

A common question from the community has been: ***How did the number of planned units at the mall end up exceeding the City's overall RHNA allocation?*** This document has been prepared to answer that question.

## What is RHNA?

The Regional Housing Needs Allocation (RHNA) is a state-mandated process that determines how many housing units—by affordability level—each city and county in California must plan for in its Housing Element. RHNA is not a mandate to construct housing. Instead, it requires jurisdictions to identify sufficient sites where housing could reasonably be built to accommodate their share of the region's housing needs.

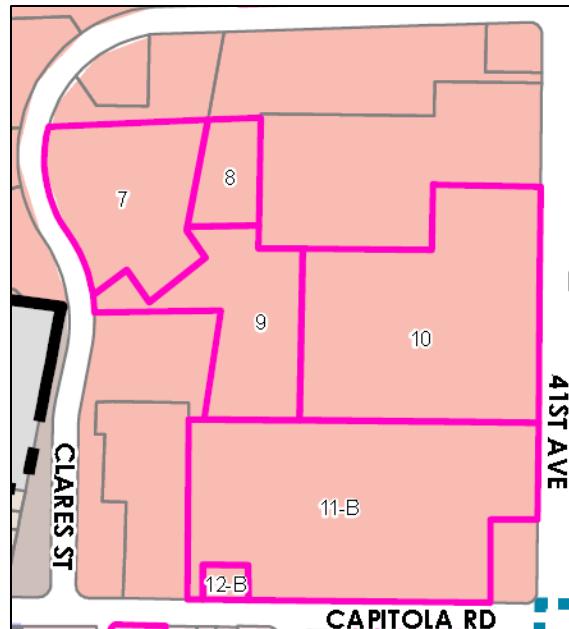
Capitola's RHNA allocation received prior to starting the Housing Element update:

- 497 low-income units (50 – 80% of Area Median Income)
- 169 moderate-income units (80 – 120% of Area Median Income)
- 455 above-moderate (market-rate) units (Over 120% Area Median Income)
- City Total: 1,336 units

## Background

Between 2023 and 2024, the City prepared multiple drafts of the Housing Element for review. In the first draft, adopted by the City Council on November 9, 2023, there were six\* sites listed within the Mall block, the properties bound by Clares Street, 41<sup>st</sup> Avenue, and Capitola Road. Five\* of the six\* are owned by Merlone Geier Partners (MGP), the majority owner of the mall site, who own 31 acres of the 46-acre mall site. These six sites were identified to accommodate the following number of units.

- 368 low-income
- 109 moderate-income
- 257 above-moderate



## State Review and Certification

After publishing the initial draft, the City received comments from the State of California's Department of Housing and Community Development (HCD) that the number of affordable units placed on the six Capitola Mall sites was not feasible, as an owner would not receive a fair rate of return from developing a project with only 35% market rate units and 65% below market affordable units.

\*Note: Number corrected following original publication

## Changes to Sites

After State HCD commented that the proposed units were not feasible the City expanded the sites inventory to include 12 of the 14 properties within the Mall block.

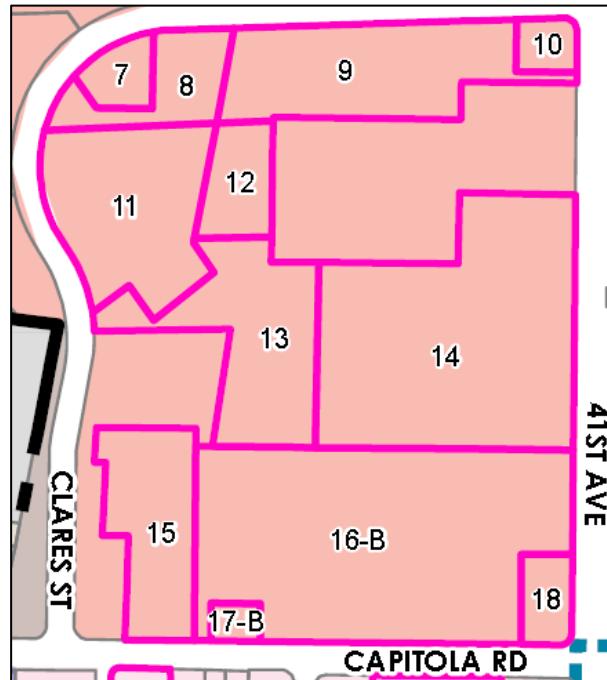
## Increase in Market Rate Housing Units for Economic Feasibility

State HCD also required the City to demonstrate that the units proposed for the Mall sites were economically feasible to construct.

This economic analysis demonstrated that a developer needed approximately four times the number of market rate units compared to the number of affordable units. Specifically, the analysis determined the following economic feasibility percentages:

- 15% low-income
- 5% moderate-income
- 80% market rate

As a result, to meet Capitola's RHNA requirement for affordable units, the City had to identify more market rate units at the Mall block, so that a future developer could generate enough profit to build the required number of low- and moderate-income homes.



## Certified Housing Element

The City's Housing Element was certified on August 30, 2024. The adjustment to include more sites distributed units across more parcels and resulted in the following final distribution of units within the Mall block:

Entire Mall Block	MGP properties
266 low-income	168 low-income
90 moderate-income	58 moderate-income
1,422 market rate	900 market rate
<b>Total: 1,777 units</b>	<b>Total: 1,126*</b>

In summary, the large number of market rate units at the Mall required for project feasibility is the reason the number of units within the Mall block is higher than the RHNA.