,800	\$ 159,000	\$ 170,000	\$ 38,600	\$ 139,600	
Return on Investment /1	3.2%	6.4%	4.3%	3.5%	4.0%	4.3%	1.0%	3.5%	
Less: Debt Service /2	\$ 114,000	\$ 125,900	\$ 105,000	\$ 128,800	\$ 105,000	\$ 123,000	\$ 116,000	\$ 105,000	
Net Cash Flow	\$ 15,000	\$ 132,000	\$ 68,000	\$ 11,000	\$ 54,000	\$ 47,000	\$ (77,400)	\$ 34,600	
Source: Monarch Cove Inn									
/1 \$4 million estimated debt and equity investment									
/2 Excludes deferred interest on \$2 million loan									

As shown above, the Monarch Cove Inn has struggled for years to achieve breakeven operations, despite high room rates and strong occupancy. Wedding and other event revenues have continued their significant decline. With a return on investment of less than 4%, Owner is not able to invest in long term improvements needed to maintain a hospitality use.

Hotel Market

The Santa Cruz / Capitola hotel market contains over 3,000 hotel rooms plus over one hundred nearby camping spaces at New Brighton State Beach and over 60 RV camp sites at Seacliff State Beach Campground.

The potential loss of 11 rooms at Monarch Cove represents less than 0.3% of the dedicated hospitality inventory, *not counting* the hundreds of single family homes renting rooms via Airbnb.com and similar websites.

Table 2 illustrates the major hotel properties in Santa Cruz/Capitola that have been historically surveyed by STR as to room rates and occupancy.

Table 2

Competitive Set Hotel Properties in Capitola and Santa Cruz						
Miles from Site	Property Name	Property Address	City	Hotel Class	Rooms	Year Built / Renovated
0.7	Quality Inn & Suites Capitola By The Sea	822 Bay Ave	Capitola	Midscale	55	1980
1.2	Best Western Plus	1435 41st Ave	Capitola	Upper Midscale	58	2000
1.2	Fairfield Inn & Suites Santa Cruz Capitola	1255 41st Ave	Capitola	Upper Midscale	84	2011
1.9	Seacliff Inn Aptos, Tapestry Collection	7500 Old Dominion Ct	Aptos	Upscale	148	1980
4.1	Best Western Plus All Suites Inn	500 Ocean St	Santa Cruz	Upper Midscale	77	1989 / 2022
4.1	Comfort Inn Beach Boardwalk Area	314 Riverside Ave	Santa Cruz	Upper Midscale	28	1996
4.1	Hyatt Place Santa Cruz	407 Broadway	Santa Cruz	Upscale	106	2017
4.2	Autograph Collection Hotel Paradox	611 Ocean St	Santa Cruz	Upper Upscale	170	1969 / 2012
4.3	Holiday Inn Express & Suites Santa Cruz	1410 Ocean St	Santa Cruz	Upper Midscale	100	2009
4.3	Quality Inn Santa Cruz	1101 Ocean St	Santa Cruz	Midscale	42	1972
4.4	Comfort Inn Santa Cruz	110 Plymouth St	Santa Cruz	Upper Midscale	62	1970
4.4	Best Western Inn Santa Cruz	126 Plymouth St	Santa Cruz	Midscale	28	1983
4.4	Hampton Inn Santa Cruz	1505 Ocean St	Santa Cruz	Upper Midscale	46	2000

Source: STR



Market area hotel performance metrics, based on the hotel competitive set identified above, are summarized in the Table 3 below. The data shows that Monarch Cove Inn Property achieved higher room rates (\$193) and occupancy rates(82.2%) than the competitive hotels in 2021.

Table 3

Market Hotel Performance: 2014 - 2021							
Year	Avg. Occupancy	ADR	Supply of Room Nights	Demand for Room Nights	Change in Occupied Room Nights	RevPAR	Change in RevPAR
2014	65.8%	\$140.27	328,135	215,790		\$92.25	
2015	70.2%	\$153.69	328,135	230,197	6.7%	\$107.82	16.9%
2016	70.2%	\$160.08	328,135	230,225	0.0%	\$112.31	4.2%
2017	70.6%	\$161.19	344,353	243,264	5.7%	\$113.87	1.4%
2018	74.3%	\$165.26	366,825	272,543	12.0%	\$122.78	7.8%
2019	74.6%	\$165.73	366,825	273,776	0.5%	\$123.69	0.7%
2020	51.8%	\$141.22	366,491	189,670	-30.7%	\$73.09	-40.9%
2021	64.2%	\$175.91	366,460	235,319	24.1%	\$112.96	54.6%
2022*	68.5%	\$157.44				\$107.77	

Source: Costar / STR

Significant seasonality is highlighted by the Capitola/Santa Cruz market’s monthly performance data over the past year as summarized below:

Monthly Hotel Performance: Previous 12-month Period			
Month	Avg. Occupancy	ADR	RevPAR
Jun 21	73.8%	\$207.45	\$153.14
Jul 21	81.5%	\$243.12	\$198.20
Aug 21	71.9%	\$224.87	\$161.61
Sep 21	67.9%	\$208.10	\$141.31
Oct 21	66.1%	\$169.49	\$111.96
Nov 21	65.1%	\$146.87	\$95.58
Dec 21	57.8%	\$129.16	\$74.70
Jan 22	55.9%	\$118.70	\$66.34
Feb 22	66.9%	\$139.95	\$93.66
Mar 22	70.6%	\$148.90	\$105.14
Apr 22	78.3%	\$186.05	\$145.70
May 22	70.7%	\$180.89	\$127.86
Average	68.9%	\$175.30	\$122.93

Source: Costar / STR



Limiting Conditions per Conditional Use Permit (“CUP”)

The various operational constraints imposed by the CUP have had a dramatic impact on the feasibility of continued hospitality operations at the Property.

1. Maximum of two weddings per week and six per month
2. Maximum of 40 guests allowed Monday thru Thursday
3. Maximum of 75 guests will be allowed Friday thru Sunday
4. All events must occur prior to 6:00 pm
5. No event parking may take place in residential neighborhood. City allows remote parking if a shuttle is provided
6. A security guard is required on site during all events

With 80% of weddings occurring between May and October, the limit of 6 weddings per month impacts revenue substantially, eliminating 2-3 weekend event days during peak months (according to Brides.com). The most significant constraint is the limitation of 75 guests on weekends, as pre-pandemic wedding parties averaged 130 guests (theknot.com). The financial data shown above clearly demonstrates the dramatic decline in non-hotel room revenue, a trend that continues today.

Feasibility of New Development

One potential option to improve operating revenues would be an expansion of hotel rooms or addition of restaurant/bar area. In 2014, the Owner Robert Blodgett 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 and garage area with a subterranean garage for 56 cars and two new hotel buildings with 32 guest rooms, meeting rooms and kitchen facilities. The Owner prepared a full Environmental Impact Report, but the Project application was withdrawn by the Owner due to massive community opposition.

With current resident sentiment opposed to hospitality uses, no changes to the commercial uses allowed on the Property can be expected to be approved by the City.

Finding

Kosmont’s analysis of the Monarch Cove Inn Property shows the hospitality operations yield an inadequate return on investment of less than 4% to justify operations as a hospitality venue. Given the long term capital investment required, continued hotel use of the property is not financially feasible.

Disclaimer:

The analyses, projections, assumptions presented herein are for illustrative purposes and are not a guarantee of actual and/or future results. Actual results may differ from those expressed in this analysis, as results are difficult to predict as a function of market conditions, natural disasters, pandemics, significant economic impacts, legislation and administrative actions.



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August 14, 2020

Mr. Brian Froelich, AICP
Senior Planner
City of Capitola
420 Capitola Ave.
Capitola, CA 95010

Re: Monarch Cove Inn Property Broker Opinion of Value (BOV)

Dear Mr. Froelich;

Kosmont Real Estate Services, Inc. ("KRES") dba Kosmont Realty ("KR"), a licensed California brokerage firm (Department of Real Estate License #02058445), is pleased to present this broker opinion of value ("BOV") in connection with the Monarch Cove Inn ("Property") located at 620 El Salto Drive in Depot Hill neighborhood of Capitola ("City"). APNs for the four parcels are 036-142-27, 036-142-28, 036-143-31, 036-143-36.

The BOV considers the Property's zoning/allowable uses, current market and economic conditions, and other relevant data/information to evaluate the range of fair market value of the Property.

Valuation Summary

For hotel use, KR 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 in hotel use is \$3.1 million.

For residential use, KR 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).

The Property's estimate of value was derived from the Sales Comparison Methodology with supportable adjustments, and Income Capitalization Methodology as shown below.

Value Summary

	<i>Bldg / Land Area</i>	<i>Estimated Value</i>
Residential Zoned Land	61,000	\$3,900,000
Residential Reuse of Buildings	5,000	\$4,600,000
Hotel Use	5,000	\$3,100,000



I. BACKGROUND AND OBJECTIVE

In 2020, the City initiated a zoning change for the Property from Commercial to R-1 Residential. As part of the Local Coastal Plan review, the California Coastal Commission (“CCC”) requested an independent 3rd party study to assess the feasibility of the Property to continue as a visitor serving facility. The Property was built in 1886 and has undergone many renovations and continues to have extraordinary maintenance needs.

Due to its small size of 11 rooms and regulations limiting special events (i.e., weddings), the Property has been unable to generate sufficient net operating income to cover the annual debt service. CCC has requested an independent evaluation of the Property value in current hotel use, as well as a valuation of the Property with a residential rezoning.

Property Orientation

KR toured the Property, gathered information on building size and condition and reviewed the parcel data to identify the Property dimensions, as well as gathered info on hotel revenue and operating cost trends. KR also interviewed owners and reviewed financial statements regarding extraordinary maintenance costs associated with the historic building.

Market Research

KR gathered Santa Cruz/Capitola hotel operating data from CoStar/STR to understand the Property’s competitive position in the local market. KR gathered hotel sales comps to understand per room values and capitalization rates. KR also gathered data on single family homes sales values and undeveloped residential land sale comps in the Capitola area.

Permitted Uses – Residential & Commercial Zoning

KR gathered information from the City on underlying R-1 residential density (3 single family units), as well as allowable uses on the hotel Property under the current commercial zoning, with the various regulations imposed, as discussed later.

Market Conditions

It is important to note that residential home values have seen extraordinary appreciation in the past two years across California, especially in suburban areas away from large metropolitan centers, subject to various lockdown constraints. Demand for housing and prices may soften with mortgage rates spiking by over 200 basis points since January 2022.

II. Property Information

Location

The Property is located on a beachfront cliff in the Depot Hill neighborhood of the City, which is adjacent to Santa Cruz, about 35 miles southwest of San Jose via SR 17. It is located at the end of a narrow cul-de-sac at 620 El Salto Drive.

A City Location Map, Property Aerial Map, Parcel Maps, and Property Photos are provided as Exhibits A, B, C, and D, respectively.

Existing Conditions

The Property is comprised of 4 parcels. In the 1989 General Plan the City designated three parcels as Visitor Serving (V-S) with the fourth parcel 036-143-36, zoned Parks and Open Space (P/OS).

The Property is a 61,000 SF irregular shaped lot. The Property contains a 4,000 square foot 120-year old Victorian building, that currently has 9 guest rooms. The Property also has two guest houses, a garage, and an outdoor event pavilion. Due to adjacent neighbor complaints about noise and parking on the street, the lodging now operates under a Conditional Use Permit (“CUP”) that 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 and during weekends limited to 75 people.





History

The Monarch Cove Inn was originally developed as a single-family estate in the late 1880's with the construction of a ~4,000 SF main house. The family also owned most of the property along the El Salto Drive. Over the years, many parcels were sold to other individuals who built single family homes.

In 1991, the family converted the Property into a visitor serving facility called the Monarch Cove Inn. While primarily a hospitality facility, the major source of revenue was outdoor weddings and special events prior to CUP restrictions.

The Property is surrounded by single family residences to the north and west and the Pacific Ocean on the south. In the 1880's, the Property was surrounded by a 60-foot wide Escalona Drive right of way connecting to Grand Ave. The majority of Grand Avenue has been eroded away and right of way is now a pedestrian path.

III. Valuation Methodology

Standard methods for the valuation of real estate include replacement cost methodology, income capitalization methodology, and the sales comparison methodology.

Replacement Cost Methodology

The replacement cost methodology was not considered to be an accurate determinate of value because the current building improvements are an historic structure.

Income Capitalization Methodology

KR utilized the income capitalization methodology to value the Property in current hotel use.

Sales Comparison Methodology

KR utilized the sales comparison methodology for both the hotel use and for residential use based on recent comparable property sales in the immediate area.

IV. a. Valuation Analysis - Residential

To estimate the value of the Property as residential use, KR used the Sales Comparison Method and surveyed comparable vacant land sales over the last three years in Capitola/Santa Cruz. Finding comparable sales is difficult due to the unique character of the subject Property (120-year old Victorian on 4 parcels with cliffside ocean views).

As shown in the table below, four (4) comparable homes were recently evaluated on a price per square-foot of building basis:



Home Sales Comparables

Address	Location	Sale Date	Home Size SF	Sales Price	\$/PSF	Use
<u>SUBJECT PROPERTY</u>						
620 El Salto Drive	Capitola	N.A.	5,000	n.a.	n.a.	Hospitality
<u>SALE COMPARABLE</u>						
709 El Salto Drive	Capitola	4/29/22	1,467	\$1,630,000	\$1,111	Single Family
30 Moran Way	Santa Cruz	Listed	2,160	\$2,699,000	\$1,250	Single Family
602 El Salto Drive	Capitola	8/27/21	2,760	\$2,900,000	\$1,050	Single Family
501 El Salto Drive	Capitola	9/28/20	2,630	\$2,090,000	\$ 795	Single Family
Average Sales Price/PSF					\$1,050	

Source: Redfin, Homes.com, Zillow

Based on the above comparable sales transacted between 2020 and 2022, home values range from approximately ~\$800 PSF to ~\$1,200 PSF with an average of \$1,050 PSF. Due to significant appreciation in home values in past two years, the first two sales listed are most comparable to the subject Property, despite being new construction, and would indicate a value of \$1,200 PSF for equivalent condition.

Adjustments

In order to determine a fair value for the subject Property in residential use, KR made the following adjustments for the 4,000 SF Victorian building foundation repair/earthquake retrofit and conversion of hospitality to single family use:

Preliminary Value	5,000 SF x \$1,200 =	\$6,000,000
Less: Foundation Repair (\$200/SF) /1		(800,000)
Less: Conversion from Hospitality (\$150/SF) /2		<u>(600,000)</u>
Adjusted Value in Residential Reuse		<u>\$4,600,000</u>

/1 Foundation cost estimate provided by engineering firm hired during the 2014 redevelopment planning
 /2 Conversion cost estimates per KR, based on discussions with Owner.



Residential Zoned Land

KR examined land sales for residentially zoned land in the Capitola/Santa Cruz area. Due to limited development and sales transaction activity because of negative market factors/conditions caused by the Covid-19 pandemic (e.g. rise in construction costs), there were few land sales for residential development. Therefore, KR utilized sales comparables dating back to 2019, as shown in the table below.

Residential Land Sales

Address	Location	Sale Date	Lot Acres	Sales Price	\$/Acre	Use
<u>SUBJECT PROPERTY</u>						
620 El Salto Drive	Capitola	N.A.	1.4	n.a.	n.a.	Hospitality
<u>SALE COMPARABLE</u>						
1260 7 th Ave	Santa Cruz	12/13/19	0.95	\$1,580,000	\$1,600,000	Vacant Land
217 Protrero St	Santa Cruz	10/9/19	0.21	\$ 600,000	\$3,000,000	Single Family
961 Beach St	Santa Cruz	1/25/19	0.50	\$1,135,000	\$2,270,000	Vacant Land
Average Sale Price/Acre					\$1,400,000	

Source: CoStar

The sales comparables shown in the table above represent a wide range of values due to location and allowable density with an average of \$1.4 million per acre. The last two sales are most comparable to the subject Property, but allow for much higher density. With a lower density allowed on Subject, KR estimates the value of subject Property with residential zoning for 3 units to be \$2.8 million per acre or \$3.9 million.

IV. b. Valuation Analysis – Hotel

To estimate the value of the Property for continued hotel use, KR used the Income Capitalization Method and projected net operating income and market capitalization rates. Table 1 on the following page shows that the net operating income has ranged from \$140,000 to \$170,000 with an average of \$150,000, excluding the significant negative impact Covid-19 had on the hotel's 2020 operations.



Table 1

Monarch Cove Inn Financial Performance					
	2017	2018	2019	2020	2021
Occupancy Rate	81%	79%	64%	55%	82%
Average Daily Rate	\$ 171	\$ 178	\$ 200	\$ 173	\$ 193
Room Revenue (net of TOT)	\$ 557,000	\$ 564,000	\$ 515,000	\$ 382,000	\$ 634,000
Other Revenue	<u>46,000</u>	<u>58,000</u>	<u>42,000</u>	<u>14,000</u>	<u>29,000</u>
Total Revenue	\$ 603,000	\$ 622,000	\$ 557,000	\$ 396,000	\$ 663,000
Operating Costs	<u>\$ 463,200</u>	<u>\$ 463,000</u>	<u>\$ 387,000</u>	<u>\$ 357,400</u>	<u>\$ 523,400</u>
Net Operating Income	<u>\$ 139,800</u>	<u>\$ 159,000</u>	<u>\$ 170,000</u>	<u>\$ 38,600</u>	<u>\$ 139,600</u>

Source: Monarch Cove Inn

Capitalized Value

Hotel capitalization rates are typically higher than those for industrial, retail and apartments as the risk level is greater. KR’s survey of hotel sales in the San Jose / Santa Cruz area indicates market capitalization rates from 5% to 7%, with a 9-room Victorian Inn listed (listed in July 2022) at 6.2% cap rate. KR believes a 5.5% capitalization rate is appropriate for the Property. With average net operating income of \$150,000, the supportable sales value is estimated at \$2.7 million.

Hotel Sales Comparables

KR researched hotel sales in the Capitola / Santa Cruz area since 2018. Several properties were found with a wide range of size, location and type of construction.

Hotel Sales						
Address	Location	Sale Date	Bldg SF	Sales Price	\$/PSF	Use
<u>SUBJECT PROPERTY</u>						
620 El Salto Drive	Capitola	N.A.	5,000	n.a.	n.a.	Hospitality
<u>SALE COMPARABLE</u>						
Beach St Inn	Santa Cruz	10/20/21	20,000	\$14.1 million	\$700	Hospitality
118 1 st St	Santa Cruz	9/22/21	3,100	\$1.93 million	\$615	Hospitality
Darling House 314 W. Cliff	Santa Cruz	8/30/19	7,870	\$5.0 million	\$1,160	Hospitality
Capitola Hotel 210 Esplanade	Capitola	6/20/18	3,400	\$3.0 million	\$890	Hospitality
<u>Average Sales Price/PSF</u>					<u>\$900</u>	

Source: CoStar



The last two sales represent properties located in commercial area by the water with ocean views. The 118 1st St. property is a 9-room Victorian property being rehabbed and converted into a Bed and Breakfast. It is located two blocks from the beach, but with limited ocean views and represents a strong comparable given the need for major renovation. Considering the Property’s premium views and the need for renovation, KR estimates the fair value of subject Property based on Sales Comparison Methodology to be \$700 PSF or \$3.5 million.

Reconciling the Income Approach and Sales Comparison Approach for Hotel use results in an average value of \$3.1 million.

V. Conclusion – Broker Opinion Value

Based on the Sales Comparison Methodology with supportable adjustments, and Income Capitalization Methodology, KR estimates the value of the Property under two alternative residential scenarios (average of \$4.25 million) and as hotel (\$3.1 million) as shown below.

Value Summary		
Costar	Bldg / Land Area	Estimated Value
Residential Zoned Land	61,000	\$3,900,000
Residential Reuse of Buildings	5,000	\$4,600,000
Hotel Use	5,000	\$3,100,000

Note: This evaluation is a Broker Opinion of Value (“BOV”). It is not an appraisal, which generally provides a more detailed evaluation of value and related property characteristics. BOV based on typical market conditions, which do not reflect extraordinary events that can impact supply/demand market characteristics which in turn impact property valuation.

Respectfully Submitted:

**Kosmont Real Estate Services
doing business as “Kosmont Realty”**

Larry J. Kosmont, CRE®
Chairman & CEO

Exhibit A1 – City Location Map



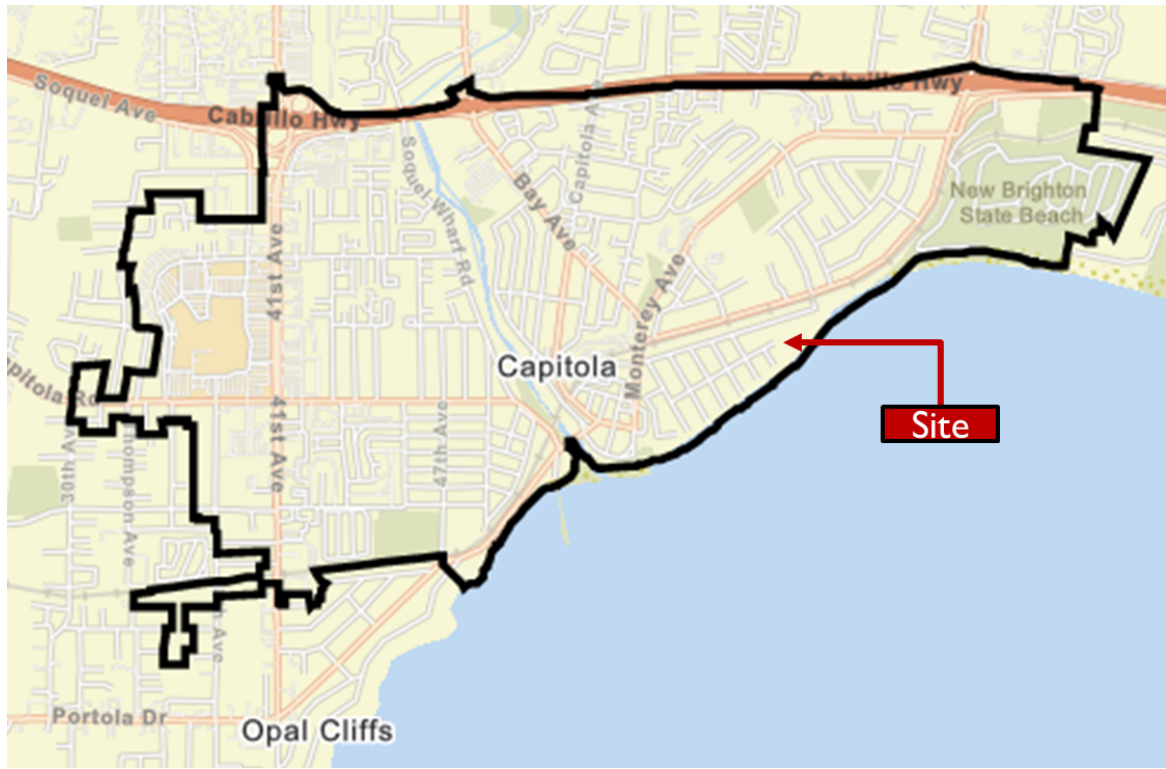


Exhibit B – Property Aerial



Exhibit C – Assessor Parcel Map

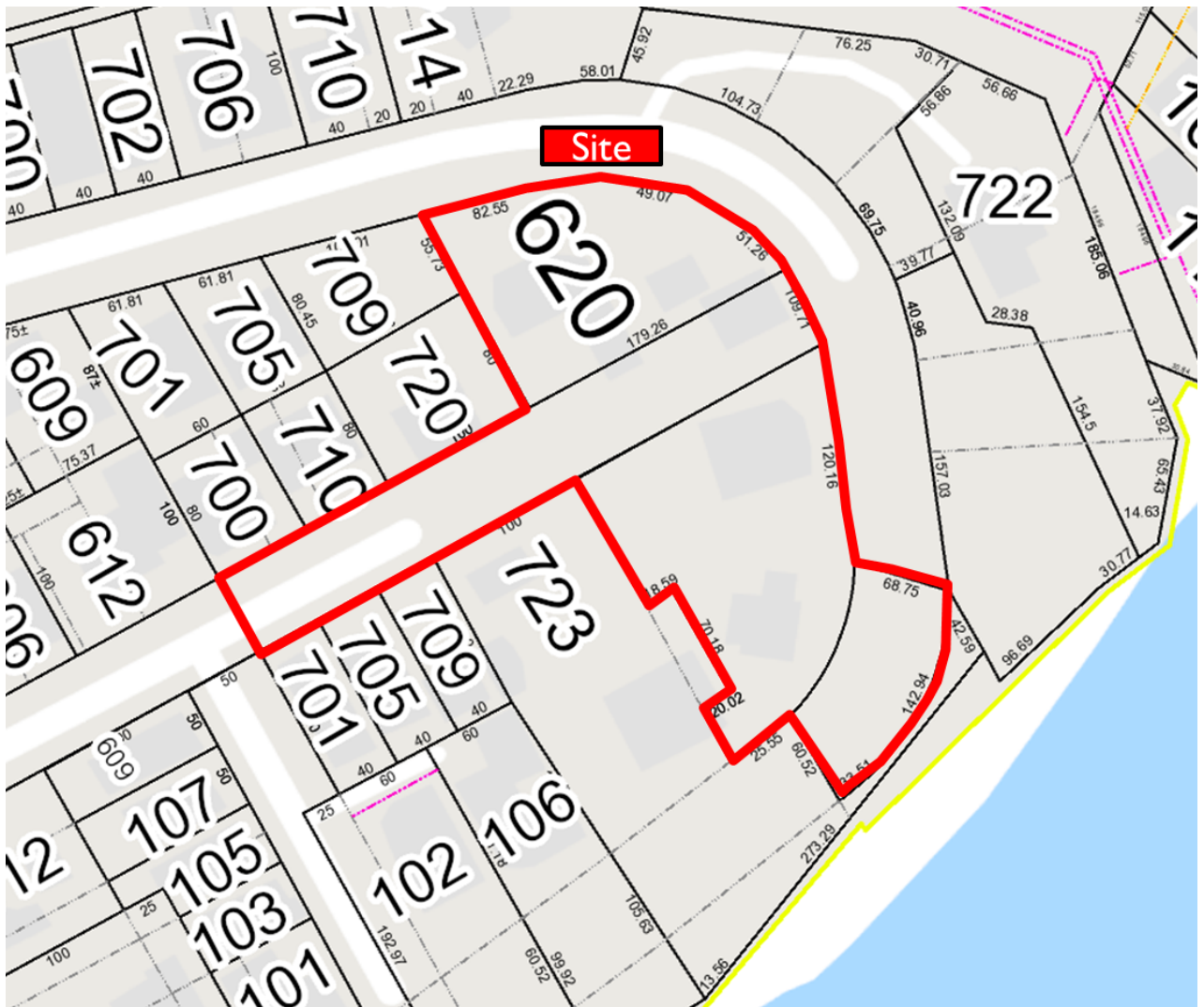


Exhibit D – Property Photos

Main House



Event Pavilion



Entrance on El Salto Drive



Ocean View from backyard



Guest House

