

March 11, 2026

BY ELECTRONIC MAIL

Katie Herlihy  
Community and Economic Development Director  
City of Capitola  
420 Capitola Ave  
Capitola, CA 95010

kherlihy@ci.capitola.ca.us

**Re: Proposed General Plan and Zoning Code Amendments Relating to Capitola Mall**

Dear Ms. Herlihy:

Thank you for the opportunity to provide additional comments regarding the proposed development standards and incentive framework for mixed-use redevelopment in Capitola. Our team appreciates the City's continued engagement as these policies are refined and offers the following recommendations intended to support financially feasible projects while still achieving the City's long-term planning objectives.

### **1. Ground Floor Retail Height**

We recommend adjusting the minimum ground floor retail height requirement to better align with market practices and construction feasibility. While the current proposal establishes a minimum 18-foot floor-to-floor height, our experience suggests that a 16-foot floor-to-floor height with a 14-foot minimum clear height provides adequate flexibility for retail tenants while avoiding unnecessary cost burdens that may discourage redevelopment.

For reference, our Village at San Antonio mixed-use project in Mountain View utilized the following dimensions that we are proposing here successfully (see attachments):

<b>Dimension</b>	<b>City Proposed</b>	<b>MGP Recommended</b>
Minimum Floor-to-Floor Height	18 ft	16 ft
Minimum Clear Height (finished floor to underside of slab)	16 ft	14 ft

These dimensions accommodated a wide variety of successful retail tenants while still allowing greater clear height where necessary for specific tenants. For example, restaurants and specialty tenants requiring additional vertical space were easily accommodated without requiring higher minimums across the entire project.

Establishing an 18-foot minimum floor-to-floor height across all retail space increases construction costs without delivering proportional benefits for most tenants, which may reduce overall project feasibility.

## 2. Sharrow Lanes

We also recommend revising Section 17.57.050.A.2.f to allow sharrow lanes on private streets regardless of whether they abut ground-floor commercial uses.

For projects of this scale and context—where portions of existing commercial development and surface parking will remain—it is impractical to require dedicated bicycle lanes or paths in all circumstances.

Retailers and property owners typically maintain control over pedestrian and bicycle circulation within private parking areas. Requiring dedicated bike lanes or paths through areas that interface with existing parking lots may create unnecessary operational challenges and safety concerns.

Sharrow lanes represent an appropriate and commonly used alternative to facilitate bicycle circulation while maintaining compatibility with existing site conditions.

At our Village at San Antonio project, sharrows were successfully implemented on private streets with both parallel and angled parking. However, sharrows were not used on streets that connected directly to or traversed through parking lots, as those conditions present too many potential conflict points between vehicles and cyclists.

Similarly, Class II bike lanes along streets that connect through retail parking lots are generally infeasible and potentially unsafe due to the number of vehicle turning movements. Allowing the use of sharrows in these circumstances would provide the City with a flexible and practical tool for bicycle connectivity without creating unintended safety issues.

## 3. Tier 2 & 3 Development Incentives

Finally, we recommend that the Tier 2 development requirements align with the minimum recommendations prepared by Keyser Marston Associates, which were presented to the City Council on February 23, 2026. Tier 3 can reflect Planning Commission recommendations.

Maintaining these thresholds is important to ensure the Tier 2 incentive structure functions as intended and encourages mixed-use development that includes a hotel component.

	<u>Planning Commission Recommendation</u>				<u>CC Westman Proposal</u>		<u>MGP Comment</u>		
	Tier 1	Tier 2	Tier 3A	Tier 3B	SW Tier 2	SW Tier 3	Tier 2	Tier 3A	Tier 3B
<b>Density</b>									
<b>Min. (du/acre)</b>	20	20	20	20	20	20	20	20	20
<b>Max. (du/acre)</b>	48	48	53	53	53	53	48	53	53
<b>FAR</b>	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Perimeter Zone (ft)</b>									
41 <sup>st</sup> Ave.	125	125	125	125	75	125	75	75	75
Capitola Rd.	125	125	125	125	75	125	75	75	75
Clares St.	125	125	125	125	125	125	125	125	125
<b>Height (ft)</b>									
Perimeter Zone	55	65	65	65	75 (65)	55	75	75	75
Core Area	75	75	85	85	85	85	85	85	85
<b>Open Space</b>	5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>Affordable Housing</b>	20%	20%	20%	20%	20%	20%	20%	20%	20%
<b>Min New Commercial (sf)</b>	0	30,000	40,000	200,000	35,000	200,000	25,000	35,000	200,000
<b>Min Hotel Rooms</b>	0	85	125	0	120	0	85	120	0
<b>Min Mtg Space (sf)</b>	0	3,000	4,000	0	4,000	0	2,500	4,000	0

### **Hotel Keys**

If a project is already required to include a hotel component, the incentive structure should allow the developer to build the number of rooms supported by market demand. Keyser Marston's analysis suggests that 85 keys represent a feasible minimum consistent with an Upper-Midscale hotel product.

There is no guarantee that an Upscale hotel product will be viable in this location. Tying minimum room counts to an upscale hotel prototype may therefore jeopardize the feasibility of the Tier 2 incentive structure.

### **Meeting Space**

Similarly, requiring 4,000 square feet of meeting space may exceed what many hotel flags believe the market can support. Excess meeting space can result in lost rooms or the inability to secure a hotel flag.

Keyser Marston's analysis indicates that approximately 2,550 square feet of meeting space for an 85-room hotel would be appropriate. This level exceeds typical meeting space ratios for upper-midscale hotels (10-15 sf per room for Upper-Midscale) and would allow a boardroom and smaller breakout space while maintaining operational feasibility.

### **New Commercial Space**

The Keyser Marston report also indicates that 25,000–35,000 square feet of new retail demand is likely in the area. Demand is strongest for smaller food service spaces, which can be financially challenging to deliver due to modest rents, expensive construction costs and limited credit tenancy.

Given these conditions, 25,000 square feet represents a more realistic minimum threshold that still supports the City's economic development goals keeping in mind the sales tax revenue in this Tier 2 structure will come from the hotel and the retail will be focused on placemaking.

### **Height and FAR**

We support the proposed 75-foot perimeter height along 41st Avenue and Capitola Road, with 125-foot perimeter height along Clares Street, and a core height of 85 feet.

Additionally, we support the clarification that FAR calculations exclude parking garages, hotels in all tiers, and rooftop decks in Tier 2 projects, which will help ensure the FAR standard does not unintentionally constrain project feasibility.

**Conclusion**

We appreciate the City's efforts to create a framework that encourages redevelopment while delivering meaningful housing, hospitality, and commercial opportunities for Capitola. The recommendations outlined above are intended to help ensure that the standards and incentives ultimately adopted remain economically feasible, market-responsive, and consistent with the City's broader planning goals.

We look forward to continuing to work collaboratively with City staff and the community as these policies are finalized.

Sincerely,

A handwritten signature in black ink, appearing to read "James Gwilliam". The signature is stylized and cursive, with a large initial "J" and "G".

James Gwilliam  
Managing Director  
Merlone Geier Partners



CARMEL  
THE VILLAGE  
apartments

Paul Martin's  
AMERICAN GRILL

Dry-Lee Shirts

Pete's Cafe

Paul Martin's  
AMERICAN GRILL

Paul Martin's  
AMERICAN GRILL

BIKE

BIKE



Lux Beauty

Lux

THE NEW YORK STRONG

STOP

BACK FOR ONE HOUR  
PEDESTRIAN ONLY

Handicap Accessible

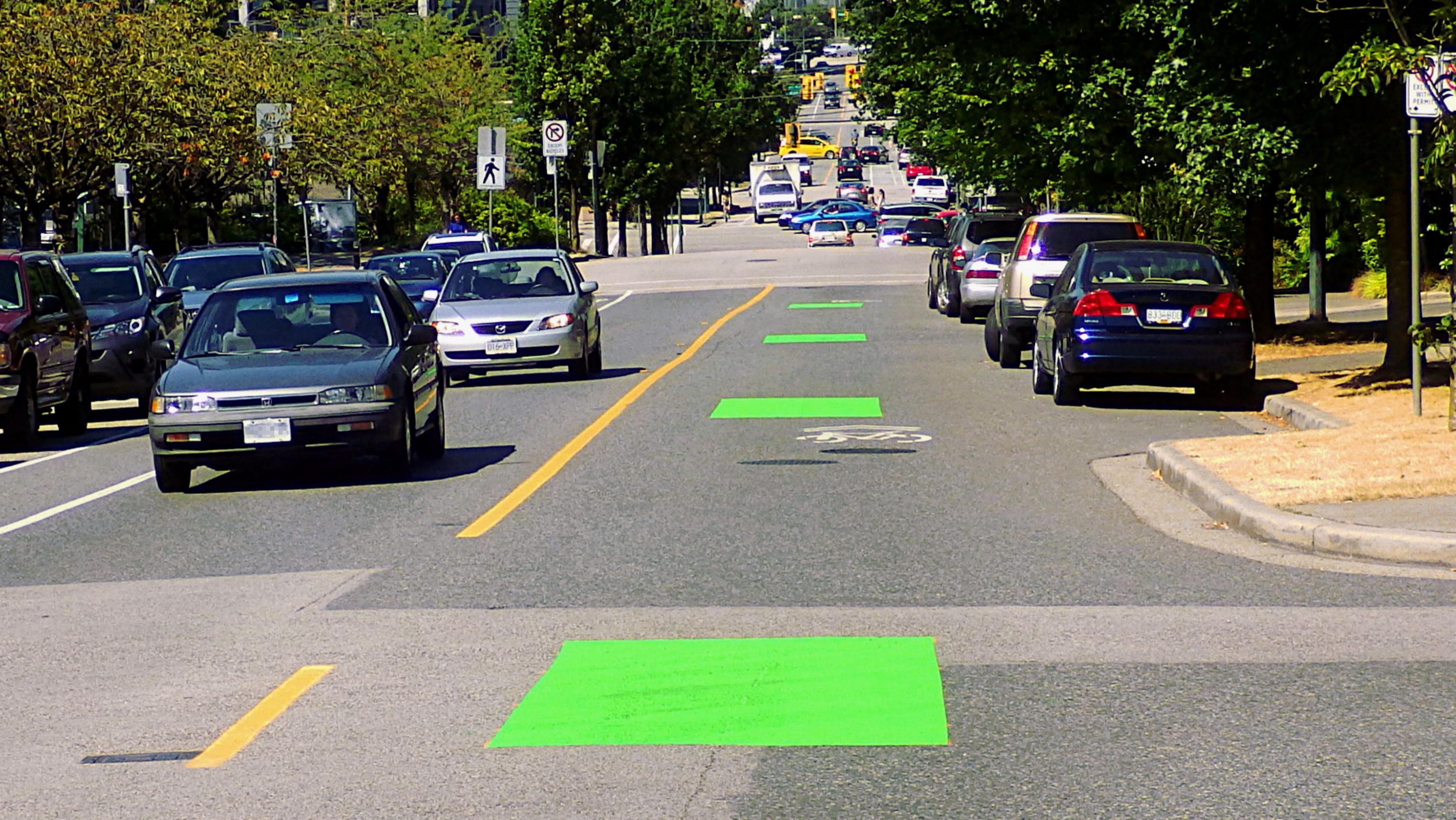
P



Pacific Catch

Pacific Catch  
WESTCOAST FISH HOUSE

THE VILLAGE  
WE  
TURN  
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**Signing & Marking**  
Shared Lane Markings



