



Community & Economic Development Department

Memo

To: City Council

From: Katie Herlihy, Community and Economic Development Director

Date: March 26, 2026

Subject: Item 8F – Housing Element Annual Progress Report

On March 26, 2026, a letter was received from Yimby to the City Council regarding the Annual Housing Report. Two items were raised in the letter. The purpose of this memo is to provide clarity on the two items raised.

Item 1: Program 1.4 Mixed Use Developments. This housing element program includes “By the end of 2025, expand the incentivized zone for increased FAR and Height to facilitate mixed use development, targeting commercial corridors where key sites are identified for RHNA, in exchange for an expanded list of community benefits that complement the mixed-use residential.

During the recent Capitola Mall zoning code updates, the City decided to remove the community benefits related to the increase in FAR and height from the Community Benefits section of the mall (Chapter 17.88) and place them within the Regional Commercial zone (Chapter 17.24). Staff is currently working on updating the existing Chapter 17.88 to include objective standards. The first draft of the standards will be reviewed by the Planning Commission at the May 7, 2026 meeting.

Item 2: Tesla Application and No-Net Loss. On March 5, 2026, the Planning Commission reviewed an application for Tesla located at 1475 41st Avenue within the existing Rite Aid tenant space, with inventory parking at 1404 38th Avenue. The Housing Element identifies capacity on these sites based on prior assumptions, including the Agility Boulder site, which accounted for 18 lower-income units and 5 moderate-income units and Kings Plaza which accounted for 26 lower-income units and 8 moderate-income units.

Under State No Net Loss law, the City must maintain adequate remaining capacity to accommodate its Regional Housing Needs Allocation by income category. The tenant improvement and reuse of the existing Rite Aid building does not constitute a loss of residential capacity under No Net Loss, as the tenant space has been continuously occupied by commercial

uses and was not developed or approved for residential use. The City retains a surplus capacity of 22 lower-income units, 20 moderate-income units, and 1,160 above moderate income units beyond its requirements, and therefore remains in compliance.

| | Address | Lower | Mod | Above Mod | |
|-------------------------------------|---------------|-------|-----|-----------|--|
| Agility Boulders | 1404 38th Ave | 18 | 5 | 12 | Gym assuming 25 du/ac |
| King's Plaza Shopping Center | 1475 41st Ave | 26 | 8 | 17 | Exception. Only utilizing 3.0 ac of site parking lot |

| | Lower | Mod | Above Mod | Total |
|------------------------|-------|-----|-----------|-------|
| Sites Inventory | 716 | 180 | 1615 | 2511 |
| RHNA | 712 | 168 | 455 | 1,336 |
| Buffer | 4 | 12 | 1160 | |

| | Lower | Mod | Above Mod |
|------------------------|-----------|-----------|-------------|
| Sites Inventory Buffer | 4 | 12 | 1160 |
| New Units 2025 | 4 | 1 | 7 |
| New Units 2024 | 6 | 2 | 5 |
| New Units 2023 | 8 | 5 | 2 |
| No Net Loss | 22 | 20 | 1174 |

Staff is in the process of updating the 2023 and 2024 annual reports in accordance with the HCD technical memo regarding utilizing ADUs to satisfy RHNA. This [HCD Technical Assistance Memo](#) explains the methodology. ABAG conducted an analysis of ADU affordability and concluded that ADUs are typically rented within the following percentages. HCD allows jurisdictions to apply these percentages in lieu of conducting their own affordability analysis. In the past, Capitola staff would assume ADUs to be above moderate income unless they received information from a resident indicating lower rents. Staff is updating prior years within the 6th Cycle to apply the HCD methodology for ADUs.

| Percent | Income Category |
|---------|-----------------------|
| 30 | Very low income |
| 30 | Low Income |
| 30 | Moderate Income |
| 10 | Above Moderate Income |

Lastly, a minor change to the existing summary report occurred since publishing due to an error on a spreadsheet. The updated summary page follows.

Summary

| | | |
|--|-----------|-------------------------|
| Jurisdiction | Capitola | |
| Reporting Year | 2025 | (Jan. 1 - Dec. 31) |
| Housing Element Planning Period | 6th Cycle | 12/15/2023 - 12/15/2031 |

| Building Permits Issued by Affordability Summary | | |
|---|---------------------|---------------------|
| Income Level | | Current Year |
| Acutely Low | Deed Restricted | 0 |
| | Non-Deed Restricted | 0 |
| Extremely Low | Deed Restricted | 0 |
| | Non-Deed Restricted | 0 |
| Very Low | Deed Restricted | 0 |
| | Non-Deed Restricted | 2 |
| Low | Deed Restricted | 0 |
| | Non-Deed Restricted | 2 |
| Moderate | Deed Restricted | 0 |
| | Non-Deed Restricted | 1 |
| Above Moderate | | 7 |
| Total Units | | 12 |

| Units by Structure Type | Entitled | Permitted | Completed |
|--------------------------------|-----------------|------------------|------------------|
| Single-family Attached | 0 | 0 | 0 |
| Single-family Detached | 2 | 6 | 1 |
| 2 to 4 units per structure | 0 | 0 | 0 |
| 5+ units per structure | 0 | 0 | 36 |
| Accessory Dwelling Unit | 4 | 6 | 9 |
| Mobile/Manufactured Home | 0 | 0 | 0 |
| Total | 6 | 12 | 46 |

| Infill Housing Developments and Infill Units Permitted | # of Projects | Units |
|---|----------------------|--------------|
| Indicated as Infill | 9 | 9 |
| Not Indicated as Infill | 0 | 0 |

| Housing Applications Summary | |
|--|---|
| Total Housing Applications Submitted: | 4 |
| Number of Proposed Units in All Applications Received: | 5 |
| Total Housing Units Approved: | 5 |
| Total Housing Units Disapproved: | 0 |

| Use of SB 423 Streamlining Provisions - Applications | |
|---|---|
| Number of SB 423 Streamlining Applications | 0 |
| Number of SB 423 Streamlining Applications Approved | 0 |

| Units Constructed - SB 423 Streamlining Permits | | | |
|--|----------|-----------|----------|
| Income | Rental | Ownership | Total |
| Acutely Low | 0 | 0 | 0 |
| Extremely Low | 0 | 0 | 0 |
| Very Low | 0 | 0 | 0 |
| Low | 0 | 0 | 0 |
| Moderate | 0 | 0 | 0 |
| Above Moderate | 0 | 0 | 0 |
| Total | 0 | 0 | 0 |

| Streamlining Provisions Used - Permitted Units | # of Projects | Units |
|---|----------------------|--------------|
| SB 9 (2021) - Duplex in SF Zone | 0 | 0 |
| SB 9 (2021) - Residential Lot Split | 0 | 0 |
| AB 2011 (2022) | 0 | 0 |
| SB 6 (2022) | 0 | 0 |
| SB 423 (2023) | 0 | 0 |

| Ministerial and Discretionary Applications | # of | Units |
|---|-------------|--------------|
| Ministerial | 2 | 2 |
| Discretionary | 2 | 3 |

| Density Bonus Applications and Units Permitted | |
|--|---|
| Number of Applications Submitted Requesting a Density Bonus | 0 |
| Number of Units in Applications Submitted Requesting a Density Bonus | 0 |
| Number of Projects Permitted with a Density Bonus | 0 |
| Number of Units in Projects Permitted with a Density Bonus | 0 |

| Housing Element Programs Implemented and Sites Rezoned | Count |
|---|--------------|
| Programs Implemented | 90 |
| Sites Rezoned to Accommodate the RHNA | 0 |