



July 6, 2015

**Chairman Robert L. Dixon, Jr.; and,
Members of the Planning Commission
CITY OF COSTA MESA
77 Fair Drive
Costa Mesa, CA 92628-1200**

**Subject: Costa Mesa Motor Inn- New Apartments
2277 Harbor Boulevard**

Honorable Chairman and Commissioners:

On behalf of the property owner, we are pleased propose replacement of the aging 236 rooms Costa Mesa Motor Inn with a new 224 unit "luxury apartment" building at 2277 Harbor Boulevard. Specifically, the property owner Miracle Mile Properties would be completely demolishing all existing buildings and construct a new building with full security, structured parking, and significant amenities.

While the property is located along the Harbor Blvd. commercial corridor, the four acre site adjoins the Costa Mesa Country Club and City's regional bicycle trail. Secured trail access for residents, sweeping views of the golf course, and pedestrian connectivity to Harbor Center shopping, make this property an excellent candidate for reuse.

The Project:

The project as designed is simply replacing 236 hotel units with 224 apartment units, which would be a mix of primarily one and two bedroom units, with a few three bedrooms. Designed in accordance with the City's apartment standards, tenant and guest parking would comply with the zoning code, structural design standards would be met, and the architecture would be high quality matching modern apartment buildings in coastal Orange County. In summary, the City has not been pleased with the aging hotel, and therefore, has strongly encouraged replacement.

Proposed Amenities:

- Swimming pool and Jacuzzi spa with lounge and fire pit
- Fully landscaped sun decks
- Outdoor kitchen and barbeques
- Freestanding clubhouse
- Fitness center with recreation room and gym

- Business and computer center
- Internet Wi-Fi café
- Indoor lounge with fireplace
- Surround sound theater and media room
- Resident concierge service
- Washer and dryer in every unit
- Bicycle storage area
- Gated access to the Costa Mesa Country Club regional bicycle trail and Fairview Regional Park

Existing General Plan and Zoning:

The property is commercially zoned reflecting the early days of Harbor Boulevard's dominance as a retail corridor. Before the I-405 freeway and South Coast Plaza were opened, Harbor and Newport Boulevards were the primary north-south routes to the coast. To attract tourism, a considerable number of "motels" were built along Newport and Harbor Boulevards. Prior to the SR-55 freeway's construction, that corridor was once the "Red Car" rail corridor to Balboa Peninsula.

The Costa Mesa Motor Inn was originally a "motel" which is specifically different than a "hotel". Motels were created as lower priced short-stay accommodations for automobile travelers, with parking adjacent to their rooms. "Hotels" have now replaced "motels" with a greater focus on business travelers, higher levels of amenities, and upscale décor.

Market Demand Study:

To identify the apartment "market demand", property ownership retained the services of Annie Gerard, Principal of APT Market Research, who prepared a comprehensive study to identify the mix of apartment sizes, total number, and probable rents which could be economically supported on the Harbor Boulevard corridor. Her research focused on local housing demand, competing properties, and economic viability for projected rent rates. In summary, APT Market Research ranks the property very high for its excellent proximity to retail stores, employment, higher education, public transportation, view, and desirability to attract future tenants.

As stated in the Study, Costa Mesa's apartment "occupancy citywide in 3Q 2013 was 95.3% with the majority of existing apartment stock being pre-1980 construction. The new trend in Orange County apartment construction is at densities greater than 45 units per acre. In fact, the medium density of brand new and under construction apartment projects in Orange County is 61 units per acre." As such, a replacement apartment complex at 224 units would bring an infusion of approximately 300 replacement residents with anticipated annual household incomes of \$48,000+.

Proposed General Plan Amendment-Zoning- Apartment Building:

While the commercial General Plan land use designation and zoning allow motels/hotels, neither allows apartments. But, in the past, 41% of Costa Mesa Motor Inn rooms were approved for "extended-stay occupancy" which exceeded 30 days. Therefore, our City Council General Plan screening request was for a "site specific"

General Plan amendment to “High Density Residential- 60 units per acre”, and a zone change to “Planned Development Residential-High Density- 60 units per acre.” While that density is greater than allowed in the R-3 zone, this location would not adversely impact neighboring residential properties.

Subsequent to the City Council General Plan screening, the property owner submits this application for a total of 224 apartments to replace 236 hotel units. The specific request is as follows:

- 40 dwelling units per acre x 4.1505 acres = 166 units
- 35% “density bonus” comprised of:
 - 20 moderate income restricted affordable units
 - 38 market rate units
- Total units = 224

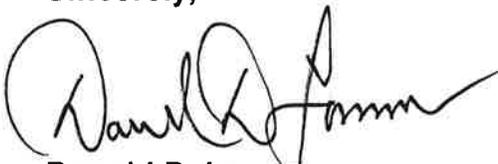
Would 224 apartments have impacts on the community?

- These apartments would be larger than hotel rooms and have a stable population with less transient occupancy.
- Fewer calls for service by Costa Mesa Police and Fire services.
- Increased customer trade in neighboring retail shopping centers.
- The provision of clean, new, fully secured housing to serve increasing student needs at Orange Coast College and Vanguard University.
- More housing as dictated by the State of California and implemented through the City’s Housing Element.

Conclusion:

We realize the Costa Mesa Motor Inn is functionally obsolete, the structure is over 40 years old, and both the community and property owner would mutually benefit from the Commission and Council’s approvals. On behalf of the property owner, we would appreciate your favorable consideration of this proposal to build a new apartment complex to replace the Costa Mesa Motor Inn.

Sincerely,



**Donald D. Lamm
Managing Principal; and,
Authorized Agent for
Miracle Mile Properties**

Costa Mesa Luxury Apartments

2277 Harbor Blvd., Costa Mesa, CA 92626

Miracle Mile Properties, Owner

PLANNING APPLICATION PROJECT DESCRIPTION

Site Area: 4.1505 acres

Project Description: Demolish existing 236 units Costa Mesa Motor Inn hotel and replace with a new 4 story apartment building consisting of 224 apartment units with an interior multi-level parking structure and high quality amenities.

This comprehensive application includes the following requests:

- **General Plan Amendment:**
A site specific amendment to the City's General Plan-Land Use Element changing the property's current designation of General Commercial to "High Density Residential." In addition to amending the Land Use Element, text amendments may be needed to the General Plan reflecting a site specific base density of 40 dwelling units per acre.
- **Zoning Code Amendment:**
If needed, an ordinance to amend the City's Municipal Code, Title 13 "Zoning Code", for a site specific base density of 40 dwelling units per acre and a site specific zone designation of "Planned Development Residential-High Density."
- **Rezone:**
Change the property's zoning from C1 "Local Business District" to PDR-HD "Planned Development Residential-High Density", with a site specific base density of 40 dwelling units per acre.
- **Create a Costa Mesa Density Bonus Program:**
Approval of a 35% increase in the base density of 40 dwelling units per acre, through approval of a "Costa Mesa Density Bonus Program" agreement between the City and property ownership, with 35% of the bonus units reserved for "moderate income qualifying" tenants:
 - 40 du/a x 4.1505 acres = 166 base units
 - 35% "density bonus" comprised of:
 - 20 "moderate income qualifying" affordable units
 - 38 market rate units
 - Total apartment units = 224
- **Master Plan- Planning Action:**
Approval of a "master development plan" allowing construction of 224 apartment units, in a 4 story building, which would comply with the "Planned Development Residential- High Density" zone development standards.

Why grant a density bonus for this project?

In this instance, the City seeks major renovation or complete demolition of the existing Costa Mesa Motor Inn. Having become functionally obsolete and over 40 years old, the demand is now declining for nightly transient hotel rooms. Few tourists choose to stay in the Costa Mesa Motor Inn while vacationing in the area, so the majority of short-term occupancy is based on temporary employment in the area, those between employment, one semester students at Orange Coast College, or retired individuals not wishing to pay apartment rents but seek linen laundry services.

Summary of proposal:

- 40 du a x 4.1505 acres = 166 base units
- 35% increase in the base density of 40 dwelling units per acre through approval of a "Costa Mesa Density Bonus Program" agreement, with 35% of the bonus units reserved for "moderate income qualifying" tenants.
- 35% "density bonus" comprised of:
 - 20 "moderate income qualifying" affordable units
 - 38 market rate units
- Total apartment units = 224

Hotel room rates are not necessarily "affordable" as some people may believe. At \$250 weekly or \$1,000+ monthly for a small studio room with bathroom, on a cost per square foot basis for a 350-400 sf hotel room a 900sf two bedroom apartment would cost \$2,250. In fact, the new replacement apartments should cost less per square foot to rent than a 40 year old hotel room. However, what makes the hotel "affordable" to the transient population is not requiring annual leases, good credit, first month's rent, and a security deposit.

So why grant the density bonus? A density bonus incentive makes this project financially feasible. Basically, there is not any motivation for the property owner to completely discard an income generating hotel unless greater income can be derived after new apartment construction. To build a new four story building with 224 apartments will be expensive, but it requires the income from 224 apartments to justify demolishing the hotel, losing hotel income for a year, building the new building and paying debt service on that new construction loan, and needing two years to fully lease up the new building.

The property owner is not seeking any government financial assistance such as that received by nearly every affordable housing project built in Orange County. Affordable housing is built based on government financial assistance (subsidies) and usually requires a non-profit owner/sponsor status for qualification. The United States Department of Housing and Urban Development (HUD) for years issued grants for affordable housing projects (Bethal Towers for example is a 100% affordable project underwritten by HUD and owned by a non-profit church foundation). Today, HUD grants are minimal and difficult to obtain, California abolished redevelopment affordable housing funding in 2011, so Costa Mesa does not have any financial ability to subsidize affordable housing on this property. But, the owner is at least proposing 20 affordable

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Miracle Mile Properties, Owner

COSTA MESA DENSITY BONUS PROGRAM

Proposal- Create a Costa Mesa Density Bonus Program

The State of California requires cities to grant increases in residential development density (bonuses) in return for provision of affordable rental housing. This law, Government Code Section 65915, has been in effect for decades requiring cities to provide incentives in return for construction of affordable housing. While the law has been amended several times, and in 2004 by SB 1818, the law is essentially the same over the years.

In return for building apartments rented at monthly rates affordable to those qualifying as moderate, low, or very low incomes, the City must grant bonuses in density up to a maximum of 35% "and" grant concessions in development standards such as reductions in required parking. The parking reduction found in AB 1818 limits a city to requiring only one parking space for a one bedroom apartment, two spaces for a two bedroom including guest or other open parking, tandem spaces are permitted, and parking does not need to be in a carport or garage. Therefore, a city cannot prohibit tandem parking spaces or require any parking in excess of the State standard.

The Costa Mesa Luxury Apartment project "DOES NOT" seek any concessions in development standards required by Costa Mesa. All zoning code parking requirements would be met, without any parking variance, and tandem parking spaces are not proposed. Additionally, this project proposes high-end amenities for recreation, personal laundry washers and dryers in every apartment, and fully secured/covered parking in the parking garage structure. While some "moderate rent" affordable units are being proposed, this project is planned to be high quality and not low budget construction to offset the cost to provide a significant number of below market rent apartments.

What is the Costa Mesa "Density Bonus Program" proposal? While State law "mandates" you grant a density bonus in return for affordable housing, State law does not preclude you from granting bonuses based on the City's own criteria if concessions are not being sought. Specifically, since this applicant is not seeking any concessions, and therefore, the City is not mandated to grant a density bonus, the City "may" still grant a density bonus on a site specific basis if Council believes the density bonus benefits the community.

units in exchange for an overall density similar to most other large apartment projects in Costa Mesa which do not include affordable units. However, the most significant reason to grant the density bonus is to facilitate complete demolition of this hotel and replace with a high quality apartment project. There needs to be an incentive for the property owner to justify doing this, and that incentive is approving 224 apartments to replace 236 hotel rooms.

Therefore, the property owner respectfully seeks City Council unanimous support to approve this project at no cost to the taxpayers. The City will increase its supply of "quality" rental housing which is needed in this "jobs rich" city, public safety will appreciate the permanent reduction in calls for service, Harbor Center shopping center will appreciate 300+ stable residents with spendable income, and overall, the new building should be an architectural improvement along Harbor Blvd.

