

**CALIFORNIA COASTAL COMMISSION**

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# Th14g

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## STAFF REPORT: REGULAR CALENDAR

**Application No.:** 5-20-0181

**Applicant:** B&J Capital Group Investments

**Agent:** Srour and Associates (Attn: Brandon Straus)

**Project Location:** 70 10<sup>th</sup> Street, Hermosa Beach, Los Angeles County (APN: 4187-003-019)

**Project Description:** Construction of a new 2,742 sq. ft., 3-story 5-unit hotel building and conversion of an existing 1,841 sq. ft. single-family residence to a hotel room for a total of a two-structure hotel with 6 high-cost units.

**Staff Recommendation:** Approval with conditions.

## SUMMARY OF STAFF RECOMMENDATION

The applicant is proposing to construct a new 2,742 sq. ft., 3-story 5-unit hotel building and convert an existing 1,841 sq. ft. historic single-family residence to a 1-unit hotel to create a two-building hotel with a total of 6 high-cost units. The main issue raised in the application is related to the provision of lower-cost overnight accommodations in the coastal zone.

The Coastal Act requires protection and provision of lower-cost visitor and recreational facilities, including overnight accommodations, pursuant to Section 30213 of the Coastal Act. In past actions, the Commission has required 25% of new higher-cost

visitor accommodations to be provided at lower-cost rates in order to ensure that overnight accommodations in the Coastal Zone are available at a range of price points. In this case, the existing structure is an historical single-family residence and there are currently no visitor-serving facilities on-site; therefore, no lower-cost rooms are being replaced with high-cost rooms. The development of a hotel in this area would fulfill “visitor-serving” use priorities; however, the hotel will not offer lower-cost overnight accommodations. The proposed development is a small, boutique hotel and due to economic constraints, the applicant is not feasibly able to provide on-site lower-cost rooms. Thus, the applicant is proposing 6 high-cost units and is proposing to pay a mitigation fee of \$150,000 in-lieu of providing lower-cost rooms. When proposed new high-cost hotels have not included low-cost rooms on-site, the Commission has, in some past actions, required an in-lieu fee to ensure that lower-cost rooms can be constructed off-site in the region in which the high-cost hotel is being constructed. Such in-lieu mitigation must be sufficient to ensure that lower-cost units can actually be constructed with such funds. Recent evidence indicates that new lower-cost rooms cost approximately \$100,000 per room to construct, not including land costs.

To ensure that overnight accommodations are available at a range of price points in the coastal zone, **Special Condition 1** requires the applicant to submit an in-lieu mitigation fee of \$150,000, paid prior to the issuance of the Certificate of Occupancy for the hotel, or within 3 years of Coastal Commission approval, whichever is sooner, and ensures that the funds will be directed toward the State Coastal Conservancy, to support expanding availability of lower-cost overnight visitor accommodations in the coastal zone. The preferred use of the in-lieu fee is for the provision of low-cost rooms; however, the condition was written broadly to allow for any form of lower-cost visitor accommodation. As conditioned, the proposed development will increase the amount of visitor-serving opportunities in the coastal zone and also contribute toward providing lower-cost accommodations.

The construction of the two-building hotel allows for four on-site parking spaces, one regular parking space, two tandem parking spaces, and one Americans with Disabilities Act (ADA) parking space. The City has required the applicant to pay an in-lieu fee, in the amount \$28,900 per required parking space not provided on-site. Therefore, the applicant has agreed to purchase from the City of Hermosa Beach 2 in-lieu parking fees totaling \$57,800 as mitigation for the 2 parking spaces. The fee will be deposited into an established fund that will be used for future construction of public parking opportunities near the beach in Downtown Hermosa Beach. All costs associated with the relocation of on-street parking spaces, meters, and signage are at the expense of the applicant. In addition, two of the hotel units are required to be vehicle-free whenever the property is more than 65% occupied. The proposed project will not result in the reduction of any on-street parking spaces. As proposed by the applicant, hotel guests will also be given a 10% discount if they stay at the property without a vehicle, the applicant will provide an electric vehicle that can be used by hotel guests, and there will be an electric vehicle charging station provided on-site for guest use.

The Commission certified the City’s LUP in 1982. However, the City does not yet have a certified Local Coastal Program (LCP). Therefore, the standard of review for this project

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is Chapter 3 of the Coastal Act and the certified Land Use Plan (LUP) for Hermosa Beach provides guidance.

Commission staff recommends that the Commission **APPROVE** coastal development permit application 5-20-0181, as conditioned. The motion is on page 5. The standard of review is Chapter 3 of the Coastal Act.

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## EXHIBITS

[Exhibit 1 – Vicinity Map and Project Location](#)

[Exhibit 2 – Site Plans](#)

[Exhibit 3 – Hermosa Certified LUP Map](#)

[Exhibit 4 – Feasibility Analysis](#)

[Exhibit 5 – Cost-Per-Sq. Ft. Analysis from Applicant](#)

[Exhibit 6 – Parking Constraints of the Proposed Development](#)

## I. MOTION AND RESOLUTION

### Motion:

I move that the Commission approve Coastal Development Permit No. 5-20-0181 pursuant to the staff recommendation.

### Staff Recommendation of Approval:

Staff recommends a **YES** vote on the foregoing motion. Passage of this motion will result in approval of the permit as conditioned and adoption of the following resolution and findings. The motion passes only by affirmative vote of a majority of the Commissioners present.

### Resolution to Approve the Permit:

The Commission hereby approves a coastal development permit for the proposed development and adopts the findings set forth below on grounds that the development as conditioned will be in conformity with the policies of Chapter 3 of the Coastal Act and will not prejudice the ability of the local government having jurisdiction over the area to prepare a Local Coastal Program conforming to the provisions of Chapter 3. Approval of the permit complies with the California Environmental Quality Act because either 1) feasible mitigation measures and/or alternatives have been incorporated to substantially lessen any significant adverse effects of the development on the environment, or 2) there are no further feasible mitigation measures or alternatives that would substantially lessen any significant adverse impacts of the development on the environment.

## II. STANDARD CONDITIONS

1. **Notice of Receipt and Acknowledgment.** The permit is not valid and development shall not commence until a copy of the permit, signed by the applicant or authorized agent, acknowledging receipt of the permit and acceptance of the terms and conditions, is returned to the Commission office.
2. **Expiration.** If development has not commenced, the permit will expire two years from the date on which the Commission voted on the application. Development shall be pursued in a diligent manner and completed in a reasonable period of time. Application for extension of the permit must be made prior to the expiration date.
3. **Interpretation.** Any questions of intent or interpretation of any condition will be resolved by the Executive Director or the Commission.

4. **Assignment.** The permit may be assigned to any qualified person, provided assignee files with the Commission an affidavit accepting all terms and conditions of the permit.
5. **Terms and Conditions Run with the Land.** These terms and conditions shall be perpetual, and it is the intention of the Commission and the applicant to bind all future owners and possessors of the subject property to the terms and conditions.

### III. SPECIAL CONDITIONS

1. **Lower-Cost Overnight Accommodations Mitigation Fee.** Prior to the issuance of the of the Certificate of Occupancy for the hotel, or within 3 years of Coastal Commission approval of this permit, whichever is sooner, the applicant shall pay the mitigation fee for 25% of the number of high-cost rooms developed on-site, totaling \$150,000. The Executive Director may extend this deadline for good cause.
  - A. The \$150,000 in-lieu fee shall be deposited into an interest-bearing account(s), to be established and managed by the California State Coastal Conservancy (the "Conservancy").
  - B. Prior to expenditure of any funds contained in this account, the Executive Director shall review and approve, in writing, the proposed use of the funds as being consistent with the intent and purpose of this condition. The Conservancy shall use the funds to support expanding availability of lower-cost overnight visitor accommodations, such as lower-cost hotel rooms, hostel beds, tent campsites, cabins or campground units, at appropriate locations within the coastal area of Hermosa Beach or the greater Los Angeles County coastal area, or a similar project to promote access to the coast.
  - C. The in-lieu fee will be transferred to the Conservancy; therefore, the funds shall be used pursuant to the existing MOU between the Coastal Commission and the Conservancy, dated August 2018, and for the purposes described in subsection B, above. In addition, at least thirty days prior to the transfer of the funds, the Permittee shall provide the Conservancy with any documentation necessary to the Conservancy, including information needed to effectuate transfer of the Funds to the Conservancy, unless the Permittee receives a waiver of this requirement in writing from the Conservancy's Executive Officer.
2. **Storage of Construction Materials, Mechanized Equipment and Removal of Construction Debris.** The applicant shall comply with the following construction related requirements:
  - A. No demolition or construction materials, debris, equipment or waste shall be placed or stored in any location where it may enter or impact sensitive habitat areas, streams, wetlands, receiving waters or a storm drain, or be subject to wave, wind, rain, or tidal erosion and dispersion.

- B. The permittee shall employ Best Management Practices (BMPs) to ensure that erosion is minimized and the sea is protected from sedimentation.
  - C. Any and all debris resulting from demolition or construction activities shall be removed from the project site within 24 hours of completion of the project.
  - D. Demolition or construction debris and sediment shall be removed from work areas each day that demolition or construction occurs to prevent the accumulation of sediment and other debris that may be discharged into coastal waters.
  - E. All trash and debris shall be disposed in the proper trash and recycling receptacles at the end of every construction day.
  - F. The applicant shall provide adequate disposal facilities for solid waste, including excess concrete, produced during demolition or construction.
  - G. Debris shall be disposed of at a legal disposal site or recycled at a recycling facility. If the disposal site is located in the coastal zone, a coastal development permit or an amendment to this permit shall be required before disposal can take place unless the Executive Director determines that no amendment or new permit is legally required.
  - H. All stock piles and construction materials shall be covered, enclosed on all sides, shall be located as far away as possible from drain inlets and any waterway, and shall not be stored in contact with the soil.
  - I. Machinery and equipment shall be maintained and washed in confined areas specifically designed to control runoff. Thinners or solvents shall not be discharged into sanitary or storm sewer systems.
  - J. The discharge of any hazardous materials into any receiving waters shall be prohibited.
  - K. Spill prevention and control measures shall be implemented to ensure the proper handling and storage of petroleum products and other construction materials. Measures shall include a designated fueling and vehicle maintenance area with appropriate berms and protection to prevent any spillage of gasoline or related petroleum products or contact with runoff. The area shall be located as far away from the receiving waters and storm drain inlets as possible.
  - L. Best Management Practices (BMPs) and Good Housekeeping Practices (GHPs) designed to prevent spillage and/or runoff of demolition or construction-related materials, and to contain sediment or contaminants associated with demolition or construction activity, shall be implemented prior to the on-set of such activity
  - M. All BMPs shall be maintained in a functional condition throughout the duration of construction activity.
3. **Public Access.** The permittee shall ensure that public access to the nearby beach and coastal access off of 10th Street is not inhibited by the construction or operation of the development.
4. **General Occupancy Agreement.** BY ACCEPTANCE OF THIS PERMIT, the applicant agrees that all hotel facilities shall be open to the general public. No

timeshare or other fractional ownership or long-term occupancy of units is permitted without an amendment to this permit. No rooms shall be rented for more than 30 consecutive days. Rooms shall be rented in accordance with any local government limitations on length of hotel stay.

5. **Compliance with Local Conditions Approval.** All conditions imposed by the City under legal authority other than the Coastal Act continue to apply.
6. **Deed Restriction.** PRIOR TO ISSUANCE OF THIS COASTAL DEVELOPMENT PERMIT, the applicant shall submit to the Executive Director for review and approval documentation demonstrating that the landowner has executed and recorded against the parcel(s) governed by this permit a deed restriction, in a form and content acceptable to the Executive Director: (1) indicating that, pursuant to this permit, the California Coastal Commission has authorized development on the subject property, subject to terms and conditions that restrict the use and enjoyment of that property; and (2) imposing the special conditions of this permit as covenants, conditions and restrictions on the use and enjoyment of the Property. The deed restriction shall include a legal description of the entire parcel or parcels governed by this permit. The deed restriction shall also indicate that, in the event of an extinguishment or termination of the deed restriction for any reason, the terms and conditions of this permit shall continue to restrict the use and enjoyment of the subject property so long as either this permit or the development it authorizes, or any part, modification, or amendment thereof, remains in existence on or with respect to the subject property.

## IV. FINDINGS AND DECLARATIONS

### A. Project Location and Description

The subject site is located at 70 10<sup>th</sup> Street, within the City of Hermosa Beach, in Los Angeles County ([Exhibit 1](#)). The site is currently developed with an historic two-story single-family residence of 1,841 sq. ft that was built in 1910. The lot is 4,025 sq. ft. and is located approximately 400 feet from the inland extent of the beach. The site is directly adjacent to residential uses along its western and southern borders and commercial uses to the north and east of the project location. The site is zoned C-2 (Restricted Commercial) and the City of Hermosa Beach's certified Land Use Plan (LUP) designation is General Commercial ([Exhibit 3](#)).

The applicant proposes to construct a new 2,742 sq. ft., three-story 5-unit hotel building and convert the existing two-story, 1,841 sq. ft. single-family residence to a single-unit hotel for a total of a two-building hotel with 6 high-cost units ([Exhibit 2](#)). The conversion of the existing single-family residence would result in a beach bungalow hotel unit that is 1,841 sq. ft. The proposed beach bungalow hotel unit would have two bedrooms, two bathrooms, a living room, a dining room, a full kitchen, and a laundry room with a washer and dryer. The five other units would be in the new three-story building that is proposed to have the same architectural design and style as the beach bungalow. The applicant has worked with a historical consultant to design a 5-unit structure behind the



existing historic single-family residence that the applicant contends will complement the existing historic single-family residence's original architecture. Each of the five units in the new building would be approximately 550 sq. ft., inclusive of a bedroom and bathroom. The applicant is proposing 4 on-site parking spaces and to pay in-lieu fees for 2 parking spaces to the City of Hermosa Beach. The applicant is also proposing to install a bicycle rack that can accommodate at least 8 bicycles and to provide a minimum of four shared bicycles to be provided on-site for hotel guests. In addition, the applicant is proposing to give hotel guests a 10% discount if they stay at the property without a vehicle, the applicant will provide an electric vehicle that can be used by hotel guests, and there will be an electric vehicle charging station provided on-site. The hotel will be managed by an off-site local real estate broker and property management firm and will use a local cleaning service that offers drop-off and pick-up of cleaning staff thus eliminating the need for staff parking spaces on-site.

## **B. Lower-cost Overnight Accommodations**

**Section 30213** of the Coastal Act states:

Lower-cost visitor and recreational facilities shall be protected, encouraged, and where feasible, provided. Developments providing public recreational opportunities are preferred. The commission shall not: (1) require that overnight room rentals be fixed at an amount certain for any privately owned and operated hotel, hotel, or other similar visitor-serving facility located on either public or private lands; or (2) establish or approve any method for the identification of low or moderate income persons for the purpose of determining eligibility for overnight room rentals in any such facilities.

**Section 30222** of the Coastal Act states:

The use of private lands suitable for visitor-serving commercial recreational facilities designed to enhance public opportunities for coastal recreation shall have priority over private residential, general industrial, or general commercial development, but not over agriculture or coastal-dependent industry.

Sections 30213 and 30222 of the Coastal Act establish a higher priority for visitor serving and recreational uses over lesser priority uses such as residential, industrial, or general commercial. These policies prioritize visitor serving uses within the coastal zone. Section 30213 requires permitted development to protect, encourage and, where feasible, provide lower-cost visitor and recreational facilities. There are numerous examples of the Commission applying this policy to protect and provide lower-cost overnight accommodations for the visiting public with new development applications for overnight accommodations. In order to protect a range of overnight accommodations in the coastal zone, the Commission has interpreted this policy to require that when new overnight accommodations are proposed, the accommodations will provide facilities that serve people with a range of incomes, including lower economic means, or will otherwise provide for lower-cost overnight accommodations.

## Overnight Accommodations Trends

Historically, the Commission has approved new hotel developments along the coastline because they are visitor-serving facilities. These hotels, however, are often exclusive because of their high room rates, particularly in recent years. The Commission has required mitigation for the use of land that would have been available for lower-cost and visitor-serving facilities (NPB-MAJ-1-06 Part A).<sup>1</sup> The Commission has approved projects and LCP amendments that require that development of overnight accommodations provide facilities which serve the public with a range of incomes HNB-MAJ-2-06 (Huntington Beach-Timeshares)<sup>2</sup>; A-6-PSD-8-04/101 (San Diego-Lane Field)<sup>3</sup>; A-5-RPV-2-324 (Rancho Palos Verdes-Long Point)<sup>4</sup>; RDB-MAJ-2-08 (Redondo Beach)<sup>5</sup>; SBV-MAJ-2-08 (Ventura)<sup>6</sup>; 5-98-156- A17<sup>7</sup> (Long Beach-Pike Hotel); LOB-MAJ-1-10 (Long Beach-Golden Shore).<sup>8</sup> If the development does not provide for a range of affordability on-site, the Commission has required off-site mitigation, such as payment of an in-lieu mitigation fee, to fund construction of lower-cost overnight accommodations such as hostels, RV parks, and campgrounds.<sup>9</sup>

As more high-cost hotels are developed, the remaining lower-cost to moderate-cost hotel accommodations in the coastal zone tend to be older structures that become less economically viable as time passes. Further, as more redevelopment occurs, the stock of lower-cost overnight accommodations tends to be reduced, since it is often more lucrative for developers to replace these structures with higher-cost accommodations. Commission staff prepared a 2016 study of Low-cost Visitor Accommodations, which reviewed statewide data about overnight accommodations lost in the coastal zone since 1989. In its report to the Commission in November 2016, staff found that out of six “cost” categories ranging from “economy” to “luxury,” a total of 24,720 economy rooms were lost, compared to 11,247 rooms of the remaining five classes. Economy rooms have been lost over the same time period at over twice the rate of all other cost categories combined. Thus, all told, nearly 70% of all rooms that have been lost since 1989 have been economy rooms, whereas less than 10% of the rooms lost have been in the upscale and luxury categories, and less than 0.2% have been lost in the luxury category. Such trends have made it that much more difficult for lower-cost visitors to

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<sup>1</sup> <https://documents.coastal.ca.gov/reports/2007/7/T14a-7-2007.pdf>

<sup>2</sup> <https://documents.coastal.ca.gov/reports/2007/4/W13a-4-2007.pdf>

<sup>3</sup> <https://documents.coastal.ca.gov/reports/2009/1/Th13a-1-2009.pdf>

<sup>4</sup> <https://documents.coastal.ca.gov/reports/2003/8/Th17c-8-2003.pdf>

<sup>5</sup> <https://documents.coastal.ca.gov/reports/2009/7/Th11a-7-2009.pdf>

<sup>6</sup> <https://documents.coastal.ca.gov/reports/2009/11/Th11b-11-2009.pdf>

<sup>7</sup> <https://documents.coastal.ca.gov/reports/2009/12/W18a-12-2009.pdf>

<sup>8</sup> <https://documents.coastal.ca.gov/reports/2011/6/Th18a-6-2011.pdf>

<sup>9</sup> <https://documents.coastal.ca.gov/reports/2020/6/F18a/F18a-6-2020-report.pdf>;

<https://documents.coastal.ca.gov/reports/2014/2/Th16e-2-2014.pdf>;

<https://documents.coastal.ca.gov/reports/2015/10/w9a-10-2015.pdf>

access the coast. This is particularly true for visitors traveling from inland locations that cannot easily make the trip to the coast and back home again in a single day.

Although statewide demand for lower-cost accommodations in the coastal zone is difficult to quantify, there is no question that low-cost hotels, camping, and hostel opportunities are in high demand in coastal areas, and that there is an on-going need to provide more lower-cost opportunities along California's coast. In a survey conducted in an assessment of low-coast over-night accommodations, "...respondents cited financial concerns as the primary reason they do not stay overnight at the coast. Over 45% of Californians said that overnight accommodations at the coast were inconvenient or unaffordable."<sup>10</sup>

The reduction in low- and moderate-cost overnight accommodations in the coastal zone is an environmental justice issue. The Commission's Environmental Justice Policy, adopted in March 2019, states in part "...the conversion of lower-cost visitor-serving facilities to high-cost facilities is also a barrier to access for those with limited income, and contributes to increased coastal inequality." In light of the trend in the market to provide luxury hotels, as well as the demolition of existing lower-cost hotels and hotels along the coast, it is becoming increasingly important to protect and provide lower-cost overnight accommodations in the coastal zone as required by Section 30213 of the Coastal Act. With far fewer low-cost lodging facilities, a large segment of the population will be effectively excluded from overnight stays at the coast. "Financial reasons" was listed as the number one barrier to staying overnight at the coast, as identified by respondents to a State Coastal Conservancy-commissioned survey in 2017. By forcing this economic group to lodge elsewhere (or to stay at home), there is an adverse impact on the public's ability to access the beach and coastal recreational areas. Therefore, by protecting and providing low-cost lodging for the price-sensitive visitor, a broader segment of the population will have the opportunity to visit the coast.

In order to protect and provide for lower-cost visitor-serving facilities, the Commission has imposed in-lieu mitigation fees on development projects that remove existing facilities and/or propose only new high cost overnight accommodations, or change the land use to something other than overnight accommodations. By requiring such mitigation, a method is provided to assure that at least some lower-cost overnight accommodations will be protected and/or provided.

As the trend to demolish or convert low-cost hotels continues, and most newly constructed hotels are designed and marketed as high cost products, persons of low and moderate incomes will make up fewer of the guests staying overnight in the coastal zone. Without more low and moderate-cost lodging facilities, a significant segment of the population will be excluded from overnight stays at the coast. Access to coastal

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<sup>10</sup> To address the need for affordable coastal accommodations, in 2017 the California State Legislature enacted AB 250 which created the State Coastal Conservancy's Explore the Coast Overnight Program and called for the preparation of a Lower-Cost Coastal Accommodations Assessment ([https://scc.ca.gov/webmaster/ftp/pdf/sccbb/2019/1903/20190314Board04E\\_ETCO-Report.pdf](https://scc.ca.gov/webmaster/ftp/pdf/sccbb/2019/1903/20190314Board04E_ETCO-Report.pdf))

recreational facilities, such as beaches, harbors, piers, and special coastal communities, is enhanced when lower-cost and moderate-cost overnight lodging facilities exist to serve a broad segment of the population.

### **Defining Lower-cost**

The first step to implement Coastal Act 30213 requirements is to define what is and is not a lower-cost unit. In a constantly changing market, it can be difficult to define what price point constitutes low-, moderate-, and high-cost accommodations for a given area. As such, the Commission has utilized different approaches over time to define such terms, including by considering the unique factual circumstances for each particular project. In previous actions, the Commission has addressed what are appropriate terms for defining lower-cost and high-cost hotels, including applying a quantitative methodology for determining what is considered “lower-cost.” The formula is based on California hotel and motel accommodations (single room up to double occupancy), and does not account for hostels, RV parks, campgrounds or other alternative accommodations into the equation, as these facilities do not typically provide the same level of accommodation as hotels and motels. Rather, hostels and campgrounds are generally inherently lower-cost, and are the type of facilities that a mitigation measure for the loss of lower-cost overnight accommodations might require.

The formula calculates the average daily peak rate (generally July and August) of lower-cost hotels and motels based on the average daily rates of hotels and motels across the entire State of California. Under this formula, lower-cost is determined as the average daily room rates for all hotels within a specific area that have a room rate 75% less than the statewide average daily room rate. To obtain data inputs for the formula, statewide average daily room rates (ADR) are collected monthly by Smith Travel Research (STR) and are available on the “Visit California” webpage. To be most useful, peak season (summer) rates for standard, double occupancy rooms are utilized for the formula, and to ensure that the lower-cost hotels and motels surveyed meet a minimally acceptable level of quality, including safety and cleanliness, standard use of the formula only includes AAA Auto Club-rated properties, that are rated one- and two-diamond rated hotels. Once the low-cost rate is identified, the Commission has determined that the high-cost rates are generally prices 125% higher than the statewide average daily room rate. By definition, the hotel rooms that are more expensive than the low-cost room rate as calculated, but less expensive than the high-cost room rate as calculated, qualify as moderate-cost rooms. In other words, if \$100 was the statewide average room rate, and low-cost rooms were determined to be 25% less (or \$75), then high cost would be defined as those rooms 125% above the statewide average, or \$125. The moderate-cost rooms would range between \$75 to \$125.

After defining the project as low-, moderate-, or high-cost, the Commission must next determine how many, if any, lower-cost rooms/units should be provided for a given project as mitigation for impacts to lower-cost visitor accommodations caused by the proposed development. In past projects, the Commission has found that one way to protect lower-cost accommodations, as required by section 30213, is to ensure that at least 25% of the number of new proposed high-cost rooms are lower-cost. In other

words, 25% of the proposed high-cost rooms must be reserved at the identified low-cost rate. Although the provision of on-site lower-cost accommodations is superior, if on-site provision is found to be infeasible, the Commission has alternatively required “in-lieu” mitigation payments for the construction of an equivalent number of lower-cost rooms/units (such as hostel beds) off-site. The funds are paid into an account managed by an appropriate entity, including the local government, State Coastal Conservancy, California State Parks, Hostelling International, or a similar agency familiar with low-cost accommodations management, to ensure that such funds are spent on new lower-cost units, including new campground and hostel facilities.

First, using the Commission’s methodology, as described above, to define the low-cost room price threshold, Commission staff obtained statewide peak season (July 2019 and August 2019) average daily room rates (ADR) collected monthly by Smith Travel Research (STR) and available on the “Visit California” webpage, which were \$172.66 for July 2019 and \$173.85 for August 2019. The average daily room rates for the year 2019 are being used since the average daily room rates for 2020 have dropped significantly due to the COVID-19 pandemic and would not correctly identify that average daily room rate under non pandemic circumstances. Using the July 2019 ADR, the low-cost rate is \$129.50, high-cost rate is \$215.83, and the moderate-cost is between \$129.51 and \$215.82. Using the August 2019 ADR, the low-cost rate is \$130.39, high-cost rate is \$217.31, and the moderate-cost is between \$130.39 and \$217.30. Taking an average from both July 2019 and August 2019, the statewide rate is: July/August 2019 ADR is \$173.26; the low-cost rate is \$129.95, high-cost rate is \$216.57, and the moderate-cost is between \$129.95 and \$216.57.

All of the proposed rooms of the subject application are high-cost based on the ADR discussion above. Since all 6 rooms are proposed to be high-cost, the new visitor-serving accommodation, as proposed, does not adequately protect lower cost visitor-serving accommodations. The applicant contends that it is not able to provide on-site low-cost accommodations based on the projected finances for the proposed development.

For the subject application, Commission staff requested that the applicant submit a feasibility study to incorporate lower-cost overnight accommodations into the project. The applicant responded with a feasibility analysis which analyzed the projected net income for the hotel, assuming three sets of room rates and three vacancy rates (a total of nine scenarios); however, the analysis did not provide the feasibility of incorporating any lower-cost rooms. Commission staff confirmed with the applicant that there were a few errors in the analysis and requested a corrected analysis; however, the applicant did not provide the corrected analysis. Thus, Commission staff corrected the errors and conducted an analysis of the economic feasibility of providing 1 on-site low-cost room. The initial feasibility analysis, the corrected feasibility analysis and the incorporation of 1 on-site low-cost accommodations is shown as [Exhibit 4](#).

The analysis indicates that provision of 1 low-cost unit would result in net negative operating income in seven of the nine scenarios of the various room and vacancy rates (the two scenarios that showed a positive annual operating income utilized room rates

of \$625 and \$675 for the beach bungalow and \$300 and \$325 for the standard rooms as well as 85% occupancy throughout the year). It should be noted that the room rates provided by the applicant in the initial feasibility analysis (and then used in staff's analysis) have not been finalized by the applicant; therefore, the conclusions from the applicant's and staff's analyses are approximations only. Provision of a low-cost room on-site would result in negative operating income, except for in the two most optimistic scenarios; however, it is difficult to forecast the economic feasibility of the proposed project given the current economic downturn and without confirmed nightly room rates from the applicant. Thus, provision of a low-cost hotel unit would potentially not be feasible from an economic perspective. Given that it appears infeasible to provide lower-cost accommodations on-site, it appears that off-site mitigation is appropriate in this case.

### **Beach Bungalow Hotel Unit**

The applicant contends that the beach bungalow unit is being offered at a lower price than other hotels in Hermosa Beach using a cost-per-sq. ft. analysis. As previously mentioned, this unit can sleep up to 8 people, is 1,814 sq. ft., has 2 bedrooms and 2 bathrooms, a living room, a dining room, a full kitchen, and a laundry room with a washer and dryer. Although there is no Commission precedent for determining if a hotel is defined as low-cost using a cost-per-sq. ft. analysis, the applicant provided a market comparison of the proposed development's proposed nightly room rates on a sq. ft. basis with rates charged for hotels within Hermosa Beach ([Exhibit 5](#)). The comparison shows that the cost-per-sq. ft. for the proposed hotel rooms, the standard five rooms and the beach bungalow, have an average cost of \$.54/sq. ft. per day and \$.34/sq. ft. per day, respectively. The analysis shows that the range of average cost-per-sq. ft. for other hotels in Hermosa Beach range from \$.36/sq. ft. per day to \$.92/sq. ft. per day.<sup>11</sup> Thus, on a cost-per-sq. ft. basis, the standard rooms (5 units) fall within range of the other hotels in the area, and the beach bungalow is below that range. However, it should be noted that this analysis, while it does provide an estimate of the costs per sq. ft. for the subject units relative to other units in the area, the cost of the units as proposed by the applicant are still high-cost. Even though the rooms may be reasonably priced according to other hotels in the area, the applicant's price per night range does not provide a low-cost room on-site and does not fulfill the Coastal Act 30213 requirement to protect, encourage or provide lower-cost visitor and recreational facilities. For example, a family from a low-income census tract may simply not be able to afford \$575-\$675 a night, regardless of it accommodating up to 8 people. Therefore,

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<sup>11</sup> Specifically, the analysis shows that the Quality Inn and Suites at 901 Aviation Blvd. has an average cost of \$.36/sq. ft. per day; the Sea Sprite Hotel at 1016 The Strand has an average cost of \$.50/sq. ft. per day; the Grandview Inn at 55 14th St. has an average cost of \$.51/sq. ft. per day; the Holiday Inn Express at 125 Pacific Coast Hwy has an cost of \$.55/sq. ft. per day; the Hampton Inn & Suites at 1530 Pacific Coast Hwy has an average cost of \$.58/sq. ft. per day; the H20 Hotel at 1429 Hermosa Ave. has an average cost of \$.69 per sq. ft. per day; the Beach House at 1300 The Strand has an average cost of \$.80/sq. ft. per day; and Hotel Hermosa at 2515 Pacific Coast Hwy has an average cost of \$.92/sq. ft. per day.

the results of the analysis are helpful to compare the proposed development's hotel units to other hotel units in the area; however, the applicant is not proposing to provide low-cost rooms on-site according to the formula mentioned above (25% less than statewide ADR) due to the economic constraints.

Additionally, staff conducted a short term rental analysis to compare the beach bungalow unit's rates (the applicant approximated the nightly rates at \$575, \$625 and \$675) to other rates charged for 2-bedroom and 3-bedroom units located within approximately a block from the beach in Hermosa Beach. It should be noted that short term rentals are not necessarily lower-cost accommodations and there is no average daily room rate for these types of accommodations. It is nevertheless reasonable to do this analysis for the beach bungalow, as it provides a comparison to other short-term rental units in the area that also offer larger, family-style accommodations with more than one bedroom and full kitchens. The analysis found that the average nightly rate for a 2-bedroom or 3-bedroom short-term rental in Hermosa Beach (of the 7 units analyzed from AirBnB and VRBO) was \$485 in the peak season and \$368 in the off season.<sup>12</sup> Both of these prices (peak and off season) are below the approximate nightly room prices of \$575, \$625 and \$675 for the proposed beach bungalow. As mentioned before, there are no average daily room rates for these types of accommodations, but the analysis shows that the proposed room rates are still higher than other similar accommodations in the area. A similar conclusion about the cost per sq. ft. analysis can be made here: a family from a low-income census tract may simply not be able to afford \$575-\$675 per night, even though it is a larger unit than a traditional hotel and is able to accommodate up to 8 people.

### **Mitigation Requirement**

The Commission has found in past actions that, under most circumstances, for high-cost overnight visitor accommodations where low-cost alternatives are not included on-site, a fee may be used to compensate for the fact that at least 25% of the rooms on-site are not being provided as lower-cost rooms.<sup>13</sup> The proposed project includes 6 new high-cost units; therefore, mitigation would be for 1.5 rooms (25% of 6 rooms is 1.5 rooms). The applicant is not able to provide any low- or moderate-cost rooms on-site (all units are proposed at nightly prices approximated well above the high-cost \$216.36 ADR threshold); therefore, in order to protect lower-cost accommodations in the coastal zone, the applicant is required to provide an in-lieu fee sufficient to provide 1.5 lower cost rooms off-site. In 2015, the Commission's consultant estimated a construction cost of \$100,000 per motel room (excluding land costs), with each motel room requiring 250

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<sup>12</sup> Rates do not include any discounts offered, the cleaning fee nor the service fee.

<sup>13</sup> 5-14-1785 (<https://documents.coastal.ca.gov/reports/2015/10/w9a-10-2015.pdf>); 6-13-0407 (<https://documents.coastal.ca.gov/reports/2014/2/Th16e-2-2014.pdf>);

square feet of land area.<sup>14</sup> Thus, to mitigate for 1.5 rooms, the mitigation fee would be \$150,000.<sup>15</sup> In this case, the proposed development is a small, boutique hotel which will convert an existing single-family residence to a visitor-serving use. As previously discussed, it is not economically feasible for any of the units on-site to be offered as lower-cost units. Thus, **Special Condition 1** requires the applicant to submit an in-lieu mitigation fee of \$150,000, paid prior to the issuance of the of the Certificate of Occupancy or within 3 years of Coastal Commission approval, whichever is sooner, and ensures that the funds will be directed toward the State Coastal Conservancy, to support expanding availability of lower-cost overnight visitor accommodations in the coastal zone. The preferred use of the in-lieu fee is for the provision of low-cost rooms; however, the condition was written broadly to allow for any form of lower-cost visitor accommodation.

Only as conditioned can the proposed development be found to be consistent with Section 30213 of the Coastal Act.

### **C. Public Access**

**Section 30210** of the Coastal Act states:

In carrying out the requirement of Section 4 of Article X of the California Constitution, maximum access, which shall be conspicuously posted, and recreational opportunities shall be provided for all the people consistent with public safety needs and the need to protect public rights, rights of private property owners, and natural resource areas from overuse.

**Section 30211** of the Coastal Act states:

Development shall not interfere with the public's right of access to the sea where acquired through use or legislative authorization, including, but not limited to, the use of dry sand and rocky coastal beaches to the first line of terrestrial vegetation.

**Section 30220** of the Coastal Act states:

Coastal areas suited for water-oriented recreational activities that cannot readily be provided at inland water areas shall be protected for such uses.

**Section 30253(d)** of the Coastal Act states, in relevant part:

New development shall do all of the following:

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<sup>14</sup> Refer to Exhibit 6 in 5-18-0872 (<https://documents.coastal.ca.gov/reports/2020/6/F18a/F18a-6-2020-exhibits.pdf>)

<sup>15</sup> 25% of the 6 high cost rooms \* \$100,000 per room (0.25\*6\*\$100,000) =\$150,000



(d) Minimize energy consumption and vehicle miles traveled.

The downtown beach pier area (close to the proposed development) in Hermosa Beach is a major visitor destination for recreational purposes. Public access to Hermosa Beach is available approximately 400 feet west of the proposed development on 10<sup>th</sup> Street. The proposed development will not interfere with the public's ability to access the coast by foot or bicycle, however, for those traveling by car, public access to the coast is largely limited by the amount of on-street parking.

The applicant provided a parking demand analysis for the proposed development. According to a Parking and Traffic consultant to the City of Hermosa Beach, peak parking demand for motel uses typically occurs during overnight hours from 9:00 p.m. to 10:00 a.m. daily.<sup>16</sup> Motel uses have peak times which coincide with times of the week where public parking is more available when compared to general retail and office uses. The nearest public surface parking lot, which contains 130 parking spaces, is located approximately 1 block (300 feet) away from the proposed development at 1101 Hermosa Avenue (Lot A). Lot B contains 37 parking spaces and is located north of 13th Court, between Hermosa Avenue and Beach Drive, and is approximately two-and-a-half blocks (750 feet) away. The public parking structure containing 261 parking spaces located at 13th Street and Hermosa Avenue (Lot C) is located approximately 3 blocks (900 feet) away. The overall public parking lot occupancy for Lots A, B and C is between 79% to 95% during weekday evenings and weekend afternoons. Public parking spaces are provided throughout the Downtown, which is located within Zone 2 of the coastal zone public parking supply (between 16th Street and 8th Street and as far east as Ardmore Avenue). In Zone 2, through a combination of public parking lots and metered street parking spaces, occupancy rates range between 51% and 62% during weekday evenings and weekend afternoons.

Additionally, the applicant contends that there are rideshare (i.e., Uber and Lyft) and bus lines which may provide parking relief options for hotel occupants. Specifically, there are the bus lines 130 and 109, which have stops along Hermosa Avenue. A Parking Analysis conducted for the proposed Strand and Pier Hotel project (11 and 19 Pier Ave., 1250 and 1272 The Strand, and 20, 30, and 32 13th St.) indicated through traffic counts for the next door Beach House Hotel (containing 96 rooms) that during the Friday evening peak hour (June 23, 2017), there were 12 Uber/Lyft trips (approximately 35% of the total trips) which suggests that a large portion of motel guests may arrive via Uber/Lyft.

While the certified LUP does not have specific requirements for the amount of parking spaces required with the proposed development, the Hermosa Beach Municipal Code (HBMC) requires motels to provide one parking space for each unit. The proposed project will consist of six motel units, which requires a total of six parking spaces. HBMC

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<sup>16</sup> It should be noted that the proposed development is considered a hotel to the applicants; however, they used the word "motel" in the parking demand analysis.

Section 17.44.040 (E) 2.b. requires building sites exceeding a 1:1 gross floor area to building site area ratio to provide a minimum of 25% of the required parking on-site, with the remaining required parking authorized to be paid through in-lieu fee contributions with approval of a parking plan. In order to protect public access, the new development must provide sufficient parking to ensure that hotel visitors do not take parking spaces that would otherwise be available for coastal access. Although not part of the Commission's standard of review, it is reasonable to look to the City's municipal code to assess the amount of parking that would be needed for this type of new development. Thus, **Special Condition 5** requires that the applicant follow all the conditions imposed by the City, including the parking plan. The applicant will provide 4 on-site parking spaces and pay an in-lieu fee for the other 2 parking spaces (the 2 parking spaces will not fit on-site as shown in [Exhibit 6](#)). The applicant has agreed to pay the City of Hermosa Beach the in-lieu fees, in the amount \$28,900 per required parking space not provided on-site (totaling \$57,800 as mitigation for the 2 parking spaces). The fee will be deposited into a fund that will be used for future construction of public parking opportunities near the beach in Downtown Hermosa Beach. All costs associated with the relocation of on-street parking spaces, meters, and signage are at the expense of the applicant. In addition, two of the hotel units are required to be vehicle-free whenever the property is more than 65% occupied. Guests will also be given a 10% discount if they stay at the property without a vehicle. The applicant also states that an electric vehicle will be provided on-site for hotel guests as well as an electric vehicle charging station, consistent with 30253(d) of the Coastal Act to minimize energy consumption.

The applicant is also proposing to install a bicycle rack that can accommodate at least 8 bicycles and to provide a minimum of four shared bicycles to be provided on-site for hotel guests. All rooms will have keyless entry and the applicant proposes that this type of entry eliminates the need for 24-hour on-site registration staffing. The hotel will be managed by an off-site local real estate broker and property management firm and will use a local cleaning service that offers drop-off and pick-up of cleaning staff, thus eliminating the need for staff parking spaces on-site.

Additionally, **Special Condition 4** is required to ensure that all hotel rooms shall be available to the general public and not privatized by long-term occupancy or otherwise restricted from public use.

The Commission therefore finds that the proposed project, as conditioned, is consistent with the coastal access and recreation sections (Sections 30210, 30211, and 30220) of the Coastal Act.

## **D. Marine Resources and Water Quality**

**Section 30230** of the Coastal Act states:

Marine resources shall be maintained, enhanced, and where feasible, restored. Special protection shall be given to areas and species of special biological or economic significance. Uses of the marine environment shall be carried out in a manner that will sustain the biological productivity of coastal waters and that will

maintain healthy populations of all species of marine organisms adequate for long-term commercial, recreational, scientific, and educational purposes.

**Section 30231** of the Coastal Act states:

The biological productivity and the quality of coastal waters, streams, wetlands, estuaries, and lakes appropriate to maintain optimum populations of marine organisms and for the protection of human health shall be maintained and, where feasible, restored through, among other means, minimizing adverse effects of waste water discharges and entrainment, controlling runoff, preventing depletion of ground water supplies and substantial interference with surface water flow, encouraging waste water reclamation, maintaining natural vegetation buffer areas that protect riparian habitats, and minimizing alteration of natural streams.

The proposed hotel building is new development, which affords an opportunity to improve water quality. Much of the pollutants entering the ocean come from land-based development. The Commission finds that it is necessary to minimize to the extent feasible within its jurisdiction the cumulative adverse impacts on water quality resulting from incremental increases in impervious surface associated with additional development. Reductions in the amount of pollutants in the existing runoff would be one step to begin to reduce cumulative adverse impacts to coastal water quality. As such, appropriate measures must be taken to assure that adverse effects on water quality are minimized.

The proposed development has a potential for a discharge of polluted runoff from the project site into coastal waters. Due to this, the Commission has imposed **Special Condition 2**, which requires the applicant to comply with construction requirements related to storage of construction materials, mechanized equipment and removal of construction debris.

## **E. Deed Restriction**

To ensure that any prospective future owners of the property are made aware of the applicability of the conditions of this permit, the Commission imposes **Special Condition 6**, which requires that the property owner record a deed restriction against the property, referencing all of the above Special Conditions of this permit and imposing them as covenants, conditions and restrictions on the use and enjoyment of the Property. Thus, as conditioned, this permit ensures that any prospective future owner will receive actual notice of the restrictions and/or obligations imposed on the use and enjoyment of the land in connection with the authorized development, including the risks of the development and/or hazards to which the site is subject, and the Commission's immunity from liability.

## **F. Local Coastal Program**

**Section 30604(a)** of the Coastal Act states:

Prior to certification of the Local Coastal Program, a Coastal Development Permit shall be issued if the issuing agency, or the Commission on appeal, finds that the proposed development is in conformity with the provisions of Chapter 3 (commencing with Section 30200) of this division and that the permitted development will not prejudice the ability of the local government to prepare a local coastal program that is in conformity with the provisions of Chapter 3 (commencing with Section 30200).

The Commission conditionally certified the City of Hermosa Beach Land Use Plan on August 19, 1981. The Land Use Plan (LUP) was effectively certified with suggested modifications on April 21, 1982. The modifications were accepted and the LUP is certified. The City submitted a final draft of its zoning and implementation ordinances (LIP) and a revision to their LUP in 2000. The amendment and Implementation ordinance was scheduled for public hearing and Commission action at the October 8, 2001 meeting, but the City withdrew. Therefore, these have not been certified and the standard of review for development in Hermosa Beach is still the Coastal Act.

After initial certification, the Commission processed two amendments that allowed mixed commercial uses in downtown and reduced parking standards to reflect the high number of downtown restaurants and the number of public parking lots. The City determined that enough area has been identified for visitor serving uses and decided to encourage business use, as well as visitor-serving, uses in the downtown. The Commission supported this decision due to the high numbers of existing visitor serving uses in the Hermosa Beach downtown area. The proposed project meets the basic zoning requirements of the C-2 zone (Restricted Commercial) and fulfills another visitor-serving use in the Downtown area.

As conditioned, the proposed development is consistent with Chapter 3 of the Coastal Act and with the certified Land Use Plan for the area. Approval of the project, as conditioned, will not prejudice the ability of the local government to prepare an LCP that is in conformity with the provisions of Chapter 3 of the Coastal Act.

## **G. California Environmental Quality Act**

Section 13096 of the Commission's administrative regulations requires Commission approval of coastal development permit applications to be supported by a finding showing the application, as modified by any conditions of approval, to be consistent with any applicable requirements of the California Environmental Quality Act ("CEQA"). Section 21080.5(d)(2)(A) of CEQA prohibits approval of a proposed development if there are feasible alternatives or feasible mitigation measures available that would substantially lessen any significant impacts that the activity may have on the environment.

In this case, the City of Hermosa Beach is the lead agency and the Commission is a responsible agency for the purposes of CEQA. A Negative Declaration was granted for the proposed development and approved by City Council on October 22, 2019.

5-20-0181 (B&J Capital Group Investments)

The project as conditioned herein incorporates measures necessary to avoid any significant environmental effects under the Coastal Act, and there are no less environmentally damaging feasible alternatives or mitigation measures. Therefore, the proposed project is consistent with CEQA.

## **APPENDIX A – SUBSTANTIVE FILE DOCUMENTS**

City of Hermosa Beach Land Use Plan, Certified by the Commission on April 21, 1982