

# Capitola City Council

## Agenda Report



**Meeting:** March 13, 2024

**From:** Community Development Department

**Subject:** Housing Element Update and 2023 Annual Report

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**Recommended Action:** Receive an update on Housing Element certification, implementation, and the 2023 Annual Report.

**Background:** On November 9, 2023, the City Council unanimously adopted the [6th Cycle Housing Element](#) and authorized staff to submit the document to the State Department of Housing and Community Development (HCD) for Certification.

On January 12, 2024, staff received comments from HCD recommending further items be addressed before HCD certification (Attachment 1). In addition to requests for clarification and additional analysis on minor topics, the HCD letter specifically references the Capitola Mall and asks the City to “commit to establishing heights that encourage redevelopment” and modifications to Chapter 17.88: Incentives for Community Benefits to “remove governmental constraints to the development of housing.”

Capitola Municipal Code Chapter 17.88: Incentives for Community Benefits establishes incentives of additional height and floor area ratio in exchange for community benefits. The City’s Municipal Code provides incentives for the redevelopment of the Capitola Mall because mall redevelopment specifically qualifies as a community benefit. The current incentives include increasing the maximum permitted building height from 40 to 50 feet and the maximum permitted floor area ratio from 1.5 to 2.0 on the Capitola Mall site (CMC § 17.88.050.).

The adopted Housing Element identifies 645 housing units within the Capitola Mall sites, 419 of which are affordable. The 645 units within the Capitola Mall were all located on Merlone Geier Partners (MGP) properties, the majority property owner at the Mall. The adopted Housing Element did not include parcels at the mall not owned by MGP, other than the Macy’s parking lot.

The City’s Housing Element consultants confirmed the development of 645 units could be accommodated within a height limit of 50 feet and a floor area ratio of 2.0. However, the public comments from MGP assert that the Capitola Mall redevelopment project may not be economically feasible under the current development standards with 419 of the units required to be affordable.

In a public comment, MGP indicated an increase in the maximum permitted building height for the mall site to 75 feet would improve project feasibility. A height limit of 60 - 75 feet could result in 1,000 - 1,300 total units on MGP property. MGP also requested an exception to the floor area ratio calculation to exclude parking garages. This modification would incentivize onsite parking. At a time when the state is decreasing/removing parking requirements, having incentives for parking in the Municipal Code may assist in the development of onsite parking. The visual impacts of parking garages can be mitigated through objective design standards.

On February 1, 2024, the Planning Commission held a work session and discussed HCD’s input regarding Chapter 17.88: Incentives for Community Benefits relative to the Capitola Mall. The Commission expressed unanimous support for the request to increase the height limit to 75 feet and the addition of an exception for parking garages from the floor area ratio to encourage redevelopment. The Planning Commission also supported adding design mitigations that include stepping the massing of the building from the street frontage, wrapping parking garages into the site architecture, and limiting the increased 75-foot height limit to the Capitola Mall site.

On February 8, 2024, the City Council received an update on the Housing Element and echoed the Planning Commission’s recommendations related to height, floor area calculations, and additional design mitigation. During the City Council meeting, an MGP representative provided additional comments regarding the Housing Element sites inventory’s stated number of affordable units on the MGP properties . Following public comment, the City Council directed staff to work with MGP on the number of affordable units while preparing an updated draft of the Housing Element for HCD review.

Discussion: The purpose of this agenda item is to provide the City Council with an update on the City’s Housing Element certification process, the implementation plan for the Housing Element, once readopted and certified, and an annual report on housing development.

6<sup>th</sup> Cycle Housing Element: Since the February 2024 meetings, staff has been working with RRM Design and VTA (Housing Element consultants) to revise the Housing Element’s sites inventory to include all mall properties located within the boundaries of 41<sup>st</sup> Avenue, Clares Street, and Capitola Road, except the Kohl’s and the parking area near the food court due to a long-term lease and parking agreements. Previously, the sites inventory only included the MGP properties and the Macy’s parking lot. Rather than concentrating all of the units on the MGP properties and the Macy’s parking lot, the updated Housing Element will distribute the affordable housing requirements throughout all mall properties and include a 15 percent low-income requirement and a five percent moderate-income projection to meet the City’s Regional Housing Needs Allocation (RHNA).

During the March 14, 2024, City Council meeting, staff will provide an update on the recommended modifications to the Housing Element. Staff continues to meet with HCD and MGP to discuss the revisions with the intent to publish an updated draft on approximately March 15, 2024. The update includes changes to the site inventory, which triggers updates to numerous tables and maps throughout the entire document. Staff intends to resubmit to HCD for a conditional approval and then move forward with re-adoption hearings.

Housing Element Implementation Plan: The 6<sup>th</sup> Cycle Housing Element includes a housing plan that outlines goals, policies, and programs. The new housing plan includes 80 items that must be implemented in the first three years of the 8-year housing cycle from 2023 to 2031 (Attachment 2). The following table outlines the broader implementation items and projected timing for completion.

<b>Item</b>	<b>Timing</b>	<b>Who</b>
Agency Coordination	Ongoing	City Staff
Developer Interest Outreach	Annually	City Staff and Local Housing Organizations
Emergency Rental Assistance	Annually	3 <sup>rd</sup> Party
Fee Study Update	2026	3 <sup>rd</sup> Party
Funding Opportunities	Ongoing	City Staff
Create a Home Buyer Assistance Program	2024/2025	Legal
Administer Home Buyer Assistance Program	Ongoing	Legal and 3 <sup>rd</sup> Party
Incentives – Develop Regulatory Incentive	December 2025	City Staff
Mobile Home Programs	Ongoing	City Staff
Progress Reports and Monitoring	Annually	City Staff
Public Information	Annually	City Staff and Local Housing Organizations
Create Rehabilitation Program	December 2025	Legal

Administer Rehabilitation Program	Annually	3 <sup>rd</sup> Party
Security Deposit Program	Annually	3 <sup>rd</sup> Party
Technical Guides (ADU & SB9)	Update w/ Building Code updates	3 <sup>rd</sup> Party
Municipal Code Update	2024/2025	3 <sup>rd</sup> Party

**Annual Housing Report:** The City is required to submit an annual housing report to HCD by April 15<sup>th</sup> of each year (Attachment 4). The following table includes all new units which received building permits within 2023. Projects that were entitled in 2023 but did not receive a building permit are not included in the annual reporting as counting toward the City’s Regional Housing Needs Allocation. In 2023, 15 additional units received building permits, including 1 single-family home and 14 accessory dwelling units. Within the 5<sup>th</sup> Cycle planning period, there were 75 units developed of the 143 assigned under RHNA. Of note, the 36-unit, 100% affordable development at 4401 Capitola Road is not included in the 2023 RHNA due to the building permit being issued in January 2024. It will be included in the 6<sup>th</sup> Cycle reporting.

The following is a list of new housing units for 2023 which count toward RHNA.

Address	Permit #	Type	Income
529 Capitola Ave	20230032	ADU	Above Mod
402 McCormick Ave	20220273	ADU	Above Mod
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621 Gilroy Dr	20220414	ADU	Above Mod
825 Columbus Dr	20220415	ADU	Above Mod
4180 Clares St	20220507	ADU	Above Mod
113 Oakland Ave	20230302	ADU	Above Mod
603 Escalona Dr	20230290	ADU	Above Mod
109 Central Ave	20230138	ADU	Above Mod
435 Monterey Ave	20230140	ADU	Above Mod
2202 Derby Ave	20230110	ADU	Above Mod
1410 Prospect Ave	20230107	SFD	Above Mod
4855 Topaz St	20220542	ADU	Above Mod
1385 Prospect Ave	20220506	ADU	Above Mod
106 Cliff Ave	20220435	ADU	Above Mod
511 Escalona Dr	20190433	ADU	Above Mod

**Fiscal Impact:** None. All costs associated with the implementation of the Housing Element are included in the amended Fiscal Year 2023-24 Budget.

**Attachments:**

1. MGP letter

2. Housing Element List of Implementation Items
3. Annual Housing Report

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