

Gautho, Julia

From: Kevin Maguire <kmaguire831@gmail.com>
Sent: Thursday, March 12, 2026 11:06 PM
To: City Clerk
Subject: [PDF] Public Comment for the Record – Capitola Mall Rezoning, March 16 Council Meeting
Attachments: request_for_qualifications_fo_economic_development_on-call_services (1).pdf; Kosmont Capitola Fiscal - 11-7-19 (1).pdf; KMA Capitola MAll Retail and Hotel Market Overview (1).pdf
Follow Up Flag: Follow up
Flag Status: Flagged

Dear City Clerk,

Please include the following in the public record for the March 16 City Council meeting on the Capitola Mall rezoning.

I am a lifelong Capitola resident writing to urge the Council to address five specific fiscal concerns before adopting final zoning standards for the mall site.

With the most recent tragic accident due to the fire at 204 Monterey, over 21 fire resources from 5 agencies responding, this sad event should raise some flags about capacity, response times, ability to server our community, and what a major redevelopment, traffic issues, and high buildings we dont have equipment to serve.

1. CORRECT THE RESIDENTS-PER-UNIT ASSUMPTION

Can we confirmed the 2.1 residents/unit figure will be addressed in the upcoming staff report. This correction is essential. The City Manager's model used 1.5 — below Kosmont's own 2019 range of 1.75–2.0, and well below Capitola's actual renter household density of 2.18. Correcting to 2.1 reduces projected City revenues by approximately \$300,000 per development tier. That figure must be front and center in the March 16 analysis, not a footnote.

2. THE KMA RETAIL FIGURE IS BEING MISAPPLIED

The Keyser Marston study identified 25,000–35,000 sf of **new or additional retail demand** — not as a replacement for the 289,436 sf being demolished. The 2019 Kosmont plan **retained 200,000–300,000** sf of existing retail while adding new commercial. The current proposal eliminates nearly all of it. Director Herlihy confirmed the demolition scope (Sears + interior spine = 289,436 sf) and the \$350/sf performance of existing larger-format retail. Applying the KMA figure as a total replacement produces a permanent structural revenue loss of ~\$720,000–\$750,000/year — a reduction the General Fund **cannot absorb without service cuts**.

3. THE MALL IS STILL PERFORMING — AND THAT REVENUE IS AT RISK

In 2019, mall-wide sales averaged ~\$200/sf. Director Herlihy confirmed current larger-format retail now averages ~\$350/sf, with high-performing tenants like Ulta Beauty and Chili's exceeding \$800/sf. The City's own budget (page 36) shows sales tax has not kept pace with inflation — which makes protecting the existing revenue base even more critical, not less. This is real money the City is collecting today. Demolishing it without a fiscally sound replacement plan is not a neutral decision.

4. THE \$1.7M PERS FUND IS A START — BUT NOT SUFFICIENT

The City has established a special fund of approximately \$1.7 million to help cover PERS costs during the construction period. This planning is commendable. However, Kosmont's 2019 analysis projected \$500,000+/year in lost sales tax revenue during a 3–4 year construction window — a cumulative gap of \$1.5M–\$2M before a single new resident moves in. The PERS fund does not fully bridge that gap. The Council should ensure the staff report addresses the full reserve drawdown projection and the replenishment timeline, and should require clear phasing triggers so commercial and hotel space is delivered before — not years after — residential units.

5. CAPITOLA IS IN COMPLIANCE — THERE IS NO REASON TO RUSH

The City's certified Housing Element already meets RHNA obligations. Housing Element compliance does not expire if the Council takes additional time to demand a fiscally sound project. A poorly structured project that permanently cuts the revenue base by \$750K/year while underestimating service costs by \$300,000–\$900,000/year does not serve Capitola's residents — it slowly dismantles the services that make this community worth living in.

The proven standard exists: Santana Row in San Jose — 42 acres, 50+ shops, 30+ restaurants, a 215-room hotel, and hundreds of housing units — has thrived for over 20 years because commercial viability was built into the foundation of the project. MGP proposed ~340,000 sf of commercial in 2019. We are asking for 200,000 sf minimum and a 105-room hotel as Tier 3 conditions. That is 60% of what the developer offered six years ago.

Capitola has one chance to get this right. I respectfully ask the Council to correct the modeling assumptions, require phasing protections, and set commercial and hotel minimums that reflect what this city actually needs to remain fiscally solvent.

Thank you for your service and for including this comment in the record.

Respectfully,
Kevin Maguire
Lifelong Capitola Resident (Third Generation)
kmaguire831@gmail.com



Request for Qualifications (RFQ) Economic Development Consultant – On-Call Services

Issued By:

City of Capitola
Community and Economic Development Department
Attn: Katie Herlihy, Community and Economic Development Director
Email: kherlihy@ci.capitola.ca.us

**RFQ Submission Due Date:
October 10, 2025, by 5:00 PM (PST)**

I. Purpose of the RFQ

The City of Capitola (the City) is seeking qualifications from qualified Economic Development Consultants to provide on-call services for a range of economic development tasks. These may include addressing commercial vacancies, conducting fiscal analyses of population projections and development applications, and identifying strategies to incentivize new hotel development. The selected consultant will work under the direction of the Community and Economic Development Director to support the City's goals of long-term economic stability and vitality.

II. Scope of Work

The consultant will provide on-call services, including but not limited to:

1. Addressing Commercial Vacancies

- Analyze vacancy patterns and impacts on the local economy.
- Recommend strategies for retail attraction, tenant diversification, and corridor revitalization.
- Assist with identifying incentives or partnerships to fill key vacancies.

2. Fiscal Analysis of Population Projections and Development Applications



- Evaluate long-term fiscal impacts of population growth on City revenues and expenditures.
- Conduct fiscal impact assessments of proposed residential, commercial, and mixed-use developments.
- **Example:** A prior fiscal analysis completed for a mixed-use development indicated net revenue gains of \$300,000 annually, offset by \$180,000 in new service costs. This informed City Council decisions on phasing and infrastructure contributions in the development agreement.

3. Incentivizing New Hotel Development

- Identify feasible hotel development opportunities within the City.
- Analyze market conditions and tourism trends to determine lodging needs.
- Recommend strategies and incentive structures to attract new hotel investment.

4. Other On-Call Economic Development Support

- Provide data analysis, policy review, and strategic recommendations.

III. Background and Challenges

Capitola has experienced a notable shift in its commercial landscape in recent years, with rising vacancies in key retail areas due to evolving consumer behaviors and increased competition from e-commerce. The City is actively seeking to reduce commercial vacancies and revitalize retail corridors to support local business vitality.

At the same time, population growth and development pressure raise important fiscal questions. New development has the potential to both increase City revenues and create new service demands. The City requires expert support to assess the net fiscal impact of proposed developments and ensure long-term sustainability.

Finally, with increasing tourism, Capitola is looking to strengthen its hospitality sector. However, the City currently lacks sufficient hotel inventory to meet peak-season demand. A proactive strategy is needed to attract appropriate hotel development and maximize transient occupancy tax (TOT) revenue.



IV. Budget

The City has allocated a budget of **\$20,000 per year** for these on-call services. This budget is inclusive of all costs, including consultant time, travel, materials, and overhead.

V. Submission Requirements

Interested consultants must submit a proposal that includes:

1. Firm/Consultant Overview

- Description of the firm or individual, organizational structure, and areas of expertise.
- Key personnel, roles, and relevant qualifications.

2. Relevant Experience

- Examples of past work addressing commercial vacancies, performing fiscal analyses (especially development applications), and incentivizing hotel or tourism-related development.

3. Proposed Approach

- Methodology for providing on-call support in the areas outlined.
- Understanding of Capitola's context and challenges.

4. Work Plan and Availability

- General availability for on-call support.
- Description of how requests will be managed and responded to in a timely manner.

5. Cost Proposal

- Hourly billing rates by staff level.
- Confirmation that proposed costs align with the annual \$20,000 budget.



6. References

- Contact information for at least three public agency clients or similar assignments.
-

VI. Proposal Format and Deadline

- Proposals must not exceed **10 pages** in length (including any appendices or supplemental materials).
- Submit proposals in **PDF format via email** to:

Katie Herlihy

Community and Economic Development Director

Email: kherlihy@ci.capitola.ca.us

Deadline: October 10, 2025, by 5:00 PM (PST)

Late submissions will not be accepted.

VII. Evaluation Criteria

Proposals will be evaluated based on:

- Demonstrated experience with similar economic development issues.
 - Clarity and effectiveness of proposed approach.
 - Qualifications of key personnel.
 - Cost-effectiveness and ability to stay within budget.
 - Responsiveness and availability for on-call work.
 - Positive references and past performance.
 - Familiarity with Capitola, CA
-

VIII. Terms and Conditions



- The City reserves the right to reject any or all submissions.
- The City may negotiate contract terms and scope with the selected consultant.
- All submitted materials become the property of the City and are subject to public records law.
- Consultants are responsible for all costs incurred in preparing and submitting their proposals.

IX. Questions

Questions regarding this RFQ may be directed to:

Katie Herlihy

Community and Economic Development Director

Email: kherlihy@ci.capitola.ca.us

Phone: 831-475-7300

We appreciate your interest and look forward to reviewing your proposal.

Sincerely,

Katie Herlihy

Community and Economic Development Director

City of Capitola

MEMORANDUM

To: Jamie Goldstein, City Manager City of Capitola

From: Ken K. Hira, President Kosmont Companies
Tom Jirovsky, Senior Advisor Kosmont Companies

Date: November 7, 2019

Re: **Capitola Town Square – Analysis of Fiscal Impact**

Kosmont & Associates, Inc. doing business as Kosmont Companies (“Consultant” or “Kosmont”) is pleased to present our findings from a Fiscal Impact Analysis (“Analysis”) in connection with proposed 637 residential units and 600,000 square feet of commercial in the proposed mixed/blended use Capitola Town Square (“Project”).

BACKGROUND

Merlone Geier Partners (“MGP”), owner of the Capitola Mall (“Mall”) are seeking approval of a major redevelopment plan. As part of ongoing discussions / negotiations between MGP and the City for a new Project Concept Application and Development Agreement, it is important to understand the marginal impact the residential and commercial components will have on General Fund revenues and expenditures.

For purposes of this analysis only, Kosmont assumes that the average household size, based on the proposed average unit sizes ranging from 600 to 800 square feet, will range from 1.75 to 2.0 persons per unit. Prospective renters are expected to range from UC Santa Cruz students sharing units, to young professional, to empty nester households.

The City has compiled historic retail sales data for the Mall and surrounding block to help establish a base year amount. The data shows a significant annual decline in retail sales throughout the entire mall area since 2016. The 2018-19 annual sales for the entire mall area were approximately \$130 million, or a little more than \$200 per square foot.

- The 3rd party anchor stores (Macy’s, Target, Ross Center, Olive Garden) totaling 270,000 square feet generated approximately \$65 million in sales.
- The 370,000 square feet within MGP control generated \$65 million in sales

The MGP Project calls for a reduction of 34,000 square feet of retail space versus the 640,000 square feet currently contained within in the Mall block. In order to finance construction of new retail, MGP has estimated gross annual sales will average \$300 per square foot for MGP’s

336,000 square feet (including Kohl's) of retail space following redevelopment. Assuming a 10% bump in sales at the major stores, the total annual mall block sales could reach \$180 million, a \$50 million increase. However, with no new tenants under contract, this should be considered a somewhat optimistic forecast.

SUMMARY

The proposed reconfiguration of the mall into a mix of residential and retail uses will improve the economic health of the overall shopping center, but depending on the growth in taxable retail sales, it may result in annual fiscal deficit to the City, as compared to the 2018 Mall fiscal impact.

FISCAL REVENUE ANALYSIS

Property Tax & In-Lieu of VLF

Secured property tax revenues are estimated based on the anticipated assessed value of the Project upon full build-out and the applicable property tax rates for the City. Acquisition costs were not included as part of the analysis, as the subject property is already on the tax rolls and title is vested under MGP's name. The City general fund receives an approximate 7.5% share of the annual 1.0% secured property tax general levy placed by the County.

Prior to 2004, a percentage of State motor vehicle license fees (VLF) were distributed to cities and counties. In 2005, the State of California instituted a revenue swap, guaranteeing that municipalities and counties within California receive a distribution equal to the VLF collected the prior year, plus a percentage equal to the annual increase in assessed value. Property tax in-lieu of VLF resulting from the Project is estimated based on the incremental amount of assessed value will add to the City; thereby increasing the City's apportionment. Based on review of the City CAFR, Kosmont estimates VLF will add an amount equal to 4.3% of assessed value.

Kosmont's survey of higher-end apartments in the area indicates monthly rents of +\$4.00 psf, which would support assessed value of \$400,000 to \$500,000 per unit. At an average of \$450,000, the total assessed value from new residential would be \$290 million. With a combined tax of 0.113%, the City General Fund would receive an additional \$325,000 annually from property taxes.

Sales Tax (Off-Site / Indirect)

Off-site / indirect sales tax revenue is based on the taxable sales generated by the Citywide spending of Project residents, based on average household incomes and BLS Consumer Expenditure Survey data.

Kosmont's preliminary analysis indicates that the 637 residential units are expected to spend an average of \$10,000 to \$15,000 per unit on local serving goods and services, excluding the general merchandise expenditures at Macy's, Kohl's and Target that would be captured irrespective of



The analyses, projections, assumptions, rates of return, and any examples presented herein are for illustrative purposes and are not a guarantee of actual and/or future results. Project pro forma and tax analyses are projections only. Actual results may differ from those expressed in this analysis.

the resident location. At an average of \$12,500, this would result in approximately \$8 million in incremental taxable sales, which would result in an estimated \$80,000 in annual sales tax revenues for the City.

Measure O District Tax of 0.25% will result in an additional \$20,000 in annual offsite sales taxes to City, while Measure F's 0.25% tax will yield additional \$20,000 per year thru Dec. 2027.

On-site Sales Taxes

For this analysis, Kosmont is illustrating the impact from growth in retail sales above the 2018-19 base year. As mentioned earlier, the optimistic forecast for retail sales is a gain of \$50 million, which could result in an additional \$500,000 in annual sales taxes to the City.

Measure O District Tax of 0.25% could result in an additional \$125,000 in annual offsite sales taxes to City, while Measure F's 0.25% tax could yield additional \$125,000 per year thru 2027, for a potential total of \$750,000.

Since the actual tenant mix is not determined and to allow for potential non-taxable uses such large tenants as movie theater and fitness center, Kosmont suggests using a more conservative \$30 million increase in mall retail sales, which would yield \$450,000 annually (including Measure O and Measure F).

Franchise Taxes

For 2019-20 budget, the City is estimated to collect \$560,000 in Franchise taxes. For purposes of preliminary estimates, incremental franchise taxes are estimated on a per capita basis assuming 50% of revenue comes from non-residential uses. Based on estimated population of 10,100, the Franchise tax revenue factor is \$28 per resident. Therefore, at full Project buildout of 637 units, Franchise taxes are estimated to bring \$30,000 to the City General Fund annually.

Total Annual Fiscal Revenue

The total annual incremental fiscal revenues from the mall redevelopment are estimated to range from \$900,000 (to \$1.2 million per year under MGP optimistic forecast).

	<u>Annual Taxes</u>
Property Taxes	\$325,000
Offsite Sales	120,000
Onsite Sales	450,000 /1
Franchise Taxes	<u>30,000</u>
Subtotal	\$925,000

/1 Assumes 30% growth in onsite sales

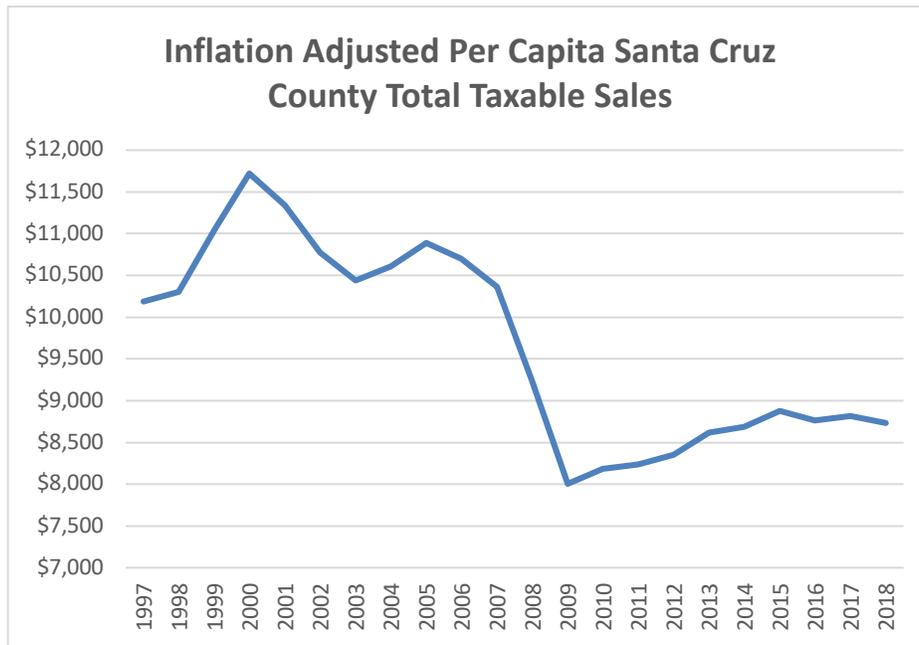


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Long Term Growth

Given the national trends in retail sales being captured by e-commerce and big box discounters, it is likely that the future retail sales may not keep pace with cost inflation, resulting in greater risk to the City General Fund. In addition to the risks of economic recession, this potential long term deterioration is evidenced by historic Santa Cruz County per capita taxable sales, adjusted for inflation, have declined by 20 percent in the past 20 years.

Exhibit 1



For these reasons, it may be prudent for Capitola to conservatively estimate sales tax growth when considering the impact of a large-scale long-term project, such as mall redevelopment.

FISCAL EXPENDITURE ANALYSIS

The proposed Capitola Town Square project will substantially increase the population of the City. As noted earlier, the 637 units are estimated to increase the resident population by 1,115 to 1,275 people, a 12% increase above current population of 10,080, which has remained relatively flat for years.

Over 80% of the City’s total expenditures represent salaries, benefits and contract services, indicating a high degree of sensitivity to increased service demands from the new population. Expenditures such as police/protective services, public safety, and other fiscal expenditures are usually measured on a per capita basis based on the City’s Budget, and the relevant resident and employee populations within the City. However, complicating the analysis is the impact of tourists.

For this analysis, Kosmont interviewed City department heads. It was determined that the appropriate method to determine incremental per capita costs is to examine current budget by major category,



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and factor in current population of 10,080 plus an estimated 5,700 employees who work in the City, plus summer tourism. For each category, excluding police and public works, it was assumed that per capita incremental cost is derived by dividing the annual budget by 10,080 residents plus 5,700 employees x 50% (reflect reduced demand as compared to a resident).

The Police Chief estimated that 50% of annual cost is derived from resident population, while the Public Works Director estimated that 40% of costs during summer are related to residents and 70% of costs the rest of the year, for an average of 60%.

General Fund expenditures and allocated per resident cost estimates are summarized below:

General Fund Expenditures

	<u>Annual</u>	<u>New Resident</u>
Administrative	\$2,582,000	\$200
Police	6,152,000	305
Public Works	2,879,000	171
Community Development	363,000	28
CIP Funding	650,000	50
Recreation, Arts and Cultural	<u>398,000</u>	<u>31</u>
Subtotal (Before Transfers)	\$13,024,000	\$785

With 1,115 to 1,275 net new residents in Capitola Town Square, there could be an increase in General Fund cost of \$875,000 to \$1 million per year, assuming a similar level of service.

NET FISCAL IMPACT

To give the City a better understanding of the potential impact, Kosmont provided a table that summarizes the net fiscal impact to the City using a range of net new residents. As shown in Exhibit 2, the Project could generate a \$50,000 per year positive fiscal impact to a **negative** fiscal impact of **\$75,000 per year**. The deficit can be attributed to the extremely low property tax share the City receives and nominal off-site sales taxes.

Exhibit 2 Capitola Town Square Based on Net New Residents

	1,115 Residents	1,275 Residents
GF Revenues	\$925,000	\$925,000
GF Expenditures	(\$875,000)	(\$1,000,000)
Net Fiscal Surplus (Deficit)	\$50,000	(\$75,000)



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OTHER TOOLS TO GENERATE REVENUES

There are several potential financial tools available to improve the City's revenue picture:

1. Build New Hotel
2. Establish a (Community Facilities District (CFD) Maintenance Fee
3. Enact an Entertainment Tax
4. Negotiate Sales Tax Assessment Revenues Upfront Payment

Hotel

While no hotel is included in the initial plan, it is our understanding that MGP has preliminarily explored a 105-room select service hotel concept. Kosmont and the City have done preliminary market research indicating a 105 room upscale hotel could be supported within the next few years. Assuming a range of \$160 to \$190 Average Daily Rate (ADR) and 75% to 80% occupancy, Kosmont projects hotel tax revenues of over \$550,000 to as much as \$700,000 per year at 12% Transient Occupancy Tax (TOT) rate.

CFD Maintenance Fee

When large projects result in an increase in municipal service costs, some cities require a CFD maintenance district. A nominal \$25 per month fee for each residential unit would generate almost \$190,000 per year.

Entertainment Tax

Many new commercial uses, such as theaters, bowling alleys, arcades etc. do not generate taxable retail sales. By establishing a 5% tax on admission to such entertainment uses the City might generate \$50,000 to \$100,000 per year.

Sales Tax Assessment Revenue (STAR*)[®]

The City stands to lose \$500,000 or more each year during the estimated three year demolition and reconstruction of the retail shops. Under a Development Agreement process, the City can negotiate an upfront payment from MGP to offset that loss, and protect themselves in the event that the redevelopment is delayed.

City of Capitola

Capitola Mall - Retail & Hotel Market Overview

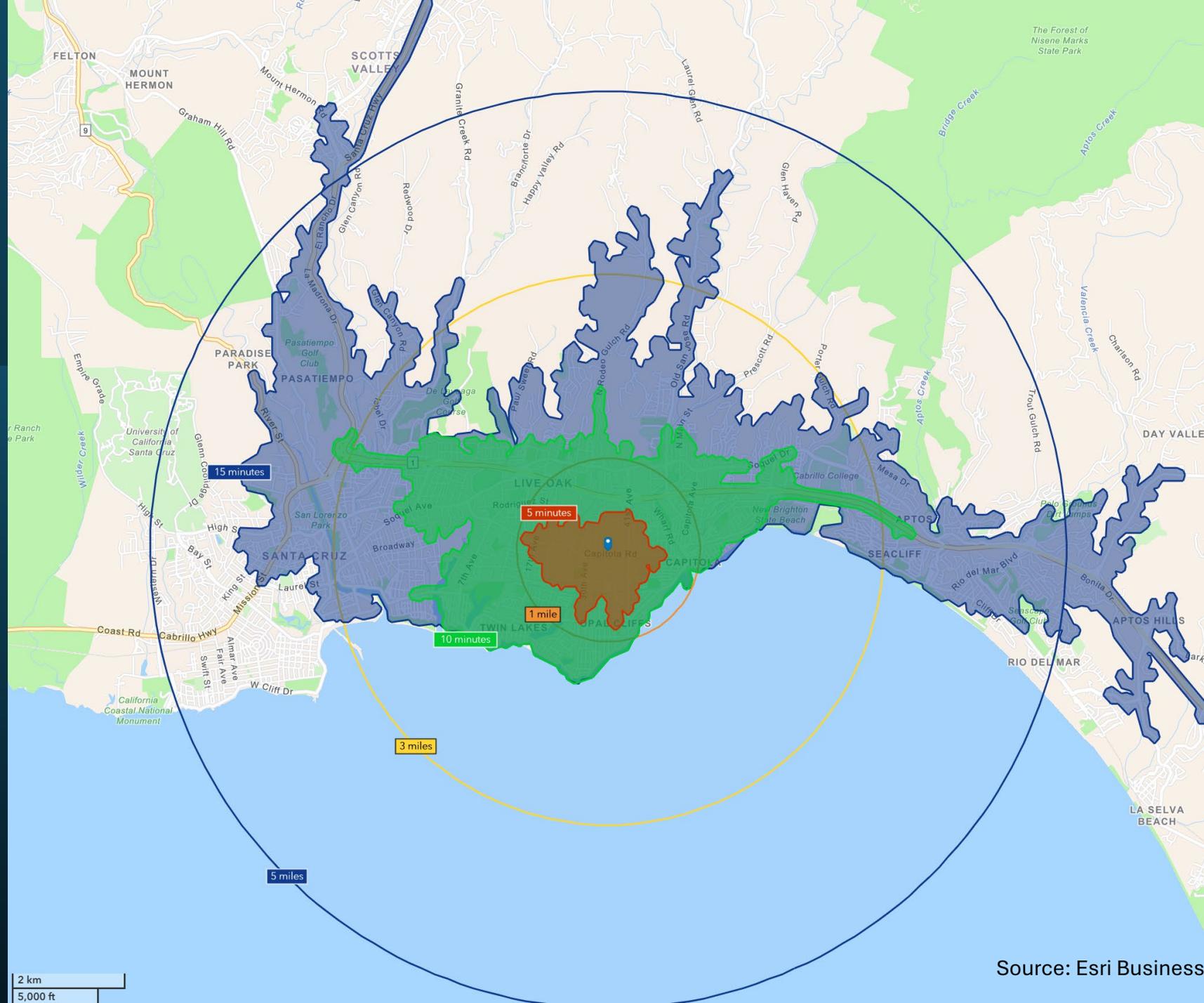


KEYSER MARSTON
ASSOCIATES



January 2026

Study Area – Site Radius and Drive-Time



2 km
5,000 ft

Population

Population & Households 2025 - 2030

	2025	2030	% Change
Capitola			
Population	9,598	9,410	-1.96%
Households	4,574	4,548	-0.52%
5-mile Radius			
Population	120,724	120,273	-0.37%
Households	49,549	48,870	-0.77%
Santa Cruz County			
Population	262,934	260,654	-0.87%
Households	95,037	95,204	0.18%

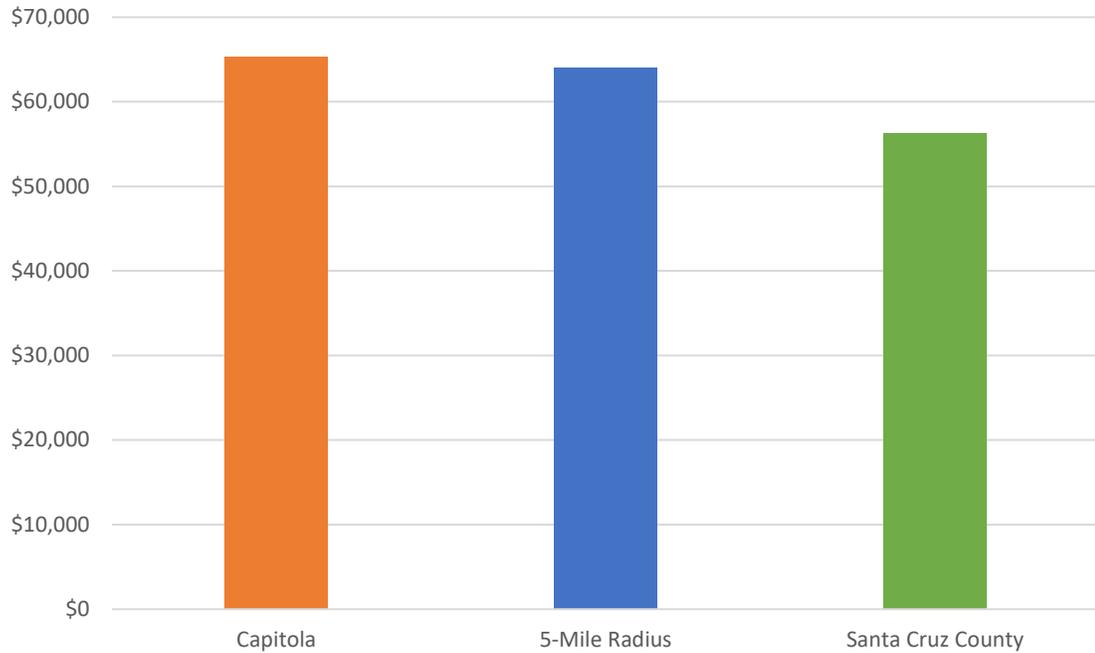
Average Persons per Household

Capitola	2.11
5-mile Radius	2.37
Santa Cruz County	2.62

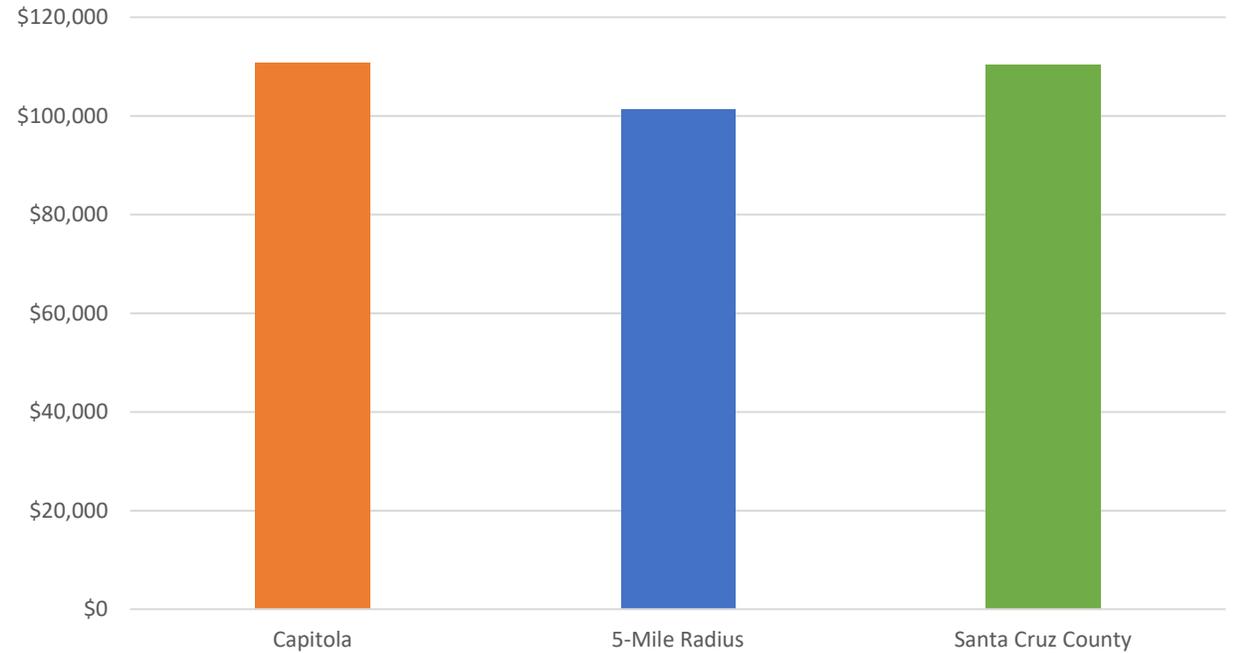


Income

Per Capita Income



Median Household Income

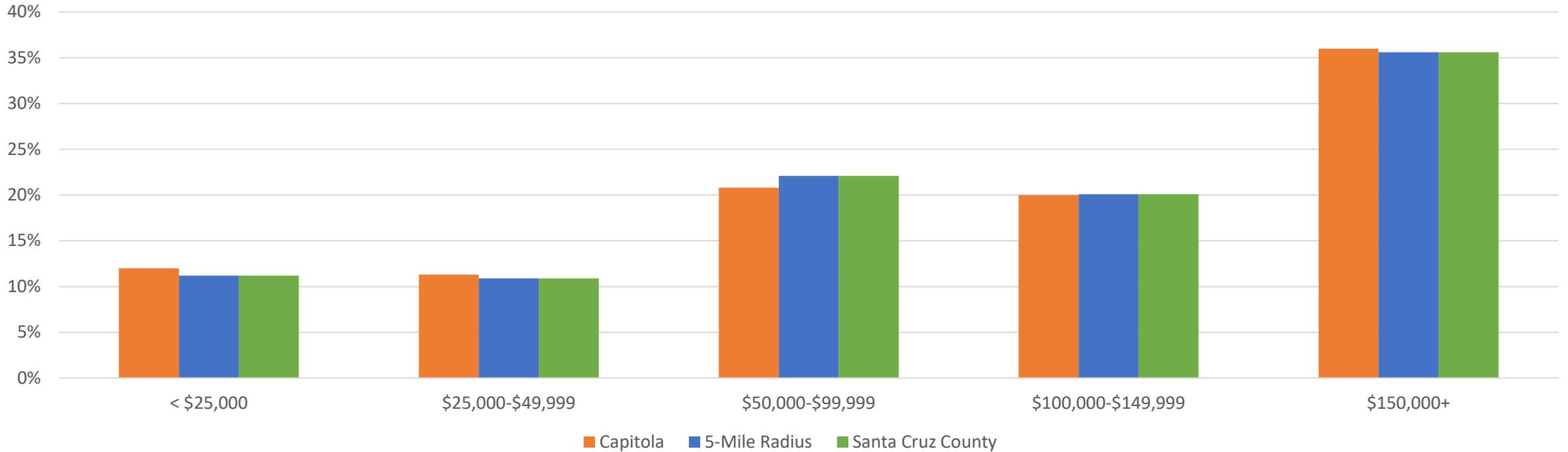


<i>Income (2025)</i>	Per Capita	Median Household
Capitola	\$65,271	\$110,864
5-mile Radius	\$64,064	\$101,409
Santa Cruz County	\$56,250	\$110,320



Income Distribution

Income Distribution

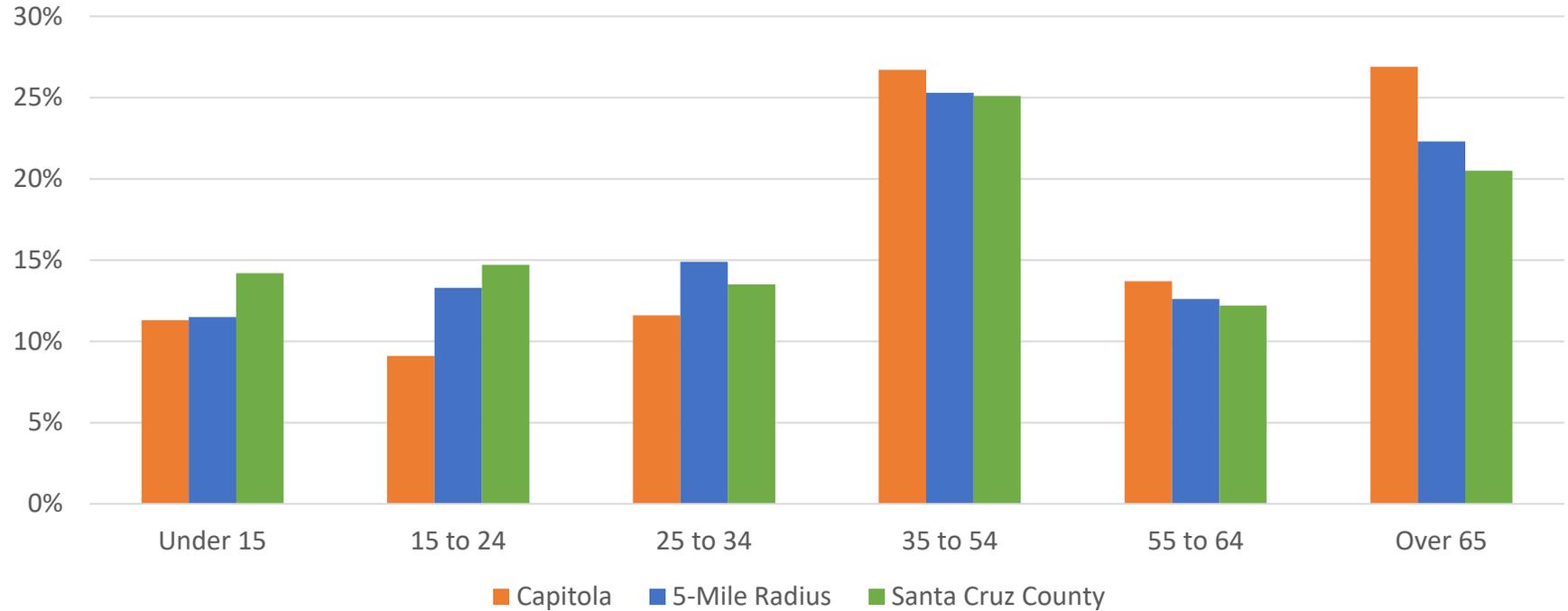


<i>Household Income Distribution</i>	< \$25k	\$25k-\$49k	\$50k-\$99k	\$100k-\$149k	\$150k+
Capitola	12%	11%	21%	20%	36%
5-mile Radius	10%	12%	27%	25%	26%
Santa Cruz County	11%	11%	22%	20%	36%



Age Distribution

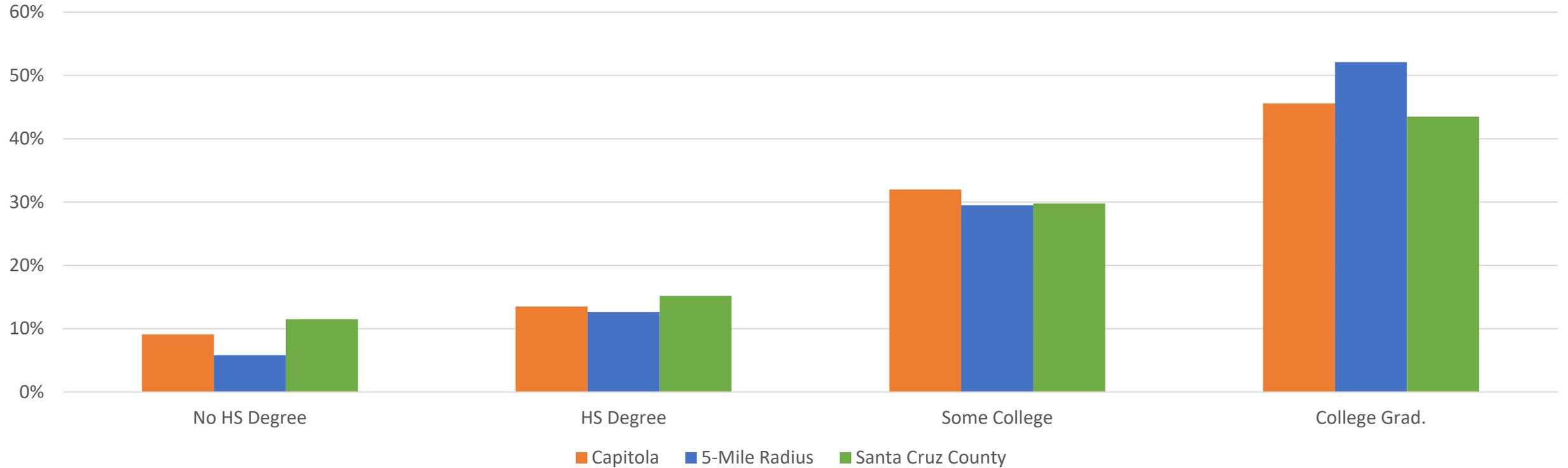
47.6
City
Median Age



Age Distribution	Under 15	15 to 24	25 to 34	35 to 54	55 to 64	Over 65
Capitola	11%	9%	12%	27%	14%	27%
5-mile Radius	12%	13%	15%	25%	13%	22%
Santa Cruz County	14%	15%	14%	25%	12%	21%



Educational Attainment

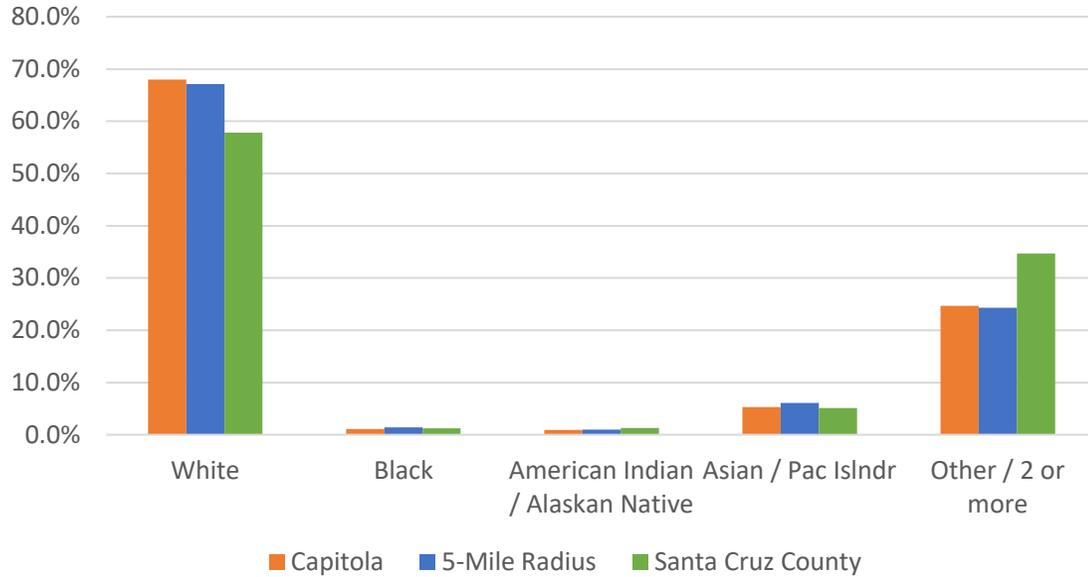


	No HS Degree	HS Degree	Some College	College Grad
Capitola	9%	14%	32%	46%
5-mile Radius	6%	13%	30%	52%
Santa Cruz County	12%	15%	30%	44%

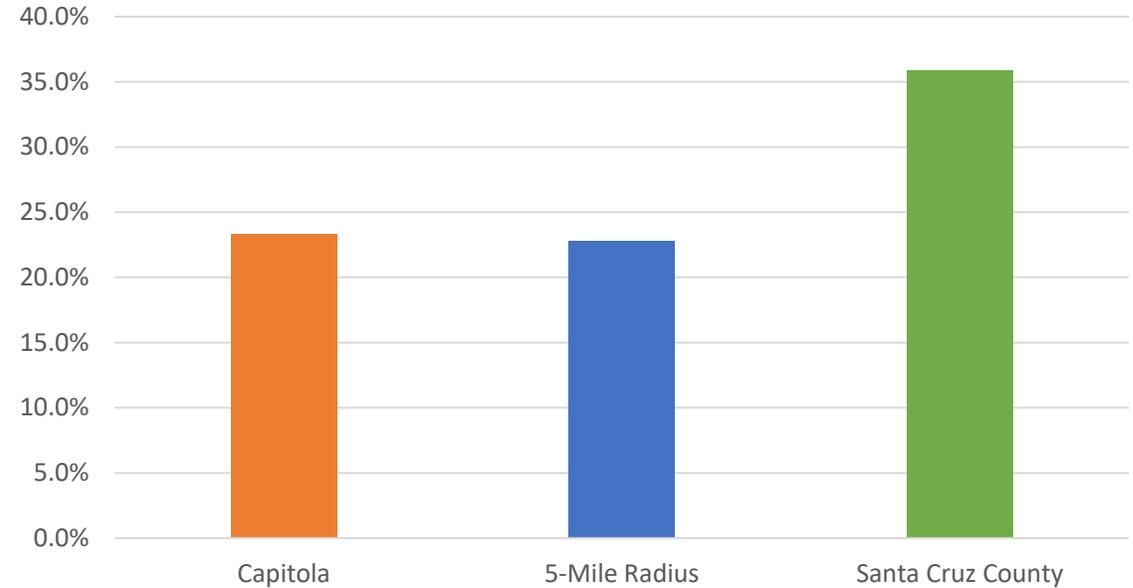


Race & Ethnicity

Race Classification



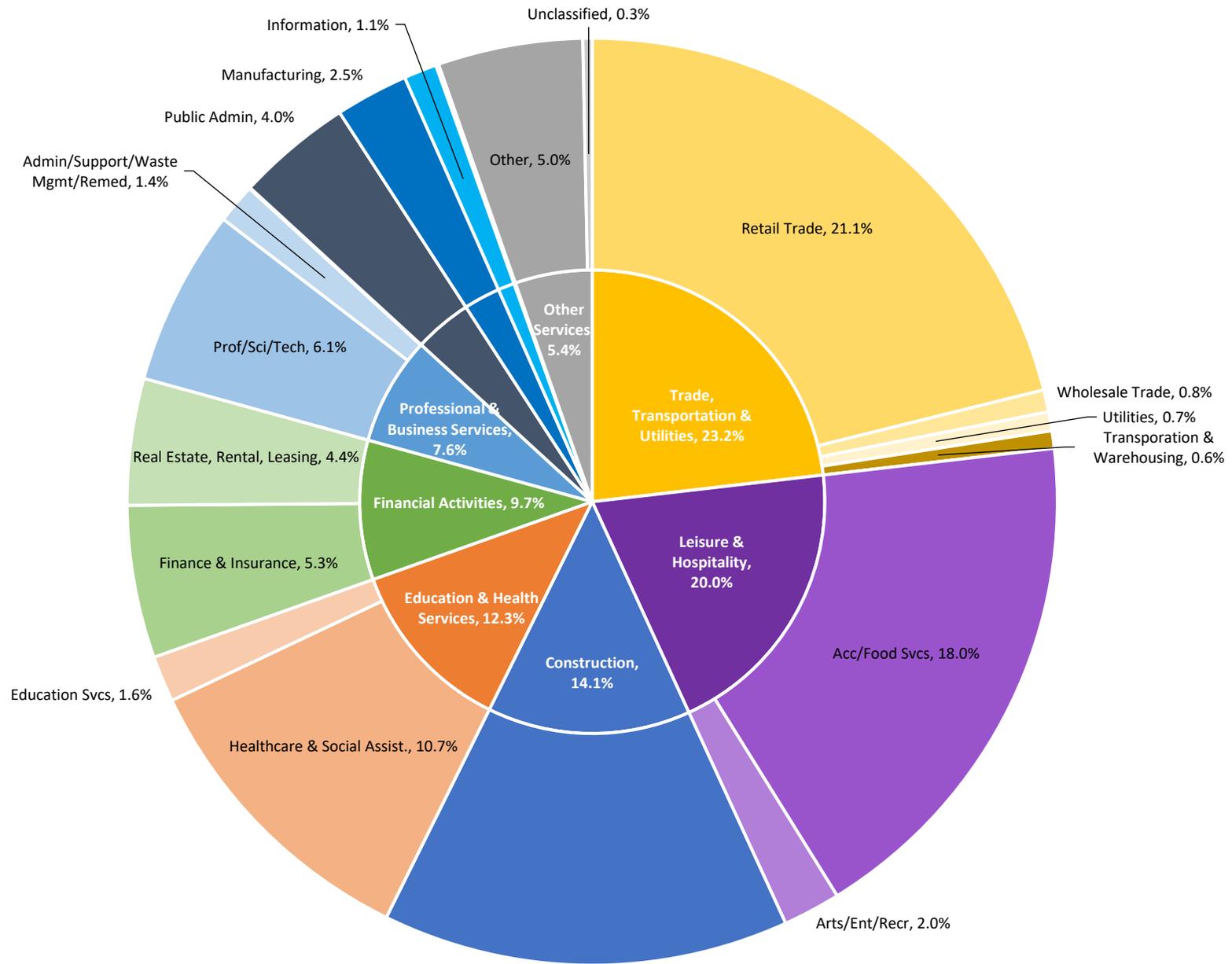
% Hispanic



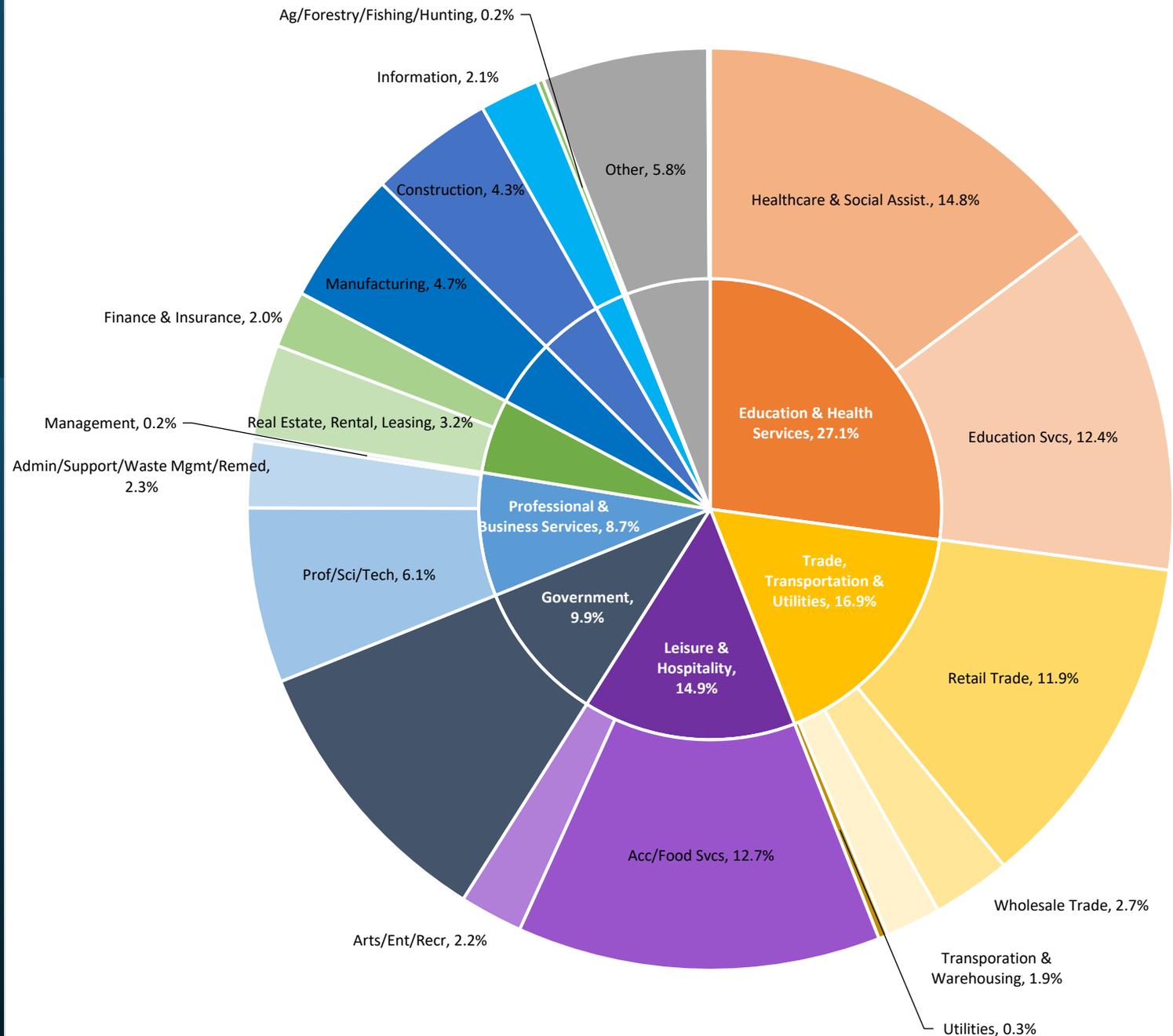
<i>Race & Ethnicity</i>	White	Black	AIAN	AAPI	Other / 2+	% Hispanic
Capitola	68.0%	1.1%	0.9%	5.3%	24.7%	23.3%
5-mile Radius	67.1%	1.4%	1.0%	6.1%	24.3%	22.8%
Santa Cruz County	57.8%	1.2%	1.3%	5.1%	34.7%	35.9%



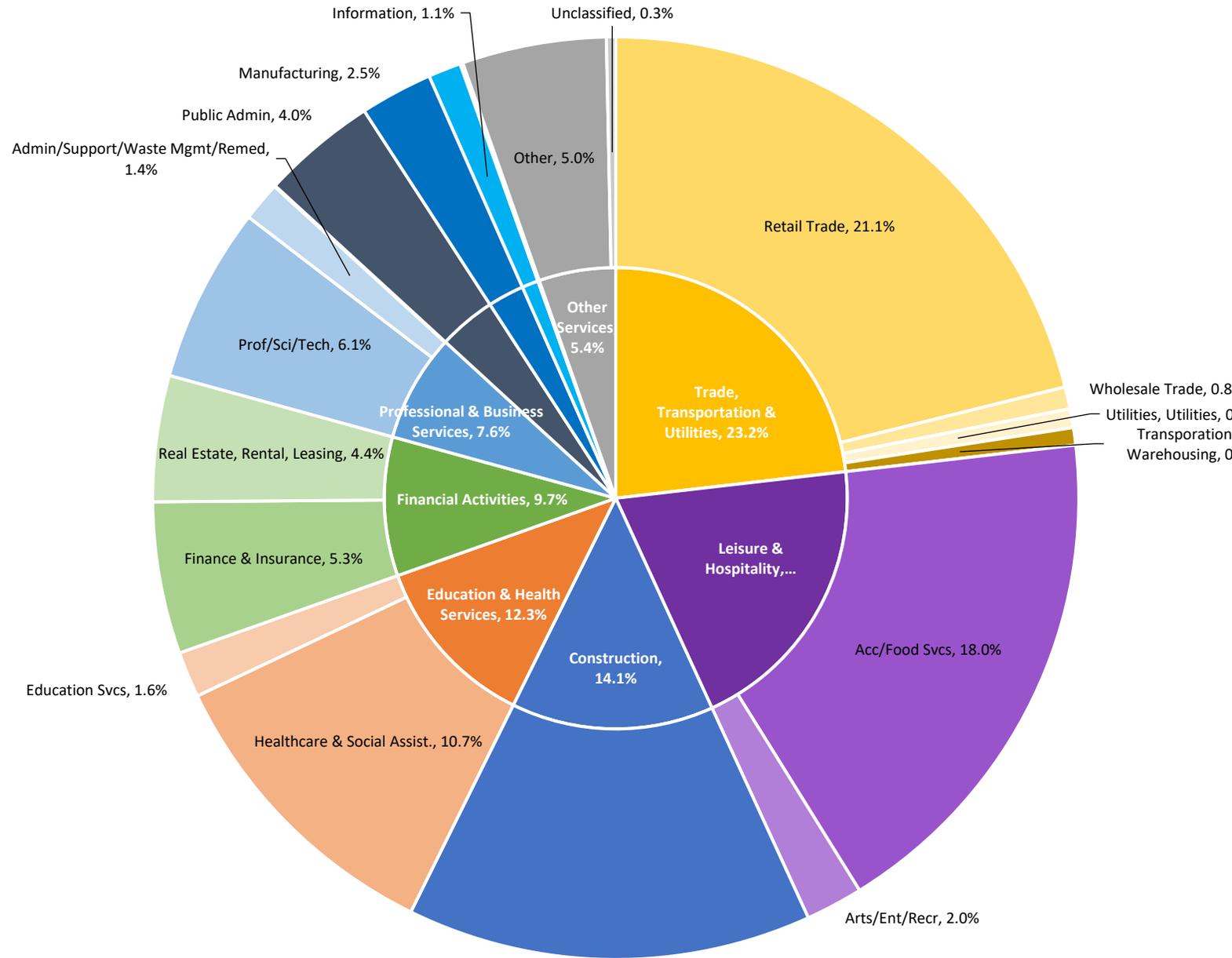
Employment - City



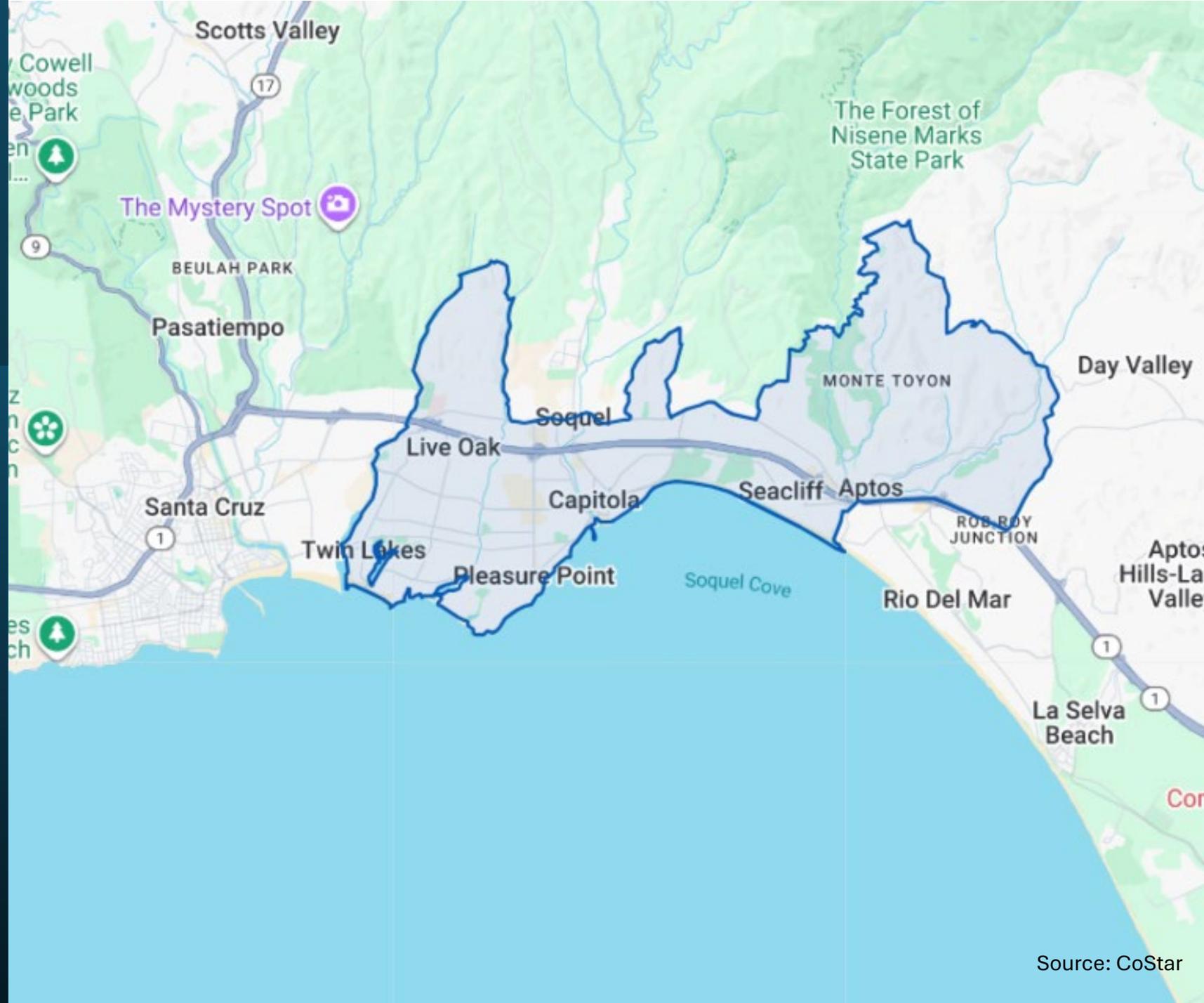
Employment – 5-Mile Market Area



Employment – County



Study Area – CoStar Mid-County Retail Submarket



Retail Market - Submarket

Mid-County Submarket

<i>Product Type</i>	Total Inventory (sf)	SF Vacant	Vacancy Rate	Net Absorption (sf)	SF Under Construction	Market Rent/mo
Malls	679,068	143,962	21.2%	6,643	-	\$2.35
Power Centers	-	-	-	-	-	-
Neighborhood Centers	697,918	35,594	5.1%	9,757	-	\$2.52
Strip Centers	300,339	4,205	1.4%	(222)	-	\$2.56
General Retail	1,857,854	22,294	1.2%	(7,015)	-	\$2.74
Other	-	-	-	-	-	-
Total	3,535,179	206,055	5.8%	9,163	-	\$2.61



Retail Market - County

Santa Cruz County

<i>Product Type</i>	Total Inventory (sf)	SF Vacant	Vacancy Rate	Net Absorption (sf)	SF Under Construction	Market Rent/mo
Malls	679,068	143,962	21.2%	6,643	-	\$2.35
Power Centers	-	-	-	-	-	-
Neighborhood Centers	2,863,945	137,469	4.8%	45,604	4,770	\$2.31
Strip Centers	876,043	24,529	2.8%	(222)	-	\$2.32
General Retail	7,363,229	125,175	1.7%	1,021	-	\$2.22
Other	72,760	11,496	15.8%	-	-	\$2.38
Total	11,855,045	442,632	3.7%	53,046	4,770	\$2.26



Retail Market Inventory

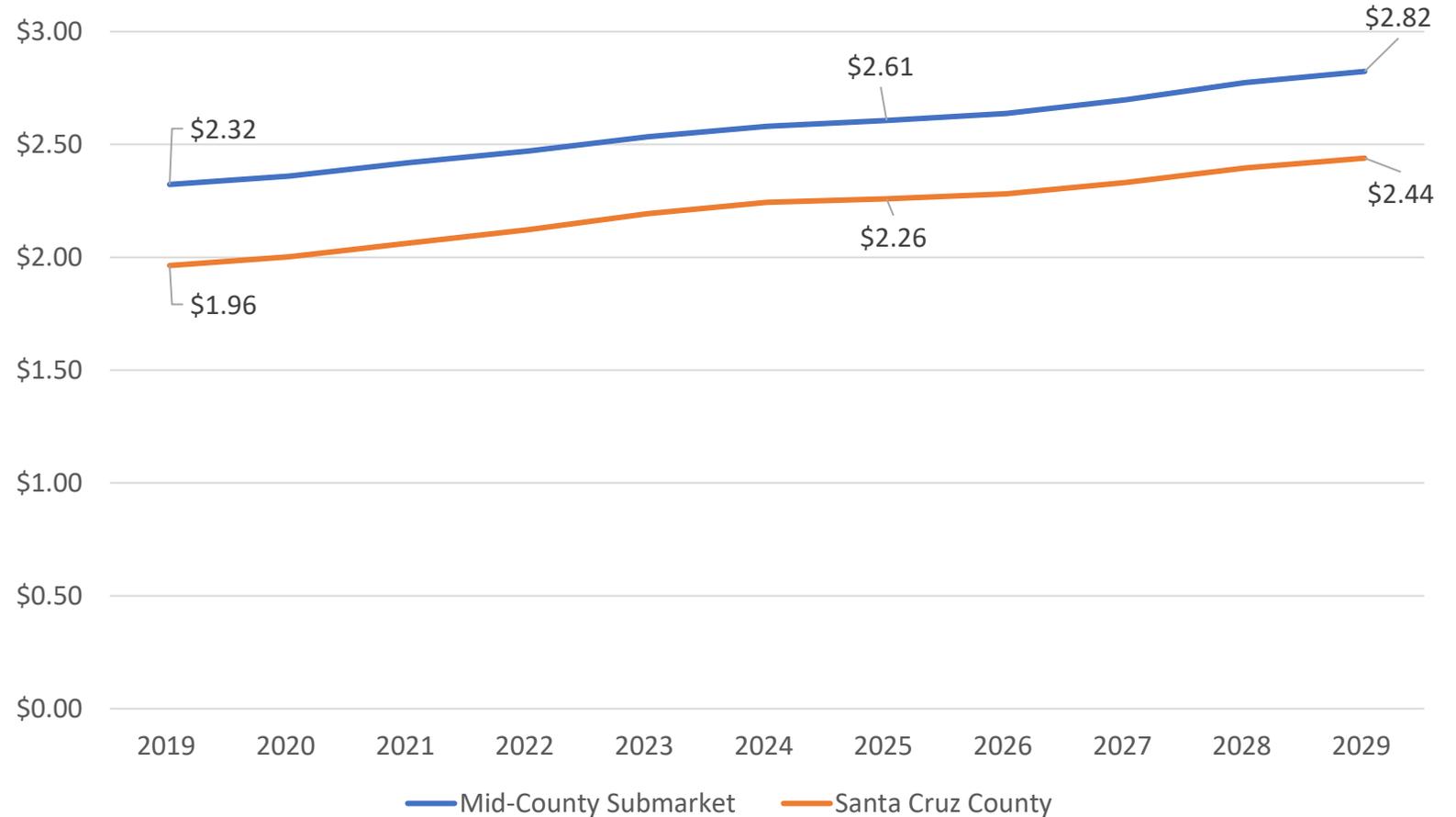
Market Inventory (sf) 2025 YTD

	Capitola	Mid-County	Santa Cruz County
Total Retail SF	1,661,979	3,555,677	11,883,610
Net SF Leased	29,248	50,600	128,514
Net SF Built	-	14,060	29,532
SF Under Construction	-	-	-



Rent Trends

Market Asking Rent

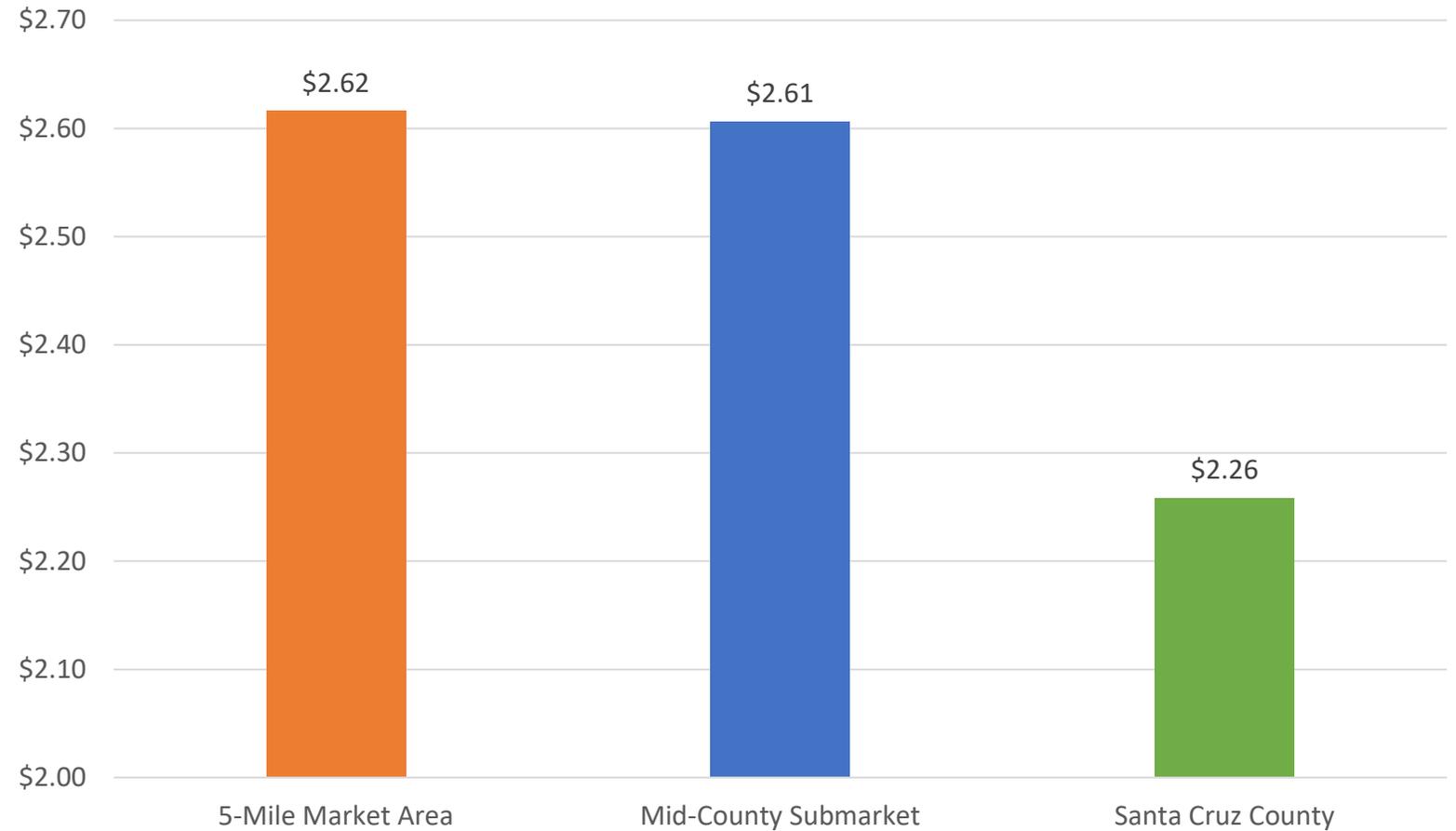


Market Asking Rent /sf per Month			
	2019	2025	2029
Mid-County Submarket	\$2.32	\$2.61	\$2.82
Santa Cruz County	\$1.96	\$2.26	\$2.44



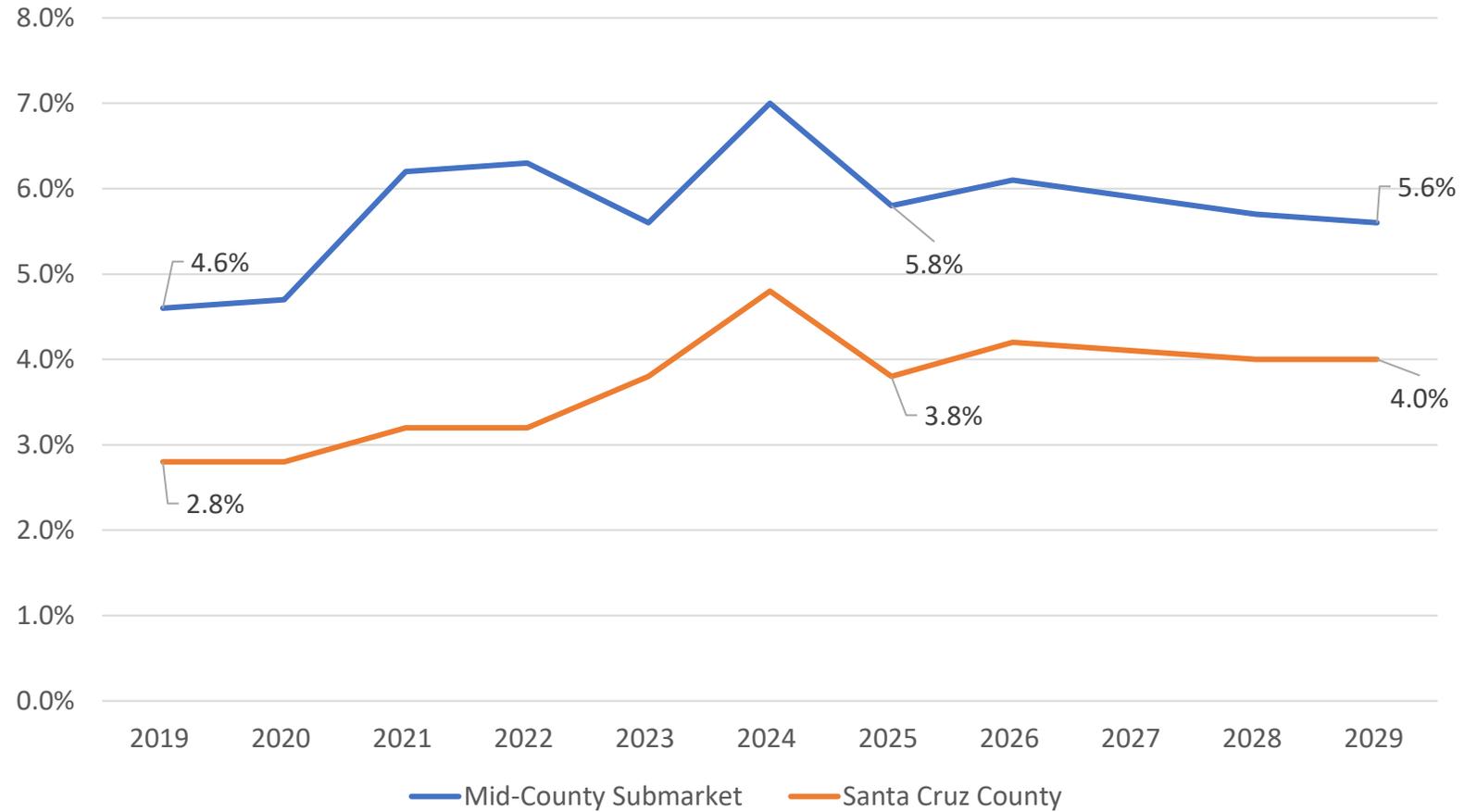
Retail Rent Survey

Retail Lease Rates



Retail Vacancy Trends

Retail Vacancy Rate



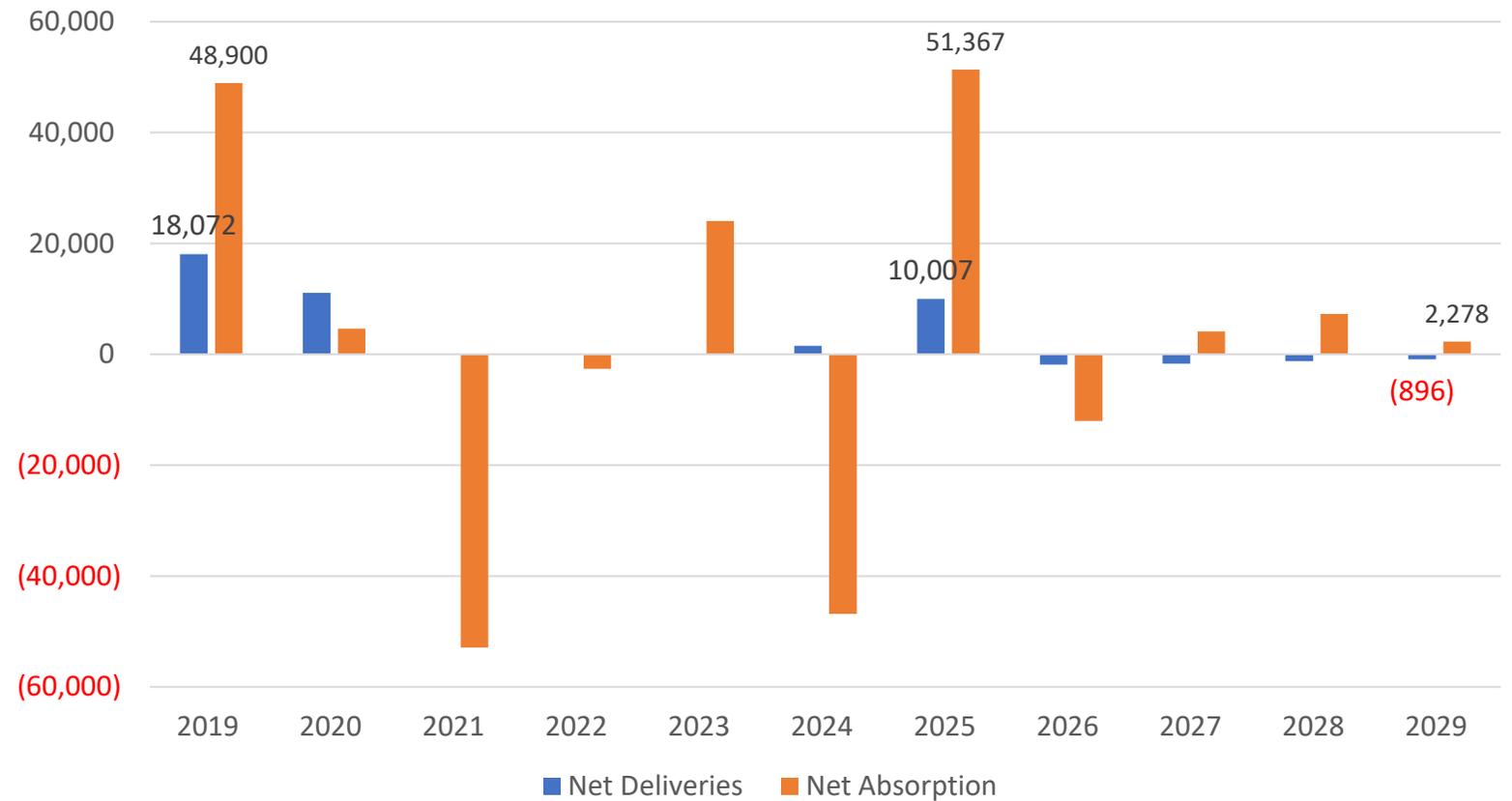
Retail Vacancy Rate			
	2019	2025	2029
Mid-County Submarket	4.6%	5.8%	5.6%
Santa Cruz County	2.8%	3.8%	4.0%



Retail Delivery & Absorption:

Mid-County Submarket

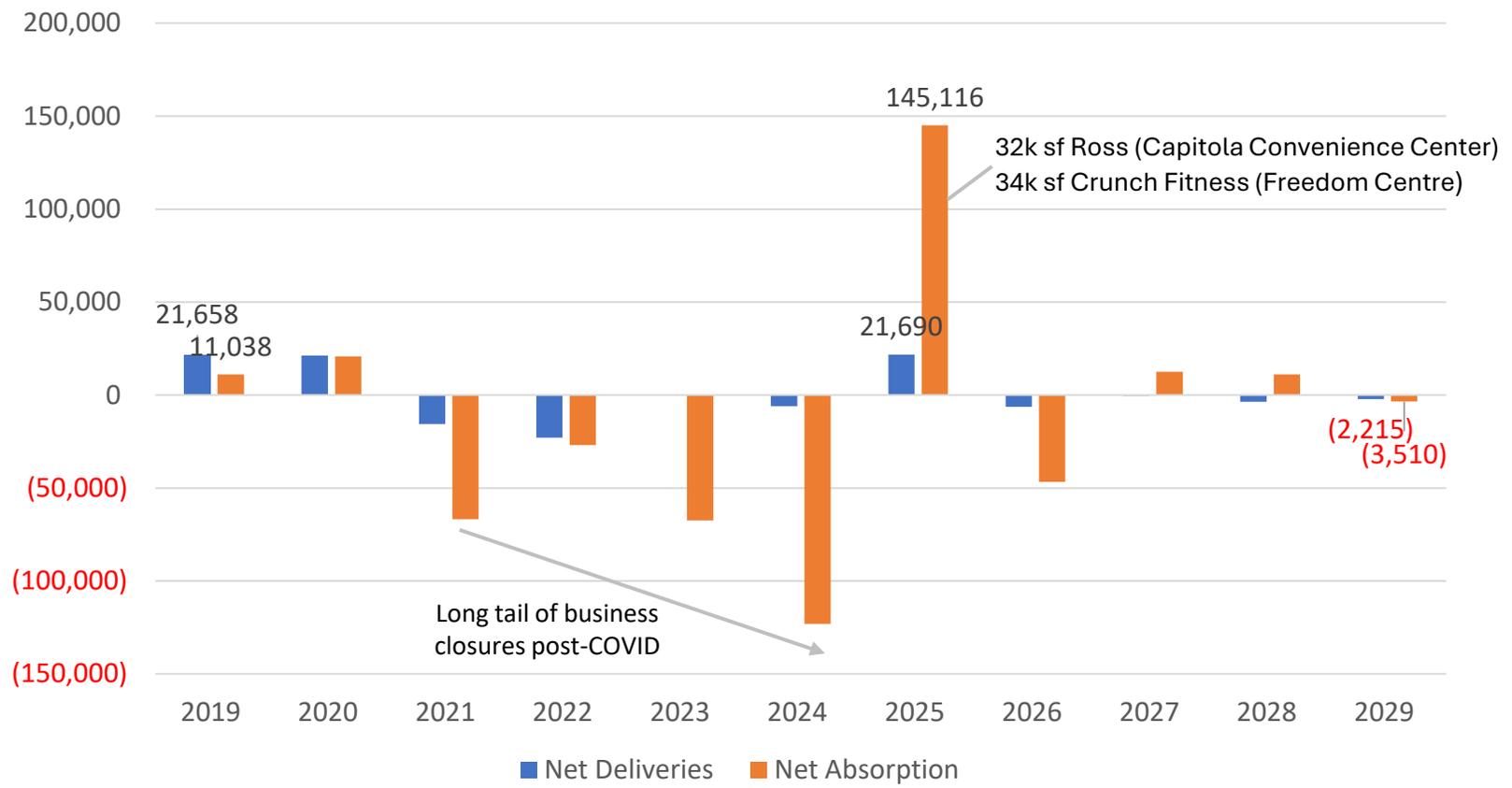
Net SF Delivered & Absorbed



Net Retail Delivery & Absorption		
	Net Deliveries (SF Built)	Net Absorption (SF Leased)
2019	18,072	48,900
2025	10,007	51,367
2029	(896)	2,278



Net SF Delivered & Absorbed



**Retail
Delivery &
Absorption:**

**Santa Cruz
County**

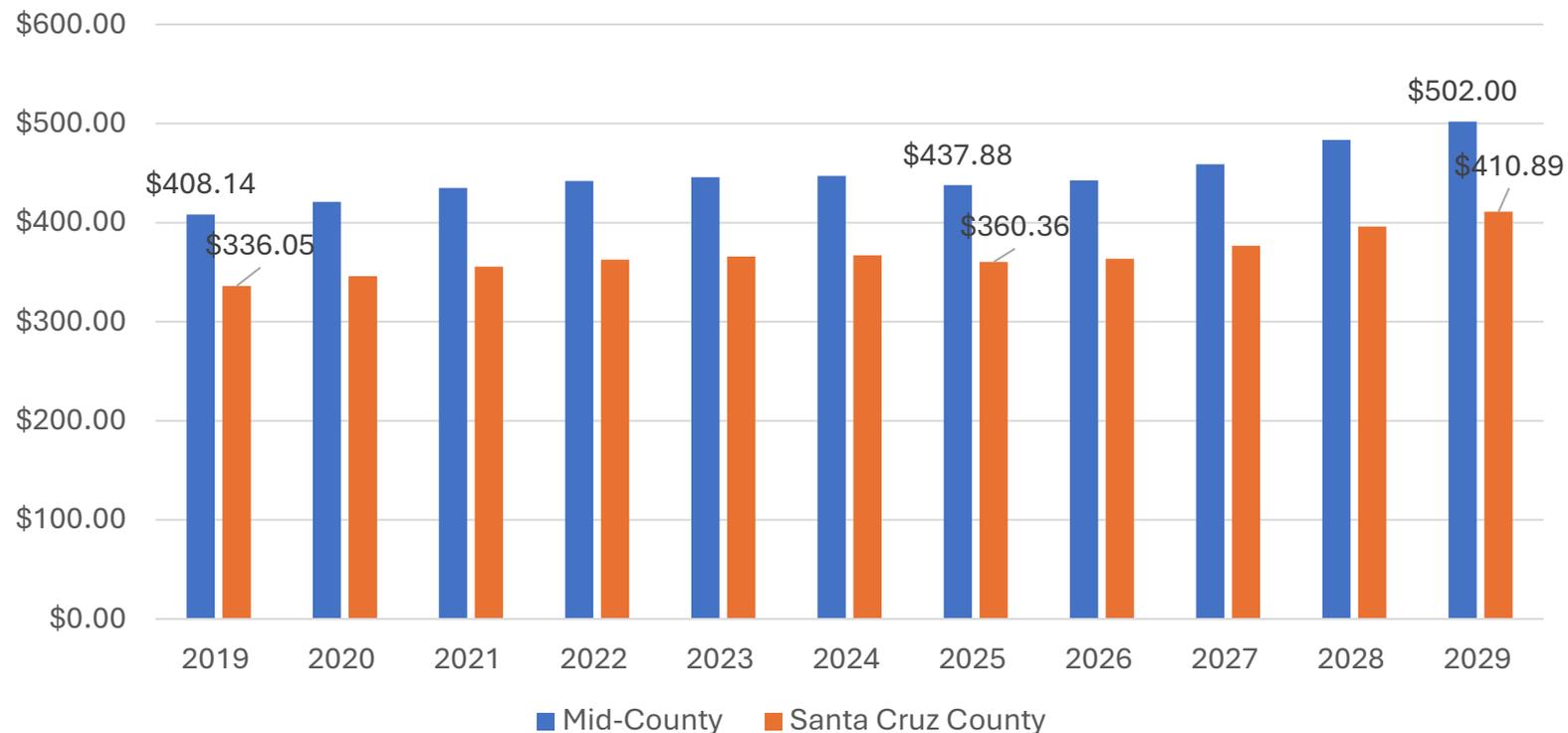
Net Retail Delivery & Absorption

	Net Deliveries (SF Built)	Net Absorption (SF Leased)
2019	21,658	11,038
2025	21,690	145,116
2029	(2,215)	(3,510)



Retail Property Sales

Retail Property Sales Price /sf



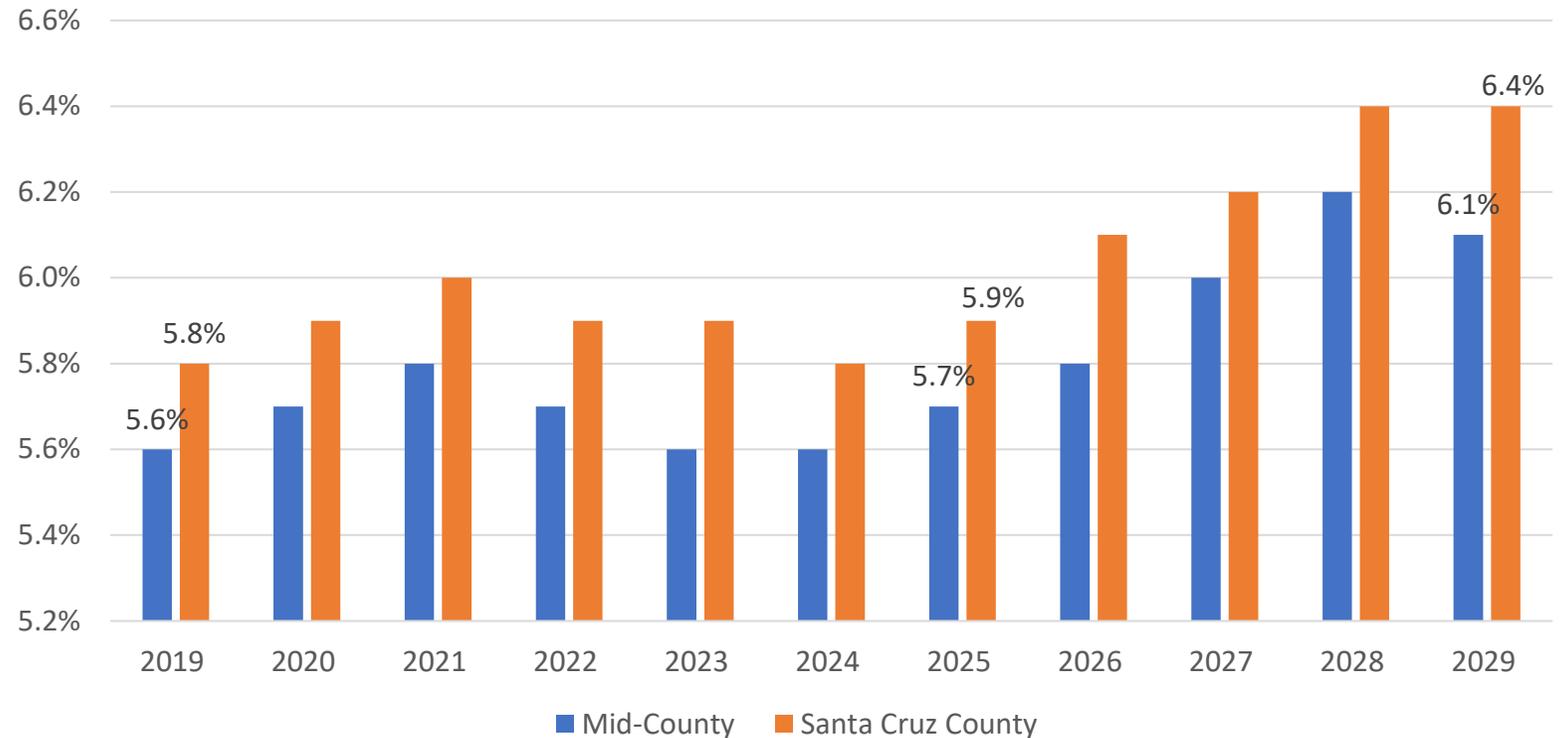
Market Pricing Trends – Retail Property Sales Price (/sf)

	Mid-County Submarket	Santa Cruz County
2019	\$408.14	\$336.05
2025	\$437.88	\$360.36
2029	\$502.00	\$410.89



Retail Property Sales

Capitalization Rate



Market Pricing Trends Capitalization Rate

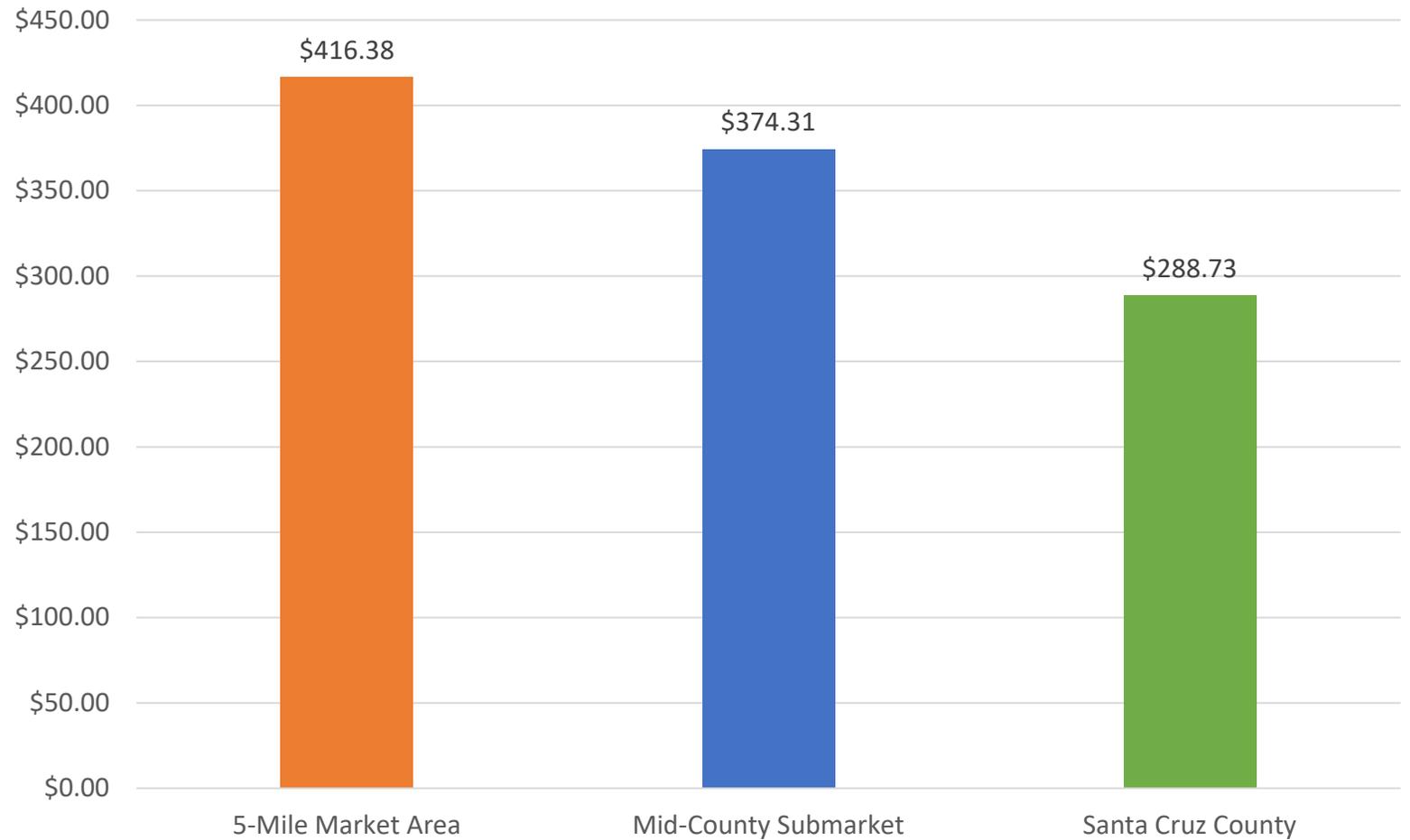
	Mid-County Submarket	Santa Cruz County
2019	5.6%	5.8%
2025	5.7%	5.9%
2029	6.1%	6.4%

Capitalization Rate is the anticipated annual return on investment on an investment property.



Retail Property Sales Survey

Average Retail Property Sales Price /sf



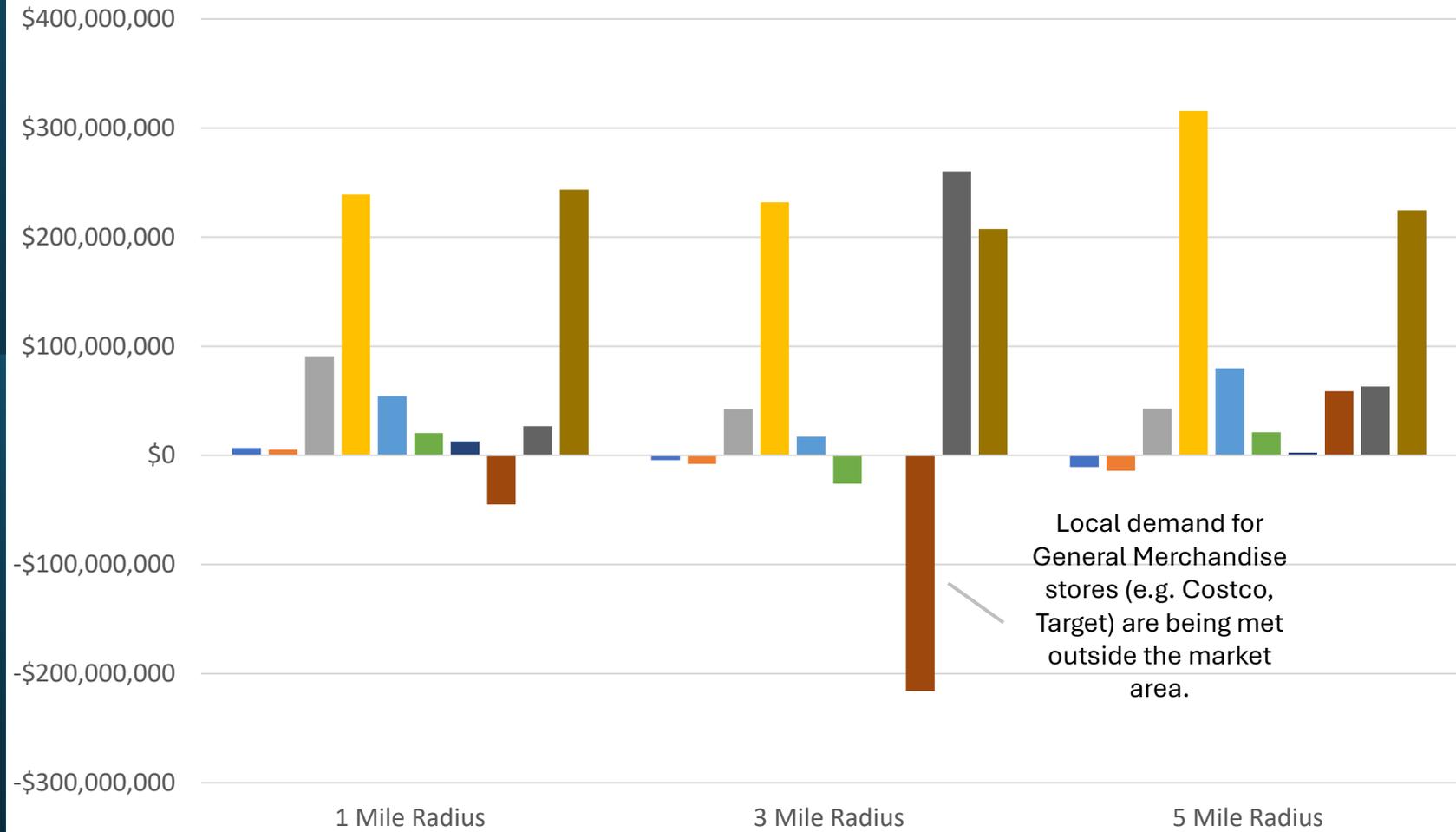
Retail Surplus/ Leakage

- **Retail Surplus:** Retail sales in an area greater than the anticipated spending by area residents. **Customers are traveling into the area to purchase this good/service.**
- **Retail Leakage:** Retail sales in an area below than the anticipated spending by area residents. **Customers demand is not being met by existing establishments. Demand exists in the area for businesses providing this good/service.**



Retail Surplus/ Leakage

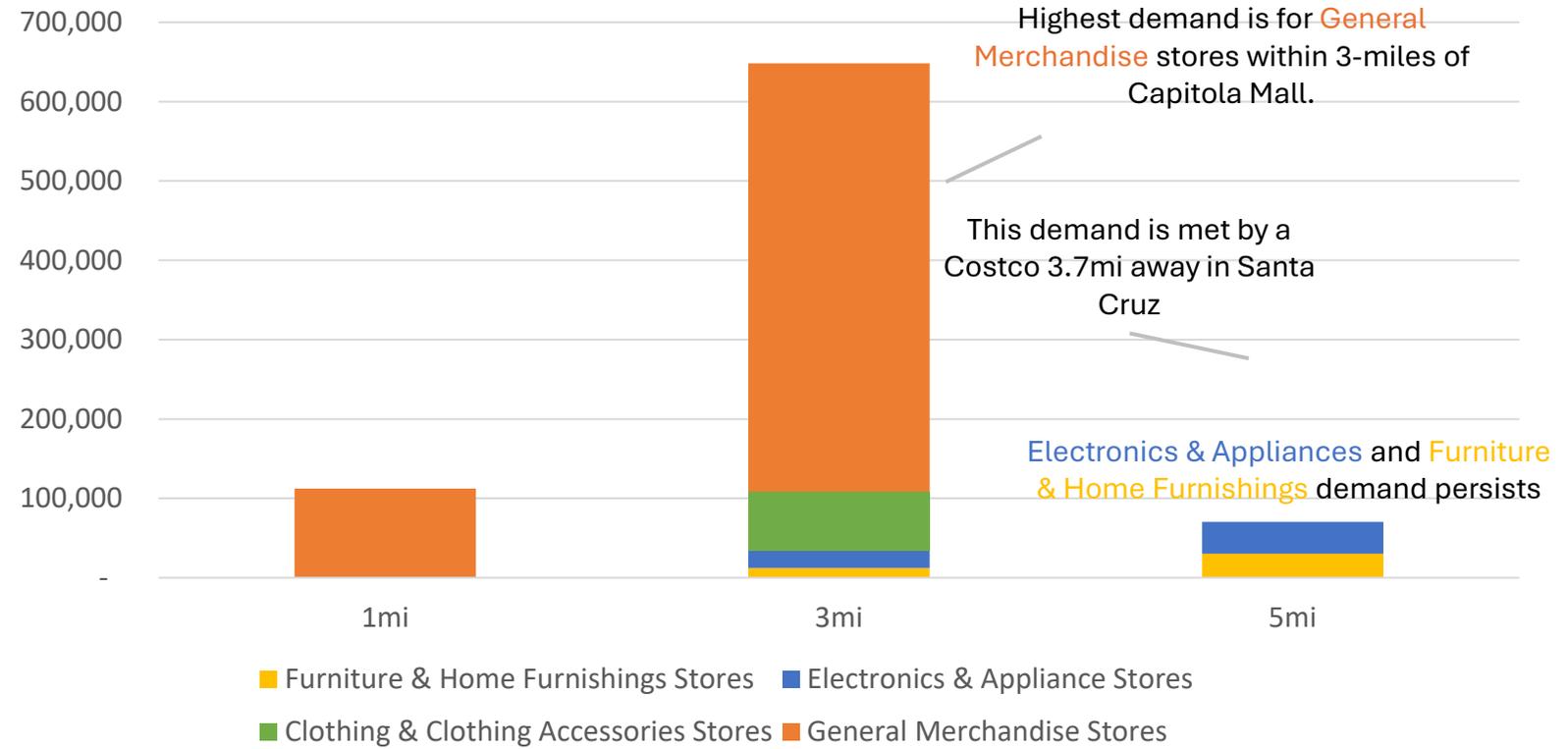
Retail Sales Surplus (+) / Leakage (-)



- Furniture & Home Furnishings Stores
- Electronics & Appliance Stores
- Bldg Materials, Garden Equip. & Supply Stores
- Food & Beverage Stores
- Health & Personal Care Stores
- Clothing & Clothing Accessories Stores
- Sporting Goods, Hobby, Book & Music Stores
- General Merchandise Stores
- Miscellaneous Store Retailers
- Food Services & Drinking Places

Retail Leakage – Space Demand

Retail Space Demand (sf)



Retail Space Demand (sf)

	1mi Radius	3mi Radius	5mi Radius
Furniture & Home Furnishing	-	12,264	30,229
Electronics & Appliances	-	22,179	39,995
Clothing & Accessories	-	73,862	-
General Merchandise	112,468	539,762	-

Source: Claritas



Broker Perspectives – Market Overview

- KMA reached out to over 20 brokers active in the local market area to gain insights into current and future commercial opportunities at the Mall.
- Retail demand is modest Countywide– vacancies are low, but so are rents
- Santa Cruz County is perceived to be a seasonal market, with greater summer sales.
- The Mall is well-situated for redevelopment. 41st Ave is a regional retail destination that draws visitors from across the County.
- Local brokers are skeptical of retail demand at the site.
- Brokers recommended mixed-use development with high residential density and some food service tailored to the site plan



Broker Perspectives – Retail Product

- Market demand greatest for small space
- Unfortunately, small space is financially more challenging to develop
- Limited interest from national and regional tenants for large space.



Broker Perspectives – Tenant Types

- Food service is a highly desirable retail use for the site.
- Development types demonstrating potential include:
 - Small cafes with outdoor seating
 - Indoor/outdoor food hall with live entertainment programming,
 - Quick-serve restaurant.



Broker Perspectives - Challenges

- Mall area and County as a whole have low daytime populations, which can prove challenging.
- Smaller local tenants may not have strong credit.
- Limited national/credit/larger scale retail demand.



Broker Perspectives – Development Patterns

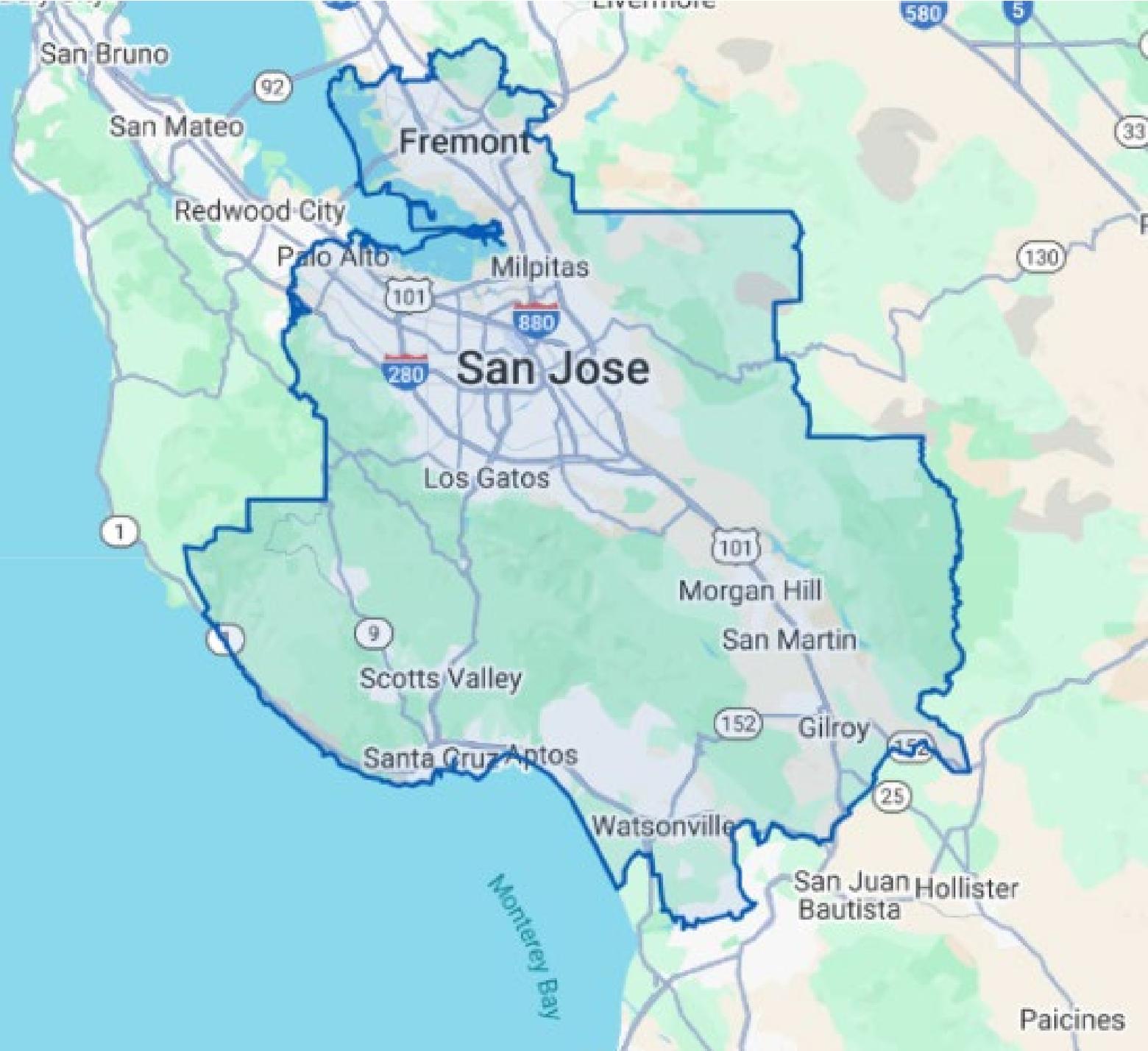
- Hotel – Existing demand. Development would support retail. Likely mid/select service property type.
- Residential – The large number of proposed residential units will support retail at the site and across the region.
- Mixed-Use - Highest and best use for the site, with many brokers citing Santana Row as an example the site could replicate.



Study Area – CoStar Santa Cruz / Scotts Valley Hospitality Submarket

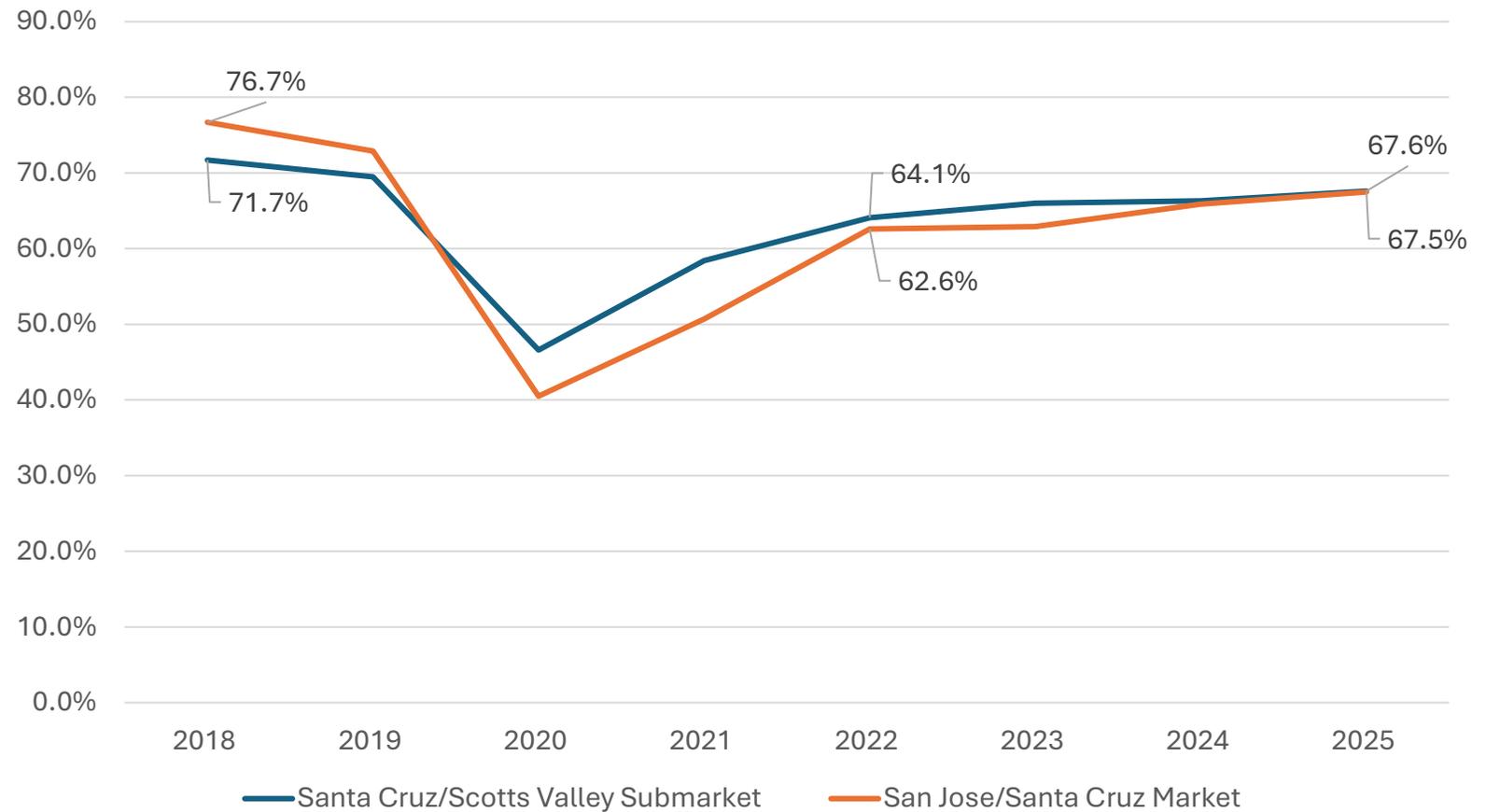


Study Area – CoStar San Jose / Santa Cruz Hospitality Market



Hotel Performance – Occupancy

Occupancy

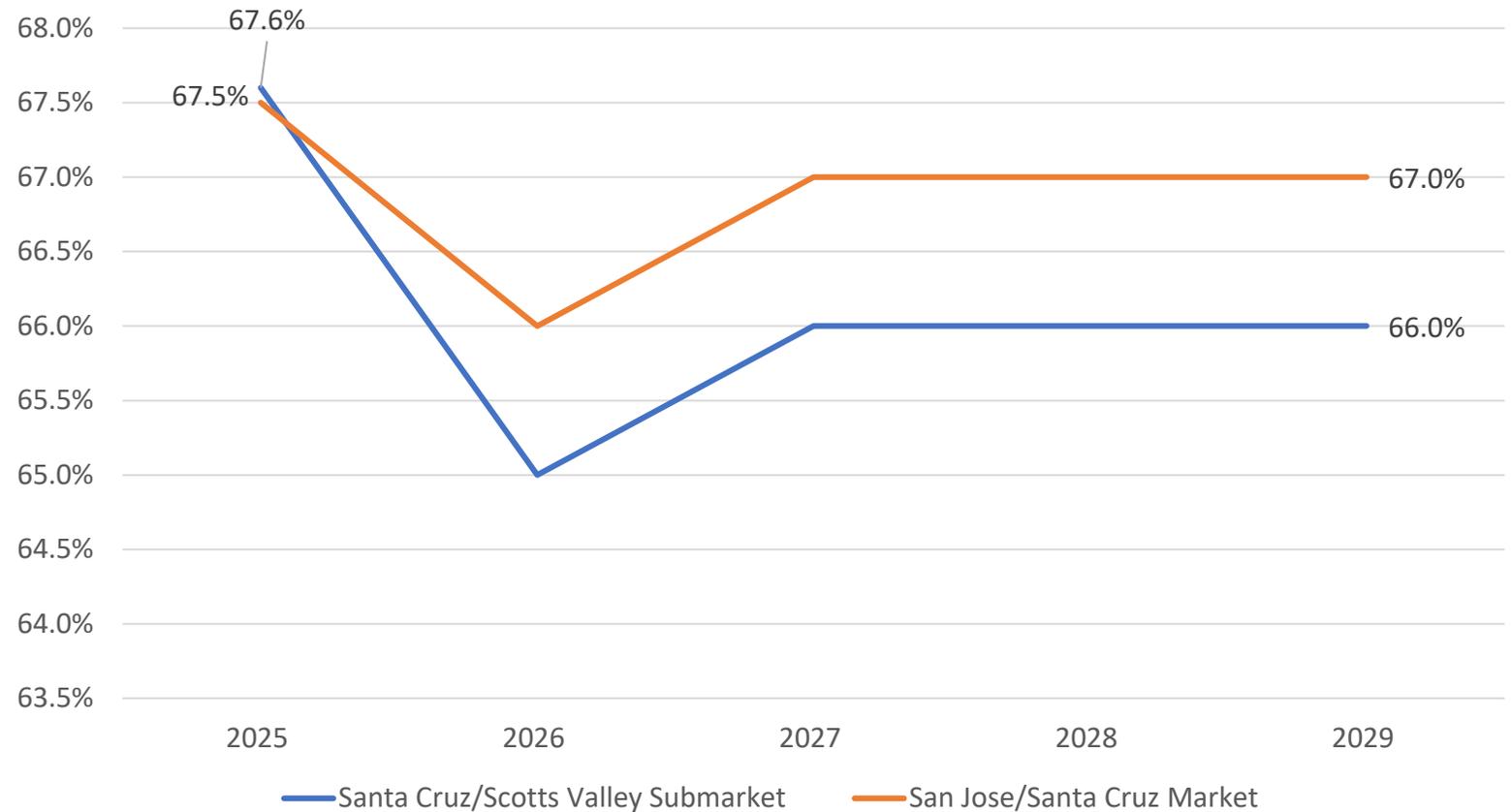


Occupancy			
	2018	2022	2025
Santa Cruz/Scotts Valley Submarket	71.7%	64.1%	67.6%
San Jose/Santa Cruz Market	76.7%	62.6%	67.5%



Hotel Performance – Occupancy Projection

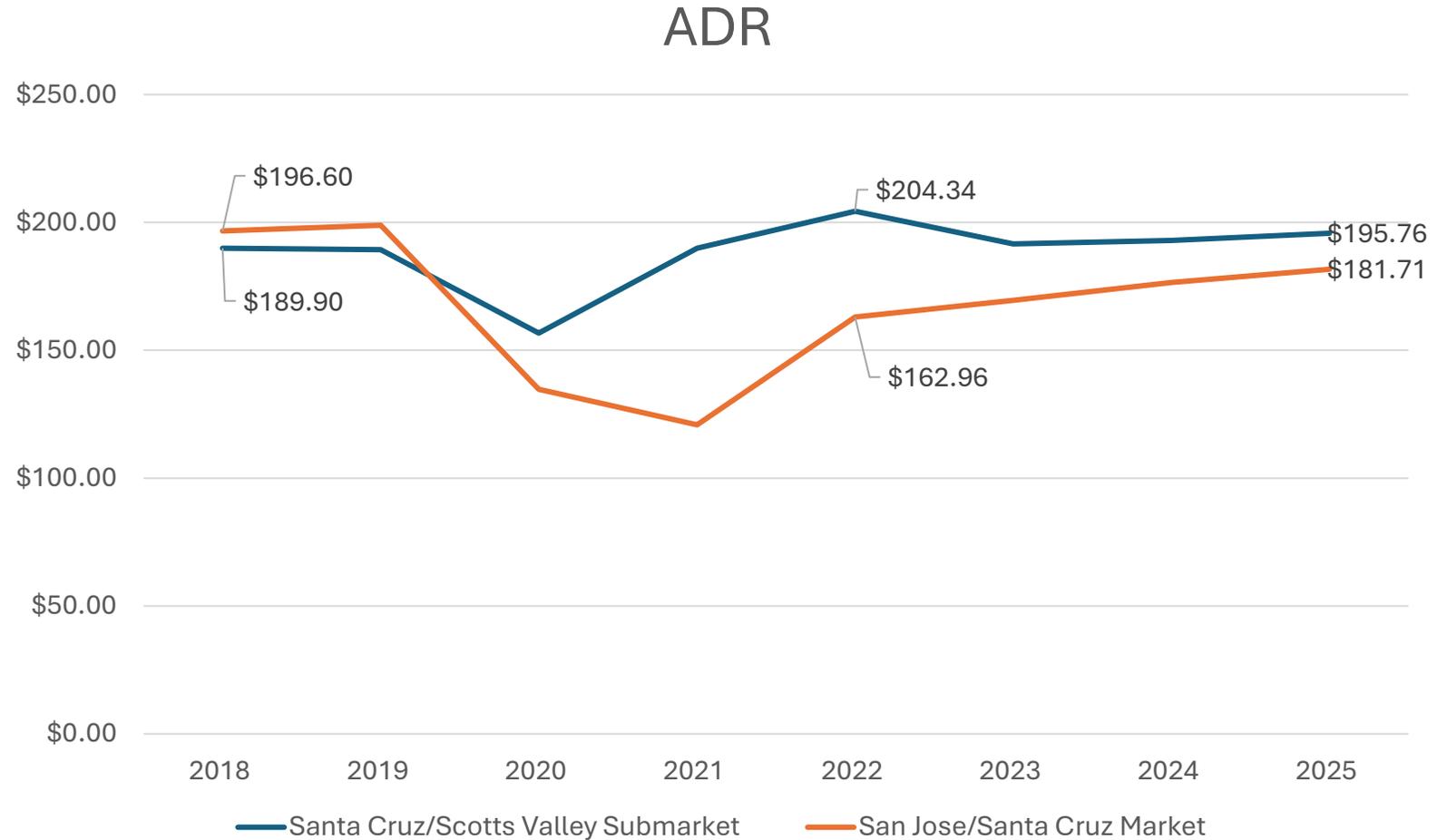
Occupancy



Occupancy		
	2025	2029
Santa Cruz/Scotts Valley Submarket	67.6%	67.0%
San Jose/Santa Cruz Market	67.5%	66.0%



Hotel Performance – ADR



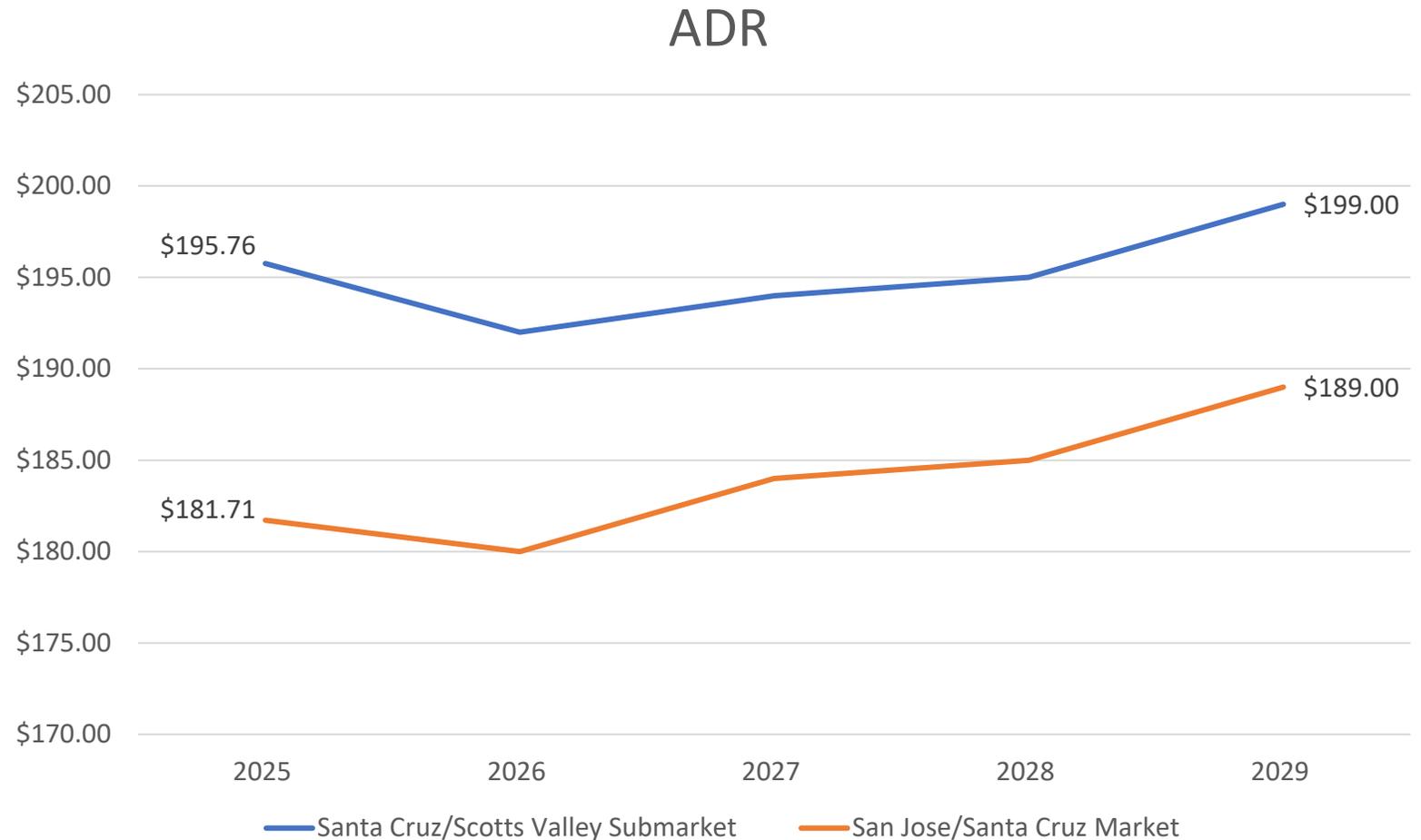
Average Daily Rate (ADR)

	2018	2022	2025
Santa Cruz/Scotts Valley Submarket	\$189.90	\$204.34	\$195.76
San Jose/Santa Cruz Market	\$196.60	\$162.96	\$181.71

Average Daily Rate (ADR) is the average price guests pay per night for a hotel room.



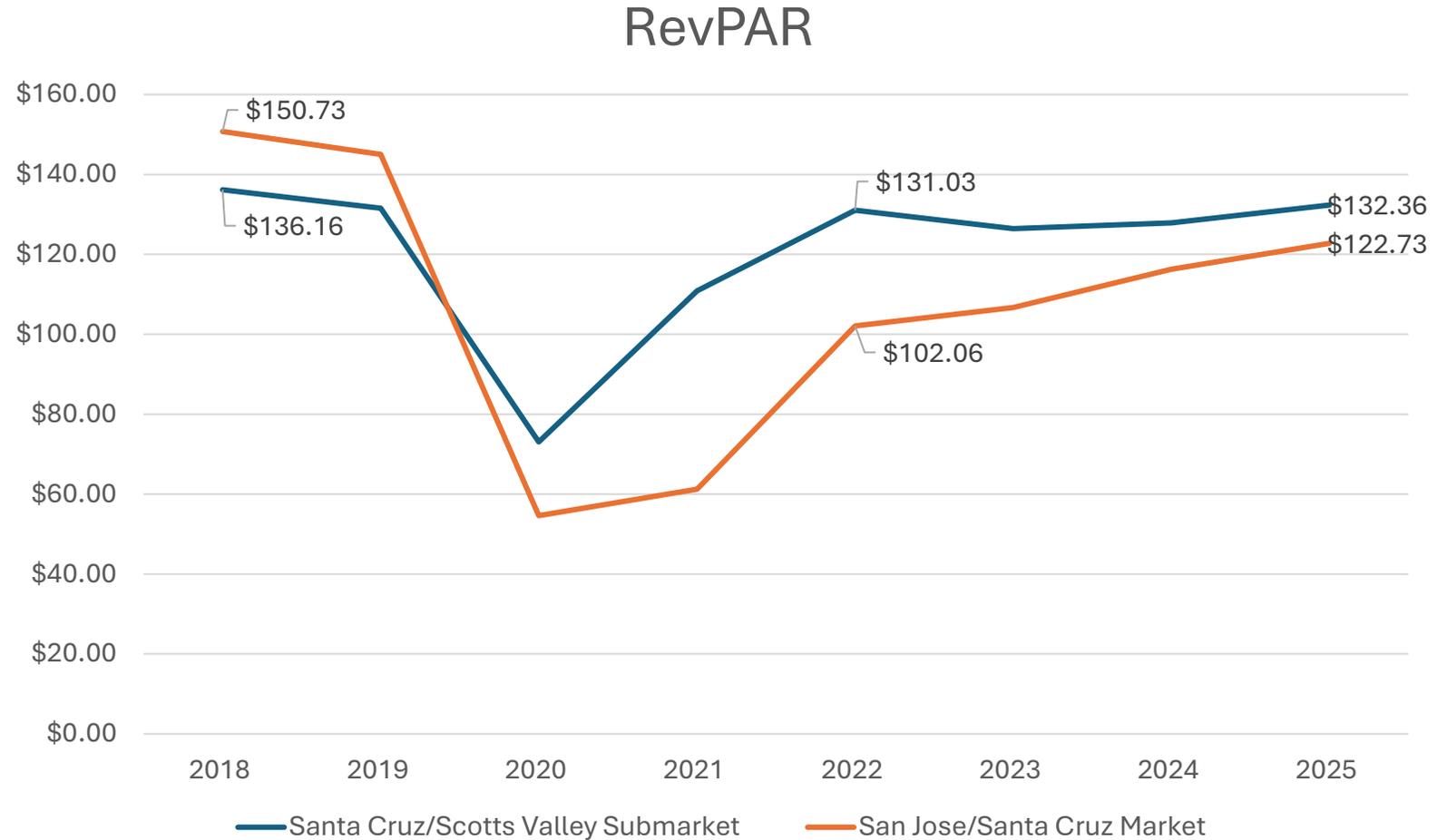
Hotel Performance – ADR Projection



Average Daily Rate (ADR)		
	2025	2029
Santa Cruz/Scotts Valley Submarket	\$195.76	\$199.00
San Jose/Santa Cruz Market	\$181.71	\$189.00



Hotel Performance – RevPAR



Revenue Per Available Room (RevPAR)

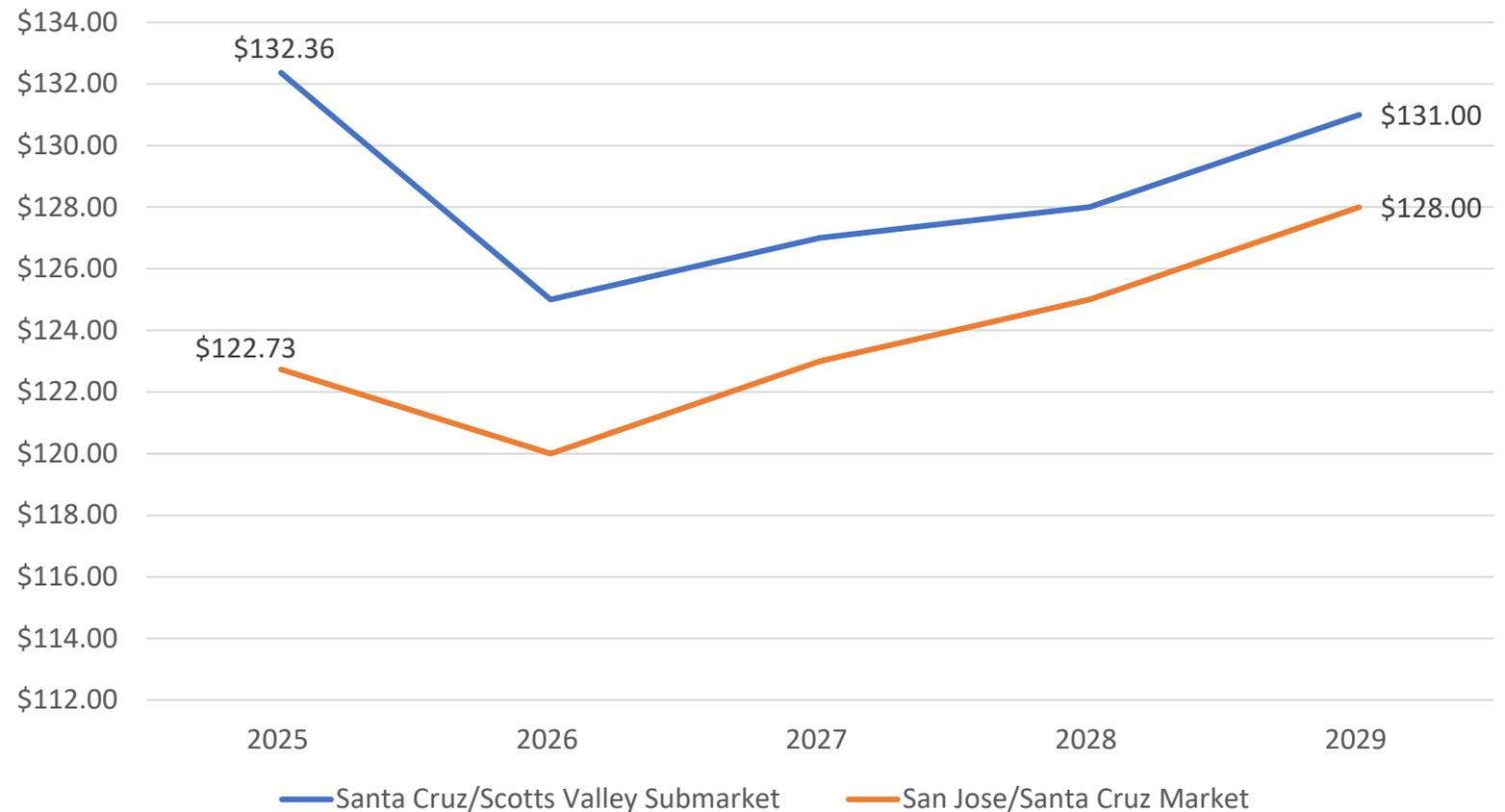
	2018	2022	2025
Santa Cruz/Scotts Valley Submarket	\$136.16	\$131.03	\$132.36
San Jose/Santa Cruz Market	\$150.73	\$102.06	\$122.73

Revenue Per Available Room (RevPAR) is calculated as follows: Average Daily Rate * Occupancy



Hotel Performance – RevPAR Projection

RevPAR



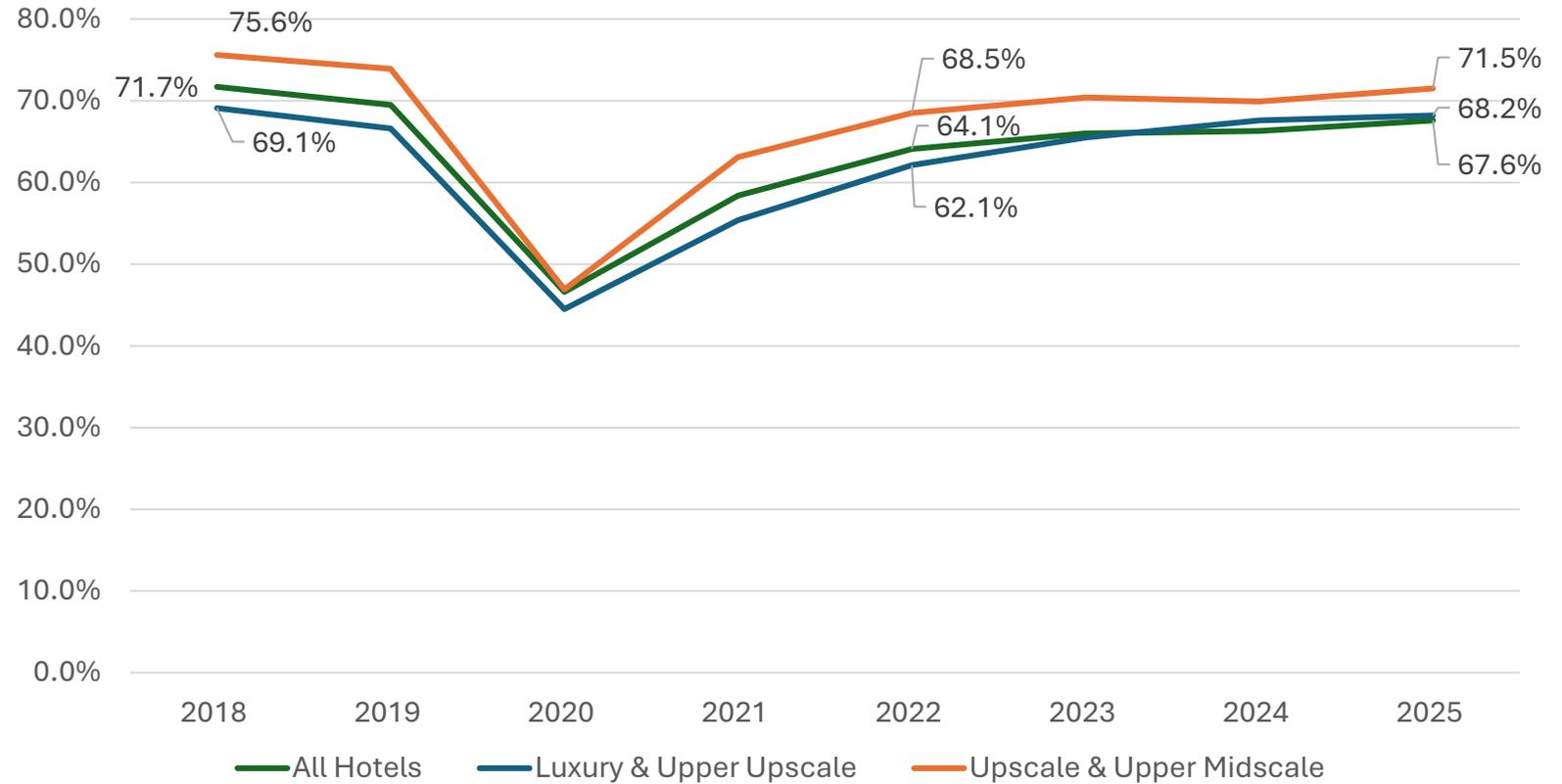
Revenue Per Available Room (RevPAR)		
	2025	2029
Santa Cruz/Scotts Valley Submarket	\$132.36	\$131.00
San Jose/Santa Cruz Market	\$122.73	\$128.00





Hotel Performance – Submarket Occupancy

Submarket Occupancy



Santa Cruz / Scotts Valley Submarket Occupancy

	2018	2022	2025
All Hotels	71.7%	64.1%	67.6%
Luxury & Upper Upscale Hotels	69.1%	62.1%	68.2%
Upscale & Upper Midscale Hotels	75.6%	68.5%	71.5%

Luxury Hotels: Four Seasons, Ritz Carlton, St. Regis, Chaminade, La Bahia
 Upscale: Marriott, Sheraton, Hilton

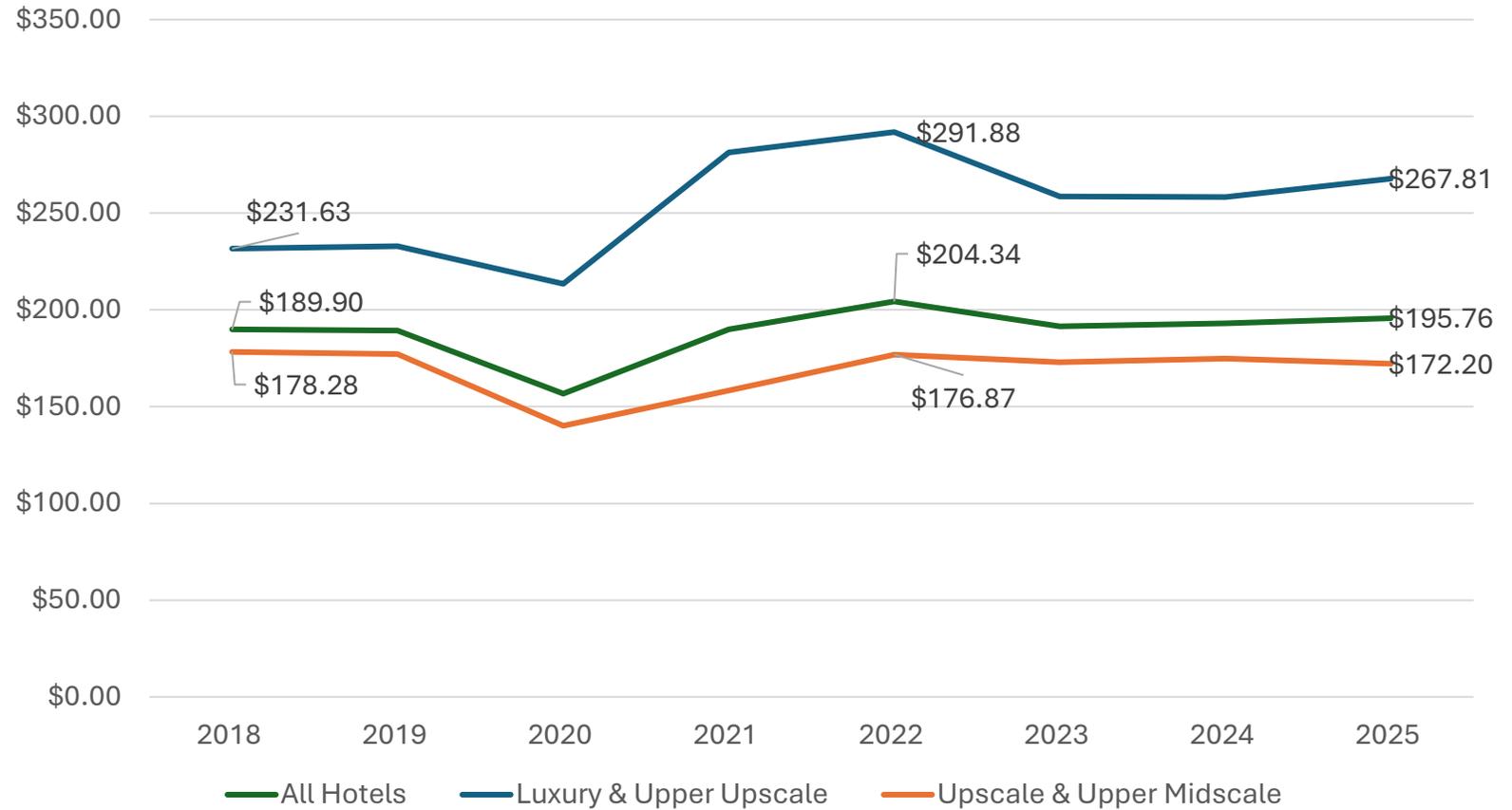
Upper Midscale: Courtyard by Marriott, Fairfield Inn & Suites, Hotel Paradox





Hotel Performance – Submarket ADR

Submarket ADR



Santa Cruz / Scotts Valley Submarket ADR

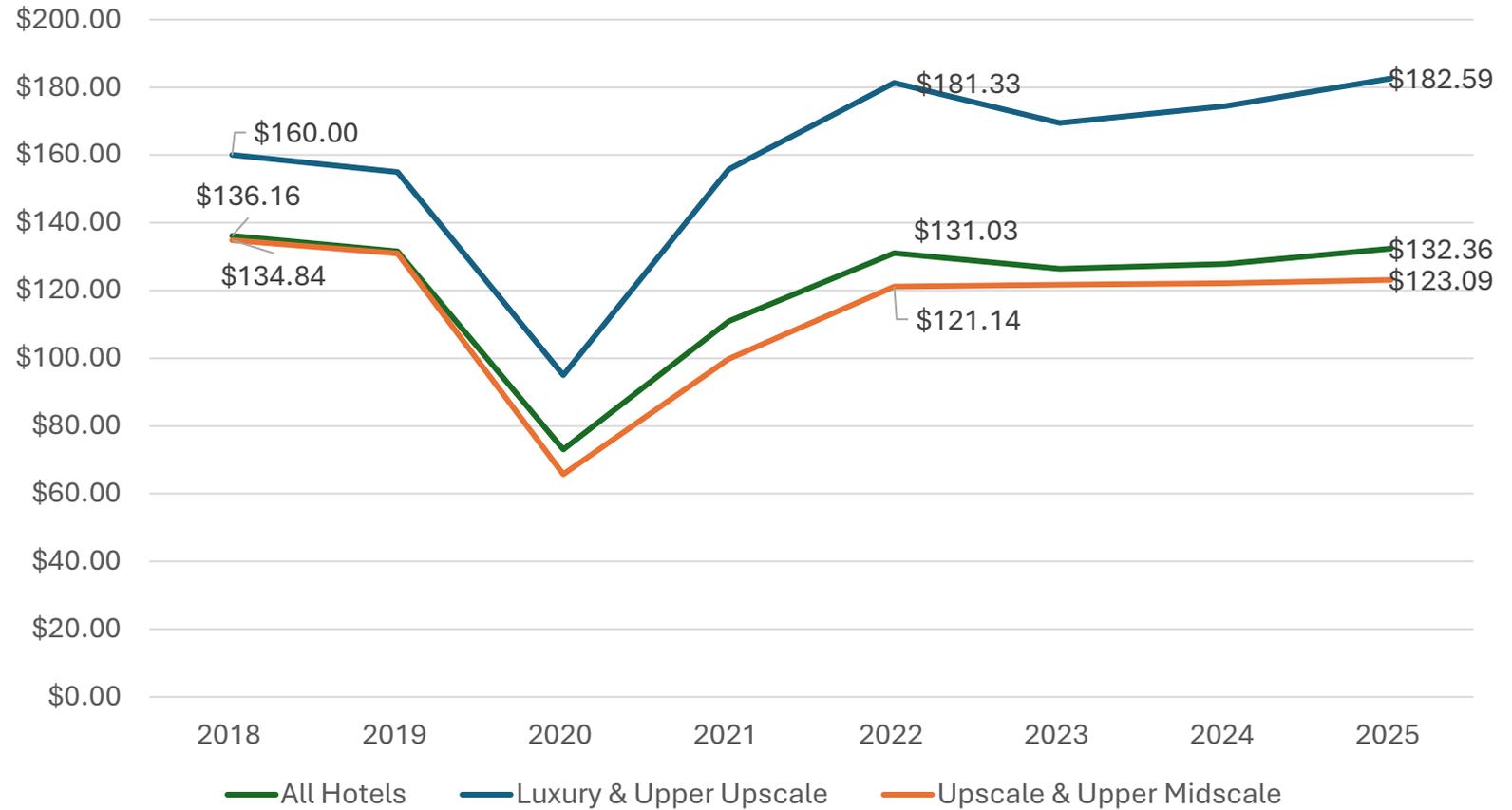
	2018	2022	2025
All Hotels	\$189.90	\$204.34	\$195.76
Luxury & Upper Upscale Hotels	\$231.63	\$291.88	\$267.81
Upscale & Upper Midscale Hotels	\$178.28	\$176.87	\$172.20





Hotel Performance – Submarket RevPAR

Submarket RevPAR



Santa Cruz / Scotts Valley Submarket RevPAR			
	2018	2022	2025
All Hotels	\$136.16	\$131.03	\$132.36
Luxury & Upper Upscale Hotels	\$160.00	\$181.33	\$182.59
Upscale & Upper Midscale Hotels	\$134.84	\$121.14	\$123.09

Event Space Trends

Santa Cruz / Scotts Valley Submarket

	Rooms	Meeting Space (sf)	Meeting Space (sf) /Room
Minimum	54	990	12
Median	128	2,600	23
(Weighted) Average	122	4,027	30
Maximum	178	9,210	72

National

	Meeting Space per Guest Room	Typical Total for a 150-room Hotel
Upper Upscale	50 – 75+ sq. ft	7,500 – 11,000+ sq. ft
Upscale	20 – 40+ sq. ft.	3,000 – 6,000 sq. ft
Upper Midscale	5 – 15 sq. ft	750 – 2,250 sq. ft.



Event Space Trends

- Meeting rooms are generally categorized by capacity, but physical footprint varies based on set-up (theater-style vs. boardroom)
- **Boardroom (8-12 people):** 250 – 400sf
 - *Upscale:* Usually have permanent boardroom tables and high-end AV.
 - *Upper Midscale:* Often a “flex” room with a standard table
- **Small Breakout (20-40 people):** 500 – 800sf
 - Common in both segments for team training or small workshops
- **Large Meeting Room/Junior Ballroom (100-150 people):** 1,500 – 2,500sf
 - Found frequently in *Upscale* hotels. These are often divisible by a “partition” wall



Findings

- Population is projected to contract throughout the region.
- Capitola has high incomes, education levels and median age
- The largest employment sectors include Retail Trade, Accommodation & Food Service, and Construction.



Findings

- Retail vacancy rates are healthy with modest rents in the market area.
- Rents projected to increase 8% over next five years, with vacancy rates remaining stable
- Limited retail market area development with *11,500 SF* of new commercial construction during past 5 years. The market area is projected to see a net loss of 5,700 SF of retail space by 2029.



Findings

- Three-mile retail leakage is primarily General Merchandise (Costco, Marshalls, World Market, etc.).
- Five-mile shows no leakage, indicating greater market is in balance.
- Mall repositioning will likely benefit Target and additional general merchandise on site is challenging.



Findings

- Food Service industry weathered pandemic well and continues to expand.
- Site residential will enhance demand for Food Service (i.e. restaurants) and Food & Beverage (i.e. grocery stores)
- Quantitative analysis and broker feedback indicates challenging retail environment.



Findings

- Opportunities likely limited to smaller tenants, primarily food & beverage
- Modest amount of new retail demand for site reflecting current and future market conditions.
- Retail demand likely ranges from 25,000 – 35,000 SF. Only 11,500 SF was delivered over the past 5 years.
- Financial feasibility will be challenging due to modest rents, non-credit tenants and smaller spaces



Findings

- Average occupancy of higher quality hotels (Upper Midscale+) in submarket approaches 70%
- Average ADR of higher quality hotels exceeds \$200 per night with a \$145 RevPAR
- Modest amount of meeting space in local hotels.



Findings

- Without a brand or operator, hotel performance is difficult to project.
- Assuming a strong operator and brand, a hotel on Site could hypothetically exceed market average
- Hypothetical performance assuming a 10% - 20% premium over the market area average would suggest a RevPAR of \$165 to \$180 per key with 25 – 30 SF of meeting space per key
- Meeting space in hotels likely range from 25-30 SF per key, indicating up to 2,550 SF for an 85 room hotel and 3,900 SF for a 130 room hotel

