

Alternative Highest & Best Use Analysis

In response to numerous comments received from the public, as well as issues raised by the CCC in the Appeal Staff Report Substantial Issue Determination, the following presents a preliminary analysis of the potential highest, best uses of the current WWTP site absent any future development of plant facilities and potential relocation of the WWTP to an alternative site. The following provides a brief assessment of the site's underlying valuation, in context of the ability to redevelop with a coastal-dependent and/or visitor-serving use in accordance with applicable LCP and Coastal Act policies, as well as the potential to offset the costs of a potentially relocated plant. Reasonable alternative uses include development of a boutique visitor-serving hotel, mixed-use visitor serving commercial, or expansion of the adjacent RV park, which currently operates under a 25-year lease with the City.

Boutique Hotel

The eastern one-half of the existing WWTP site lying inland of Atascadero Road, and a narrow strip at the north end of the parcel adjacent to Atascadero Road, is subject to inundation during the 100-year storm event given the current approved FEMA FIRM map. When viewed against the revised map under consideration via the LOMR, the entire lateral extent of the current WWTP site would be subject to inundation during a 100-year storm event. It should be noted, that while the lateral extent of the inundation area is expanded under the LOMR, the surface elevation of water during the 100-year flood event is reduced on the order of 2 feet (as compared to the approved FIRM). Residences and lodging facilities are typically considered incompatible uses for flood-prone areas, due to the potential for loss of life associated with human occupancy of such structures, particularly if flooding occurs when individuals might be asleep. However, the westerly two-thirds of the currently developed subject parcel, including the existing Morro Dunes RV park, lie outside of the current boundary for 100-year flood inundation.

Given that the CCC places a high priority on lodging facilities in close proximity to the coast, one potential re-use of the site which could achieve a "higher use" would be a boutique style hotel. Placing the hotel structure on the western half of the WWTP site would keep it out of the boundaries of the current FIRM 100-year flood zone; it is acknowledged that this area is indicated as being subject to shallow inundation under the LOMR, and that fill would need to be placed in order to elevate the hotel facility above the flood elevations identified in the LOMR, but placement of a potential hotel on this half of the site would minimize the volume of fill required. Placing the potential hotel on the western half of the current WWTP site would also achieve the best views of the ocean from the hotel. Parking for the hotel could occupy the eastern one-half of the parcel within the flood zone area (surface parking lots are normally considered a compatible use for an area subject to shallow flooding). Please refer to the figures at the end of this report for the conceptual layout of improvements described above, entitled "Alternative Highest & Best Use Concept Plan".

Redevelopment of the site for hotel use would likely involve removal of the existing WWTP perimeter fencing and would thus be highly visible from public viewing areas on the beach, and therefore the scale (height) of any proposed development would be of concern. The concept for a boutique hotel would employ a one story wing paralleling the west boundary of the WWTP site. A courtyard with pool would separate this from the second wing. The second wing would be two stories in height, offering a tiered

effect from views along the beach, and affording second floor rooms with ocean views. First floor rooms would look out into the courtyard.

The area dedicated to parking would be approximately 110,000 square feet in area. This is sufficient to provide parking for between 270-320 vehicles. Parking would be hidden from view of people on the beach in this configuration, and parking not needed for the hotel facility could be made available as beach access parking to the public.

The area of the site available for the hotel would be approximately 75,000 square feet. The front wing could hold reception, lobby, and up to approximately 30 rooms (500 square feet apiece) in the one-story format. The rear wing (2-stories) could hold between 60 and 90 rooms, ranging in size from 500 to 600 square feet apiece. A 120 room hotel would demand approximately ~~120~~132 parking spaces, leaving at least ~~150~~approximately 140 parking spaces available for beach access use. Figure 4 shows a conceptual layout of a hotel facility.

In order to provide an approximate valuation for a theoretical boutique hotel on the current WWTP property, Dudek used a formula employed by real estate brokers in the hotel/resort industry. The formula provides an approximate value of the property for the purpose of establishing a market value pricing for the hotel development. The "Rule-of-Thumb" formula provided by Hotel Brokers International for a limited service hotel is: $(\$700) \times (\text{Average Daily Rate}) \times (\text{Number of Rooms})$. For hotels in the 100-200 room range, the maximum variation in value derived from the formula as compared to actual market value is estimated in the \$500,000 range.

Dudek compiled published room rate data for eight (8) motels currently operating in Morro Bay. The motels each employ a sliding rate structure, with lowest room rates in January through March; second lowest rates September through December; next highest rates in April-June; and, highest rates in July-August. To arrive at a composite average daily rate per facility, Dudek developed a spreadsheet. The spreadsheet in Appendix X calculates the average room rate for each facility on a monthly basis (using published seasonal rates), sums these monthly averages together for each facility, and divides by twelve total months for each facility. The result is a single average daily rate for each of the eight facilities.

Dudek next performed research on the average occupancy rate for area motel facilities. San Luis Obispo County has published a finding indicating a San Luis Obispo County-Wide lodging facility occupancy rate of 64% (<http://www.sanluisobispocounty.com/media/facts-figures/>). In addition, the City of Morro Bay Transient Occupancy Summary for fiscal year 2010/2011 and through November 2011/2012 (Appendix X) reports an average motel occupancy rate of 52.5%. However, the Coastal Commission staff report for the Front Street Inn Conversion (1140 Front Street, Morro Bay) in January 2009 cited an average Morro Bay lodging facility occupancy rate of 73% based on the four (4) overnight, visitor-serving facilities located along the Embarcadero at that time (additional overnight facilities along the Embarcadero have since been constructed). Because the 73% occupancy rate reported in the 2009 Coastal Commission staff report was specific to lodging facilities located along the Embarcadero in proximity to the shoreline and is the most conservative average occupancy rate documented for the City of Morro Bay, Dudek used it in our average daily rate analysis. The average daily rate derived from the published rates was then

multiplied by the average occupancy rate to yield the “effective average daily rate”. This effective average daily rate ranges from \$86/day for the most economical lodging facility in Morro Bay, to \$137/day for the most expensive facility.

Employing the valuation formula described above, Ffor a “limited service” hotel, with an average daily room rate of \$6286 (the effective average room rate of the most economical motel), the fully operational 120-room hotel would have an estimated worth between \$5.25 million and \$5.75 million \$7.25 and \$7.75 million; with an average daily room rate of \$137 (the effective average room rate of the most expensive motel), the fully operational 120-room hotel would have an estimated worth between \$11.5 and \$12 million. Subtracting the cost of demolition and construction activities, estimated at approximately \$3 million, the underlying value of the current Site 1 would be estimated at nearly \$3between \$4.25 and \$9 million.¹ As a practical matter, this location for a hotel does not offer desirable proximate amenities such as restaurants and visitor serving attractions which would generally be necessary to command the higher of these effective average daily rates, and therefore the net underlying value should probably be assumed to be closer to \$4.25 million than \$9 million. Also, the WWTP site is surrounded by land uses generally considered incompatible with a hotel, namely the cement plant, high school, and City corporation yard, which ~~would~~ could collectively limit the room rate that lodgers would be willing to pay.

Mixed Use Visitor Serving Commercial

A similar one story, or one and two story staggered, commercial development could occupy the western half of the WWTP site. Tenants such as convenience grocery, beach apparel, ocean sports equipment rental, snack shop, restaurant would each benefit tourists, beach-goers, and residents alike.

Parking requirements for commercial retail are generally in the range of 4-1 spaces for every 1,000300 square feet, but can be greater for restaurants (1 space for every ~~four seats~~60 square feet). If parking is proposed to occupy the flood zone area, and the more conservative number of 270 spaces is employed (see discussion under “Boutique Hotel”), then a maximum of approximately 67,000 square feet of retail commercial space could be developed based upon available parking (67,000 square feet divided by one parking space/300 square feet equals 220 parking spaces required, with no restaurant; this would leave an excess of 50 spaces for beach parking or for restaurant parking). The available portion of the site outside the flood area is approximately 75,000 square feet, so 67,000 square feet of retail space could theoretically be accommodated in a single-story format. If a dedicated restaurant space was desired, the overall allowable square footage ~~would~~ could need to be reduced, in order to account for higher parking demands associated with a restaurant. For instance, a 4,000 square foot restaurant would require 67 parking spaces; the balance of 63,000 square feet of retail would require 210 parking spaces; the total requirement of 277 parking spaces might exceed the space available to accommodate parking with an overall 67,000 square foot structure. Please refer to the figures at the

¹ The value of the hotel derived from the “Rule-of-Thumb” formula provided by Hotel Brokers International. For a limited service hotel the formula is: (\$700)x(Average Daily Rate)x(Number of Rooms). For hotels in the 100-200 room range, the maximum variation in value from actual market value is estimated in the \$500,000 range. Demolition costs taken from Table 6 in this section, construction costs approximated from “Operations Building” construction costs in Table 6.

end of this report for the conceptual layout of improvements described above, entitled “Alternative Highest & Best Use Concept Plan”.

In order to reserve a portion of the parking for beach access, as with the boutique hotel scenario, the square footage should be reduced further. 100 spaces set aside for dedicated beach access parking would lower the number available for a commercial development to approximately 170. This amount of parking could accommodate approximately 42,000 square feet of retail commercial (40,000 square feet of retail and 2,000 square feet of restaurant).

In order to provide an approximate valuation for a theoretical mixed use retail development on the current WWTP property, Dudek used a formula employed by real estate brokers in the commercial property sector. Dudek used the “Gross Rent Multiplier” formula provided by CommercialBanc. The formula is: (Gross Annual Rents)x(Gross Rent Multiplier). From the Morro Bay Multiple Listing Service (MLS), Dudek determined the current Gross Rent Multiplier (GRM) for commercial properties ranges from 7.5 to 8.9. A GRM of “8” was used for this analysis. Also from MLS, the average commercial rent is “\$1/gross square foot”.

Using the above formula, Ffor “retail commercial” use, based on 42,000 square feet, the fully operational mixed-use development would have an estimated worth between \$4 million and \$4.25 million; based upon a 67,000 square foot retail commercial facility (which would provide fewer parking spaces for beach goers), the fully operational mixed-use development would have an estimated worth between \$5.25 million and \$5.5 million. Subtracting the cost of demolition and construction activities, estimated at approximately \$3 million, the underlying value of the current Site 1 would be estimated at between approximately \$1 million and \$2.5 million in a mixed-use retail commercial scenario².

Expansion of the Adjacent Recreational Vehicle Park

The City of Morro Bay currently leases land along the western and southern boundary of the WWTP site to Morro Dunes Travel Trailer Park. The leased area is divided into two zones, one for accommodation of recreational vehicle travelers and the other for off-season storage of recreational vehicles, boats, and trailers. The total average annual rent paid by Morro Dunes Travel Trailer Park for their leasehold is \$253,700.00 per year.

The available space on the WWTP site, if the WWTP were to be located to one of the alternate sites, would amount to approximately 40% of the area currently leased to Morro Dunes Travel Trailer Park. In the event the WWTP were to be located to one of the alternate sites, the Morro Dunes Travel Trailer Park could be theoretically expanded onto the vacated WWTP site. Assuming the same revenue per square foot as exists under the current lease, the City could expect to receive average annual rents on

² ~~The value of the retail commercial property from the “Gross Rent Multiplier” formula provided by CommercialBanc. The formula is: (Gross Annual Rents)x(Gross Rent Multiplier). From the Morro Bay Multiple Listing Service (MLS), the current Gross Rent Multiplier for commercial properties ranges from 7.5 to 8.9. A GRM of “8” was used for this analysis. Also from MLS, the average commercial rent is “\$1/gross square foot”.~~
Demolition costs taken from Table 6 in this section, construction costs approximated from “Operations Building” construction costs in Table 6.

the order of \$101,500 per year for the WWTP site if it could be converted for lease to the Morro Dunes Travel Trailer Park.

In order for the WWTP property to be viable for lease to Morro Dunes Travel Trailer Park, decommissioning and demolition of the current WWTP would need to occur. According to Table 5 in this section, that cost would be in the range of \$1.35 million. With average annual rent revenue associated with trailer park use of the property expected to be approximately \$101,500, it would take approximately 13 years for the City to recoup the initial costs to prepare the site for lease to Morro Dunes Travel Trailer Park.

Land Swap of WWTP Site for Recreational Vehicle Park

The Morro Dunes Travel Trailer Park occupies a more desirable position with respect to ocean frontage with regard to a potential lodging facility, than does the existing WWTP site which is located inland of the RV Park and adjacent to a cement plant and City corporation yard. It has been suggested the City could modify the existing lease to swap the decommissioned WWTP land area for an equivalent area of the RV Park leasehold. This alternative presumes the current lease holder for the RV Park would be willing to entertain a new or amended lease agreement, which presently runs through 2028, and that the City would assume some financial burden associated with payment to the current lessee if the current lease were to be terminated and renewed or amended to relocate the RV Park to the decommissioned WWTP land area. From a pragmatic standpoint, the total area available to develop a boutique hotel would probably not be altered as a result of negotiations for a land swap (because the RV Park operators would presumably request no net loss of RV spaces). However, while the development area size for a hotel may be equivalent under a land swap scenario, the desirability of the hotel facility could be greatly enhanced as compared to the WWTP site boutique hotel. Rooms could have unobstructed ocean views, and would not be bounded on all sides by commercial and quasi-industrial uses. In this scenario, the effective average room rate could potentially reach par with the most expensive existing facilities in Morro Bay. Therefore, under this scenario, the underlying land value of the ocean-adjacent boutique hotel parcel could be on the order of \$8.5 million to \$9 million (please refer to the Boutique Hotel analysis, and upper end of the valuation).