

## Gautho, Julia

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**From:** Jamas Gwilliam <jgwilliam@merlonegeier.com>  
**Sent:** Monday, February 23, 2026 1:31 PM  
**To:** City Council; Herlihy, Katie (kherlihy@ci.capitola.ca.us)  
**Subject:** [PDF] MGP Comment Letter 022326 Item 4.A  
**Attachments:** MGP Comments Letter 022326 CC Mtg.pdf

Dear Ms. Herlihy, Honorable Mayor and Members of the Capitola City Council,

Please find attached our comment letter related to Item 4.A on the agenda for this evening. I appreciate your attention to the various items that we have addressed.

See you this evening,

Jamas Gwilliam  
Managing Director



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FEBRUARY 23, 2026

**BY ELECTRONIC EMAIL**

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

**Re: Proposed General Plan and Zoning Code Amendments Relating to Capitola Mall;  
February 23, 2026, City Council Item 4.A**

**Dear Ms. Herlihy;**

On behalf of Merlone Geier Partners (MGP), I would like to express our continued commitment to the revitalization of the Capitola Mall into a vibrant, mixed-use destination that serves the residents and visitors of Capitola. While we appreciate the City's efforts to establish a regulatory framework for this redevelopment, we are writing to highlight several critical discrepancies between our requested edits and the final Zoning Code Amendments that were recommended by the Planning Commission.

Throughout this process MGP has provided feedback to staff and the Planning Commission through the lens of economic feasibility and operational success if a project were to move forward in reliance upon this zoning code update. MGP has been transparent in looking for win-win outcomes notwithstanding that the City's discretion to control future housing development projects on the site or to extract other concessions from MGP as largely circumscribed by the approved Housing Element and State law. We are, for example, conceding to the application of a new affordable housing obligation (not evaluated in the Housing Element) for rental units that does not apply to any other property in the City and would have substantial cost and feasibility ramifications to any future housing project on the mall property.

Considerable progress has been made, but the following additional adjustments are mentioned here for the City Council's consideration. Our comments relate to the new objective design standards applicable to only our property. It is essential that these items are addressed both to ensure project viability, and also due to the fact that this draft ordinance includes a provision that purports to exclude any project that does not strictly comply with these new standards from eligibility under

State housing streamlining laws, subject only to potential relief through waivers or concessions under the State Density Bonus Law. (§17.57.040(B).)

### **1. Dedicated Affordable Land Incentive**

In light of the above-mentioned more stringent requirement related to affordable housing on the mall property, we request making a Code addition to exempt deviation requirements where affordable units that would otherwise qualify for concession/incentive/waiver are proposed in a future 100% affordable building on dedicated land.

To accomplish this we request an addition to the Deviations section along the following lines: "Where a project proposes to comply with inclusionary requirements through dedication of land pursuant to 17.24.035(D)(8)(b), such project shall not require a deviation pursuant to this Section for any development standard that would not apply due to a concession, incentive, or waiver pursuant to the Density Bonus Law. For purposes of applying the foregoing exception to the deviation requirement, the maximum number of affordable units that could be accommodated in the future on the dedicated land shall be deemed to qualify for a concession, incentive, or waiver to the same extent as if those units were provided as inclusionary units located throughout market rate buildings.

### **2. Perimeter Zone**

The Perimeter Zone suggests that no residential buildings can be taller than 55' for Tier 1 projects or 65' for Tier 2 or 3 projects within 125 feet of 41<sup>st</sup>, Capitola or Clares. After the 125' Perimeter Zone the buildings can step up to 75' for Tier 1 and 2 projects and 85' for Tier 3.

MGP suggests that this Perimeter Zone be reduced to 75' from 125'. With such a significant upper building setback (as wide as the building will be tall) the upper floors will not be visible to anyone walking or driving by the site, and the added height focused on the interior of the project is important to the project's feasibility. In a 75-85' multifamily building, the majority of cost is in the concrete Type I podium structure; the additional units in the upper levels can help defray those costs.

### **3. Commercial Minimums**

To ensure a successful retail environment and avoid retail vacancies, MGP requested that the minimum new commercial space for a Tier 2 mixed-use project be set at 25,000 square feet. This amount was supported by the January 2026 Keyser Marsten analysis commissioned by the City, which concludes that 25,000-35,000 square feet of new commercial retail is supported by market realities. The proposed code requirements for a Tier 2 project (30,000 square feet of new commercial space) and for Tier 3 (40,000 square feet of new commercial space) risk creating unfillable space that will not contribute towards the City's sales tax goals, while undermining the success of those retail spaces that are occupied.

If there is sufficient market demand and feasible economics to build more than 25,000 square feet of commercial retail, that additional square footage will be incorporated into a plan. Even a requirement to build 5,000 square feet of excess retail is likely to have the unintended consequence of disincentivizing the Tier 2 or Tier 3 alternatives. Our recommendation is 25,000 square feet for Tier 2 and 35,000 square feet for Tier 3, recognizing that these are minimums and these minimums can be exceeded if sufficient demand exists.

#### **4. Commercial Ground Floor Height Minimums**

We requested a 14-foot ground-floor height for non-restaurant commercial and hotel uses, which is industry standard as a minimum. In certain instances, 18 feet may be desirable, but mandating 18-foot floor-to-floor height would add significant construction costs without providing any proportional benefit to most commercial tenants.

#### **5. Density Calculation and Definition**

We agree with the language in 17.24.035 D.3.i; however, there are several nuances in 17.24.035 D.3.ii and iii that are not consistent with our discussions with staff (or with staff's note shared at the last Planning Commission meeting showing how they responded to our comments). When a city requires a dedication of property for public use, public easement or public right of way, the dedication should not reduce the land area used to calculate density. Otherwise, the physical and economic impacts to the project's development program are disproportionately negatively impacted.

The City's current draft language would remove acreage within the perimeter street frontage improvements on private land subject to a public access easement or dedication as excluded from the land area for purposes of determining density.

Instead, the Section 17.160.020 Definition of "Density" should be revised -- from "excluding," as currently drafted, to "including" -- street right-of-way, public easements, public open space, etc. in the land area for purposes of calculating the allowed number of dwelling units per acre.

The language in 17.24.035 D.3.iv is acceptable.

#### **6. Internal Street Connectivity**

Requiring a "mall redevelopment project" to create new internal streets that provide a vehicular connection between all perimeter streets abutting the development site can only be accomplished in an incremental, phase-by-phase manner. As such we suggest that 17.57.050.2.c (1) be revised to remove the "shall" and instead provide language referencing the intent which can then be accomplished through items (2) through (8) of that same section but suggest adding the following to (8) "The City may grant an exception to the standards in this Paragraph b (Internal Street

Connectivity) in cases where existing structures, leases, controls, property under separate ownership, or improvements physically preclude compliance with these standards.”

## **7. Bike Circulation**

We think it is a mistake in 17.57.050.A.2.f for a project of this scale and context wherein existing commercial retail with surface parking lots will remain to some degree to only allow sharrow lanes when streets abut ground floor commercial uses. Retailers and adjacent property owners have control over how bikes and pedestrians move through parking lots and requiring a dedicated bike lane or bike path to connect two abutting perimeter streets is unnecessary and unreasonable. Sharrows are an appropriate and commonly used alternative to move bikes through the site while not conflicting with these existing conditions.

## **8. Street Frontage Improvements**

Similar to the language in the Internal Street Connectivity section, allowances should be made for deviations without Planning Commission review for situations such as where one side of a new internal street abuts an existing retail structure that is to remain regardless of whether it is “controlled by the developer” (17.57.050.A.2.h (1) (b) (such as Kohl’s, Target, Macy’s, etc.) The Street Frontage on the undeveloped side of the street should not be required until such time that that side of the street is redeveloped.

It is also unclear why there is a distinction between how Frontage Improvement dimensions are calculated between the Tier 1, 2 and 3 projects (17.57.050.A.2.h (3)(c)).

## **9. Internal Street Parking**

Existing parking lots that are to remain due to existing control rights should not be subject to the requirement in 17.57.050.C.2.a.(1)(a) for Internal Streets. By their very nature, existing parking lots under existing controls cannot be altered without the approval of third parties (tenants, adjacent owners, etc.).

## **10. Hotel Street Presence**

A carve out for existing surface parking lots that are to remain and be used for parking the hotel should not be required to adhere to 17.57.050.F.2.d.(1)(a). Prohibiting surface parking lots between a hotel building façade and a sidewalk is too vague and presents too much ambiguity given the context of existing surface parking lots that will have to remain at the property and be incorporated into a project design.

If the goal of the Capitola Mall zoning code amendments is to create a set of guidelines that are both "high-quality" and "economically feasible" then we believe the discrepancies outlined above need to be addressed because they move the project away from feasibility. We respectfully request that the City Council direct staff to re-evaluate these standards to better align with the practical realities of this unique property.

We look forward to continuing our partnership with the City in this important effort.

Sincerely,

A handwritten signature in black ink, appearing to read "James Gwilliam". The signature is stylized with a large initial "J" and a long horizontal stroke extending to the right.

James Gwilliam  
Managing Director

cc: Capitola City Council