

Capitola Planning Commission

Agenda Report



Meeting: February 4, 2026

From: Community and Economic Development

Subject: Capitola Mall Zoning Code Amendments for Housing Element Implementation

Project Description: Amendments to Capitola Municipal Code Title 17 Zoning for Capitola Mall properties located between Clares Street, 41st Avenue and Capitola Road. The proposed amendments implement the 6th Cycle Housing Element of the General Plan to facilitate residential development on Capitola Mall. The proposed amendments include changes to Zoning Code Chapter 17.24 (Commercial and Industrial Zoning Districts), Chapter 17.76 (Parking and Loading), Chapter 17.82 (Objective Standards for Multifamily and Mixed-Use Residential Development), and Chapter 17.88 (Incentives for Community Benefits), 17.160 (Glossary) and introduce a new Chapter 17.57 (Objective Design Standards for Capitola Mall Redevelopment). The Housing Element Implementation also includes amendments to the Capitola General Plan Land Use Element Action LU-9.3 regarding floor area ratio at the Capitola Mall site. The proposed amendments would increase allowed building height and floor area ratio (FAR) on the Mall property, establish objective design standards for Capitola Mall redevelopment, and modify development regulations to facilitate residential development on the Mall property consistent with the Housing Element. The amendments also include applying the Objective Standards within Chapter 17.82 to the Mixed-Use Village zoning district and Industrial zoning district. The Zoning Code is part of the City's Local Coastal Program (LCP) and amendments require certification by the California Coastal Commission prior to taking effect in the Coastal Zone.

Recommended Action: Consider amendments to the draft Zoning Code and General Plan and either 1) adopt resolutions recommending the City Council adopt the proposed Zoning Code and General Plan amendments or 2) continue the item to a Special Planning Commission Meeting on February 23, 2026.

Representatives: Ben Noble, Consultant

Katie Herlihy, Community and Economic Development Director

Background: On August 22, 2024, the City Council adopted amendments to the 2023-2031 Housing Element of the General Plan. The Housing Element establishes goals and policies for housing production in Capitola as required by state law. The Housing Element also contains programs with required City actions to implement Housing Element policies. The City must complete these actions by the dates specified for each program.

Housing Element Program 1.7 calls for the City to amend the Zoning Code to facilitate housing production on the Capitola Mall site. Specifically, this program requires the City to:

- 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, 41st 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; and
- Adopt objective development standards to facilitate mall redevelopment.

The Capitola Mall Properties are the properties bound by Clares Street, 41st Avenue, and Capitola Road, as shown in Figure 1 below.

Figure 1: Capitola Mall Properties



Figure 1: Capitola Mall Properties

The Capitola Mall property is 46 acres in size, with 14 separate parcels and seven different property owners. MGP is the major property owner, controlling the enclosed mall and former Sears building (31.5 acres total).

The Capitola Mall property is currently zoned Regional Commercial (C-R) and is subject to the development standards in Zoning Code Chapter 17.24 (Commercial and Industrial Zoning Districts). The Capitola Mall property is also eligible for increased floor area ratio (FAR) and building heights as an incentive to provide community benefits (Chapter 17.88). Multifamily and mixed-use development on the

Capitola Mall property is subject to a conditional use permit in Chapter 17.124 and objective design standards in Chapter 17.82.

The current Zoning Code Amendments modify the review process for redevelopment of the Capitola Mall by removing the Capitola Mall from the Community Benefits Chapter 17.88 and creating new incentives for mall redevelopment in the added Section 17.24.035 (Capitola Mall Redevelopment) of the Commercial and Industrial Zone. The new section creates a three-tier system to support the redevelopment of the Capitola Mall and incentivize future housing, retail, and hotels on the site.

	Development Type	Units per Acre	Maximum Height	Maximum Floor Area Ratio
Tier 1	Housing Only 20% Affordable Housing (AH)	Minimum 20 Maximum 48	75 feet	2.0 Excludes parking garages
Tier 2	Mixed Use Housing (20% AH) 85 Room Hotel with 3,500 sf meeting space 40,000 sf Commercial	Minimum 20 Maximum 48	85 feet	2.0 Excludes parking garages, hotels, retail, and roof top decks
Tier 3	Mixed Use Housing (20% AH) and either: 125 Room Hotel with 5,000 sf meeting space 40,000 sf Commercial Or 200,000 sf Commercial	Minimum 20 Maximum 53	85 feet	2.0 Excludes parking garages, hotels, retail, and roof top decks

The draft updates include a new Chapter 17.57 of objective standards applicable to the Capitola Mall properties. As previously stated, the mall block includes 46 acres of land which is owned by multiple owners. To ensure organized redevelopment of the entire block, new objective standards have been created to include standards for streets and circulation, open space, parking and vehicle access, building placement and orientation, building massing, façade design, and other site features. Properties that develop within the Mall block will be subject to the new objective design standards of Chapter 17.57 in place of the objective design standards in Chapter 17.82.

The Planning Commission held study sessions on the draft code amendments on October 2, October 30, and November 19, 2025.

On October 8, 2025, the City hosted a community meeting at New Brighton Middle School, which was well attended.

Stakeholder meetings with all property owners within the mall block were also held in October and November of 2025.

On November 19, 2025, the Planning Commission reviewed the first draft of Section 17.24.035 (Capitola Mall Redevelopment) with development standards, land use regulations, and permit requirements for

development projects on the Capitola Mall property. The Commission provided feedback and initial direction for revisions to be incorporated into the next draft of Section 17.24.035.

On December 4, 2025, the Planning Commission reviewed the second draft of Section 17.24.035 and the first draft of the new Chapter 17.57 (Objective Design Standards for Capitola Mall Redevelopment). The Planning Commission received extensive additional comments from Merlone Geier Partners (MGP) the day of the meeting. At the December 4 meeting the Planning Commission directed staff to make revisions to the draft amendments described below and consider the additional input provided by MGP.

Since the December 4 Planning Commission meeting, staff have met with MGP to discuss comments received at the Planning Commission meeting. Many of the design related suggestions submitted by MGP have been incorporated into the most current draft. Policy requests, such as amount of retail required in Tier 2, have not been incorporated and will be decided upon by the Planning Commission on February 4, 2026. MGP's original comments are included as Attachment 4 and have staff notes identifying whether or not the suggestions were added to the current draft.

On January 7, 2026, at Director Herlihy's request, a meeting was scheduled with the State of California Housing and Community Development Division (HCD) to provide a progress report to HCD on the Mall zoning code updates. HCD expressed support for the ongoing work towards adopting updated development standards in collaboration with MGP as the property owner and anticipated developer.

On January 13, 2026, staff was contacted by an HCD Analyst in response to a technical assistance request made by a member of the public regarding the proposed Capitola Mall Properties Zoning Code and General Plan amendments. Staff and the City's consultant team met with HCD to discuss items raised in the request. HCD staff provided initial feedback asking the City to more strongly emphasize its commitment to facilitate housing production on the Mall properties; to clarify the standards associated with the Fiscal Impact Assessment and to consider exemptions for stand-alone affordable projects; and to clarify the interplay between the City's code deviation process and other benefits that may be separately requested by projects that qualify for the State Density Bonus Law. Staff has incorporated revisions into the current draft ordinance in response to these comments, as outlined below, and will continue to interface with HCD as the ordinance updates progress.

Also, Keyser Marston Associates, the City's economic development consultant, prepared a Capitola Mall Retail and Hotel Market Overview to help inform decision-making on the Zoning Code Amendments (Attachment 3). The report suggests that the Mall properties continue to have strong redevelopment potential, and the introduction of residential and hotel uses will help the overall retail environment within the block. The report finds that retail demand likely will be strongest in the food and beverage sector and would cater to smaller tenants, with an expected demand for new retail development ranging between 25,000 and 35,000 square feet. The report also finds that a hotel on the site would have the opportunity to exceed market average revenues with a strong operator and brand, with an 85-room hotel likely to support approximately 2,550 square feet of meeting and event space, and a 130-room hotel likely to support approximately 3,900 square feet of meeting and event space.

Proposed Amendments: Attachment 1 contains a draft Planning Commission resolution recommending the City Council adopt the corresponding/concurrent General Plan Land Use text amendment (Exhibit A to Attachment 1).

Attachment 2 contains a draft Planning Commission resolution recommending the City Council adopt the proposed Capitola Mall Zoning Code Amendments. Exhibit A to Attachment 2 contains the Zoning Code Amendments and Exhibit B contains the Local Coastal Program Consistency Analysis.

As noted above, on December 4, 2025, the Planning Commission reviewed new Section 17.24.035 (Capitola Mall Redevelopment), new Chapter 17.57 (Objective Design Standards for Capitola Mall Redevelopment) and amendments to existing Zoning Code Chapters 17.24, 17.82, 17.88 and 17.160. A summary of the Commission's feedback and subsequent revisions to the proposed draft follows below.

Section 17.24.035 and Amendments to Existing Zoning Code Chapters

In response to Planning Commission direction provided at the December meeting, the proposed Section 17.24.035 includes a new Tier 3 Mixed Use Project pathway for Capitola Mall Redevelopment. As drafted, a Tier 3 project must comply with one or both of the following options:

- Option 1: The project includes both a hotel with a minimum of 125 rooms and a minimum of 5,000 square feet of meeting space and 40,000 square feet or more of new commercial space.
- Option 2: The project includes 200,000 square feet or more of new commercial space

If a project meets the Tier 3 requirements, the project is eligible for an increased base density of 53 units per acre, which is an 5 additional units per acre as compared with Tier 2. The Commission also discussed whether a Tier 3 mixed-use project should be subject to the requirement that land dedicated for affordable units be restricted to occupancy by seniors aged 55 years or older; however, staff recommends that this provision not be made a mandatory requirement to (1) avoid imposing a new constraint on affordable housing development; and (2) comply with state and federal fair housing requirements that prohibit zoning rules that discriminate based on age or family status.

In addition to the Tier 3 pathway, Section 17.24.035 also includes the following substantive changes to the draft previously reviewed by the Planning Commission made in response to comments from the Commission, the property owner, the public, and HCD:

- Establishes rules for calculating the density of a Capitola Mall redevelopment project.
- Requires parking spaces for project residents to be in a parking structure
- For Tier 2 and 3 projects, excludes rooftop decks from the floor area calculation to incentivize this amenity.
- Allows elevator overruns, stair enclosures, mechanical equipment, and similar building infrastructure to project above the maximum permitted building height within any portion of a building footprint
- Clarifies that all Capitola Mall projects must comply with the City's inclusionary housing ordinance in Municipal Code Chapter 18.02 (Affordable (Inclusionary) Housing) with two exceptions:
 - All projects must meet the 20 percent affordability requirement in the Housing Element
 - For both rental and ownership projects, payment of in-lieu fees is not permitted. Affordable units must be provided within the proposed development or through a land dedication elsewhere on-site.

Chapter 17.57 (Objective Design Standards for Capitola Mall Redevelopment)

Attachment 2 contains the changes to the objective design standards in Chapter 17.57 in response to Planning Commission direction on December 4, 2025, discussion with Merlone Geier Properties, and further review of the proposed standards. Revisions made in response to Planning Commission direction, as well as in response to comments from the property owner, the public, and HCD, include the following:

- Reduces pedestrian clear path to 6 feet while maintaining total pedestrian realm width of 16 feet (internal streets) and 20 feet (perimeter streets).
- Identifies rooftop open space as a permitted type of publicly accessible open space.
- Narrows required facade identity width and aligns with massing break standard.
- Reduces ground-level transparency for residential uses.
- Eliminates required 2-foot elevation for ground-floor residential uses.
- Increased flexibility for Hotel development

Additional noteworthy revisions to Chapter 17.57 include the following:

- Reorganizes street frontage improvement section.
- Requires new internal streets to be privately owned and maintained.
- Clarifies when street frontage improvements are required.
- Allows deviation from street frontage dimensions in unique circumstances
- Adds maintenance agreement requirements for privately-owned streetscape and open space improvements.
- Clarifies rules for calculating publicly accessible open space.
- Increase paseo width required to count as publicly accessible open space.
- Adds standards for surface parking lot location adjacent to internal streets.
- Reduces ground-level commercial transparency requirement for secondary building facades.
- Replaces previous hotel design standards with requirement for one hotel building facade to front a street with no surface parking between this facade and the sidewalk.

General Plan Amendments

Attachment 1 contains a text amendment to the General Plan Land Use Element Action LU-9.3 needed for consistency with the proposed Zoning Code Amendments and Housing Element. No changes have been made to this amendment since it was reviewed by the Planning Commission on December 4, 2025.

Discussion: Staff is seeking direction from Planning Commission on policy decisions related to the three-tier development standards and minimum open space requirements.

Tiers. The following table includes the three tiers and minimum development required in order to achieve incentivized height, FAR, parking, and open space standards.

	Minimum Development
Tier 1	Housing Only, 20% Affordable
Tier 2	Housing with 20% Affordable 85 Room Hotel 3,500 sf meeting space 40,000 sf commercial
Tier 3	Housing with 20% Affordable and <ul style="list-style-type: none">• 125 Room Hotel• 5,000 sf meeting space• 40,000 sf Commercial or <ul style="list-style-type: none">• 200,000 sf Commercial

Within the Tier 2 mixed use project, the minimum new commercial space requirement of 40,000 square feet is the same as previously reviewed by the Planning Commission. Since this was last reviewed by the Planning Commission, the City's economic consultant Keyser Marston Associates prepared a Capitola Mall Retail and Hotel Market Overview that finds new retail demand on the Capitola Mall property likely ranges from 25,000 to 35,000 square feet.

At the December 4, 2025, meeting, the Planning Commission requested a Tier 3 option with additional hotel rooms, larger meeting space, and increased commercial space. The Planning Commission discussed commercial space which ranged from 25,000 to 100,000 square feet. Ultimately, the Commission directed staff to return with a Tier 3 option that incorporates the findings of the Capitola Mall Retail and Hotel Market Study once completed.

Upon receiving the findings of the study, staff and the consultant team recommend including two options within Tier 3, both having a housing requirement but one with a 125-room hotel, 5,000 square feet of meeting space, and 40,000 square feet of commercial; and a second with 200,000 square feet of new commercial space. The reasoning for the options is at least 200,000 square feet of new commercial space is needed to produce a fiscal benefit to City equivalent to a 125-room hotel. Also, with the retail demand ranging from 25,000 – 35,000 square feet, putting in a requirement of 100,000 square feet requirement in combination with a hotel, could make a Tier 3 Option infeasible.

In terms of meeting space, the Keyser Marston market study found local demand for a hotel and meeting space exists. The study estimated that meeting space could be successful at 25 – 30 square feet of meeting space per hotel room. Under these assumptions, an 85-room hotel could support 2,125 – 2,550 square feet of meeting space and a 125 room hotel between 3,125 – 3,750 square feet.

Given the analysis provided in the Capitola Mall Retail and Hotel Market Overview, staff is seeking further direction from the Planning Commission to confirm the minimum amounts of commercial area and meeting space for Tiers 2 and 3.

Open Space. The December 2025 draft included a requirement that open space must be a minimum of 3,000 square feet to count toward the public open space requirement. MGP requested the minimum size be decreased to 1,000 square feet. During the hearing, staff committed to returning with examples of small parks to assist Planning Commission with the minimum park size standard. Attachment 5 includes examples of a range of park sizes. Staff is seeking direction on the minimum park size which can count toward the open space requirement.

CEQA: The Capitola Mall Zoning Code Amendments are exempt from the California Environmental Quality Act (CEQA) pursuant to Public Resources Code 21080.085, which states that "This division does not apply to a rezoning that implements the schedule of actions contained in an approved housing element pursuant to subdivision (c) of Section 65583 of the Government Code." Here, the Housing Element's Program 1.7 sets for a schedule of actions calling for the City to update the Zoning Code to facilitate Mall redevelopment by allowing up to 75 feet in height, excluding parking from FAR calculations, allowing development up to an FAR of 2.0, and adopting objective development standards. Because the proposed Zoning Code amendments implement this schedule of actions, its adoption is exempt from CEQA.

For the General Plan Amendment, the amendments were analyzed and considered as part of the City's adoption of the Addendum to the General Plan EIR for the City's Housing Element, such that nothing further is required under CEQA. The amendments bring the Land Use Element into conformance with the adopted Housing Element consistent with the proposed Zoning Code Amendments. There are no proposed changes to the General Plan that would require major revisions of the previous EIR or its Addendum due to the involvement of new significant environmental effects or a substantial increase in the severity of previously identified significant effects.

Next Steps: If the Planning Commission recommends the City Council adopt the proposed Zoning Code amendments, the City Council will hold a public hearing to consider the proposed amendments on March 12, 2026. The Planning Commission may also continue the item to a special Planning Commission meeting on February 23, 2025.

Attachments:

1. Draft Resolution Recommending City Council Approval of Proposed General Plan Text Amendment
 - Exhibit A: General Plan Land Use Element Text Amendment
2. Draft Resolution Recommending City Council Approval of Proposed Capitola Mall Zoning Code Amendments
 - Exhibit A: Zoning Code Amendments
3. Keyser Marston Capitola Mall Retail and Hotel Market Overview.
4. Merlone Geier Partner 12.04.2025 Comments with Staff Notes
5. Park Size Examples

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Reviewed By: Rosie Wyatt, Deputy City Clerk and Eric Phillips, Special Counsel, City Attorney's Office

Approved By: Katie Herlihy, Community and Economic Development Director