Cielo Obispo Development Package

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Acknowledgments

Thank you to my mother for always supporting me and encouraging me to pursue my dreams and always take risks. Thank you for teaching me how to push through when life gets hard and, most importantly, how to stop and smell the roses. I love you.

Thank you to Adrienne Greve, my senior project advisor, for helping me navigate my ideas and decision-making. Thank you for the effort you put into your courses and caring so much.

Thank you to all CRP professors and staff for your patience, care, and sharing your incredible knowledge. Thank you Professor Beate von Bischopinck for inspiring me and nursing my creativity, teaching us the foundations of design thinking, and your homemade pretzels.

Thank you to my Dad, Grandpa, brothers, and friends for the love, laughter, and support.
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The Cielo Obispo is a 0.38 acre lot located on the corner of the Old Town Historic District and Downtown San Luis Obispo neighborhoods. The Cielo Obispo Development Package is a guiding document to future development on this site. This analysis contains information regarding the complex regulatory, financial, economic, and physical constraints and opportunities when developing in California and San Luis Obispo. The development package explains the process and a breakdown of the requirements that would be needed to get a project of this size entitled and shovel ready. This information is particularly important for planning professionals within the City of San Luis Obispo as the size and density of development is considered infill, and a common approach for development within the city. Understanding the ins and outs of development beyond the regulatory and planning requirements assists planners to shape and change policy and process that affects development, to spur development that can implement the type of change desired at a city level.

Executive Summary
Site Analysis
Regional Context

The site is located in the city of San Luis Obispo, near the downtown core. San Luis Obispo is a city approximately halfway between San Francisco and Los Angeles, known as a trendy small college town. Its' temperate climate, proximity to the ocean, and hiking trails attract those seeking an active lifestyle. These qualities, wineries, the charm, and recognition from Oprah as “America’s Happiest City” have supported increased tourism. San Luis Obispo is the economic center of San Luis Obispo County, which is directly north of Santa Barbara County and south of Monterey County.
Surrounding Site Context

The site is located at 1404 Chorro Street, southeast of Downtown San Luis Obispo, in the Old Town Historic District. The site is on the border of the Old Town Historic District closest to Downtown. The site is geographically located on the slope that separates these two neighborhoods, providing constraints and opportunities in the design, engineering, and marketing of the project to either the Historic District or Downtown, or their connection. Notable local attractions and neighborhoods include Terrace Hill, the Railroad District, and hiking trails such as Bishop’s Peak.
Local Context

The project site is located within the Old Town Historic District, 2 blocks southwest of Mitchell Park and 2 blocks southeast of Marsh Street section of Downtown (Eureka, Public Parking, US Post Office). This area of San Luis Obispo is noted for its' large mansion-homes with traditional architecture styles such as Queen Anne. The site slope connects it to the Old Town Historic District as it is on the same geometry, and the site slopes downwards towards Downtown. Grading and orientation of the lot presents a choice between Downtown or Old Town Historic District in terms of the culture, marketing, and audience of the consumer.

Across the street is a former floral shop and small family offices. The immediate land use is full residential on the side that is the Old Town Historic District, but uses vary on the Downtown side. Most commercial uses are family businesses and not shops that are customer oriented, such as cafes and retail. As one travels towards Downtown San Luis Obispo on Chorro Street, the immediate buildings are family doctor offices and law offices. The downtown begins at Chase Bank and the 871 Marsh Street garage. The intersection of Chorro and Marsh informally begins Downtown. One block southwest of this intersection is Garden Street, which is known for being a gathering spot in town supported by coffee shops, juice bars, and restaurants as well as the street sections' redevelopment for more pedestrian space and one-way traffic that is slower than surrounding streets.

Site

The site is 0.38 acres (16,552 square feet) across 2 parcels. The site is currently vacant with no buildings or infrastructure. The site slopes up most dramatically closest to the parcels border with the street. From the corner of Chorro and Pismo to the opposite corner of the site, the first 15 meters slope up 5 meters. The next 30 meters slope up 4 meters.
The regulatory evaluation chapter examines the process, codes, and standards that guide development for this project located at 1404 Chorro Street. The requirements provided will include pre-construction documents needed for by-right density. This chapter also provides a cost breakdown for applicable fees and permits.
Development Codes and Standards

The main codes that regulate allowable development are the San Luis Obispo Zoning Regulations and Historic preservation overlay zone. These guide all development within the city and conform to documents larger in scope. These documents, such as specific plans and the General Plan, use the San Luis Obispo Zoning Regulations as a tool to implement the city goals and objectives.

Zoning: The lot is zoned R-4-H, high-density residential. The site is within the Historic Preservation Overlay Zone.

Basic Development Standards

The basic development standards are based on the San Luis Obispo Zoning Regulations (17.22.020) and Historic Preservation Overlay Zone.

Allowed Density: 4 units by-right, 24 units/net acre maximum residential density
Minimum Lot Area: 5,000 square feet.
Maximum Lot Coverage: 60%
Maximum Height: 35 feet
Setbacks
- Front: 10 feet
- Side & Rear: Based on height, 5-10 feet
Parking Requirements
- Multi-family dwellings: 1 per studio apartment, 1-1/2 for first bedroom plus ½ for each additional bedroom in a unit, plus 1 for each five units in developments of more than five units (17.16.060).
- Single-family dwellings: 2 spaces per dwelling (17.16.060).
Driveway width at street: 10 feet in driveway less than 50 feet, if 50-200 feet in length, 12 feet in width. (San Luis Obispo County Site Development Standards 23.05.104)
The site is in the Historic Preservation Overlay Zone. Since the site has no structures or buildings, there are less requirements for preservation. Development standards are therefore only to ensure the neighborhood character is kept and contributed to. This includes traditional architecture styles such as Victorian, Queen Anne, Spanish Colonial, and Craftsman. The Old Town Historic District is notable for its' many examples of High Victorian architecture. This included several style variations, such as Queen Anne, Italianate, Stick and Gothic Revival influences (Historic Preservation Program Guidelines, City of San Luis Obispo Council Resolution No 10229, 2010).

The neighboring property, The Vista Grande Apartments, is considered a non-contributing building as it does not meet the criteria of the standards laid out below and has not achieved historical significance.

Predominant architectural features of Old Town Historic District:
- Two- and rarely three-story houses
- Mostly gable and hip roof styles
- Highly ornamented roof features, including prominent fascia, bargeboards, gable end treatments, decorative shingles, prominent pediments or cornices.
- Traditional fenestration, such as double-hung, wood sash windows, divided light windows, ornamental front doors, wood screen doors.
- Painted wood surface material, including siding and decorative moldings.
Design Standards
Infill Single-family Design Guidelines

Infill residential development should be compatible in scale and overall character with adjacent buildings and those in the immediate neighborhood (San Luis Obispo Community Design Guidelines). The aforementioned slope creates an opportunity to position the project as a Downtown development. This would be more desirable as the density increases, four units of single-family residential would be desirable to be in the Old Town Historic District due to its charm and pace compared to Downtown.

Multi-family Housing Design Guidelines

Site planning for a multi-family housing project should create a pleasant, distinct place for residents without the project “turning its’ back” on the surrounding neighborhood (San Luis Obispo Community Design Guidelines). Lower density multi-family projects should be comprised of “walk-up” rather than “stacked” units, with each unit adjacent to a street having its primary pedestrian entrance from the street sidewalk.

Public Improvements

Developing the site will not require the developer to include public improvements. Public improvements can include road, street, sidewalk, sewage, and other improvements due to the added constraint on these utilities.

CEQA

This project density is allowed by right, and statutorily exempt. Any accessory dwelling units are allowed by state law AB 68 are statutorily exempt. ADU’s can be ministerially or statutorily exempt by 15.310 and 15.303. However, ADU’s are not permitted to be included in the project and must be additional to an existing home.

Parcel Map & Merger of Lots

When subdividing parcels, either a parcel map or subdivision map must be created. For larger projects, subdivision maps are done in two phases, a preliminary map and final map. This process is in accordance with the Subdivision Map Act. The preliminary, or tentative, map is not detailed and provides a basis for decision from local authority to make changes and attach conditions. The final map is approved ministerially if it substantially complies with tentative approval (Clark, 2020). When taking land and dividing into four or fewer parcels, a parcel map is required. The land must also have access to a road and no serious environmental issues. These parcel maps do not rate full subdivision review, and are more like ministerial review (Clark, 2020). As the Cielo Obispo project meets criteria for parcel if sold individually. As the units, and not the buildings, will be sold as condominiums, a parcel map is not required and no parcels will be subdivided. The Cielo Obispo project has 4 units by-right, and as a single-family project this process would apply.

The two parcels that make up the Cielo Obispo project (0.38 acres combined) would be merged. This would require a notice and hearing, that at least one lot has no building, and it has less than 5,000 square feet or not created in compliance with law, does not meet sewer and water standards, or slope requirements, or no legal access, or it would create health or safety hazard (Clark, 2020). As this property’s parcels both abut the street, all of these requirements are met. The city may require a tentative map in lieu of a parcel map required by Map Act. § 6628 et seq. (Building in California)
Application & Building Fees

Planning Fees
- Architectural Review: $2437
- Environmental Determination: $2244

Building Fees
- Building Permit: $6600 per $1.0 million of valuation
- Plan Check: 89% of building permit fee
- Energy conservation, accessibility, fire safety, and waterway management: 10%, 6.5%, 17.5% and 7% of building permit fee

Impact Fees
- Affordable Housing impact fee: 5% of construction cost
- Water impact fee: $11935/unit
- Wastewater (sewer) impact fee: $2886/unit
- Transportation impact fee: $2678/unit
- Park and open space: $8921/unit

Fees paid to the school district: $2.06/s.f.

Affordable Housing

For the City of San Luis Obispo to meet affordable housing goals, they provide developers incentives such as relaxed parking standards and a waiver of Development Review and Meter Installation Fees. As part of the City’s Municipal Code (SLOMC 17.91), the city requires most new residential and commercial development to contribute to affordable housing, either through constructing affordable units with the project or paying an “in-lieu” fee to the City’s Affordable Housing Fund. Due to the smaller size and maximum allowable density of the site, an in-lieu fee would be chosen.

The City of San Luis Obispo has an in-lieu fee equal to 5% of building valuation. Building valuation is defined by the city as the total value of all construction work for which a permit would be issues, as determined by the Chief Building Official (City of San Luis Obispo General Plan, Inclusionary Housing Requirement Table 2A). This brings the in-lieu fee for this project to $159,382, based on construction costs of $3,187,636

(Michael Multari, 2020)
Application Submittal Timeline

* Timelines are based on complete application submittals and timely responses to requests for additional information.

Environmental Review may be required depending on the complexity and location of project, which adds a minimum of 4 weeks to the project timeline.

If an EIR is required, project timelines will be substantially increased.
Market Analysis
San Luis Obispo City and County

In March 2021, San Luis Obispo home prices were up 14.2% compared to last year, selling for a median price of $777K. On average, homes in San Luis Obispo sell after 19 days on the market compared to 36 days last year. There were 72 homes sold in March this year (2021), up from 59 last year (2020) (Redfin).

The majority (73%) of home sales in the United States are less than $500,000 (National Association of Realtors, April 2021). Homes in the $500-750K, $750K-1M, and $1M+ price ranges changed 93.5%, 146.1%, and 211.9%, respectively. This level of growth with homes in the price ranges most prevalent in San Luis Obispo are promising to the housing market and to new development.

The median income in San Luis Obispo County 2015-2019 was $73,518, in 2019 dollars. The per capita income in the past 12 months 2015-2019 was $37,233, in 2019 dollars. (U.S. Census Bureau).

COVID-19 & Housing

During the COVID pandemic, rents dropped dramatically in large unaffordable metropolitan cities like New York, Los Angeles, and San Francisco. However, they increased in San Luis Obispo, despite the mixture of distance learning and large student population. According to Zumper, as of May 2021, San Francisco 1-bedroom average rent has changed -20% since 1 year ago. Manhattan has changed -11%. San Luis Obispo has changed +8%. This, along with daily commuters into the city, implies pent up demand. This could also represent a sign of a housing market crash. As many pundits claim, the housing market has faced unprecedented growth despite the overall market being hit. This looks like the growth trajectory before the 2008 housing and stock market crash. The mortgage to income ratio is also nearing 2006 levels.

"The Case-Shiller Home Price Index seeks to measure the price level of existing single family homes in the United States. Based on the pioneering research of Robert J. Shiller and Karl E. Case the index is generally considered the leading measure of U.S. residential real estate prices." (Beaufoy, 2021).
Comparable Projects

Within the City of San Luis Obispo, there have been several condominium and townhouse projects. These highlighted projects are comparable to Cielo Obispo project and can give insight to the scale, mass, and design quality that is approved by the City of San Luis Obispo.
Comparable Projects

1131 Olive
Parcel Size: 7,500 SF

This project is also on a smaller site, and has a similar design standard. This project is Spanish style and multifamily. Many residential projects' façade and design is broken up into varying facades to add complexity to the project. This usually applies to modern projects. Projects like this and Cielo Obispo that use Spanish Colonial Revival tend to pay tribute to the historic design standards, which involves flow and completeness. The façade need not broken up for complexity (such as 1185 Monterey) as there are more details.

The new “mixed-use project comprised of a new three-story structure with 10 two-bedroom residential units and 934 square feet of commercial space, with surface parking and associated site improvements. The project includes a 35% density bonus, a request to provide eight residential parking spaces in tandem, and a request for exception from mixed-use development standards to allow ground-floor residential units to be setback 30 feet from the building face adjacent to the street, where a 50-foot setback from the building face is the standard. This project is categorically exempt from environmental review (CEQA)” (Kyle Van Leeuwen)
Comparable Projects

1185 Monterey
Parcel Size: 12,496 SF

This is a new urban infill project that is smaller than the Cielo Obispo lot. This shows the possibility of scale in smaller lots, like the land at Cielo Obispo. Due to this project being more central to downtown, the massing may not totally compare, and it is not within the Historic District overlay. The rents and reflection of the market is notable, as well as the modern design.

HASLO Headquarters
487 Leff
Parcel Size: 16,642 SF

This project is in a similar neighborhood, which serves as great comparable for scale and style. When projects are in residential zones, there is more concern for protecting the character. As one can see comparing this project to the previous projects, this project is smaller in height and mass.
Design Contents
Design Contents

Rendering provided by Rossetti Company by current property owner.

The design would be in the Spanish Colonial Revival style. This is a match with residential desirability as well as San Luis Obispo’s downtown architecture styles.

The project would consist of 4 high end buildings, with 8 condominium units and underground parking.

The floorplan would open to a courtyard and high emphasis on high quality shared spaces.

Design Inspiration

Rendering provided by Rossetti Company by current property owner.
Financial Analysis
Assumptions

For the parking structure, the average cost per square foot was calculated using WGI’s study on parking structure costs, assuming the Los Angeles city median cost per square foot.

The parking structure is included in the construction cost.

The median price per square foot for homes in San Luis Obispo was $461 according to homes.com. For the selling price, this number was increased 20% to account for the project being newer and higher end than most of the housing stock in San Luis Obispo.

The capital budget includes land, construction, and all fees and permits. The discounted cash flow model includes the “inflows” of capital: the construction loan and sale of project as well as the “outflows” of capital: repayment of the construction loan, construction loan interest, design, permits and fees, and operating costs. Since this project is built to sell instead of rent, there are no operating costs like rental management, and the cash flow period is 2 years.

Common Garage
- 3,572 square feet
- Cost/sq ft: $73
- Total Cost: $260,756

The Discounted Cash Flow Model

<table>
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<tr>
<th>Year 1</th>
<th>Year 2</th>
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<tr>
<td>Units built</td>
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<td>Construction loan</td>
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<tr>
<td>Take out loan</td>
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<td>Sale of Project</td>
<td>$0</td>
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<tr>
<td>Sum</td>
<td>$2,390,727</td>
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</tbody>
</table>

| Land | $1,850,000 |
| Construction (including parking) | $3,187,635 |
| Units | 0 |
| Design | $191,259 |
| Cost/sq ft | $220 |
| Fees/Permits | $12,160 |
| sq ft/unit | 1,863 |
| Architectural review | $4,874 |
| Environmental mitigation costs | $4,488 |
| Building permit | $13,862 |
| Plan check | $12,460 |
| Energy, access, fire, waterway | $5,602 |
| Affordable housing | $140,300 |
| Water | $95,480 |
| Wastewater | $23,088 |
| Transportation | $21,424 |
| Park | $71,369 |
| School | $27,405 |
| Total fees/permits | $425,852 |
| Total Capital Budget | $5,654,749 |

Net: $(1,244,349)
NPV @ 7%: $3,394,578
Total Profit: $3,973,556
Analysis

While it may seem that developers make a lot of money based on the previous financials, there is also risk that needs to be accounted for as well as more costs that go beyond a back-of-the-envelope financial analysis.

While developers do make good money, they must share those profits with their investors who could take a less risky investment opportunity.

Furthermore, as we’ve seen with COVID-19, the housing market is not protected from larger economic impacts, even housing in California. Had the developer only been able to sell the homes for the average price per square foot of $461, and if construction costs went up to $300 (for factors such as a shortage of labor or rising lumber and material costs), the costs would increase by over $1 million, and profit would be split in half. As the developer uses investor money, debt, and leverage; this could wipe out the profit margin for the developer.

<table>
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<tr>
<th>The Capital Budget</th>
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![The Discounted Cash Flow Model](image)
The Cielo Obispo project has potential to be very successful due to the demand of housing in San Luis Obispo and qualities of the city that maintain demand: education, lively downtown, active lifestyle, proximity to major cities, and ample open space.

The challenging regulatory environment delays projects, but also curbs competing developers. This site also does not face major engineering challenges, however could face design challenges given the proximity to some of the most valued homes in the Old Town Historic District.

Even with changes in demand or rising cost of labor and materials, it seems the project would be financially feasible and return a profit to the developer. The original land price may be the deciding factor as it could hurt the profits of the project before it even begins.

Housing production of all kinds is desperately needed in California and San Luis Obispo to ease the housing crisis and those hurt by it, and expand opportunity to all. This senior project has allowed me to view a project through the lens of a developer and apply the complex and specialized planning knowledge to the site. This project allowed me to gain knowledge on the connection of planning and preconstruction processes, and see how they move forward in a project. This is important for anyone with subject knowledge to understand the context.

This project has also allowed me to understand financial analysis tools for valuing real estate and analyzing risk. It allowed me to look at housing policies effects in the housing economy, and take it one step further to see how those housing economics are analyzed by those (developers) that seek to build new housing.

This senior project was made possible by my coursework and academic career throughout my 4 year at Cal Poly, where I’ve been able to indulge on everything related to the built environment, whether it be entitlement and land use, real estate development principles, transportation patterns, housing economics, or urban design principles. I am so grateful for my amazing professors, courses, and time here at Cal Poly. Thank you.
Citations


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