

# Capitola Planning Commission

## Agenda Report



**Meeting:** October 30, 2025

**From:** Community and Economic Development Department

**Address:** Capitola Mall Zoning Code Amendments

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**Project Description:** Capitola Mall Zoning Code Amendments

**Recommended Action:** Receive Report and Provide Feedback

**Representative:** Ben Noble, Consultant

Katie Herlihy, Community and Economic Development Director

### BACKGROUND

The City of Capitola is preparing Zoning Code Amendments for the Capitola Mall property as required by the General Plan Housing Element. Program 1.7 of the Housing Element states that by the end of 2025 the City shall:

- Develop land use policies to facilitate shopping center redevelopment with a strong sense of urban design cohesion.
- Define "Capitola Mall" as all properties between Clares Street, 41<sup>st</sup> Avenue and Capitola Road
- Allow for building height up to 75 feet for mall redevelopment.
- Define "mall redevelopment" to mean a mix of uses that includes residential and retail/commercial components.
- Exclude parking garages from the project FAR calculations for mall redevelopment.
- Adopt objective development standards to facilitate mall redevelopment.

Zoning Code amendments to implement Program 1.7 need to allow for a realistic development capacity of 1,777 units on the Capitola Mall site, as identified in the Housing Element sites inventory. For the portion of the Mall property under control by Merlone Geier, the Zoning Code amendments need to allow approximately 1,100 units.

On October 2, 2025, the Planning Commission held its first study session for the Capitola Mall Zoning Code Amendments. At this meeting staff presented background information about the project and described unique design considerations for a Capitola Mall redevelopment project.

The City hosted a community meeting on October 8, 2025, to receive public input on the Capitola Mall Zoning Code Amendments. At this meeting the City answered questions about the project and asked for input on design issues related to mid-rise residential development on the Mall property. Input received at the community meeting is provided in Attachment 2.

### DISCUSSION

As discussed below, City staff requests Planning Commission feedback on the following topics:

- General approach to allow greater height and FAR
- Development standards (height, FAR, and parking)
- Fiscal impact analysis
- Allowed uses (permits required and commercial use requirements)

- Objective design standards
- Public services and infrastructure

Staff also requests Planning Commission input on any other topics of interest related to the Capitola Mall Zoning Code Amendments for staff to consider prior to preparing the draft amendments.

## **General Approach to Allow Greater Height and FAR**

### Existing Requirements – Chapter 17.88

Currently, the Capitola Mall property is zoned Regional Commercial (C-R), which allows a building height of 40 feet and floor area ratio (FAR) of 1.5. However, Zoning Code Chapter 17.88 (Incentives for Community Benefits) allows 50 feet height and 2.0 FAR for projects that provide a substantial benefit to the community. Important provisions in Chapter 17.88 include the following:

- To be eligible for increased height and FAR, a project must provide one or more community benefit listed in 17.88.040. These include public open space, pedestrian and bicycle facilities, public art, among others. Specifically for the Mall property, listed benefits include new intersecting interior streets, parking lot redevelopment, transit center enhancements, and affordable housing.
- Community benefits provided must be greater than and in addition to the minimum otherwise required by the City or other public agency.
- The project applicant must submit a pro forma analysis demonstrating that the benefit of the proposed amenities to the community is commensurate with the economic value of the requested incentives.
- A project requesting increased height or FAR requires “conceptual review” by both Planning Commission and City Council to receive preliminary input on whether the request for incentives is worthy of consideration.
- To approve the increased height or FAR, the City Council must make all of the following findings:
  1. The proposed amenities will provide a substantial benefit to the community and advance the goals of the general plan.
  2. There are adequate public services and infrastructure to accommodate the increased development potential provided by the incentive.
  3. The public benefit exceeds the minimum requirements of the zoning code or any other provisions of local, state, or federal law.
  4. The project minimizes adverse impacts to neighboring properties to the greatest extent possible.
  5. If in the coastal zone and subject to a coastal development permit, the project enhances coastal resources.

### Approach to Mall Zoning Code Update

Housing Element Program 1.6 states that for Mall redevelopment the City will “modify the findings required for Chapter 17.88, Incentives for Community Benefits, to meet objective standards.” Program 1.7 calls for the City to “Adopt objective development standards to facilitate mall redevelopment.”

Staff plans to take the following approach to implement the Housing Element Programs 1.6 and 1.7:

- For the Mall property, separate the allowance for 75-foot building height and 2.0 FAR (or alternative standards as discussed below) from the discretionary community benefits process in Chapter 17.88.
- Establish 75 feet and 2.0 FAR as the baseline development standards for Mall redevelopment projects that meet specified eligibility criteria and conform with objective design standards.
- Allow 75-feet building height and 2.0 FAR for residential and hotel projects that meet the following criteria:

- Affordable Units: A minimum of 15 percent of the dwelling units are deed restricted to affordable to lower income households and a minimum of 5 percent of the units are either deed restricted affordable to moderate income households or studio units with a kitchen and living space but without a separate bedroom. The number of affordable units must be no less than the RHNA assigned to the site.
- Hotels. Hotels which comply with a minimum number of guest rooms. Minimum number of rooms to be determined.
- Objective Standards. Projects must comply with all objective design standards.
- The existing pro forma requirement in Chapter 17.88 would no longer apply to a Capitola Mall redevelopment project. Existing requirements, including conceptual review and/or special City Council approval, could be removed as well at the direction of Planning Commission.
- Capitola Mall redevelopment projects would require a Design Permit, consistent with objective standards, and specific land uses would require a Conditional Use Permit. The permit process would include Planning Commission approval and ability to appeal to City Council.

This eligibility criteria for affordable housing described above is consistent with the Housing Element (pages 4-44 through 4-45) for the Capitola Mall site which includes 266 (15%) lower income units and 89 (5%) moderate income units. Lower income units will be deed restricted to remain lower income. Moderate income units (5%) may be, at developers' option, either moderate by deed restriction or by design as studio units. A studio unit is described in the Housing Element as a unit which includes a kitchen and living space, does not have a separate bedroom, and is smaller than a one-bedroom unit.

The Housing Element also includes 80 % market rate (above moderate) for development within the Capitola Mall block. The number of market rate units for the Capitola Mall (1,422 units) surpasses the regional housing needs assessment (RHNA) requirements (281 units) in order to make the project financially feasible. There is no maximum density limit in the C-R zone. The Capitola Mall Zoning Code amendment will allow, but not require, a developer to produce market rate units beyond the RHNA assigned to the site. An explanation of mall RHNA units and the Housing Element sites inventory calculations is included as Attachment 4.

#### Capitola Mall RHNA Units

Income Level	Units	Required	RHNA	Percent
Lower	266	Yes	Required to meet City's RHNA for income levels	15%
Moderate	90	Yes		5%
Above Moderate	281	Yes		80%
	1141	No	Allows for economically feasible development.	

#### Requested Planning Commission Feedback:

- Does the Planning Commission have any comments on the proposed general approach to allow greater height and FAR for Mall Redevelopment projects?

### **Development Standards**

#### Height and FAR

Housing Element Program 1.7 calls for the City to allow Mall redevelopment projects with a height of 75 feet and FAR of 2.0 (excluding parking structures). The City added these height and FAR standards to the Housing Element in response to Merlone Geier requests made during the public review of the draft

Housing Element in 2024. At that time Merlone Geier stated that a height of 75 feet is necessary to achieve the required RHNA and financially a feasible project on the Mall property.

In their Zoning Code amendments request (Attachment 1), Merlone Geier requests an overall building height of up to 85 feet (excluding architectural features and building systems). Merlone Geier states that “the 75 foot height was intended to reflect measurement to the highest occupiable floor level of a building, i.e., the floor of the 8<sup>th</sup> story of a building. This would allow for a “5 over 3” construction typology which is common for multifamily projects in the region. Anything taller than 8 stories would be considered “high-rise” in the building code for a multifamily building and would require cost implementations that would not be feasible in this location.”

Regarding FAR, Merlone Geier requests a maximum 2.0 FAR for residential uses with an additional 0.5 FAR permitted for commercial and hospitality uses. Parking structure would be excluded from the FAR calculation and allowed floor area could be transferred within parcels under common ownership within the area defined as the Capitola Mall site.

As noted above, the Housing Element requires the City to establish development standards for Capitola Mall redevelopment that can realistically accommodate at least 1,141 dwelling units on portions of the Mall property controlled by Merlone Geier. The City’s consulting architects (Urban Field Studio) studied development options for the site and found that at least 1,141 units can be accommodated on the Merlone Geier property with the 75-foot height standard and 2.0 FAR (excluding parking structures). However, a 0.5 FAR bonus for new commercial and hotel uses could incentivize these uses which are desired by the City and community. Staff will further study Merlone Geier’s FAR proposal and provide the Planning Commission with additional information at the October 30<sup>th</sup> meeting.

#### Parking

The City’s existing multifamily parking standards require 1.0 space for units 500 sq. ft. or less, one 1.5 spaces for units 501 to 750 sq. ft., and 2.0 spaces for units 751 sq. ft. or more. This standard was established in 2024 in response to Housing Element programs that required the City to reduce the prior multifamily parking standard. Previously, the City required 2.5 spaces per multifamily unit (one covered) regardless of unit size.

In Attachment 1, Merlone Geier requests a maximum of 1 space for studio and 1-bedroom units and 1.25 spaces for larger units. Merlone Geier states that “the market needs to control in the provision of parking. Too little and leasing / retention will struggle. Too much and the project will not be financially feasible.”

Zoning Code Section 17.76.050 (On-site parking alternatives) currently provides for a variety of methods to reduce a project’s parking demand and the number of required parking spaces. Pursuant to Subsection 17.76.050.G (Low Demand), the Planning Commission may allow for reduced parking if a parking demand study finds that a project would not utilize the number of spaces otherwise required by the Zoning Code. For this reason, staff recommends maintaining the existing multifamily parking standard and continuing to allow for a reduction in the number of spaces provided in a Mall redevelopment project using existing provisions in Zoning Code Section 17.76.050.

#### Requested Planning Commission Feedback:

- Should the City continue with a maximum 75-foot building height standard?
- Should the City apply the maximum 2.0 FAR standard only to residential uses with an additional 0.5 FAR for new commercial and hotel uses?
- Should the City maintain the existing multifamily parking standard with the option to reduce required parking based on a project-specific parking demand study?

#### **Fiscal Impacts Analysis**

The City of Capitola’s largest source of revenue is sales tax, which constituted about 46 percent of the General Fund in FY 2024-25. Regional retail along the 41<sup>st</sup> Avenue corridor, including the Capitola Mall,

is a major source of this sales tax revenue. If the Mall is redevelopment with non-retail uses, this could significantly reduce sales tax revenues to the City. New residential development on the Mall property would increase demand for City services, which could increase net costs to the City.

For these reasons, staff recommends the City 1) Require a proposed Capitola Mall redevelopment project to prepare a fiscal impact analysis; 2) Consider fiscal impacts to the City when acting on the proposed project. Specifically, staff recommends including in the Capitola Mall Zoning Code Amendments the following fiscal impact analysis (FIA) requirements:

- Require a FIA for any proposed residential development project on the Capitola Mall property.
- Require the FIA to be prepared or peer reviewed by a qualified independent consultant approved by the City and funded by the applicant.
- Identify required contents of the FIA, which will include:
  - An estimate of the annual recurring revenues and expenditures to the City generated by the project at buildout.
  - Identification of any net fiscal surplus or deficit to the City's General Fund and special revenue funds over a ten to twenty-year horizon.
  - A description of proposed mitigation measures or financing mechanisms to offset any projected negative fiscal impact.
  - Supporting assumptions, data sources, and methodology.
- Describe how the City will consider the FIA findings when acting on the proposed project.

For reference, the Hotel transient occupancy tax (TOT) in Capitola is 12 percent of total guest payment with the City collecting 100 percent of TOT collected. Sales tax is 9.25 percent, of which the City receives 1.5 percent, and property tax is 1 percent of assessed value, of which City receives 7.47 percent on average.

#### Requested Planning Commission Feedback:

- Does the Planning Commission have any feedback on the recommended FIA requirement?

### **Allowed Uses**

#### Permits Required

Currently, any residential use on the Capitola Mall property requires Conditional Use Permit (CUP) approved by the Planning Commission. Hotels also require a CUP and restaurants require a Minor Use Permit (MUP) approved by the Community Development Director. Zoning Code Section 17.124.060 states that the City shall consider the following characteristics of the proposed use when evaluating a CUP or MUP application:

- A. Operating characteristics (hours of operation, traffic generation, lighting, noise, odor, dust, and other external impacts).
- B. Availability of adequate public services and infrastructure.
- C. Potential impacts to the natural environment.
- D. Physical suitability of the subject site for the proposed use in terms of design, location, operating characteristics, shape, size, topography.

To approve a CUP or MUP application, the review authority must make all of the following findings:

- A. The proposed use is allowed in the applicable zoning district.
- B. The proposed use is consistent with the general plan, local coastal program, zoning code, and any applicable specific plan or area plan adopted by the city council.
- C. The location, size, design, and operating characteristics of the proposed use will be compatible with the existing and planned land uses in the vicinity of the property.
- D. The proposed use will not be detrimental to the public health, safety, and welfare.

- E. The proposed use is properly located within the city and adequately served by existing or planned services and infrastructure.

In Attachment 1 Merlone Geier recommends eliminating the CUP requirement for mixed-use development on the mall property and recommends allowing hotels as a permitted use without a CUP. Merlone Geier notes that “Hotels are substantial sources of municipal revenues and major employers, and the City should look to minimize entitlement risk to attract this kind of investment.”

Staff recommends maintaining the existing CUP for all new residential uses on the mall property, including mixed-use projects. The CUP will enable the City to ensure a Mall redevelopment project that complies with objective standards and CEQA and minimizes potential community impacts in terms of operating characteristics and availability of public services and infrastructure. Staff also recommends the Planning Commission consider eliminating the CUP and MUP requirements for hotels and restaurants to incentivize these uses on the Mall property.

#### Commercial Use Requirement

The Zoning Code currently allows residential uses on the Mall property only “as a part of a mixed-use project integrated with commercial structures located on the same development site.” This requirement is intended to help maintain commercial uses on the Mall property, promote the economic vitality of 41<sup>st</sup> Avenue, and sustain sales tax revenue for the City.

In Attachment 1, Merlone Geier recommends removing this mixed-use requirement and allowing residential-only development on the Mall property without limitation. Merlone Geier has indicated to staff that a requirement for new commercial uses could jeopardize the financial feasibility of a Mall redevelopment project.

The General Plan Land Use Element envisions the “transformation of Capitola Mall into a more pedestrian-friendly commercial district with high quality architecture and outdoor amenities attractive to shoppers and families.” As noted above, Housing Element Program 1.7 states that the City will “Define “Mall Redevelopment” to mean a mix of uses that includes residential and retail/commercial components.” Given these existing policies, staff recommends that the City require new commercial uses as part of a Mall redevelopment project. Staff recommends requiring at least new active commercial uses (e.g., retail or restaurants) oriented towards new publicly accessible open space and in proximity to existing retail uses. New commercial uses may be in stand-alone buildings; vertical mixed-use would not be required. The specific amount of required new commercial uses remains to-be-determined but will be specified in the Zoning Code amendments. The City will prepare a market demand analysis to ensure a requirement for commercial will not result in vacant tenant space.

#### Requested Planning Commission Feedback:

- Should the City maintain the existing CUP requirement for residential uses on the Mall property?
- Should the City allow restaurants and hotels as a “permitted” use on the Mall property with no conditional use permit requirement?

Please note, staff will provide additional information regarding the findings of a market demand study at a future meeting and propose minimum commercial development standards based on the analysis.

#### **Objective Design Standards**

Currently, multifamily and mixed-use development on the Capitola Mall property is subject to objective design standards in Zoning Code Chapter 17.82. As discussed at the October 2, 2025 Planning Commission meeting, these existing standards were prepared for a type and scale of development different from what is expected for Mall redevelopment. For this reason, staff recommends creating a new set of objective standards specifically tailored to mid-rise development, including both residential-only apartments and vertical mixed-use development. These standards would apply to Capitola Mall redevelopment projects and could also apply to mid-rise development in other locations in Capitola as

well. The standards will address the topics discussed by the Planning Commission on October 2, 2025 and will reflect public input received at the October 8, 2025 community meeting.

Requested Planning Commission Feedback:

- Does the Planning Commission have any additional comments on the objective design standards for Mall redevelopment projects?

**Public Services and Infrastructure**

As noted above, the Capitola Mall Zoning Code Amendments will need to accommodate at least 1,777 units on the Mall property. At the October 8, 2025 community meeting residents expressed concern about impacts from the development on public services and infrastructure, including police and fire service.

Capitola is not a full-service city. The City does not operate water or sanitary sewer utilities. At the Capitola Mall, water and sewer are provided by the City of Santa Cruz Water Department and Santa Cruz County Sanitation District, respectively. Also, Zone 5 of the County Flood Control and Water Conservation District maintains the major conveyances of storm water throughout Capitola, while the smaller local storm drains are maintained by the City.

Each agency has current master planning documents that include capacity planning for redevelopment at the Capitola Mall site. The Planning Commission can view these studies by clicking on the links provided in the attachments:

- *Zone 5 Storm Drain Master Plan (Draft 2023):* (Attachment 4)
- *Santa Cruz Water Department Urban Water Management Plan:* (Attachment 5)
- *Sanitation District Sewer System Management Plan:* (Attachment 6)

In addition, the utility agencies presented their system capacity and planning efforts to the Capitola Planning Commission in June 2025. To learn more, read the staff report (Attachment 7) or watch the video (Attachment 8).

Through the Conditional Use Permit process, the City will be able to attach conditions of approvals to ensure that development does not result in adverse public health and safety impacts. The City will also collect development impacts fees to mitigate impacts from Mall development and funded necessary improvements to public infrastructure and facilities.

**REQUESTED FEEDBACK**

As discussed above, staff requests Planning Commission feedback on the following questions:

1. **General Approach.** Does the Planning Commission have any comments on the proposed general approach to allow greater height and FAR for Mall Redevelopment projects?
2. **Maximum Height.** Should the City continue with a maximum 75-foot building height standard?
3. **Maximum FAR:** Should the City apply the maximum 2.0 FAR standard only to residential uses with an additional 0.5 FAR for new commercial and hotel uses?
4. **Parking.** Should the City maintain the existing multifamily parking standard with the option to reduce required parking based on a project-specific parking demand study?
5. **Fiscal Impact Analysis.** Does the Planning Commission have any feedback on the recommended FIA requirement?
6. **Permits for Residential Uses.** Should the City maintain the existing CUP requirement for residential uses on the Mall property?

7. **Permits for Restaurants and Hotels.** Should the City allow restaurants and hotels as a “permitted” use on the Mall property with no conditional use permit requirement?
8. **Objective Design Standards.** Does the Planning Commission have any additional comments on the objective design standards for Mall redevelopment projects?

## NEXT STEPS

Staff expects to publish the draft Capitola Mall Zoning Code Amendments the week of November 10, 2025. Public hearings on the amendments are planned for November 19, 2025 (Planning Commission) and December 4, 2025 (City Council).

## Attachments:

1. Merlone Geier Requested Zoning Code Amendments
2. October 8, 2025 Community Meeting Summary
3. Capitola Mall Frequently Asked Questions
4. Zone 5 Master Plan may be viewed at:  
<https://cdi.santacruzcountyca.gov/Portals/35/CDI/PublicWorks/Stormwater/Drainage%20Zones/CRUZ.05%20Draft%20Zone%205%20SDMP%20with%20Appendices%202023-12-20.pdf?ver=PagOF6s4DeMpVjd6C8GkJA%3D%3D>
5. *Santa Cruz Water Department Urban Water Management Plan* may be viewed at:  
<https://www.santacruzca.gov/Government/City-Departments/Water-Department/Urban-Water-Management-Plan-2020>
6. *Sanitation District Sewer System Management Plan* may be viewed at:  
[https://cdi.santacruzcountyca.gov/Portals/19/pdfs/Sanitation/pdf/SSMP\\_FINAL\\_2022\\_with\\_RESOLUTIONS-compressed.pdf?ver=6o97qhXijOCZMRI1RCM-Lg%3d%3d](https://cdi.santacruzcountyca.gov/Portals/19/pdfs/Sanitation/pdf/SSMP_FINAL_2022_with_RESOLUTIONS-compressed.pdf?ver=6o97qhXijOCZMRI1RCM-Lg%3d%3d)
7. *June 5, 2025 Planning Commission staff report* may be viewed at:  
<https://mccmeetingspublic.blob.core.usgovcloudapi.net/capitolaca-meet-07f723420e9b4e6abcb2f680e2693912/ITEM-Attachment-003-c1c066c60e2f4e51b261ca7f6b02ca87.pdf>
8. *June 5, 2025 Planning Commission video* may be viewed at:  
<https://www.cityofcapitola.org/pc/page/planning-commission-meeting-40>

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