

41ST AVENUE/CAPITOLA MALL RE-VISIONING PLAN

OCTOBER 26, 2011

Final Report

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EXECUTIVE SUMMARY

The 41st Avenue corridor is a critical area in Capitola, serving as a regional retail center and an important source of sales tax revenue for the City. To help ensure the long-term economic success of the corridor, the City has prepared the 41st Avenue/Capitola Mall Re-Visioning Plan as part of the General Plan Update. This Re-Visioning Plan establishes a long-term vision for the corridor to guide future public and private investment in a way that is consistent with community values and the needs of property owners.

The Re-Visioning Plan envisions that change within the corridor will occur incrementally over the next 20 years. On the Capitola Mall property, the Plan envisions new development on existing surface parking to transform the mall into a more inviting destination for shoppers and residents. 38th Avenue south of Capitola Road is activated with new pedestrian-oriented residential and commercial uses. Capitola Road is enhanced with new sidewalk-oriented commercial uses west of 41st Avenue and a mixture of high-quality commercial, residential, and hotel uses east of 41st Avenue. Pedestrian and bicycle connections are enhanced within the Plan area, and connections to surrounding areas, particularly Capitola Village, are strengthened.

Overall, the Plan aims to update and modernize Capitola Mall and other properties in order to maintain the corridor as the region's primary retail destination. To achieve this, the corridor will need to become a destination with urban amenities such as quality restaurants, public gathering places, pedestrian amenities, and high quality architecture. As a more pedestrian-friendly destination, the corridor will support alternative forms of transportation and promote a more sustainable way-of-life within Capitola.

I. INTRODUCTION

A. Re-Visioning Plan Purpose and Process

The 41st Avenue corridor is a critical area for Capitola both physically and economically. The corridor is home to a variety of retail and service establishments that serve Capitola residents and the larger region. Businesses within the corridor contribute significant tax revenue to the City which fund valued City programs and services.

Within recent years, sales tax revenues within the corridor have declined significantly, creating concerns about the long-term viability of the area as a regional commercial center. These declines predated the 2007-2009 recession and were more severe than elsewhere in the county and state, suggesting systemic challenges with the corridor. To address these concerns, Capitola has prepared the Capitola Mall/41st Avenue Re-Visioning Plan as part of the City's comprehensive General Plan Update. This Re-Visioning Plan establishes a long-term vision for land use, urban design, and transportation in this important area. This Re-Visioning Plan will help guide future public and private investment along the corridor in a manner that reflects the community's values, respects the needs of property and business owners, and reflects the type of development that is economically feasible over the short-, medium-, and long-term.

Preparation of the Re-Visioning Plan has been an inclusive process with numerous opportunities for public participation. Key public meetings and workshops have included the following:

- ◆ City staff met with property owners, developers, brokers, and other stakeholders familiar with the Plan area on February 23, 2011 to receive input on key issues and opportunities within the corridor.
- ◆ The General Plan Advisory Committee (GPAC) met on June 22, 2011 to provide feedback to City staff and consultants on preliminary ideas relating to land use, urban design, and transportation alternatives within the Plan area.
- ◆ The City hosted a community workshop on Wednesday, July 20, 2011 to receive public input on land use, urban design, and circulation alternatives for the Plan area.

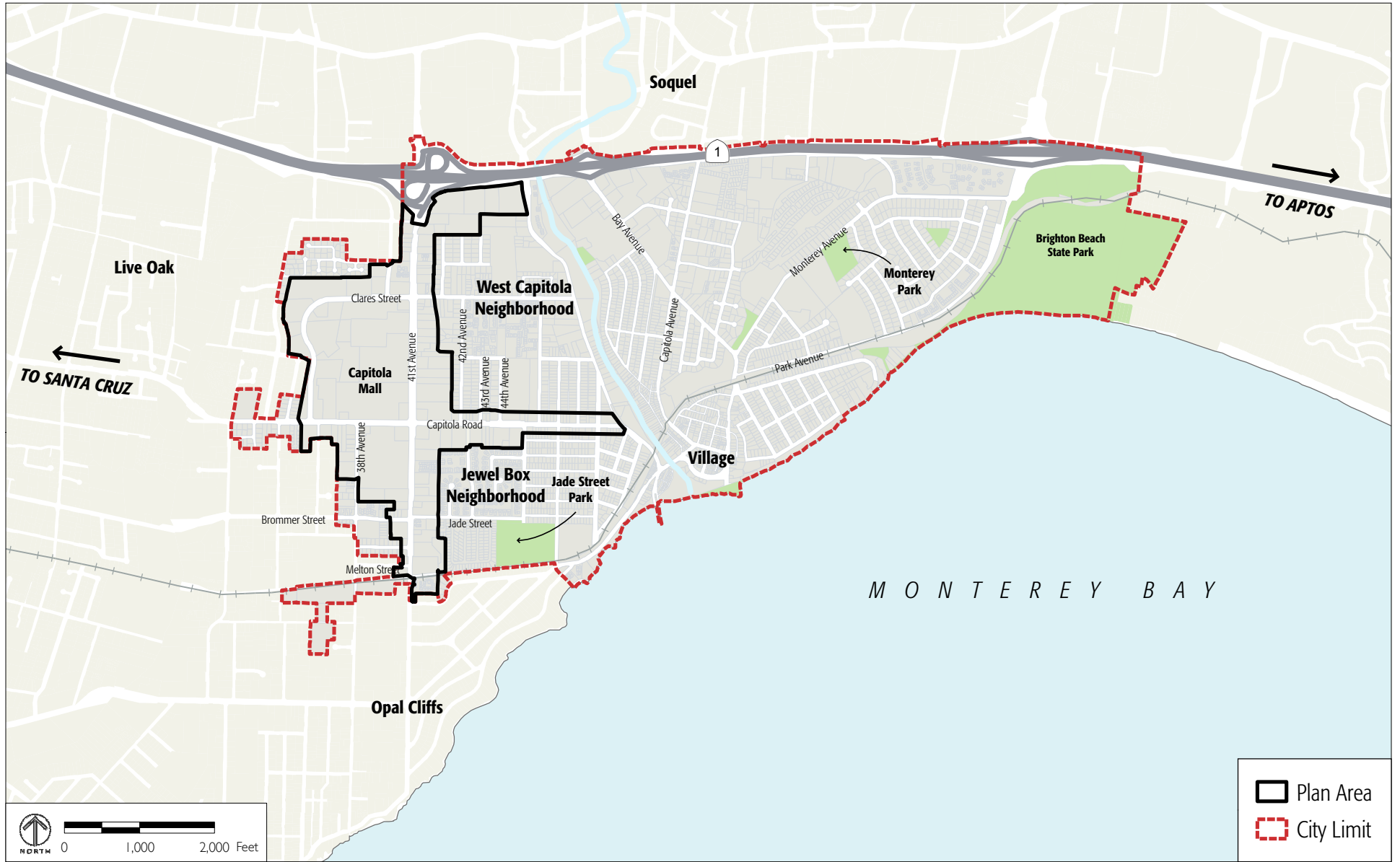
- ◆ The GPAC met again on September 21, 2011 to provide input on draft concept plan, phasing plan, and policies and actions for the Re-Visioning Plan.

In October and November the City of Capitola Planning Commission and City Council will review and provide feedback on the draft Re-Visioning Plan. Additional graphics illustrating urban design concepts for the Plan area will be prepared. Ultimately, the contents of the Re-Visioning Plan will be incorporated into the City's updated General Plan, scheduled for completion in 2013.

B. Re-Visioning Plan Location

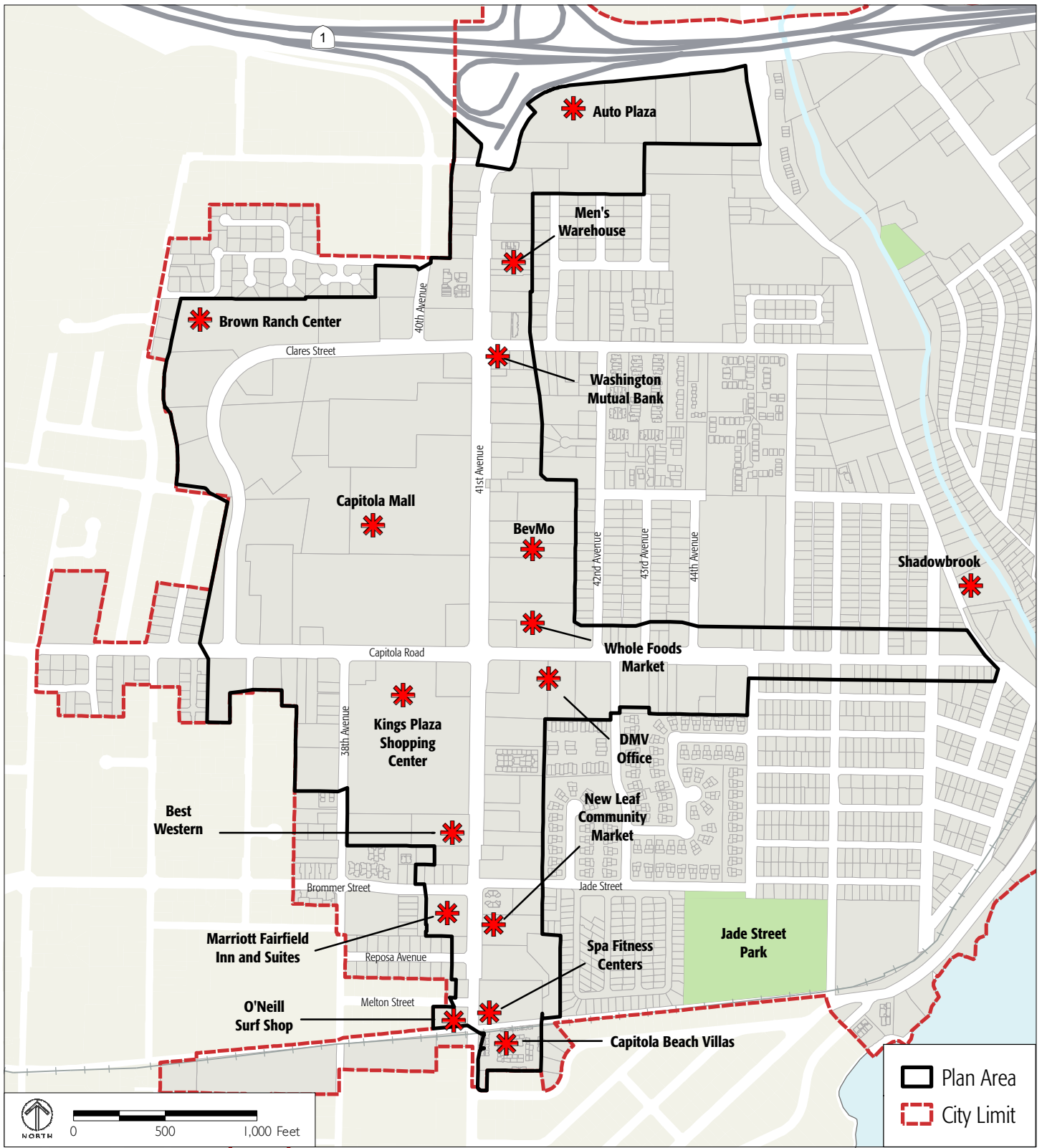
As shown in Figure 1, the 41st Avenue/Capitola Mall Re-Visioning Plan area is located on the eastern side of Capitola along 41st Avenue from Highway 1 to the southern City limit. The Plan area is approximately 150 acres in size. To the east of the Plan area is Capitola Village and the Jewel Box and West Capitola residential neighborhoods. To the west are residential neighborhoods in unincorporated Santa Cruz County. To the north, across from Highway 1, are unincorporated county commercial areas, including the Home Depot and Safeway shopping center. To the south, commercial uses continue along 41st Avenue into the Opal Cliffs neighborhood of unincorporated Santa Cruz County.

Figure 2 shows greater detail of the Plan area boundary and some of the land uses within the area. At the heart of the Plan area is the enclosed Capitola Mall, which occupies nearly 50 acres fronting 41st Avenue, Capitola Road, and Clares Street. The Kings Plaza Shopping Center, directly south of Capitola Mall, is another major shopping center in the Plan area, occupying over 11 acres. Other destinations within the Plan area shown in Figure 2 include the Auto Plaza at the northern end of the corridor, the Whole Foods Market at 41st Avenue and Capitola Road, the New Leaf Community Market just south of Jade Street, and the Spa Fitness Center at the southern end of the Plan area.



Source: City of Capitola, 2011.

FIGURE I
RE-VISIONING PLAN AREA CONTEXT



Source: City of Capitola, 2011.

FIGURE 2
 RE-VISIONING PLAN AREA BOUNDARY

C. Report Overview

The Re-Visioning Plan is divided into the following chapters in addition to this Introduction:

- ◆ **Chapter 2: Existing Conditions** summarizes current physical and economic conditions within the Plan area that frame opportunities for improvement within the corridor.
- ◆ **Chapter 3: Re-Visioning Plan Goals** presents the fundamental principles guiding the Plan and the primary outcomes that the Plan is aiming to achieve.
- ◆ **Chapter 4: Concept Plan** graphically illustrates the long term land use, urban design, and circulation vision for the Plan area.
- ◆ **Chapter 5: Phasing Plan** identifies how the long-term vision for the corridor could be gradually implemented over time.
- ◆ **Chapter 6: Policies and Actions** establishes the regulatory framework that the City will use to achieve the goals of the Plan and the actions that the City will take to implement the Plan in the years to come.

II. EXISTING CONDITIONS

A key step in the preparation of the Re-Visioning Plan was an analysis of existing conditions within the Plan area. This chapter summarizes these conditions as described in the Baseline Analysis Report completed in June of 2011. Existing conditions relating to land use, urban design, circulation, and economics are described below.

A. Land Use

Approximately 92 percent (137 acres) of the Re-Visioning Plan area is occupied by commercial land uses. These commercial uses include over 92 acres of retail and personal services uses, many of which are located in the Capitola Mall and other shopping centers such as Kings Plaza and the Brown Ranch Center. Table 1 shows the amount of land occupied by different land uses within the Plan area, and Figure 3 shows the location of these land uses.

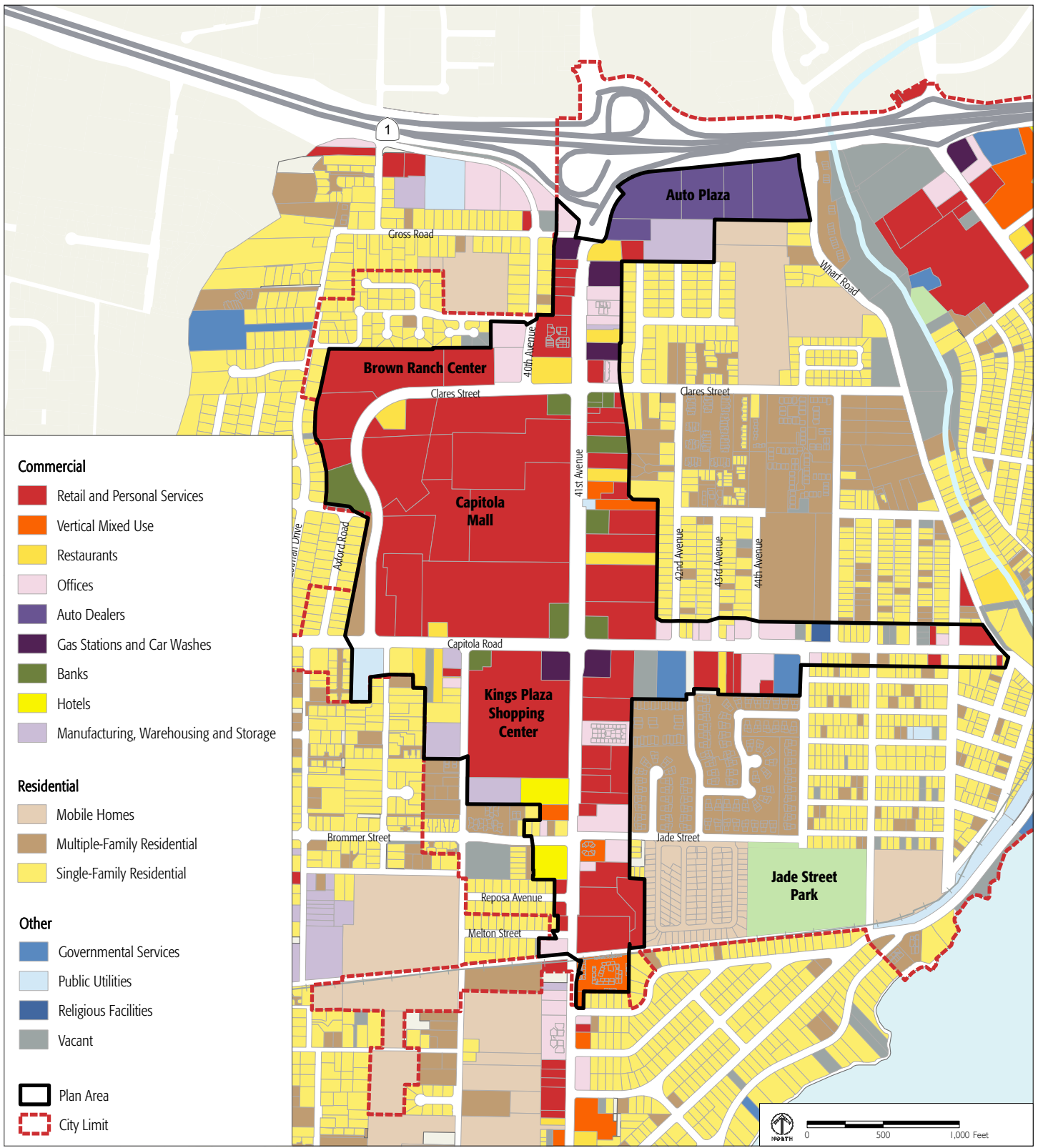
There are several areas within the corridor with a unique mixture or concentration of land uses. The Auto Plaza at the north end of the Plan area is a 10-acre area occupied by a number of automobile dealerships. The east end of Capitola Road area contains a concentration of offices and governmental uses. Several light industrial and service commercial uses, including the Freight and Salvage, are located on 38th Avenue south of Capitola Road.

Few residential uses are found within the Plan area. Several single-family homes are located near the intersection of Capitola Road and 38th Avenue and on Brommer Street west of 41st Avenue. The Capitola Beach Villas mixed use development on 41st Avenue south of the railroad track contains a total of 55 small apartment units. There is also only 1.5 acres of vacant land in the Plan area, none of which is located along 41st Avenue.

Approximately 24 acres (13 percent) of the Plan area is occupied by public roads. This is greater than Capitola Village, where approximately 7 percent of the area is occupied by public roads.



Existing land use within the Plan area is dominated by the Capitola Mall (top) and shopping centers such as Kings Plaza (middle) and the Brown Ranch Center (bottom).



Source: City of Capitola, 2011.

FIGURE 3
EXISTING LAND USES

TABLE 1 EXISTING LAND USE

Land Use	Acres	Percentage
Commercial Uses		
Retail and Personal Services	92.6	62.0
Offices	11.4	7.6
Auto Dealers	10.7	7.2
Manufacturing, Warehousing , and Storage	6.0	4.0
Restaurants	5.8	3.9
Banks	5.2	3.5
Gas Stations and Car Washes	3.4	2.3
Hotels	2.4	1.6
<i>Subtotal</i>	<i>137.5</i>	<i>92.1%</i>
Residential and Mixed Uses		
Single-Family Residential	2.5	1.7
Multiple-Family Residential	0.2	0.1
Vertical Mixed Use	4.8	3.2
<i>Subtotal</i>	<i>7.5</i>	<i>5.0%</i>
Other Uses		
Governmental Services	2.5	1.6
Vacant	1.5	1.0
Public Utilities	0.1	0.1
<i>Subtotal</i>	<i>4.1</i>	<i>2.7%</i>
Grand Total	149.3*	100%

* Excludes public roadways, which occupy approximately 24 acres (13 percent) of the Plan area.

B. Urban Design

1. Building Blocks

The design character of an urban area is influenced by the area's street network, gateways and connections to surrounding areas, important destinations, and the unique characteristics of subareas. Figure 4 graphically illus

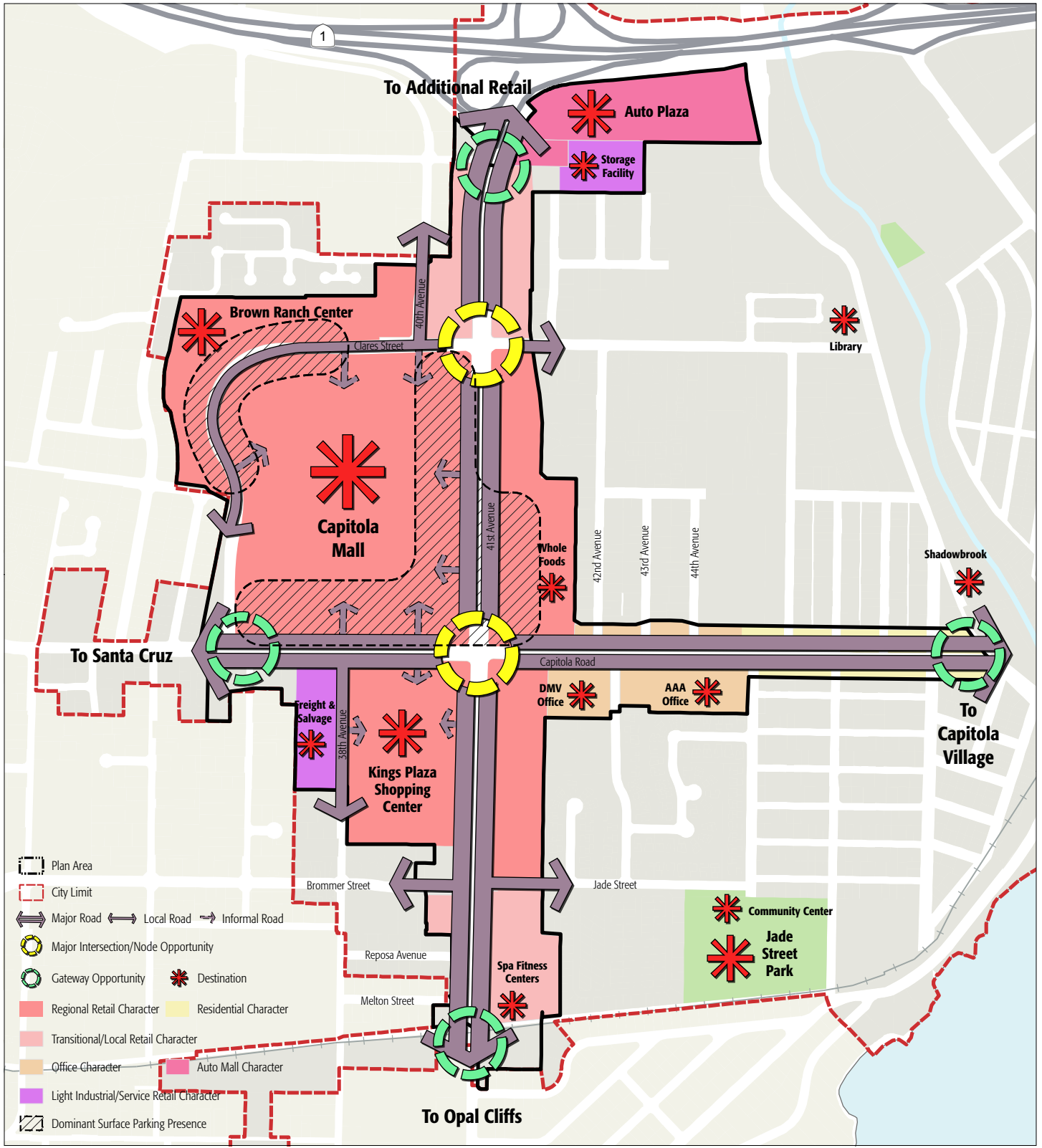


FIGURE 4

EXISTING COMMUNITY CHARACTER FRAMEWORK

trates some of these key building blocks of community character within the Plan area and provides a general framework to understand the overall form of the Plan area.

2. Block Size and Intersection Density

Block size and intersection density play an important role in defining the overall design character of an urban area. Generally speaking, smaller blocks and higher intersection densities support a more intimate, pedestrian-friendly design character within greater variation and interest in urban form. Figure 5 compares the block size and intersection density of the 41st Avenue corridor and Capitola Village. The 41st Avenue corridor is defined by large block size and low intersection density. By contrast, Capitola Village is characterized by relatively small block size and high intersection density.

3. Building Placement

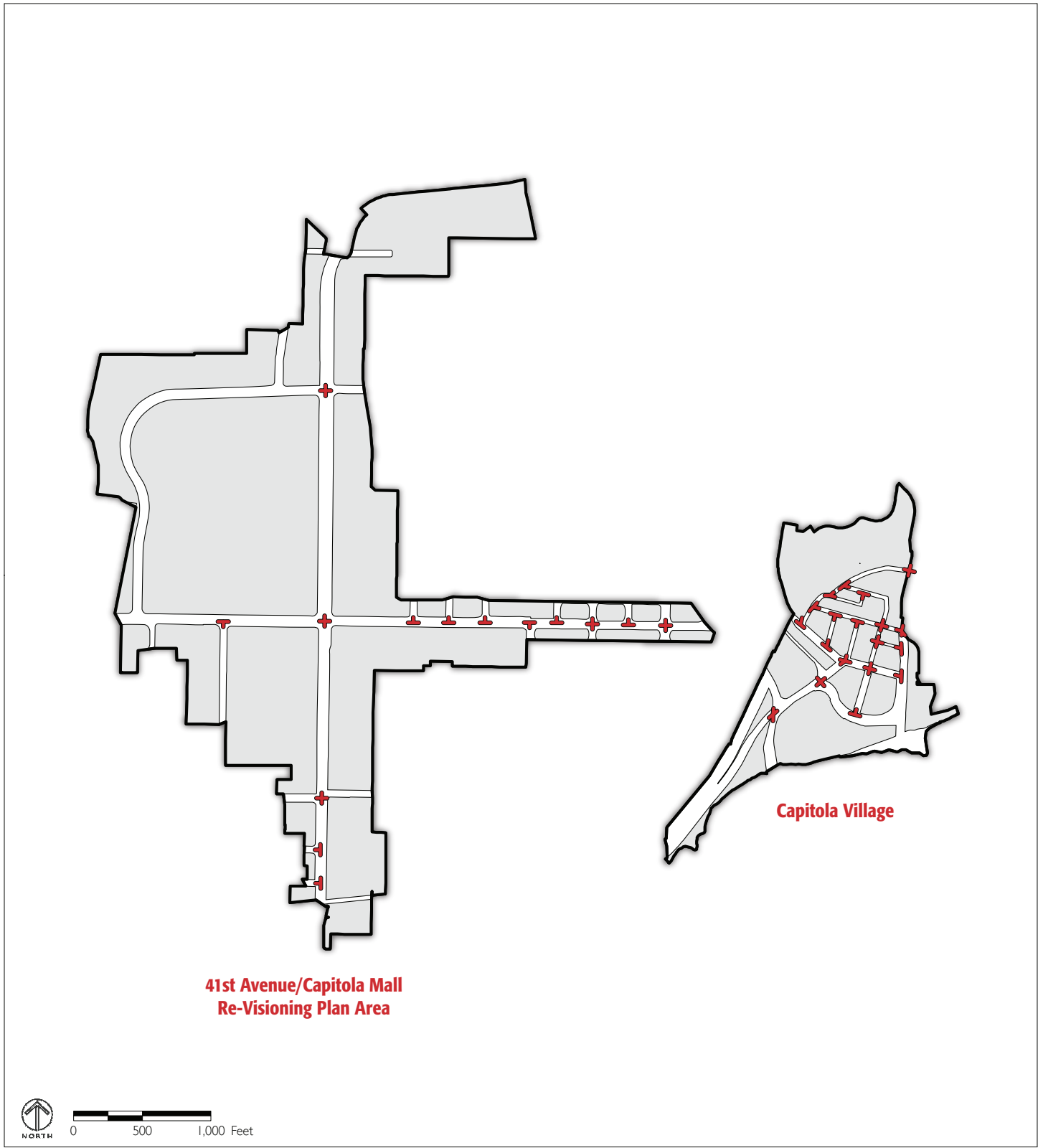
The location of buildings on their lots also defines the design character of an urban area. Figure 6 shows the pattern of building placement on lots relative to property lines and streets. This figure shows an irregular pattern of building placement, with larger buildings typically set back a considerable distance from the front street and smaller buildings generally located closer to front property lines. Some buildings within the Plan area are primarily oriented towards an interior parking lot as opposed to a public street, as is the case with King Plaza and other shopping centers within the Plan area. Figure 6 also shows the extent to which surface parking lots are a dominant visual presence within the Plan area. Approximately 89 acres, or 60 percent, of private property within the Plan area is occupied by surface parking.

4. Building Mass and Design

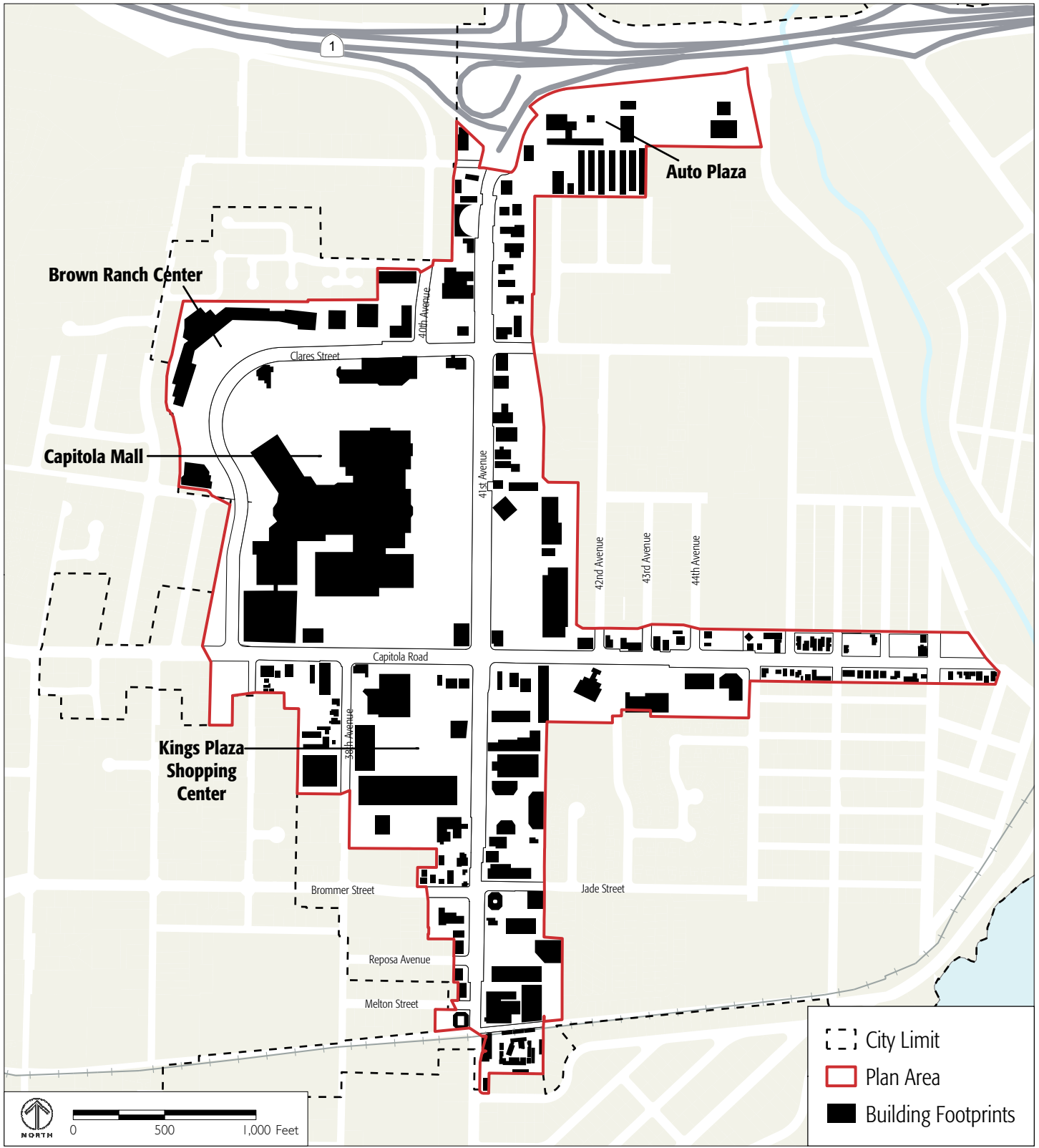
Typical building volume, height, and architectural style also contribute to the design character of the Plan area. Within the 41st Avenue corridor, one- and two-story buildings typically occupy less than 50 percent of the parcel area on which they are located. The remaining area of the parcel is typically occupied entirely by surface parking.



Variation in building setbacks (top and bottom) contribute to a lack of design coherence within the Plan area. Large parking lots fronting the street (bottom) contribute to the impression that the corridor is dominated by the automobile.



Source: City of Capitola, 2011.



Source: City of Capitola, 2011.

FIGURE 6

FIGURE-GROUND

5. Civic Gathering Places

Another key design issue facing the corridor is the absence of civic gathering places where visitors, employees, and residents can meet and gather in a public setting. There are no public/civic institutions located within the corridor, and no public spaces such as parks, plazas, or town squares.

6. Street Sections

Finally, the design of streets within the Plan area plays an important role in defining the character of the corridor. Figure 7 compares the width of 41st Avenue at Capitola Road and at Portola Drive south of the City limit.

C. Circulation

1. Roadway System

41st Avenue is characterized by high traffic volumes and congested intersections, particularly north of Capitola Road. As shown in Figure 8, traffic counts conducted in 2008 found that 41st Avenue north of Clares Street carries over 40,000 vehicles per day. This volume of vehicle traffic is the highest in Capitola, and among the highest among primary arterials in Santa Cruz County. Traffic volumes along 41st Avenue drop significantly south of Clares Street and then decline further still south of Capitola Road.



Santa Cruz Metro Buses (top) utilize the Capitola Mall Transit Center (bottom) as a key mid-County transfer point.

2. Parking

Many properties within the corridor appear to be “over-parked,” meaning that there are more parking spaces provided than needed by customers, even during the busiest shopping periods. Other shopping centers, however, appear to be either “under-parked” or provide about just the right amount of parking to accommodate customers. The Capitola Mall is an example of a property that appears to be over-parked. Shopping centers that appear to provide either just enough parking or to be under-parked include Kings Plaza, Brown Ranch Center, and the Whole Foods/CVS shopping center.

3. Transit

Bus transit service within the Plan area is provided by Santa Cruz Metropolitan Transit (Metro). As shown in Figure 9, there are nine Metro transit lines that serve the Plan area, all of which stop at the Capitola Mall.

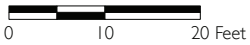
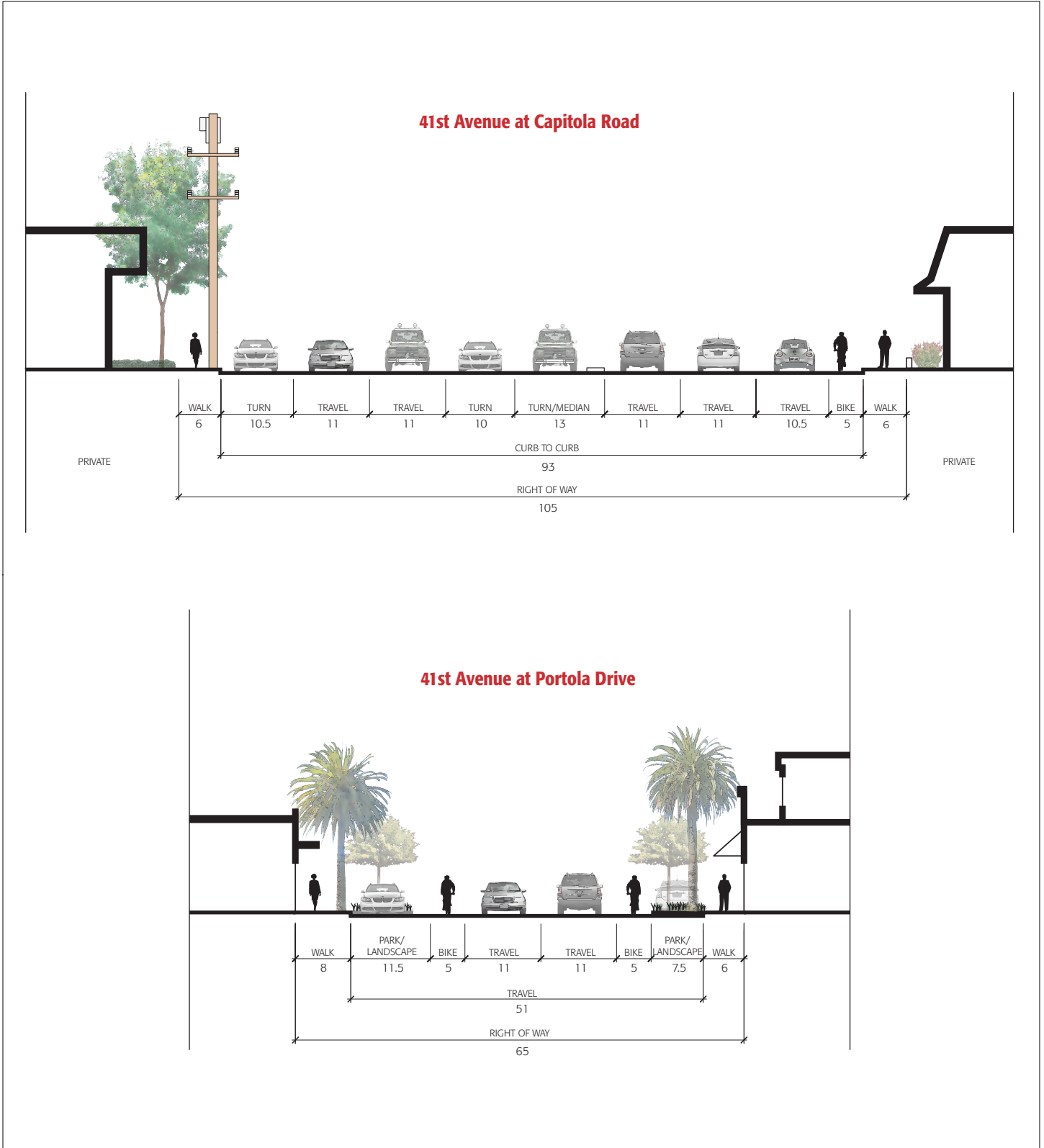
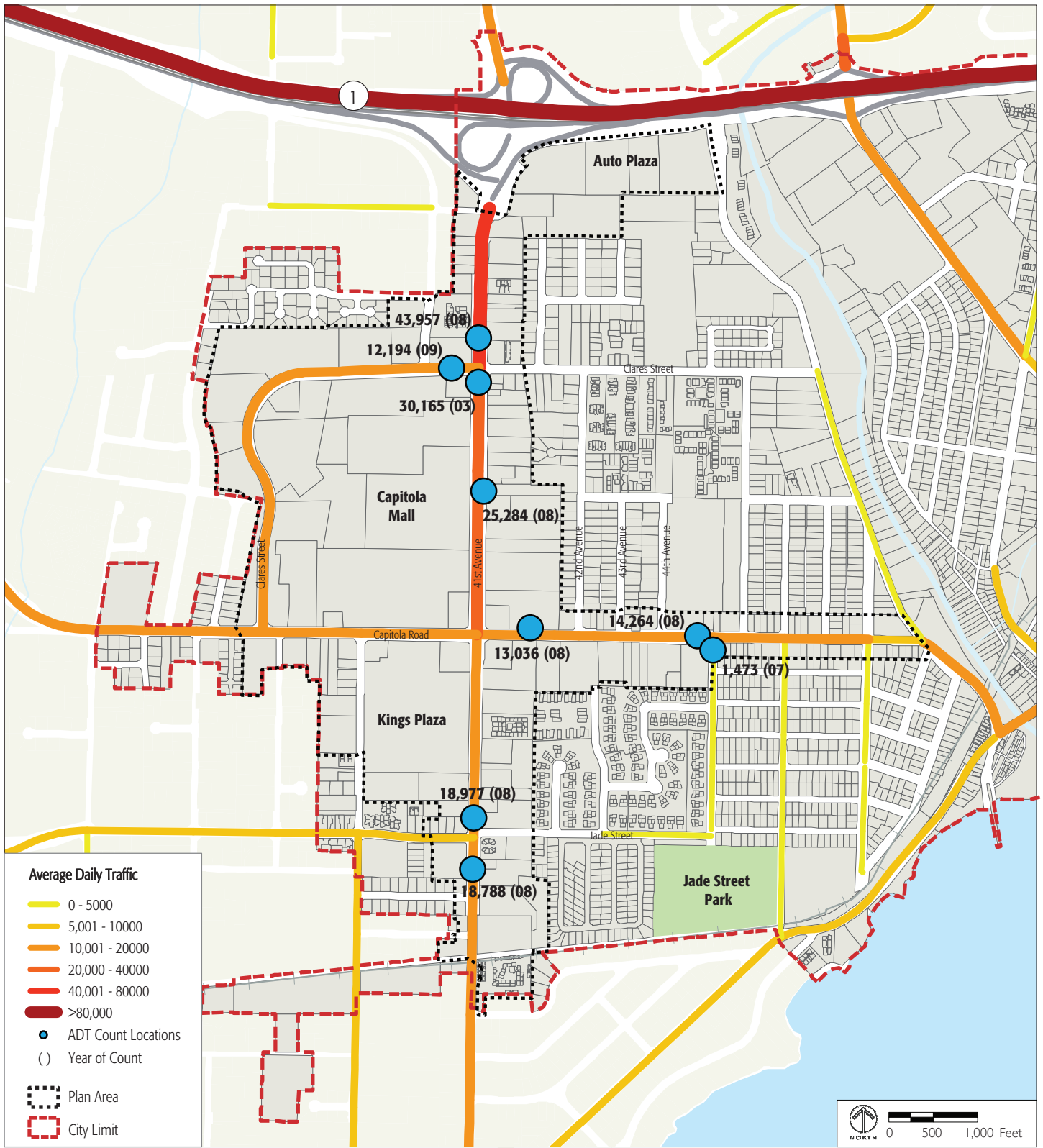


FIGURE 7

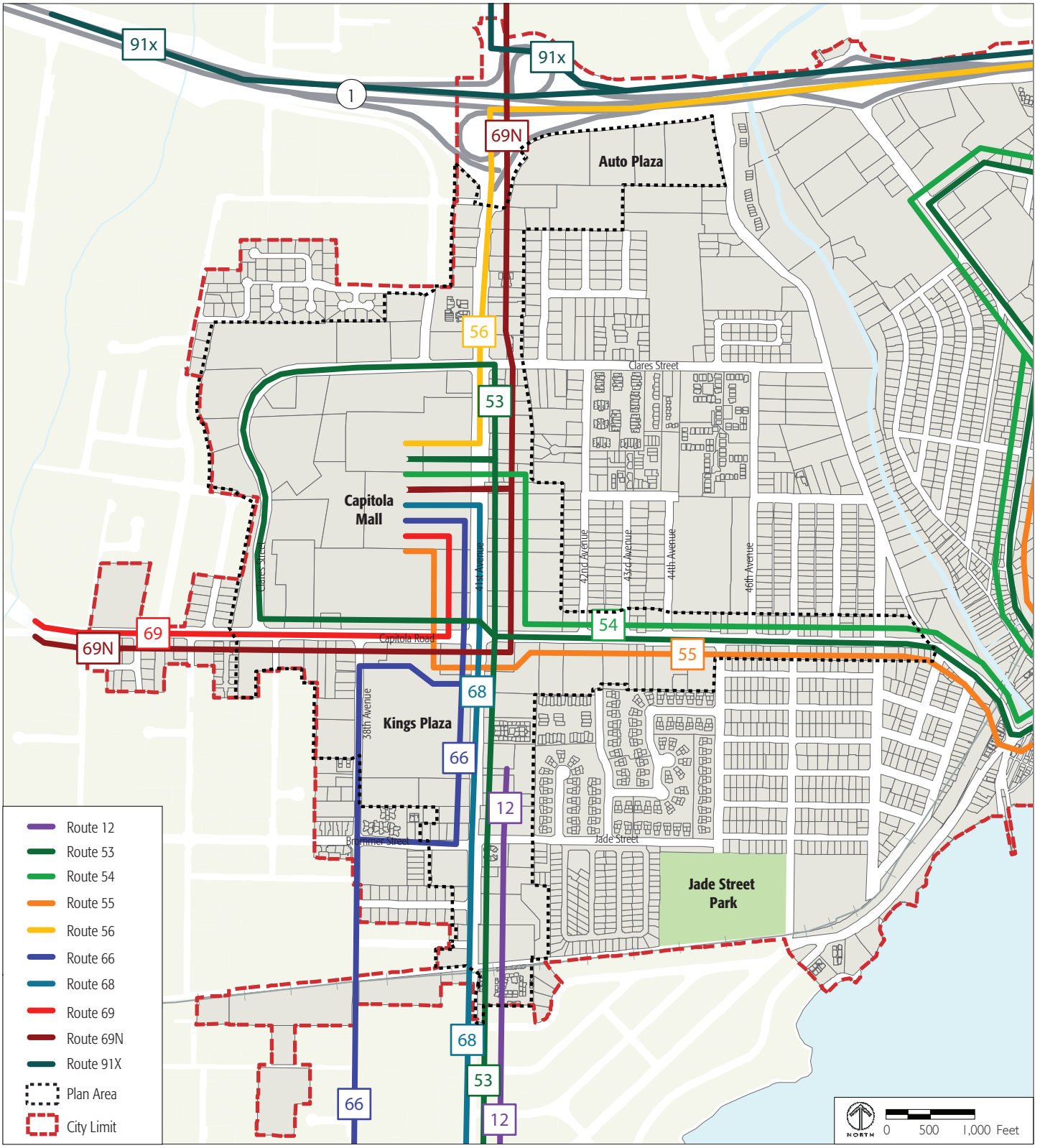
EXISTING STREET SECTIONS



Source: City of Capitola, 2011.

FIGURE 8

AVERAGE DAILY TRAFFIC VOLUMES



Source: City of Capitola, 2011.

FIGURE 9
 BUS TRANSIT ROUTES

Located within the mall is the Capitola Mall Transit Center, which serves as the primary mid-county transit hub. Metro does not collect data on specific numbers of passengers using the Transit Center, but Metro staff estimates that thousands of passengers utilize the Transit Center every day, including weekends. The Transit Center is one of Metro's busiest transit stops in the county. It is used by Mall employees, students travelling to Cabrillo College, and passengers transferring buses to reach destinations throughout the county.

4. Pedestrian and Bicycle Facilities

Figure 10 identifies existing and proposed bicycle facilities within the Plan area. These facilities include Class II bike lanes, proposed Class III sharrows, and air, water, service, and bicycle parking locations. Currently, there are existing bicycle paths on all the arterials within the Plan area, except for 38th Avenue and Clares Street west of 41st Avenue. Class III sharrows have recently been added to Clares Street, and Capitola's recently adopted Bicycle Transportation Plan calls for a Class II Bike Lane on 38th Avenue. The City is currently adding bike lanes to both sides of 38th Avenue, expected to be completed in late 2011.

As shown in Figure 11, sidewalks are present on both sides of most major streets in the Plan area, including along 41st Avenue, Capitola Road, and Clares Street. All streets from Capitola Road to the northern Plan area boundary include sidewalks. There are more sidewalk gaps south of Capitola Road, particularly on local streets that intersect 41st Avenue. Many of the neighborhood streets adjacent to the Plan area also either lack sidewalks, have sidewalks on only one side of the street, or have segments with missing sidewalks.

D. Economics

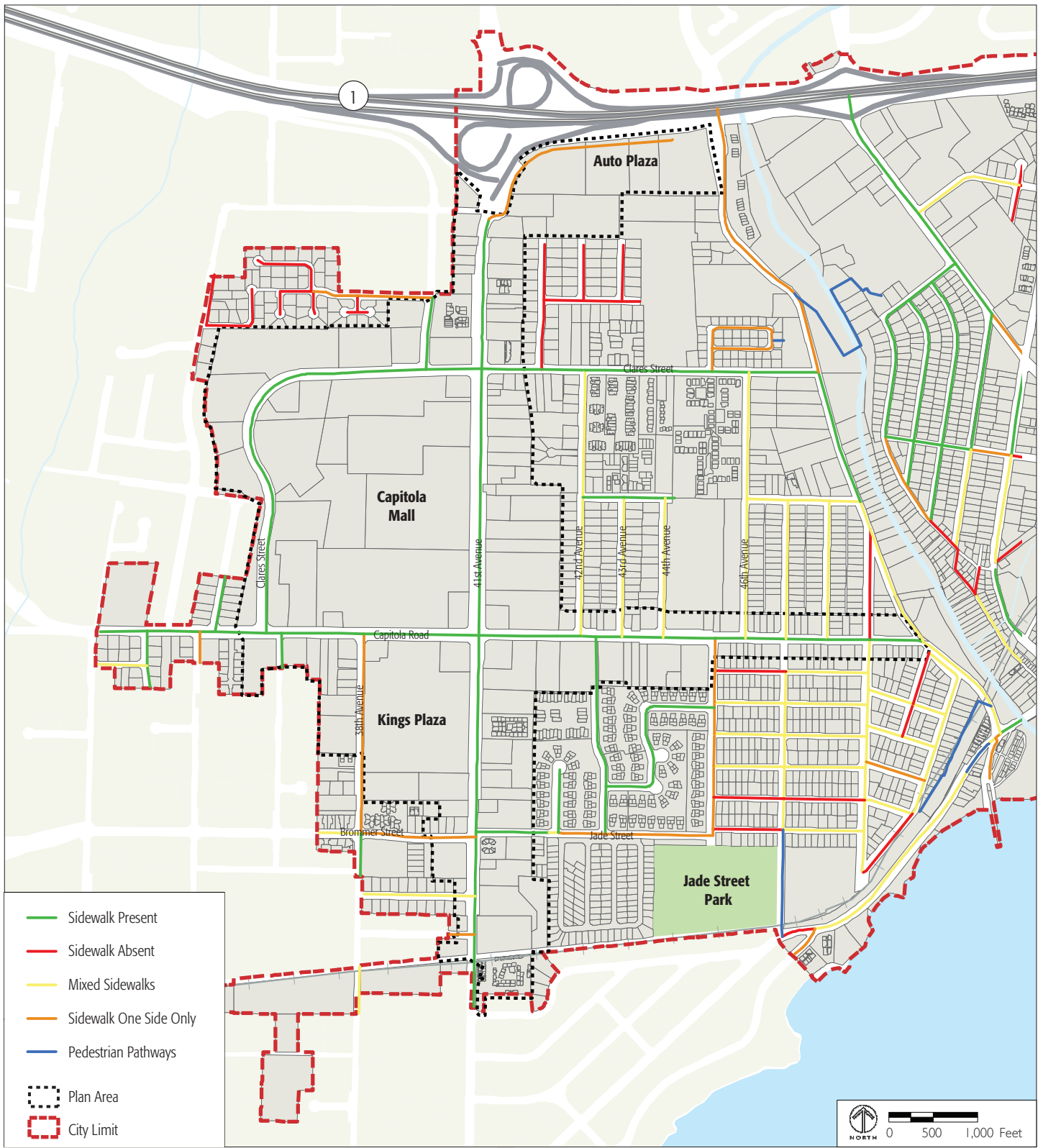
To establish a basic understanding of the economic conditions within the Plan area, consultants prepared a Baseline Economic Analysis Memorandum for the Re-Visioning Plan, which is incorporated into this Plan as Appendix A. This memorandum summarizes existing economic conditions within the corridor relating to retail, mixed use, residential, office, and hotel uses, and



Source: City of Capitola and RBF Consulting, 2011.

FIGURE 10

BICYCLE FACILITIES



Source: City of Capitola and RBF Consulting, 2011.

FIGURE 11

SIDEWALKS AND PEDESTRIAN PATHWAYS

identifies the market outlook for these uses over time. The memorandum also presents recommendations for how the Re-Visioning Plan can best respond to these market conditions. Key observations and recommendations from the Baseline Economic Analysis memorandum for the Re-Visioning Plan include the following:

Retail Uses

- ◆ **Decline of Retail Sales.** Retail sales within the Plan area declined by 42 percent over the past decade, with the majority of this decline occurring during the 2007 to 2009 recession. Declines in the Plan area during the recession were more severe than the sales declines at the county or state level during this same period.
- ◆ **Shift to Local-Serving Retailers.** With the closing of the Gottschalks department store and opening of new grocery stores and general merchandisers, 41st Avenue has experienced a shift from region-serving to more local-serving retailers. One of the impacts of this shift has been an increase in vehicle trips within Capitola.
- ◆ **Lifestyle Center Trend.** A nation-wide retail trend has been the development of lifestyle centers, which feature external orientation, outdoor and pedestrian amenities, design attention, and a larger share of restaurants and non-retail uses. These centers are designed to encourage customers to spend more time and money on longer shopping excursions. The Re-Visioning Plan should consider incorporating characteristics of lifestyle centers into the corridor to create retail experiences that are compelling for shoppers.
- ◆ **Constraints on New Investment.** The Capitola Mall and shopping centers within the Plan area are leased and owned by multiple parties. The Mall, in particular, is subject to reciprocal easement agreements (REAs) that govern parking, access, encroachment, utility line easements, operation of common areas, and building design. REAs often make significant redevelopment of commercial centers difficult.
- ◆ **Concentration of Retail.** Retail uses are dispersed throughout the 41st corridor, rather than concentrated in core locations. This can disorient consumers, necessitate multiple vehicle trips during a single visit, and limit synergies between stores. The Re-Visioning Plan should focus and



The Plan area has experienced a recent shift from regional serving department stores to local serving retailers such as Whole Foods, BevMo, and Trader Joe's.



The Cinelux Theatre in King's Plaza (top) is one of the few entertainment uses in the Plan area. Restaurants in the Plan area (middle and bottom) tend to emphasize cost and convenience over creating a memorable experience.

consolidate retail over time. This could be achieved through the redevelopment of parking lots, or creating a new two-sided shopping street off of 41st Avenue.

- ◆ **Restaurants and Entertainment Uses.** The Plan area is currently lacking in sit-down restaurants and entertainment uses. The Re-Visioning Plan should consider attracting additional restaurant and entertainment uses to broaden the corridor's appeal, lengthen shoppers' visits, and create more night-time activity.

Attached Residential and Mixed Use

- ◆ **Urban Amenities.** The 41st Avenue corridor area lacks many of the urban amenities attractive to residential and mixed-use. The Re-Visioning Plan can help stimulate the medium- and long-term demand for attached residential and mixed uses providing urban amenities such as outdoor eating and gathering places, public spaces, entertainment uses, more sit-down restaurants, and improved pedestrian and bicycle facilities.
- ◆ **Phasing of Residential Infill.** Due to the weak housing market, retail infill will become economically feasible before residential and mixed use infill. The untested nature of attached residential and mixed use in the corridor will also inhibit investments in these development types. Single use attached residential may be feasible, in the mid-term, at the edges of the corridor adjacent to existing residential uses.
- ◆ **Design and Location of Mixed Use.** The poor performance of the Capitola Beach villas project speaks to the importance of well designed and properly located mixed use projects. To be successful, vertical mixed use should be located within proximity to other street edge-oriented retail and urban amenities. The relationship between uses on the site and the overall project design needs to contribute to an active and pedestrian-friendly public realm. As previously discussed in this report, mixed use should be encouraged as part of a larger vision in non-core areas that seeks to create a critical mass of focused activity within specific areas of the corridor.

Office Uses

- ◆ **Future Demand.** The market is not expected to support additional new office development in the Plan area in the near-term. Over the mid- and long-term, there may be demand for a small amount of new office space, particularly in areas north of the Capitola Mall.

Hotels

- ◆ **Future Demand.** New demand for hotels will be in mid-term, at least five years out due to the opening of the Fairfield Inn & Suites on 41st Avenue and plans for the Capitola Village Hotel.
- ◆ **Type of Hotel.** 41st Avenue is a strong location for larger, mainstream, mid- to high-range hotels, as opposed to luxury or boutique hotels.
- ◆ **Location.** Location with convenient access to the beach and Capitola Village is important for new hotels. Under-developed parcels on Capitola Road and Wharf Road could be a promising location for one or more boutique hotels. A new hotel within the Plan area could also help support and benefit from focused activity nodes with quality urban amenities.



There are two hotels in the Plan area: the Best Western (top) and the Fairfield Inn & Suites (bottom), which opened in July 2011.

III. RE-VISIONING PLAN GOALS

This chapter presents key goals for the 41st Avenue corridor. These goals describe the desired future for the 41st Avenue corridor and the primary ways that the area should change and be improved over time. The goals function as the “compass” that provides direction for all other components of the Plan, such as the Concept Plan in Chapter 4 and the policies and actions in Chapter 6. Goals for the Re-Visioning Plan are grouped into three categories: economics, land use and design, and circulation.

Economics

- 1) Ensure that the corridor provides a stable source of sales tax revenue for the City.
- 2) Attract a diversity of retailers that meet the shopping needs of Capitola residents.
- 3) Maintain the corridor as a region-serving shopping destination that also serves the needs of residents.
- 4) Establish a vision for the corridor that is economically feasible and realistic.

Land Use and Design

- 5) Provide for a high-quality design environment with a unique and memorable brand identity.
- 6) Create a more environmentally sustainable development pattern within the Plan area.
- 7) Provide public and semi-public places for people to meet and gather.
- 8) Establish 41st Avenue as a destination with activities for people of all ages occurring throughout the day and night.
- 9) Minimize negative impacts, including noise and traffic, on single-family neighborhoods adjacent to the corridor.

Circulation

- 10) Increase pedestrian activity and provide for a more attractive and vibrant public realm.

- 11) Continue to accommodate the needs of drivers while encouraging alternative modes of transportation.
- 12) Improve bicycle and pedestrian circulation within the Plan area.
- 13) Enhance the appearance and functionality of the Capitola Mall Transit Center.
- 14) Improve connections between the Plan area and other locations within the community.

IV. CONCEPT PLAN

Figure 12 presents an illustrative concept plan for the 41st Avenue corridor. This concept plan graphically illustrates a vision for the desired future of the corridor, and relates to the economic, land use, urban design, and circulation goals presented in Chapter 3. The concept plan reflects GPAC and public input received throughout the process, particularly at the second community workshop at which residents provided input on three alternatives for the 41st Avenue corridor. This concept represents the long-term vision for the corridor 20 years in the future. Shorter-term changes envisioned for the corridor are described in Chapter 5.

Highlights of the draft concept plan are as follows:

- ◆ **Capitola Mall.** Capitola Mall is updated and modernized with new retail pads fronting 41st Avenue and Capitola Road, an improved mall façade and entrance, improved pedestrian facilities and landscaping, a new interior street lined with sidewalk-oriented retail, daylighting of some of the mall roof, and new public plazas. The transit center is relocated away from the front entrance to an area near the food court on Clares Street. This concept envisions the most dramatic change within the corridor occurring on the Mall property.
- ◆ **41st Avenue Roadway.** There are no changes to the 41st Avenue roadway configuration that would limit vehicle capacity or interfere for left turn movements. The streetscape character of the roadway north of Capitola Road would change as surface parking lots fronting the street are redeveloped with new commercial pads. Limited new landscaping is envisioned that would not alter roadway configuration or prevent left turns. Development of a landmark building at the intersection of 41st Avenue and Capitola Road would be encouraged. Together with the limited landscaping improvements, this new landmark building would enhance the intersection, emphasizing it as a focal point of the corridor.

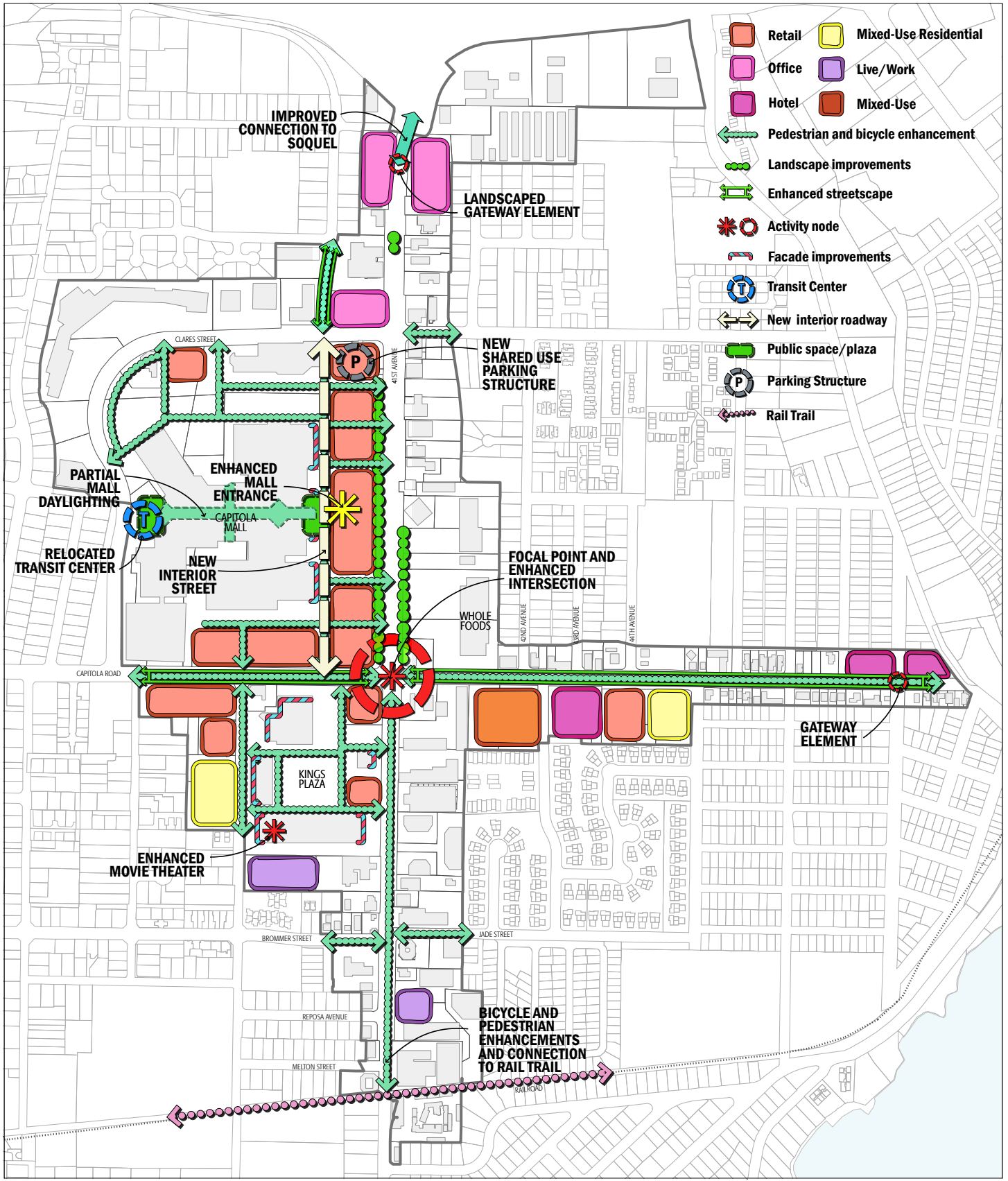


FIGURE 12

CONCEPT PLAN

- ◆ **Capitola Road.** West of 41st Avenue new sidewalk-oriented commercial uses will provide a two-sided pedestrian-friendly commercial area visible from 41st Avenue. East of 41st Avenue a new hotel will be flanked by pedestrian-oriented horizontal and vertical mixed use development. New boutique hotels will also be located on Capitola Road near the Wharf Road intersection. Hotels and pedestrian-oriented uses east of 41st Avenue will help to improve connections between the 41st Avenue corridor and the Village.
- ◆ **38th Avenue.** 38th Avenue is activated with new multiple-family residential and mixed-use residential on the west side of 38th Avenue and sidewalk-oriented commercial uses on 38th Avenue and Capitola Road. The appearance of King's Plaza buildings fronting 38th Avenue is improved. Streetscape and infrastructure improvements enhance the appeal of 38th Avenue for pedestrians and bicycles.
- ◆ **Pedestrian and Bicycle Facilities.** Residents of neighborhoods adjacent to the corridor can more easily walk to 41st Avenue on improved sidewalks. Improved walkways and paths within properties make it easier for pedestrians and bicyclists to access stores from the sidewalk. Enhanced pedestrian facilities are focused on the three primary activity centers within the corridor: Capitola Mall, Capitola Road, and 38th Avenue. Connections to the planned Rail Trail will also be enhanced.

V. PHASING PLAN

The Re-Visioning Plan anticipates that change along 41st Avenue will occur incrementally and that the corridor will evolve over time. It is therefore necessary to envision and permit short-term improvements that do not fully achieve the ultimate vision for the corridor. Modest improvements are often a necessary first step to create the market for more dramatic change. However, it is also important to ensure that short term improvements do not conflict with the long-term vision for the corridor. More immediate changes need to be a first step towards achieving this vision.

Table 2 presents a phasing plan for how changes to the 41st Avenue corridor might occur over time. This plan identifies three phases: Phase 1 (0-5 years), Phase 2 (5-15 years), and Phase 3 (15+ years). Figures 13 through 15 graphically illustrate this phasing plan. The phasing plan will help the City and property owners to understand how short-term property improvements might fit into a longer term vision for individual properties and corridor. The phasing plan also will help the City to plan for and prioritize public infrastructure improvements that support strategic change and investment within the corridor over time.

TABLE 2: 41ST AVENUE/CAPITOLA MALL RE-VISIONING PLAN PHASING

	Phase 1 (0-5 years)	Phase 2 (5-15 years)	Phase 3 (15+ years)
Capitola Mall	<ul style="list-style-type: none"> New retail pads fronting 41st Ave. Pads will be designed in a way to accommodate a future interior roadway between the mall and the new pads. Improved mall façade and entrance Improved pedestrian facilities and landscaping 	<ul style="list-style-type: none"> Additional retail pads on 41st Avenue New development with sidewalk-oriented commercial uses fronting Capitola Road west of 41st Avenue 	<ul style="list-style-type: none"> New interior roadway with sidewalk-oriented retail, outdoor dining, and pedestrian amenities Roof of some of mall removed, creating outdoor dining and gathering places Small public plazas at opposite ends of removed mall roof
Transit Center	<ul style="list-style-type: none"> Transit Center relocated to be adjacent to Food Court 		
Kings Plaza	<ul style="list-style-type: none"> No significant changes to existing shopping center Improvements to internal pedestrian circulation Cosmetic improvements to street-facing facades of existing buildings, including facades fronting 38th Avenue 	<ul style="list-style-type: none"> New retail pads fronting Capitola Road Expanded and enhanced movie theatre 	
38 th Avenue	<ul style="list-style-type: none"> Mixed-Use Residential on west side of 38th Avenue (ground floor retail optional) 	<ul style="list-style-type: none"> Additional sidewalk-oriented commercial uses on 38th Avenue and West Capitola Road 	<ul style="list-style-type: none"> Additional sidewalk-oriented commercial uses on 38th Avenue
Capitola Road	<ul style="list-style-type: none"> Welcoming gateway element at eastern end of Capitola Road 	<ul style="list-style-type: none"> Horizontal and vertical mixed use on Capitola Road west of 41st Avenue Sidewalk-oriented commercial uses west of 38th Avenue New hotel sites on Capitola Road to Wharf Road 	<ul style="list-style-type: none"> Boutique hotel on Anderson/Dharma site Mixed use on DMV site

	Phase 1 (0-5 years)	Phase 2 (5-15 years)	Phase 3 (15+ years)
Other Land Use and Urban Design Changes			
Parking	<ul style="list-style-type: none"> Existing parking supply sufficient to accommodate additional development 	<ul style="list-style-type: none"> Live/work, artist studios and SROs south of Capitola Road Existing parking supply sufficient to accommodate additional development 	<ul style="list-style-type: none"> New office uses on 41st Avenue north of Clares Street New shared use parking structure on Mall property if justified by demand
41 st Avenue Roadway	<ul style="list-style-type: none"> No major changes to 41st Avenue Roadway configuration Pockets of new trees in center of road where they can be accommodated and not alter roadway configuration or prevent left turns Landscaped gateway feature at northern end of roadway 	<ul style="list-style-type: none"> Encourage enhancement of the 41st Avenue/Capitola Road intersection as a focal point through the development of a landmark building at the intersection and the addition of distinctive urban design elements (such as landscaping improvements and bollards) 	
Bicycle and Pedestrian Circulation	<ul style="list-style-type: none"> Improved bicycle and pedestrian circulation within existing shopping centers with walkways through the parking lots Improved sidewalks connecting adjacent residential neighborhoods with 41st Avenue 	<ul style="list-style-type: none"> Improved bicycle and pedestrian connection to Soquel Improved pedestrian amenities focused on Capitola Road Enhanced pedestrian crossings at 41st Avenue/Capitola Road intersection Enhanced bicycle and pedestrian facilities, including signage, to connect with planned Rail Trail 	

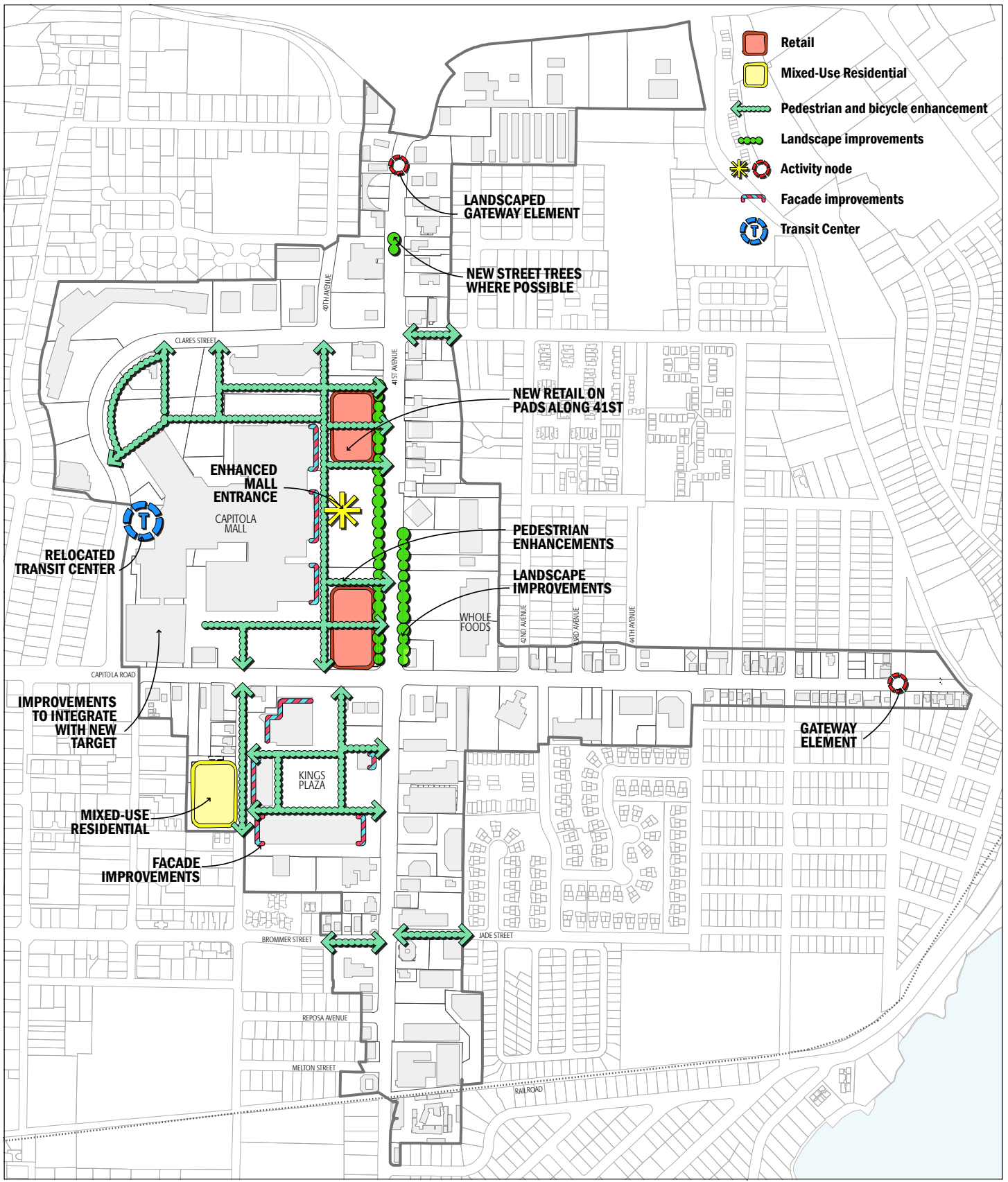


FIGURE 13

PHASE I (0-5 YEARS) PLAN

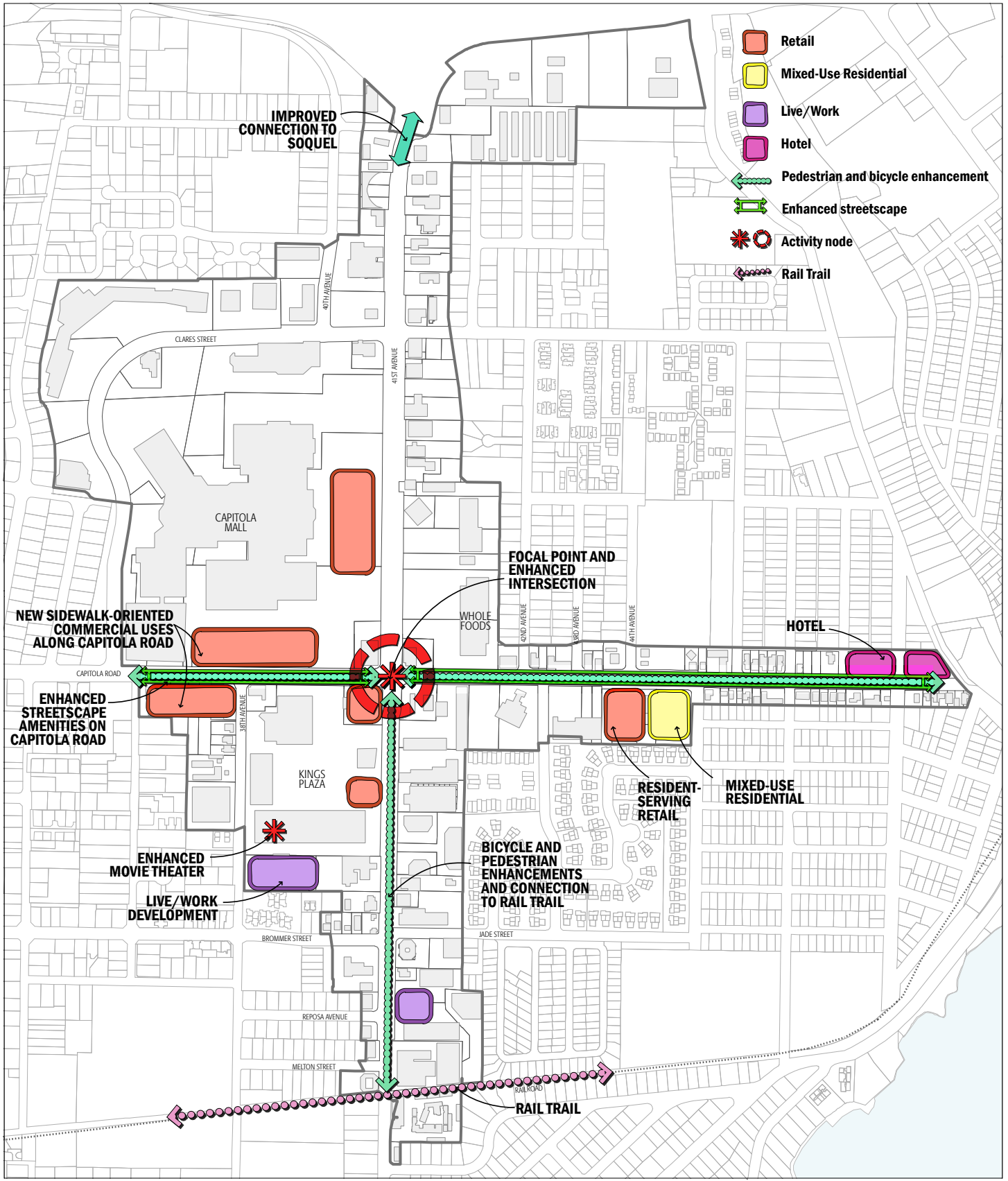


FIGURE 14

PHASE 2 (5-15 YEARS) PLAN

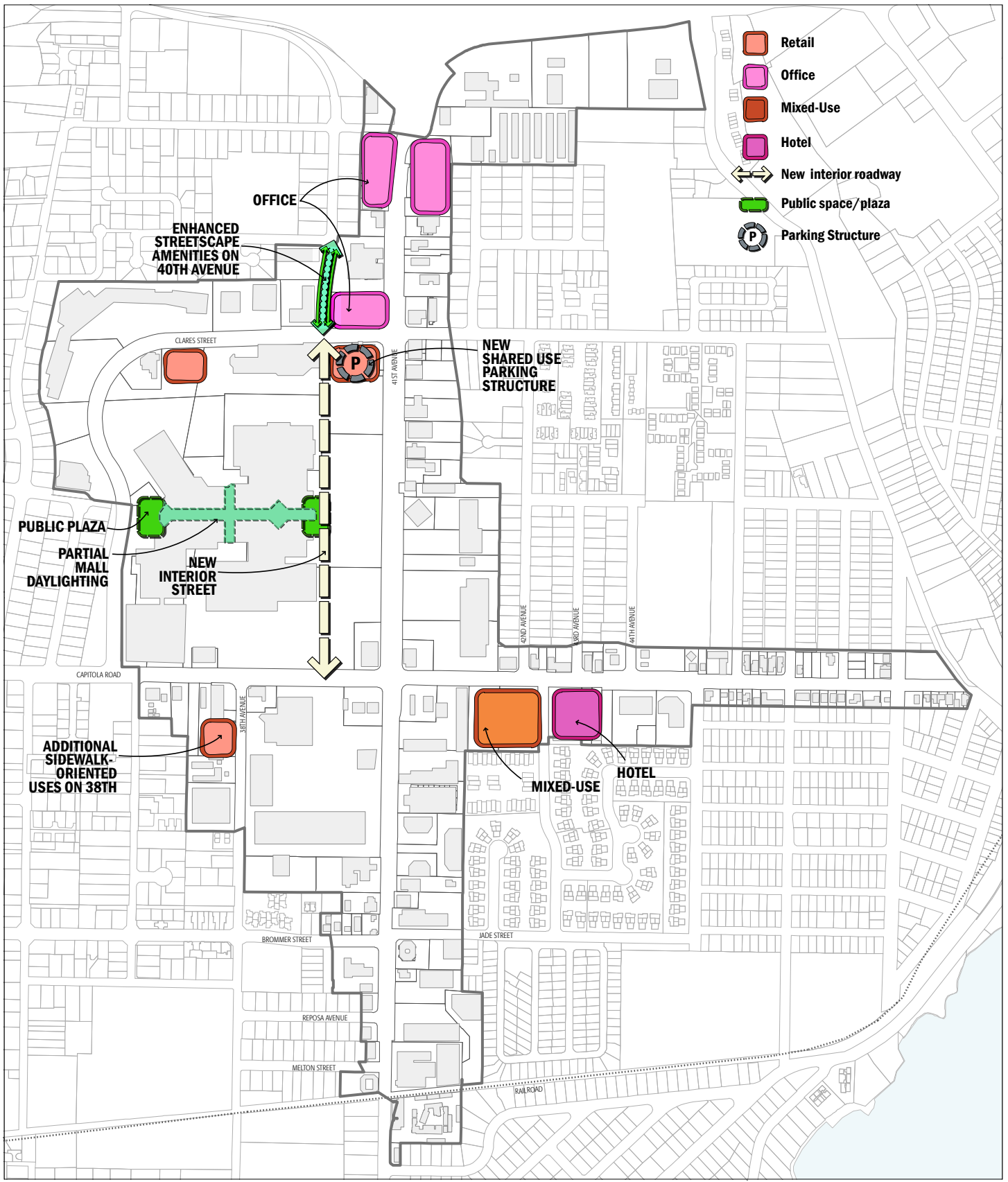


FIGURE 15

PHASE 3 (15+ YEARS) PLAN

VI. POLICIES AND ACTIONS

This chapter establishes policies and actions that apply to the Re-Visioning Plan area. Policies and actions are defined as follows:

- ◆ A **policy** is a specific statement that guides decision-making as the City works to achieve the vision and goals of the Re-Visioning Plan. These policies represent statements of City regulation. The policies will be used by the City in the review of development project applications and will help guide City decision-making on issues affecting the Plan area.
- ◆ An **action** is a specific activity or program that the City will carry out to implement the vision and goals of the Re-Visioning Plan. The City must take additional steps to carry out each action within the Re-Visioning Plan. Actions that are intended to be completed along with the General Plan Update are noted with an asterisk (*).

The policies and actions below are divided into three categories: economics, land use and urban design, and parking and circulation. Each policy and action is intended to help the City achieve the vision and goals for the Plan area described in Chapters 3 and 4. Actions that will be completed as part of the Zoning Code Update are indicated with an asterisk (*).

1. Economics

Policies:

- Policy 1.1. Limit the amount of non-retail uses within the core commercial areas of the corridor.
- Policy 1.2. Continue to support the long-term presence of auto dealers within the corridor.
- Policy 1.3. Encourage infill residential development and employment uses that support retailers and contribute to the vitality of the corridor.

- Policy 1.4. Encourage retailers to locate within the 41st Avenue corridor that enable Capitola and county residents to meet their shopping needs in Capitola.
- Policy 1.5. Strive to maintain a balance of local independent businesses and national retailers within the corridor.
- Policy 1.6. Encourage the concentration of region-serving retail in areas north of Capitola Road.
- Policy 1.7. Encourage resident-serving uses to locate south of Capitola Road.
- Policy 1.8. Encourage the highest intensity development within the corridor to be located near the Capitola Road/ 41st Avenue intersection.
- Policy 1.9. Support a phased approach to implementation of the long-term vision for the 41st Avenue corridor. Allow property owners to make modest improvements that will not conflict with the long-term vision for the property.

Actions:

- Action 1.1. Amend the Zoning Code to allow, in certain areas, retail uses by-right and to require a Conditional Use Permit for offices, medical services, and other non-retail uses. Require special findings for these Conditional Use Permits that non-retail use will not detract from the economic viability of the corridor.*
- Action 1.2. Meet periodically with the Capitola-Soquel Chamber of Commerce and other groups to discuss strategies to attract and retain desired types of retailers. As part of these meetings, review with the Chamber:
 - ◆ City regulations that may be discouraging retailers from locating in Capitola.
 - ◆ City investments and improvements which may help attract desired types of retailers.

- ◆ Ways to strengthen the City's reputation as business and environment friendly.
- ◆ Methods to assist property owners and managers to attract desired types of tenants.
- ◆ Methods to assist property owners to consolidate lot ownership as part of redevelopment efforts.

Action 1.3. As part of the Zoning Code Update, identify and amend zoning regulations that may discourage desired retailers from locating within the corridor.*

Action 1.4. Review and amend if needed Capitola's Redevelopment Project Implementation Plan and Capital Improvement Program (CIP) to provide infrastructure improvements attractive to desired types of retailers.

Action 1.5. As part of the Zoning Code Update, amend zoning regulations to allow property owners to easily adapt to market demand over time.* For example, identify vertical mixed use as a permitted but not required land use, and allow for flexibility in ground floor uses in mixed-use projects.*

Action 1.6. During the Highway 1 HOV lane project design phase, work with Caltrans to identify ways to enhance visibility of and access to the Auto Plaza. Possible improvements include Highway 1 interchange modifications, intersection improvements at Gross Road, and improved signage.

2. Land Use and Urban Design

Policies:

Policy 2.1. Support the long-term transformation of the Capitola Mall into a pedestrian-friendly commercial district with high quality architecture and outdoor amenities that are attractive to shoppers and families.

- Policy 2.2. Support the extension of 40th Avenue south into the Mall property as a new pedestrian-friendly private interior street on the Mall property.
- Policy 2.3. Allow for a phased approach to redevelopment of the Mall property. Early phases may include improvements to the Mall façade and front entrance and the establishment of one or more new retail pads fronting 41st Avenue. These early improvements shall not conflict with the ultimate vision for the property.
- Policy 2.4. Support the continued location of Transit Center in Capitola as important mid-county transit hub serving the entire region.
- Policy 2.5. Support the relocation of the Transit Center to an alternative location on the Capitola Mall property that meets the operational requirements of Santa Cruz Metro and advances design goals for the Capitola Mall.
- Policy 2.6. Encourage the Transit Center to become a multi-modal facility with amenities for bicycles and integration with a possible future shuttle system in Capitola.
- Policy 2.7. Ensure that new development contributes to a unique identity for Capitola that is not generic or formulaic in appearance and reflects the city's village feel.
- Policy 2.8. Require new development to be sensitive to adjacent development, particularly single-family homes.
- Policy 2.9. Encourage the development of structures on existing Capitola Mall surface parking lots located adjacent to 41st Avenue and Capitola Road.
- Policy 2.10. Ensure that new development contributes to a pedestrian-friendly, vibrant commercial district.
- Policy 2.11. Encourage new development to provide amenities that enhance the vitality of the corridor. Examples may include outdoor dining, publically accessible gathering places, and bicycle and pedestrian facilities.

- Policy 2.12. Encourage property owners to include public gathering places as part of redevelopment projects within the corridor.
- Policy 2.13. Encourage “semi-public” gathering places on private property, such as outdoor dining and courtyards, that provide space for people to informally meet and gather.
- Policy 2.14. Encourage the establishment of new entertainment uses, and the expansion of existing entertainment uses, within the corridor.
- Policy 2.15. Encourage land uses within the corridor that serve as attractions for families and people of all ages.
- Policy 2.16. Encourage land uses within the corridor that attract visitors during the day and night.
- Policy 2.17. Ensure that improvements to 41st Avenue, such as landscaping and pedestrian and bicycle facilities, do not reduce roadway capacity or interfere with vehicular movement.

Actions:

- Action 2.1. Continue to use Redevelopment Agency funds for infrastructure improvements that will stimulate investment and redevelopment of the Capitola Mall property.
- Action 2.2. Work with Capitola Mall owners and Santa Cruz Transit to identify funding for the relocation of the Transit Center.
- Action 2.3. Prepare new commercial design guidelines for the 41st Avenue corridor to encourage a unified design theme and unique brand identity within the corridor.
- Action 2.4. As part of the Zoning Code Update, revise development standards to require buildings to be designed to support a pedestrian-friendly environment. These standards will address:
- ◆ Building placement on the lot.
 - ◆ Building height and mass.

- ◆ Building orientation towards the street.
- ◆ Entrance orientation towards the street.
- ◆ Location and design of parking.
- ◆ Ground floor transparency.

Action 2.5. As part of the Zoning Code Update, establish incentives for new development to provide urban amenities attractive to residential and mixed use development.*

Action 2.6. Review and amend if needed Capitola's Redevelopment Project Implementation Plan and Capital Improvement Program (CIP) to provide urban amenities attractive to residential and mixed use development.

Action 2.7. As part of the Zoning Code Update, establish incentives for the inclusion of public gathering places within development projects.*

Action 2.8. Study the feasibility of locating a public facility, such as a community meeting place, within the corridor.

Action 2.9. When updating the Zoning Code, establish special transition standards that apply to mixed-use development, multiple-family residential development, and non-residential development adjacent to single-family homes. These standards may require increased setbacks, upper story stepbacks, special landscaping, separation of service facilities, and other measures to minimize impacts on adjacent single family homes.*

Action 2.10. Monitor on-street parking in residential neighborhoods adjacent to the 41st Avenue corridor. Consider establishing a residential parking permit system for these neighborhoods if development within the corridor is producing high levels of additional on-street parking in these areas.

Action 2.11. Monitor traffic volumes and vehicle speeds on local streets in residential neighborhoods adjacent to the 41st Avenue corridor. Consider installing traffic calming measures in these neighborhoods if cut-through traffic increases as a result of development within the corridor.

3. Parking and Circulation

Policies:

- Policy 3.1. Over the long-term, support centralized parking which serves multiple properties within the corridor.
- Policy 3.2. Encourage the co-location of complementary land uses with different peak demands that can share off-street parking facilities.
- Policy 3.3. Require off-street parking areas to be designed to support a pedestrian-friendly environment.
- Policy 3.4. Ensure that new development enhances a safe and enjoyable pedestrian experience.
- Policy 3.5. Require new development to provide bicycle parking facilities.
- Policy 3.6. Provide safe and convenient pedestrian access to the corridor for surrounding residential neighborhoods.
- Policy 3.7. Support the proposed Rail Trail as a key pedestrian connection between the corridor, the Village, and adjacent residential neighborhoods.
- Policy 3.8. Focus improvements for pedestrians in key activity areas, such as the Capitola Mall, Capitola Road, and 38th Avenue.
- Policy 3.9. Require new development to provide safe and convenient pedestrian access to building entrances from the sidewalk.

Policy 3.10. Require new development and substantial renovations provide connections bicycle and pedestrian connections between adjacent properties.

Policy 3.11. Require new development and substantial renovations to provide safe and convenient pedestrian and bicycle circulation within properties.

Policy 3.12. Provide for safe and convenient bicycle and pedestrian connections from Capitola Road to the Village. Minimize the frequency of curb cuts and driveways intersecting sidewalks and bicycle facilities. Require properties to share driveways when feasible.

Actions:

Action 3.1. When updating the Zoning Code, establish development standards that support a pedestrian-friendly environment. These standards will address building placement, building orientation, entrance location, ground floor street-facing building wall transparency, and parking location and design.*

Action 3.2. As properties redevelop within the corridor, study the need for and feasibility of building a public parking structure to serve the corridor.

Action 3.3. Study the need for a comprehensive parking management program in the corridor. This program could include the establishment of a new parking district to raise revenue for new public parking facilities, improved parking signage, real-time parking availability information, and other methods to minimize the need to supply additional parking within the corridor.

Action 3.4. Include design standards for parking structures in the updated Zoning Code.*

Action 3.5. As part of the Zoning Code Update, establish standards for the design and location of pedestrian-friendly off-street parking facilities.*

- Action 3.6. As part of the Zoning Code Update, adjust existing off-street parking requirements to better reflect actual average daily parking demand and to allow parking reductions for shared facilities, mixed use development, and other forms of development that reduce parking demand.*
- Action 3.7. Install complete sidewalks on all streets connecting the corridor with adjacent residential neighborhoods, and on streets within adjacent residential neighborhoods.
- Action 3.8. Identify obstacles and obstructions, such as utility polls, within sidewalks in and around the corridor. Develop a plan to remove or minimize the impact of these obstructions.
- Action 3.9. As part of the Zoning Code Update, establish standards for pedestrian and bicycle circulation within off-street parking areas.*
- Action 3.10. During the Highway 1 HOV lane project design phase, encourage Caltrans to study the possibility of providing bicycle and pedestrian facilities that are physically separated from vehicle travel lanes on 41st Avenue immediately south of the Highway 1 bridge.

A P P E N D I X A

Baseline Economic Analysis





DRAFT MEMORANDUM

Date: May 4, 2011

To: City of Capitola

From: Shanti Breznau & Derek W. Braun, Strategic Economics

Project: Capitola GP Update: Special Study Area#1 - 41st Ave/Capitola Mall

Subject: Draft Baseline Economic Analysis

The following memo regarding baseline economic analysis for the 41st Avenue / Capitola Mall Re-Visioning Plan summarizes existing and new information and findings regarding the economic feasibility of different potential uses on the corridor. This memo includes the following: 1) findings included in the previous city-wide economic baseline analysis that are relevant to development conditions on 41st Avenue; 2) information gathered from interviews with key 41st Avenue property owners and area real estate developers with recent projects similar to desired product types for the corridor and Mall redevelopment sites; 3) other information gathered regarding finance, cost and revenue inputs; 4) residential property transactional trend analysis; 5) discussion of redevelopment/revitalization case study subjects introduced at the first stakeholder workshop; and 6) a summary of key economic issues and opportunities. Throughout the memo, development potential is discussed as short-, mid-, or long-term; short-term refers to a one to five year timeframe, mid-term to a six to ten year timeframe, and long-term as more than ten years out.

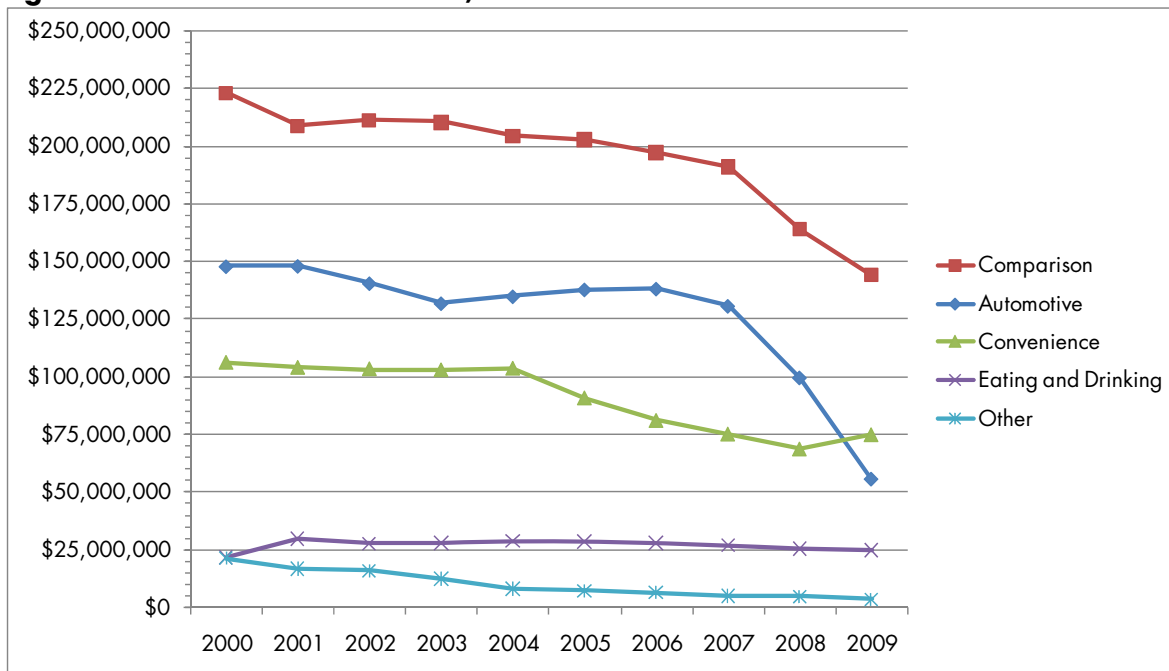
RETAIL DEVELOPMENT CONDITIONS & STRATEGIC CONSIDERATIONS

As has been discussed in the previous city-wide economic conditions analysis for the General Plan Update, 41st Avenue is the major regional retail destination for households in the Santa Cruz County area. This is largely due to the long-standing presence of the almost 500,000 square foot Capitola Mall, the only enclosed mall in the county, as well as a cluster of auto dealerships, the corridor’s mid-county location, and proximity to Highway 1. This concentration of regional-serving retail and Capitola’s relatively small population have made Capitola 14th state-wide in per capita retail sales. Per capita, retail sales in Capitola were \$31,922 in 2009, in comparison with a state-wide average of \$8,053.¹

Revenue Trends

In part due to the major concentration of regional comparison goods shopping within the corridor, 41st Avenue was disproportionately affected by the 2007-2009 recession. As can be seen below, a more gradual and steady sales decline over the last decade accelerated precipitously during this time period.

Figure 1: 41st Avenue Retail Sales, 2000 to 2009



Source: City of Capitola, 2011; Strategic Economics, 2011. Sales are inflation adjusted to 2011 dollars. “Comparison Goods” are infrequently purchased items for which customers tend to compare prices, such as clothing and electronics. “Automotive” sales include automobiles and related parts and accessories. “Convenience” sales are frequently purchased items for basic needs, such as groceries and personal care items. “Eating and Drinking” sales include restaurants, liquor stores, etc.

The above sales trends reflect not only the health of existing stores within the corridor, but also the opening and closure of retail outlets during this time period. For example, the relocation of the Ocean Honda dealership to Soquel in 2008 and the opening of BevMo in late 2008 and Whole Foods in 2009 can be seen in the respective major drop in auto sales from 2008 to 2009 and the bump in convenience sales mid-recession 2008 to 2009.

¹ 2011 California Retail Survey.

The 42 percent drop in total retail sales between 2007 and 2009 is significant, and is relatively greater than sales declines at the county or state-wide level during the recession.² This is partially due to the high proportion of all retail sales in comparison goods and automotive sales: approximately 75 percent over the 10 year trend. Because these types of purchases depend more on discretionary spending than spending of necessity, they were disproportionately affected by the recession. The loss of sales in the corridor during the recession was also worsened by the long-term downward sales trend. This gradual trend is of greater concern than the recessionary drop as it is not in keeping with state or national economic trends.

Market Conditions

Rents

In keeping with the above described recessionary drop in revenues, effective rents within the corridor have declined since the beginning of the recession in late 2007 and have yet to recover. Within the corridor, rents have fallen from an approximate high of \$3 per square foot per month, triple net, to approximately \$2.25 to \$2.75 currently, depending on proximity to Capitola Mall and other anchors. While this is a significant decrease of 10 to 25 percent over the past four years, demand for retail space in the corridor has remained stronger than in the broader Santa Cruz County regional market, which saw rents fall county-wide by 30 to 35 percent since 2007. The relative resilience of corridor lease rates relates to the corridor's enduring value as a regional destination. Unfortunately, lease rates below \$3 per square foot generally do not support new construction, a significant impediment to near-term investment in the corridor.

Occupancy

Although no comprehensive occupancy data exists for retail in the corridor, area brokers report that the occupancy rate for properties with long-term tenants and ownership has decreased, but generally remains healthy (i.e. above 92 percent) due to landlord concessions and adjustments in tenancing strategy. For example, at the end of 2010, Capitola Mall had eight small vacancies (i.e. 3,000 square feet or smaller), out of a total 480,000 square feet of leasable area. Seven of these vacancies were in the food court or in close proximity to the leased but currently unoccupied future Target department store space. These will presumably find tenants once Target is in place. The food court vacancies indicate the outmoded nature of the indoor food court format and the need for new restaurant spaces with external doors and outdoor seating.

The only recent new retail space in the study area, the ground floor spaces in the Capitola Beach Villas mixed-use project, have not been absorbed in the more than two years since coming on-line in late 2008. The project's financial troubles – largely driven by the housing market – hampered interest, but design and location concerns have also contributed to the lack of absorption. Located on 41st Avenue just south of the railroad tracks, the project was designed with poor retail visibility, with recessed storefronts overhung by the building, and poorly located. Almost a half mile from the Capitola Road/41st Avenue intersection at the heart of the shopping corridor, and a full mile from the Highway 1 off-ramp, the project serves as an unfortunate cautionary tale regarding the importance of visibility and access to retail.

² While total inflation-adjusted retail sales along 41st Avenue fell 42 percent between 2007 and 2009, Santa Cruz County inflation-adjusted taxable sales fell 25 percent and statewide inflation-adjusted taxable sales fell 21 percent during the same time period (California State Board of Equalization). The data are not directly comparable since the 41st Avenue data is an estimate of actual sales solely within retail categories, whereas the county and state data describe taxable sales of all categories that generate sales tax revenue. For example the state and county data will not capture the percentage of sales at a grocery store that are not taxed (i.e. most food items), but does include non-retail sales such as business-to-business transactions.

New Tenants

With the recent and prospective expansion of daily/weekly needs retailers in the corridor – Trader Joe’s (2006), BevMo (2008), Whole Foods (2009), and Target (planned opening 2012) – a major concentration of local-serving retail categories (i.e. groceries, soft goods) is developing. This concentration of weekly-needs retail expands the depth and array of commercial services for Capitola’s citizens beyond what a community of 10,000 could normally support; these retailers are attracted by the many additional shoppers brought to the corridor from outside of Capitola by the Mall and other regionally oriented retailers. This is a major boon to local residents, but also increases vehicle trips to the corridor from both outside and inside the City of Capitola, as the groceries and other household supplies provided by these retailers are shopped for more frequently than the clothing, electronics and outdoor supplies provided by long-standing corridor retail anchors. Creating connections between these daily needs retailers that enable “park once” shopping should be considered for the 41st Avenue Revisioning Plan.

The replacement of a department store like Gottschalks with a general merchandiser like Target also represents a loss of specialty and regional appeal for the Mall and 41st Avenue. Additionally, within the Mall, the replacement of the Disney Store by Rue 21 and Anne Taylor Loft by De Masque (2010), both youth-oriented affordable fashion retailers, begins to shift the retail mix within the Mall away from a broader demographic appeal toward the teenage and college age markets which spill over from Santa Cruz. Outside of the Mall, previous retail tenants have been replaced by personal or medical service office uses that require good visibility and access, such as kidney dialysis centers.

Strategic Consideration: Need for Investment & Renewal

The above described revenue, rent, occupancy and tenanting trends are in keeping with national shifts in the retail environment since the recession. However, most of these downward trends also pre-date the recession and originate in long-term disinvestment and a corresponding lack of renewal that is essential to maintaining a regional retail draw. For example, the last significant renovation at Capitola Mall occurred in 1989. Retail space in the corridor has not kept up with the major changes in formatting that have occurred over the past 15 years.

Since the mid-1990s, a trend towards a format described as “lifestyle” retail has dominated new shopping center development and renovations across the country. While lifestyle centers vary, they are generally characterized by external orientation, outdoor amenities such as sitting and eating areas, design attention and investment in pedestrian pathways and parking areas, and a larger share of sit-down restaurants and other non-retail uses that compel customers to spend more time and more money in a longer shopping excursion. In 2006, there were 144 lifestyle centers in existence, with 28 additional centers in the development pipeline.³ Between 2001 and 2008, the total leasable area of lifestyle centers grew 112 percent, while leasable area at all shopping centers grew 19 percent over the same time period.⁴ While the relative degree of growth may appear exaggerated given the small base of lifestyle retail in comparison with entire inventory of shopping center space in existence, the trend toward lifestyle formats was the major shopping center format trend of the late 1990s and 2000. This trend has passed by 41st Avenue, leaving the shopping corridor dated.

The Capitola Mall and other longstanding 41st Avenue anchors, including the three-screen Cinelux Theater in King’s Plaza, occupy somewhat unique trade areas, hemmed in by the physical barriers of the Santa Cruz Mountains and the Pacific Ocean. In the past, these barriers impeded Santa Cruz residents that might otherwise have shopped elsewhere, and discouraged potential competitors that

³ “Lifestyle Center Overview,” Cushman & Wakefield, 2006.

⁴ In keeping with general retail development trends, growth of lifestyle centers has slowed since the recession; four new lifestyle centers opened in 2010. International Council of Shopping Centers, 2011.

see limited growth in this constrained customer base. However, recent innovations in lifestyle or experience-oriented retail, reflected in shopping center development across the country, are intended to create shopping, entertainment and eating opportunities that merit all-day excursions. 15 years ago, an afternoon's shopping trip for new clothing might not have been worth a cross-mountain commute; today, that trip is augmented by lunch, recreational shopping, dinner, and movie in a "park once" environment with outdoor amenities and an hour's drive is not unreasonable. Coupled with the rise of on-line shopping and home entertainment, Santa Cruz County residents are no longer compelled to spend their discretionary shopping dollars locally. Downtown Santa Cruz itself competes as a lifestyle center, but competes more on the basis of authentic and unique character since it lacks the large anchor store spaces and managed environment offered elsewhere.

The expanded range of choices for discretionary spending means that retailers and shopping centers that wish to maintain and expand their regional customer base, or spending from their existing regional customer base, must create shopping experiences that are compelling. If the city and local property owners and retailers wish to reverse the loss of sales and downward rent trends in the corridor, investment in a contemporary shopping environment is critical.

Strategic Consideration: Constraints on New Investment

Outside of the new daily/weekly needs retailers, there has been little new investment on the corridor in the past ten years. Because there are no remaining undeveloped parcels outside of surface parking lots that support adjacent buildings, new investment requires redevelopment or rehabilitation of existing developed properties. For properties such as strip or enclosed malls that are leased or owned by multiple parties, redevelopment and even significant rehabilitation is complicated by the likely lack of alignment of lease terms, or by reciprocal easement agreements that govern parking, access, encroachment and utilities lines easements as well as operation of common areas and building design. These agreements allow shopping centers with multiple owners to function cohesively, but complicate efforts to significantly improve any portion of the center since several owners hold rights regarding use of parking and access routes that could be affected. REAs also create incentives for obstruction, as parties are in a contractual position to obtain windfalls in exchange for permission to make improvements regardless of cause.

Due to the lack of undeveloped sites and the above described constraints on major redevelopment, recent investment has largely gone into rehabilitation or limited remodeling of existing buildings, including the new Whole Foods, Kohl's and the prospective Target. This type of investment does provide some renewal and expansion of shopping choice, but it does not create the changes in building footprint, orientation and parking design needed to create a memorable shopping experience and maintain the corridor's regional draw in the face of external competition. The Case Study section of this memo (pg. 16) provides some examples of shopping centers and surrounding shopping corridors that have successfully pursued redevelopment and significant renewal in the face of ownership and leasing constraints.

Strategic Consideration: Opportunities for New Investment

There are currently many short-term and long-term opportunities for investment that would have positive impacts on the shopping environment and, ultimately, revenue potential of the corridor.

Create Focus and Consolidate Retail Over Time

41st Avenue is currently a disorienting corridor to navigate. It is difficult to understand what shopping opportunities are in the corridor and how best to access them. In particular, the lack of a distinguished façade or front door at Capitola Mall and the location of the Capitola Mall Transit Center immediately adjacent to the mall entrance is visually confusing (see Case Studies for illustrative solutions). Finding the shopping center on Clares Street (anchored by Trader Joe's) is also

challenging, as it is hidden by the Mall and largely invisible from 41st Avenue. Re-location of the Transit Center will be an important issue for the Re-Visioning Plan. Coordinated way-finding and signage within the corridor could also provide short-term relief to shoppers.

In the mid and long-term, concentration of retail is critical. Currently, retail is scattered throughout the mile-long and sometimes quarter-mile wide corridor, separated by numerous surface parking lots. This is challenging to would-be customers, as it necessitates multiple trips within the corridor and creates little synergy between stores.

In the short to mid-term, selective development of portions of the Mall's surface parking should be feasible. The Mall's current blended parking ratio is 4.95 spaces per 1,000 square feet of retail, in excess of the current requirement of 4.0 spaces per 1,000 square feet and other comparable mall properties held by owner Macerich. Reconfiguration and expansion of the front of the Mall to create an externally oriented restaurant area with a plaza and outdoor tables and seating could improve the Mall's appeal and begin to create an outdoor activity area on the corridor (see Northgate Mall Case Study). Additionally, adding restaurant and other retail pads on 41st Avenue and Capitola Road, while preserving sight lines to the Mall, could help in-fill retail development on the Mall site and create additional interest at the street edge. In order to accomplish this, Macerich will have to enter into negotiations with other Mall property owners in order to develop surface parking and reconfigure access; the timeframe for such improvements depends on these negotiations. Macerich's recent acquisition of the Kohl's property is a significant step forward in consolidating control of the Mall.

In the long-term, the creation of a two-sided walkable shopping street near the core of the corridor (between 41st Avenue & Capitola Road and 41st and Clares Street) should be considered. The corridor is in need of a retail configuration that can support pedestrianism and social activity, that creates synergy among uses, and provides the local community and customers from out of town with a place to find more upscale contemporary retailers and restaurants in a quality setting. According to area brokers, Santa Cruz County has a sufficiently large affluent population to support more specialized higher-end comparison goods retailers. Reportedly, such retailers have expressed interest in Capitola but have been frustrated by limited appropriate space. A new two-sided shopping street could provide the ideal setting for such retailers.

Given the high level of traffic on 41st Avenue – an average of nearly 44,000 trips per day in 2009 – and its seven lane width, 41st Avenue itself cannot support cross-street shopping. However, a shopping street perpendicular to 41st Avenue could take advantage of visibility to traffic on 41st Avenue while enabling a pedestrian orientation (see Birch Street Case Study). Capitola Road, Clares Street, or a new street dividing the Mall property could potentially serve this purpose.

Expand & Improve Eating and Entertainment Options

41st Avenue, and Capitola as a whole, are currently lacking in sit-down dining venues, especially considering the regional draws provided by the beach and Capitola Mall. Revenues from eating establishments remained static between 2001 and 2009, despite expansive national dining out trends prior to the recession and a downturn with the recession. This suggests that local supply isn't capturing additional meals being eaten out in keeping with long-term restaurant growth trends; interviews with property owners and brokers indicate there is immediate demand from restaurants for the type of pad sites that could be built out at the edge of the Mall's parking lots. Adding sit-down casual and quick casual restaurant venues to the corridor is an immediate first step to expanding the corridor's offerings and making it more appealing to locals, tourists and shoppers from across the county. They are also the ideal lead tenants for the type of short and mid-term development described above.

Long-term, the corridor is in need of contemporary entertainment uses that broaden its appeal, lengthen visits and create night-time activity. The nearest fully modern twelve-plus screen multiplexes are 45 minutes away, either over the hill in Cupertino or San Jose, or southeast in Salinas. In-depth targeted market analysis can determine whether the nine screen Regal Cinemas in downtown Santa Cruz has all the screens that the Santa Cruz County trade area can support; if additional demand exists, then there may be potential for an additional theater complex or other entertainment use to be built in Capitola.

Leverage Assets

Capitola benefits from two major regional attractors: the beach/Capitola Village, and 41st Avenue/Capitola Mall. There is currently little relationship between these two attractions. This is unfortunate because the two areas have complementary challenges and opportunities. Village retail is constrained by limited parking and vehicle access, the absence of retail anchors that can drive foot traffic to smaller businesses, small floorplate buildings that cannot accommodate contemporary retail formats and little redevelopment potential. Nonetheless, a steady stream of small businesses open in the storefront spaces due to the heavy tourist trade from the beach during the summer, a pedestrian environment that encourages walking and shopping and the unique charm and character of the Village. By contrast, 41st Avenue has a large parking supply and strong vehicle access, numerous anchor retailers of regional significance, a poor walking environment and some mid- to long-term redevelopment potential.

Given that the distance between the heart of 41st Avenue and Capitola Beach is just over a mile, opportunities to link the two should be explored. The opening of Capitola's Fairfield Inn, along with the existing Best Western on 41st Avenue, begins to create more of a tourist presence on 41st Avenue that should be supported and expanded (see Hotel discussion, pg. 14). After initial improvements are made to the Mall and more eating establishments added, the operation of a seasonal, high visibility shuttle circulator, such as an open-air trolley bus, could provide beach goers with a break from the sun and expanded shopping, dining and entertainment options without retrieving and re-parking their vehicle. As can be negotiated, remote parking on excess lots at Capitola Mall would be highly accessible to Highway 1 and increase the likelihood that beachgoers would visit Capitola Mall, or other attractions on 41st Avenue.

ATTACHED RESIDENTIAL AND MIXED-USE DEVELOPMENT CONDITIONS AND STRATEGIC CONSIDERATIONS

The 41st Avenue corridor is currently an almost exclusively commercial environment. The heavy traffic and “canyon and hill” effect of surface parking and commercial development boxes create challenges for integration of successful attached residential and mixed-use development. At the same time, the long-term downward commercial revenue and rent trends in the corridor suggest the need to fundamentally change how portions of the corridor are used. The following section describes available indicators of the potential market for attached residential and mixed-use development on 41st Avenue, as well as strategic considerations for integrating these types of development.

Market Conditions

As mentioned, there is currently little residential development in the corridor, and few recent attached projects in the entirety of Capitola. The first several attached residential and mixed-use developments will be pioneering projects, meaning that they have no real market precedent (the Capitola Beach Villas project is discussed below). Existing available data and the results of residential broker and developer interviews are summarized below.

Rents and Rental Occupancy

As discussed in the Economic Conditions White Paper for the General Plan Update, average rents in tracked apartment buildings have declined and then stabilized in the Santa Cruz region over the past two years, while occupancy rates have remained fairly strong. Statistical data for Capitola is unavailable, but locally-knowledgeable interviewees stated that existing apartment buildings continue to perform well. Within Capitola as a whole, brokers indicate rents are approximately \$2 per square foot – matching the RealFacts data – and vacant units tend to fill quickly. Demand for rental units has been bolstered by declining demand for for-sale units, especially condominiums, due to stricter lending standards and higher unemployment.

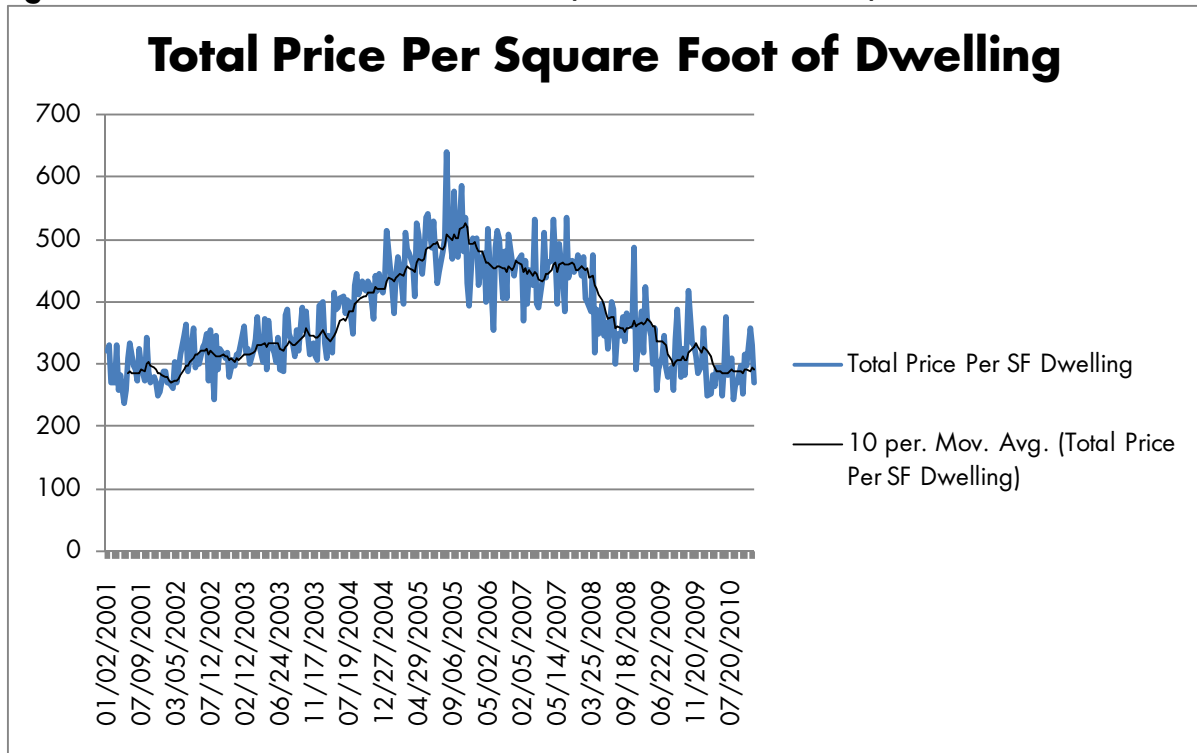
Developers and brokers indicate strong on-going demand for apartments, in part due to the major amenity provided by the beach. However, current rents are unlikely to support new construction in a redevelopment context, which includes demolition and land costs that must be sufficiently high to displace existing uses. Notably, the only purpose-built rental properties recently constructed in Capitola have been publicly-assisted affordable housing projects. Community opposition to rental housing, as voiced during last fall’s hearings regarding Capitola Beach Villas’ rental conversion, will be an additional challenge to new rental projects. Because of this, new apartment projects have mid- to long-term prospects in the corridor.

Sales Prices and Condominium Occupancy

Recent condominium projects such as Capitola Beach Villas and 2030 North Pacific (Downtown Santa Cruz) have needed to restructure as rentals rather than condominiums to fill units. Given that buyers currently have limited access to mortgages and that condominiums are a relatively unproven and risky investment in Capitola, restructuring to rental is a more financially attractive option to developers and their lenders. Condominium production is further inhibited by Fannie Mae and California Department of Real Estate requirements that more than half the units in the project are pre-sold prior to occupancy.

Comprehensive data regarding absorption of existing condominium units in Capitola is unavailable; the track record of recent projects in Capitola and Santa Cruz is sufficiently poor to assume condominium projects will not be feasible in the short-term. The transactional trend data shown below provides a longer-term perspective on condominium value in the greater 41st Avenue area.

Figure 2: Condominium Sales Price Trend, Greater 41st Avenue, 2001 - 2011



Source: First American Real Estate Solutions, Strategic Economics, 2011. The area surveyed includes both the City of Capitola and Census Tract 1217, which extends westward to Rodeo Creek, in order to canvas sufficient transactions to provide a robust trend.

The condominium transactional trend in the greater project area follows national trends; annual run-up of approximately six percent between 2000 and 2004, a distinct up-tick to approximately twelve percent growth in value between 2004 and 2006, and on-going downward trend in value between 2006 and 2010, with some fluctuation, that has returned condominium values to their 2001 value of just under \$300 per square foot. Transactional data is almost entirely re-sales of units in properties built in the 1970s and early 1980s, making individual transactions highly comparable and minimizing distortions to the trend.

The on-going loss in demand for existing condominiums, as demonstrated by the transactional trend, indicates a long-term recovery for attached for-sale product. While the trend shows decreasing demand only for re-sale units, the failure of recent new condominium projects in the project area and Santa Cruz, as discussed, likewise indicates little short-term demand for condominiums. Anecdotally, area developers confirmed the significant downward value trend, describing recessionary losses of 30 percent that could not sustain new construction given high land prices that have not caught up with the decline of development value.

Developers also referred to the lack of “value premium” on 41st Avenue, meaning that the corridor does not currently provide sufficient locational amenities to create value for development, beyond the project itself. At best, prospects for new condominium projects are mid-term, provided interim place-making and other investments are made and the corridor has something to offer new residents besides good access to Highway 1 and driving proximity to the beach.

Mixed-Use Outlook

As described previously, both the condominium and retail components of Capitola Beach Villas, the first contemporary mixed-use project in Capitola, failed to absorb over more than two years. While

the recession and subsequent tightening of lending standards played a major role in the project's problems, its design and location are also likely factors. The project is far from the retail core of the corridor and its storefronts are over-hung by upper story uses and have limited visibility from the street. The residential uses, located in the interior of the parcel, are a series of three-story stand-alone buildings awkwardly arranged around a small courtyard, the parcel edge and surface parking. There is little relationship between uses in the project; walking from the interior residential uses to the storefronts requires crossing multiple parking lots or along the railroad tracks immediately north of the project.

Problems with the Capitola Beach Villas project illustrate the limits of the mixed-use concept: simply combining multiple uses on any given parcel does not guarantee synergy between uses. In particular, mixed-use projects will perform poorly if parking requirements, density limits, lack of sufficient market demand, poor location or overpriced land push mixed-use projects into formats and construction types that do not integrate uses or relate to surrounding uses. Furthermore, poorly designed mixed-use projects will contribute none of the advantages that mixed-use should confer: support to businesses from residents and workers, convenience of retail services to residents and workers, and street-level activity from these interactions that spills over to surrounding storefronts.

The outlook for mixed-use in the corridor depends foremost on improvements in demand for attached housing. Demand must be sufficiently strong to support development types that minimize surface parking on open lots. This is a mid- to long-term prospect. Secondly, mixed-use development will not succeed as small, individual projects, given the current lack of street edge, store front retail. Mixed-use should be encouraged as part of a larger concept (i.e. a two-sided, walkable shopping street) that will create a consistent street edge and shared activity between projects. This type of concept could also confer the "value premium" ultimately needed to create a condominium market in the corridor in the mid to long-term.

Strategic Consideration: Market Rate Residential Development Unlikely to Lead Change in the Corridor

As described, recent condominium project challenges and declining re-sale values rule out near-term condominium development in the corridor. Apartment demand is stronger, but may not be sufficiently strong to support new construction in a redevelopment context in the near-term. Community concerns with rental projects further discourage new apartment prospects.⁵ Unlike pre-recession urban redevelopment efforts, when the ongoing strong increase in housing values promoted residential in-fill as a primary agent of change, the corridor's regional retail draw points to in-fill retail as the first steps forward in the corridor.

In the mid-term, as retail in-fill begins to concentrate and focus retail activity more in the core of the corridor – allowing for a critical mass of pedestrian-accessible and mutually-supportive retailers – and housing markets have had longer to recover, single use attached residential projects may succeed at the edges of the corridor as buffers to single-family neighborhoods. Adjacency to single family neighborhoods could provide some market advantage to such projects. Existing edge commercial development may be less desirable and therefore less expensive to redevelop. Given the on-going state-wide fiscal crises and uncertain future of the redevelopment area and tax increment capture, the

⁵ Financial feasibility analysis is part of the development alternatives assessment and should help clarify whether new apartment development can be supported in the corridor, and at what construction type.

City should carefully consider its policies regarding conversion of commercial uses to housing, as housing is more likely to have a negative fiscal impact upon the city.⁶

Publicly-assisted affordable or mixed-income housing projects do hold potential to lead transformational change in the corridor. Dedicated public funding sources and tools exist for the creation of affordable housing, thus providing additional public sector development incentives that do not exist for market rate housing. Well-designed multi-family buildings – whether partly market rate or entirely below market rate – can initiate residential in-fill to the corridor. These pioneering projects can begin to change the corridor’s physical form and introduce residents and their greater potential for walking trips into existing activity patterns within the corridor. In addition to fulfilling city affordable housing goals, affordable or mixed income projects can help reduce greenhouse gas emissions and overcome the City’s jobs-skills imbalance by placing lower-skill workers within walking or short driving distance of existing service jobs and public transportation. An example of this occurred at San Jose’s Ohlone/Chynoweth transit station. The station was surrounded by single-family suburban homes, but the Santa Clara Valley Transportation Authority sold station land for development of a 3-4 story affordable housing project. A second developer constructed a similar affordable development nearby. With the attached housing market and environment established, a subsequent developer constructed a successful market rate apartment building.

Strategic Consideration: Adding “Value Premiums”

Despite the many large daily/weekly need and comparison goods retailers on the corridor, residential developers interviewed described the corridor as lacking in the types of amenities that drive additional value for housing. The corridor does provide housing value due to its excellent access to commercial services and jobs via Highway 1 as well as driving proximity to the beach. However, the corridor’s current appearance, lack of gathering space and heavy traffic gives it an unwelcoming reputation that overrides its potential advantages.

The housing market may begin to recognize 41st Avenue’s value advantages if the aforementioned preliminary short-term retail recommendations are implemented, including: re-location of the bus mall, improved way-finding through-out the corridor, retail in-fill and, especially, the creation of an outdoor eating and gathering space linked to externally oriented restaurants at the mall. Over time, the addition of shuttle access and walking/biking improvements could begin to improve circulation within the corridor and decrease the heavy impact of automobile traffic on 41st Avenue. Additional green improvements and requirements could also improve the corridor’s appearance. In particular, additions of green and landscaped spaces or parks among the surface parking lots that visually dominate the corridor are recommended (see Northgate Case Study). These types of improvements are needed for the corridor to become a desirable location for housing, particularly condominiums.

Strategic Considerations: Form and Proximity Are Key to Mixed-Use

To succeed, mixed-use development projects should be in proximity to other street edge-oriented retail, mixed-use or otherwise. The building intensity and proximity needed for mixed-use retail to thrive is difficult to achieve when development is surrounded by surface parking lots. Further, synergies cannot be assumed to exist between uses in a single project and uses in adjacent projects. Instead, locations and building design must be carefully selected to create a mutually-supportive relationship between the uses within the project and across adjacent developments. For example, residents within the project should have pleasant and easy pedestrian access to its own retail spaces; the spaces themselves must be designed to accommodate retailers that can serve residents and other

⁶ This is generally true of projects at similar densities; however, high-density residential development in strong residential markets sometimes drives greater revenues than single-story retail due to property taxes from the valuable property/units. Capitola does not currently have such a strong residential market.

customers within the area; and the project must be integrated into the street environment such that it has easy visibility and access to other pedestrians and automobile drivers.

OFFICE DEVELOPMENT CONDITIONS AND STRATEGIC CONSIDERATIONS

In keeping with the small amount of office-based employment in Capitola – approximately 1,400 jobs – the city has a limited inventory of office space.⁷ As described in the previous Baseline Economic Conditions Report for the General Plan Update, office buildings, including those found on 41st Avenue, are generally one to two-stories with spaces typically smaller than 5,000 square feet and surrounded on one or more sides by surface parking. Office-based businesses are concentrated in professional and technical services, real estate, health care and finance and insurance. They are primarily local and household-serving.

Market Conditions

Comprehensive occupancy and rental rates are not available for Capitola and the project area. Mid-County office occupancy, including Capitola, has improved since the recession, with a current vacancy rate of 5.7 percent compared to a countywide average of 12.3 percent.⁸ The Mid-County average asking rent is approximately \$2 per square foot (full service gross basis). Cassidy Turner/BT Commercial reports that no new office space was constructed in the Mid-County area between 2006 and 2010. Developers report that the local office market is stagnant, in keeping with national trends, and new office development should not be expected in the near-term.

Strategic Considerations: Location Sensitivity

Over the mid- to long-term, as existing vacancies in the Mid-County are filled by future job growth, there may be sufficient demand for a small increment of new office in the 41st Avenue corridor. Capitola rents and occupancy perform relatively well within the Mid-County area. Within Capitola, preferable locations feature good access to Highway 1 and other daily destinations. Capitola's base of household-serving office users value client accessibility, and therefore often prefer visibility, easy automobile access, and/or co-location with other conveniences. Within the corridor, locations north of the Mall will be favored.

⁷ Dun & Bradstreet, 2011; Strategic Economics, 2011.

⁸ Cassidy Turner/BT Commercial, 2010.

HOTEL DEVELOPMENT CONDITIONS AND STRATEGIC CONSIDERATIONS

The re-visioning plan area currently contains one hotel along 41st Avenue, the 57-room Best Western Capitola-by-the-Sea Inn. A Fairfield Inn & Suites by Marriott will open in July of this year with 84 rooms. These hotels serve as low- to upper-mid-range lodging on 41st Avenue, with easy access to Highway 1 and the Capitola Village beachfront area. Current/expected clientele primarily consist of visiting families, with a small share of business travelers drawn by proximity to businesses along 41st Avenue. The presence of these hotels provides an additional base of potential patrons of the retail businesses along 41st Avenue.

Market Conditions

Occupancy rates are the primary indicators of whether demand exists for additional hotel development. As described in the city-wide economic conditions analysis for the General Plan, regional occupancy in Santa Cruz County over the past five years peaked at 59.5 percent and has fallen to 50.3 percent in 2010. Although these overall occupancy rates are too low to indicate demand for additional lodging, the additions of a boutique hotel in Santa Cruz and mid-range hotels in Santa Cruz and Capitola (the forthcoming Fairfield Inn) lend evidence that the boutique and mid-range categories were outperforming the market overall. Interviewees stated that the Capitola hotel market has followed the trend of declining occupancy since 2007/2008, but performance is still very strong relative to the County overall. Revenue data shows a similar 2007/2008 peak and decline.

Strategic Consideration: Phasing

Sufficient demand to start new hotel projects will likely occur in the mid-term period, after at least five years from today. New hotel projects are largely on hold while the economy recovers, but stand poised for relatively rapid development when conditions improve. Development of the La Bahia Hotel in Santa Cruz is pending California Coastal Commission approval, while the Capitola Hotel in Capitola Village is on hold pending economic concerns and completion of the current General Plan Update.

The opening of the Fairfield Inn will likely absorb lodging demand in the mid-range market in Capitola for the next 3-5 years; afterward, sufficient demand may exist for development, but rapid development of other planned hotels may further lengthen the amount of time before another hotel could be added to 41st Avenue.

Strategic Consideration: Location

41st Avenue is generally a strong location for larger, mainstream, mid- to high-range hotels rather than luxury or boutique offerings that are better suited to Capitola Village or scenic inland locations. 41st Avenue is particularly suited for developing such hotels since – redevelopment challenges aside – the area contains relatively large commercial parcels.

Locations along 41st Avenue provide balance between access to Highway 1 and Capitola Village, but specific sites emphasize one or the other. In general, larger mainstream hotels seek freeway visibility and access, which is provided best by northern sites along 41st Avenue; however, Capitola Village provides a significant amenity and the principal reason many families visit the area, therefore favoring sites to the south. An ideally-sited hotel would provide easy access to the village and beach, possibly via a shuttle.

Finally, if a two-sided shopping street parallel or perpendicular to 41st Avenue is planned in the future, a hotel is well-suited to be a mutually-supportive component of these plans. Such a hotel

would attract additional visitors to the shopping district, while the shopping district would provide a compelling reason to *want* to stay along 41st Avenue.

ILLUSTRATIVE CASE STUDIES

The following case studies are intended to help stakeholders and the community at large better understand the potential for transformation of 41st Avenue and Capitola Mall. Case study subjects were carefully selected based on key similarities in character, the applicability of implementation tools used and the need to illustrate a range of approaches differing in the level of public and private investment and the degree of transformation. Selection criteria included level of traffic, width of arterial, presence of older in-door mall, size of mall and other regional retail, market position and implementation approach. Dozens of possible subjects were considered; the following projects were selected and evaluated:

- Brea Boulevard & Birch Street (Brea, California)
- Northgate Mall and Northgate neighborhood (Seattle, Washington)
- The Shops at Tanforan (San Bruno, California)

Brea Boulevard & Birch Street (Brea, California):

Access/Setting:	Higher income suburban city downtown, immediate arterial and adjacent highway access
Square Footage:	Added 368,000 SF of retail, 10,000 SF of office and 200 housing units over 15 years
Nature of Change:	From single-story single use to four-story mixed-use development, including creation of new pedestrian-scaled shopping street, & re-design of a major arterial
Key Implementation Tools:	Specific Plan, Tax Increment Finance/Redevelopment Assistance, Developer Agreement

Between 1985 and 2000, the City of Brea transformed its languishing downtown by re-orienting its center from a six-lane, high traffic arterial, Brea Boulevard, to a perpendicular side street, Birch Street. The single-story, auto-oriented land uses and minimal pedestrian realm on both streets were re-created to support parking once and walking amongst shopping, dining, entertainment, second-story office and a variety of housing choices. On-street parallel parking, curb bulb-outs that shorten crosswalks, and mid-street crosswalks calm the traffic on Birch Street. Wide sidewalks accommodate streetside dining, and buildings are built to the lot line and oriented toward the street.

In the mid-1980s, the Brea Redevelopment Agency began planning for a new mixed-use downtown by assembling approximately 90 acres of land along Brea Boulevard and developing and adopting a Specific Plan for the area. The City then re-platted the acreage, assisted with permitting and contributed new infrastructure as the plan was built out. The first component of the plan, developed in the early 1990s, was an approximately 200,000 square foot local-serving shopping center designed in a traditional suburban format around surface parking and anchored by a Ralph's, Petco and Starbucks. This shopping center began to build new market momentum for retail in the area and forms the back of what later became Birch Street, with buildings immediately abutting. In the mid-to late- 1990s, three other portions of the plan were completed: a 12 screen Edwards Theater, a City-owned 900 space parking garage and a 30 unit, small lot housing development.

The mixed uses on Birch Street and largely retail and entertainment uses on Brea Boulevard were the final components completing the Brea District. The City of Brea entered into a development agreement with the CIM Group to build six different highly articulated, pedestrian-scale, mixed-use

buildings on West Birch Street and five larger floor plate retail buildings on Brea Blvd.⁹ CIM Group engaged four different architecture firms to provide distinct building designs and add detail and interest to the district; the buildings on Birch Street vary from one to three stories and each has a unique mix of retail, restaurant, and office or residential. On Brea Boulevard, there is one three-story mixed retail and residential building and four single-story retail buildings including a Tower Records and an Old Navy. For its part, the City attracted an additional 10 screen Edwards Theater to Birch Street, built and maintains another 850 space parking garage, and assisted the CIM Group with approvals and environmental assessment. The two theaters were deliberately separated to reduce the size of the buildings and are surrounded by smaller buildings to vary the streetscape.

In total, on Brea Boulevard and Birch Street, there are 64 lofts, 10,028 square feet of office, 59,775 square feet of retail and restaurant in mixed-use buildings, 56,019 square feet of single use in-line retail and restaurant, and 52,234 square feet of large format retail. The local-serving shopping center behind Birch Street includes another 200,000 square feet of retail and two other housing projects, including 40 three-story townhomes and 96 garden-style single-family homes, are just off Birch Street and complete the project. The City has also expanded the downtown plan to include surrounding areas, adding a total of 250 new housing units within a mile of the downtown core.

The retail tenants are a mixture of national and regional chains, with a few local independents. Mr. John Given, senior vice-president for development at the CIM Group, told Strategic Economics that leasing the ground floor retail in the mixed-use buildings was the most difficult part of the project. This is because chain site and location requirements, such as a predetermined number of parking spaces in front of the retail space, are adhered to more strictly in the Inland Empire than in places like Pasadena and Santa Monica, where CIM Group had done mixed-use projects previously.

Lessons for 41st Avenue & Capitola Mall

- Leasing of retail space in mixed-use buildings outside of large cities is challenging. Ground floor space in vertical mixed-use is among the most difficult type of retail space to lease, particularly in pioneering markets. National chains, which predominate on 41st Avenue, employ site and location requirements that fit into formulaic, suburban development patterns, rather than mixed-use urban environments. Finding many interested national chain retailers willing to fit into this type of development pattern will be challenging. Nonetheless, the Birch Street case study shows that with appropriate phasing, adequate parking, good design and city vision, such projects can move forward.
- Finding appropriate, independent retailers requires pro-active outreach. Due to the small pool of national credit tenants interested in mixed-use locations, some amount of independent retail will likely be necessary to support larger plans for mixed-use development. Most independent retailers capable of supporting new construction are not new businesses, but already have one or two locations in the general area. While it is likely to be challenging for new businesses to afford space in new mixed-use buildings, established retailers located elsewhere in Santa Cruz County could open a second or third store in such space on the corridor. The City of Capitola could make recruitment of such businesses an economic development strategy.

⁹Originally, the east side of Brea Blvd. was to have more restaurants and entertainment uses. The agreement was amended, however, when CIM had difficulty attracting such tenants due to the separation of these parcels from the Birch Street walkable shopping core by six-lane Brea Blvd.

- Flexibility in permitted ground-floor uses may be needed for vertical mixed-use projects. The 60,000 square feet of ground floor retail in vertical mixed-use buildings included in Birch Street is limited relative to the whole area, and the length of time spent recruiting and securing this retail was significant. Flexible ground-floor uses – such as small office or residential in addition to retail – may be necessary due to the limited pool of appropriate retail tenants and the extra risk and special experience required of developers to do this type of vertical mixed-use. Realistically, few developers will be capable and willing to undertake the retail tenancing strategy required for mixed-use projects, and those who do will probably require some City support. If the city wishes to attract a significant amount of small scale retail, it will need to dedicate resources to working with developers on tenant recruitment.
- Daytime population is important for the success of mixed-use retail. Brea is an employment center, and therefore has a very high daytime population – approximately three times that of its resident population. This was a significant factor in establishing that there was sufficient market support for a project like Birch Street. Other than summer, Capitola has a very low daytime population, as it is primarily a bedroom community. This is especially important in considering support for restaurants, which were key to the Birch Street concept and predominate the ground floor tenant mix in the vertical mixed-use buildings. Since Capitola is unlikely to ever become a regional employment center beyond retail and household-serving services, the increment of mixed-use retail may be relatively small, with growth prospects provided by increasing the number of visitors in off-peak seasons.
- Public subsidy is often necessary for pioneering redevelopment. Public subsidy is often necessary for pioneering whole-scale redevelopment. The Birch Street project received assistance from the City of Brea Redevelopment Agency with the assembly of land, development approvals, environmental evaluation, infrastructure, including streetscape improvements and parking. Capitola has limited capacity for such interventions, and will therefore need to be very targeted in its use of public assistance.

Brea Boulevard and Birch Street Case Study Images



Aerial image showing new developments. *Source: Google Earth, 2011.*



Birds-eye view of Brea Boulevard (running left to right) and perpendicular Birch Street. Notice the buildings constructed up to the sidewalk, the all-direction “scramble” pedestrian crosswalk, and that pedestrian-oriented is concentrated along both sides of Birch Street, rather than busy Brea Boulevard. *Source: Microsoft Bing Maps, 2011.*



Birch Street street views. *U.S. Environmental Protection Agency, via the Local Government Commission.*

Brea Boulevard and Birch Street Case Study Sources

Strategic Economics et al. *Revitalizing Older Suburbs: Strategies and Case Studies from Southern California*. Local Government Commission. July 2002.
 John Given, CIM Group, personal interview.
 City of Brea Redevelopment Agency.

Northgate Mall, Northgate Neighborhood (Seattle, Washington)

Access/Setting:	Urban residential neighborhood, adjacent to a freeway, commuter bus station, and planned light rail station.
Nature of Change:	Addition of outdoor “lifestyle center” component, with significant public infrastructure improvements and facilities additions in surrounding area; significant additions of adjacent mixed-use and higher-density residences.
Gross Leasable Square Feet before Renovation:	959,000
Gross Leasable Square Feet after Renovation:	1,059,000
Key Implementation Tools:	Targeted public sector planning, visioning, and implementation efforts (no tax-increment financing tools): planned introduction of transit, streetscape improvements, community facilities additions,

public-private development negotiations; private-sector reinvestment in the mall property.

Project Description

Northgate Mall opened in 1950 as an internally-oriented long row of stores facing an open-air pedestrian mall, with anchor stores at either end. Over time the mall expanded and followed trends, eventually becoming a successful traditional enclosed shopping mall within the auto-oriented commercial heart of an established residential district.

Meanwhile, in the late-1990s the City of Seattle targeted the Northgate District surrounding the mall for investment and revitalization to help meet state density standards, driven by the area's existing commercial assets, popular commuter bus service, and planned addition of a light rail station along a new (yet un-built) rail line. In the fall of 2000, the City of Seattle, King County, and Sound Transit embarked on a public planning process to gather public feedback to gauge perceived needs, determine siting of new community facilities, and develop a comprehensive plan and design standards to guide future public and private investments.

Due to these planning efforts, the Northgate district surrounding the mall was transformed during the years after 2000, despite the lack of public sector tax increment financing or redevelopment power in the State of Washington. Significant streetscape improvements were implemented, and new facilities included a library, community center, park, and community garden. Several mixed-use or higher-density housing projects were also constructed.

“Thornton Place” stands out as a study in indirect public sector assistance to develop a project that meets community goals. The high-density mixed-use development consists of 109 condominiums and 277 apartments constructed on a site adjacent to Northgate Mall. The development was made possible by a complicated negotiation process in 2005. Originally an overflow parking lot for the mall, one-quarter of the site was sold to King County for a transit park-and-ride; one-third of the remainder was sold to the City of Seattle to daylight a creek (and meet runoff filtration needs) and create a park, while the other two-thirds were conveyed to residential developer Lorig Associates via a land swap with the mall owner. On this land Lorig successfully constructed a project which exemplified the area's new design guidelines, thanks in part to the negotiations of two public agencies and two private developers/landowners.

Noting these improvements, Northgate Mall's owners embarked on a major renovation and expansion in 2005. This effort added 100,000 square feet of new leasable space – including several restaurants – facing new outdoor paths and plazas. A 720-vehicle parking garage was also built, and other visual changes were made. These renovations met the area's new design guidelines, ensuring that Northgate Mall blends well with its neighbors and is now a more pedestrian-friendly place.

Lessons for 41st Avenue / Capitola Mall

- The public sector can deploy a wide range of tools to encourage and guide development without the use of redevelopment or tax increment financing incentives.

The State of Washington does not provide the redevelopment structure found in California, nor allows the use of tax increment financing. Capitola may face a similar situation if the future state budget repeals redevelopment. However, Seattle demonstrates the alternative public sector powers to invest in an area and guide development, including planning efforts, public infrastructure improvements, addition of public facilities, development negotiation assistance, structured land acquisition for public purposes, and introduction of transit.

- Re-investment by a mall owner is made more appealing by complementary investments and focus from the public sector.

There are no indications that Northgate Mall was failing prior to renovations in 2005. However, public sector agencies created significant momentum for private reinvestment by focusing investments and attention on the area and encouraging new development. Additional working capital was provided to the mall owner by the City and County's acquisition of the mall's overflow parking lot to provide a park and park-and-ride transit facility.

- *Spurring major change requires a shared vision and cooperation among public sector participants and community and private-sector buy-in.*

The public planning process in the Northgate area ensured that the public sector entities had a clear mandate for siting facilities and negotiating future transactions. This success further emphasizes the need for Capitola to involve all stakeholders in the preparation of any plans for 41st Avenue.

Northgate Mall Case Study Images



Aerial view of Northgate Mall and surrounding area, circa 2011. *Source: Google Earth.*



Seattle Post-Intelligencer graphic showing new development at and surrounding the mall, published in 2007.



Interior view of Northgate Mall. Source: Marcusaxavier77/Wikimedia Commons, 2007.



Thornton Place



Rendering and site plan of Thornton Place. Source: Lorig / Thornton Place.

Northgate Mall Case Study Sources

Harris, Craig. "New Look at Northgate Mall: Celebration Party this Weekend for Open-Air Addition." *Seattle Post-Intelligencer*.
 Lorig, Bruce. Personal Interview. February 2011.
 City of Seattle Department of Planning and Development.

The Shops at Tanforan (San Bruno, California)

Access/Setting:	Automobile arterial corridor in a suburban community, with adjacent freeway access and adjacent heavy rail regional transit.
Nature of Change:	Moderate intervention; minimal alteration of existing footprint, but major renovation of in-line shop spaces, addition of parking structure and movie theater.
Gross Leasable Square Feet before Renovation:	~1.07 million total; ~296,000 in interior
Gross Leasable Square Feet after Renovation:	~1.1 million total; 326,000 in interior
Key Implementation Tools:	Private financing

Project Description

The mall now known as The Shops at Tanforan in San Bruno was originally constructed in 1971. The facility was showing its age by the time redeveloper Wattson Breevast LLC acquired it in 1999. Anchor tenants Sears, JC Penney, and Target were performing well within the suburban setting of San Bruno, but the mall itself was in a poor state of repair and forty percent vacant.

Wattson Breevast undertook renovation of the mall, but faced multiple challenges. Bay Area Rapid Transit (BART) was finally constructing a long-anticipated train station on the mall site, requiring acquisition of a portion of the mall property. Additionally, each anchor tenant owned the parcel containing their building and portions of the parking lot; any renovation required their approval and could not disturb those properties.

BART initiated condemnation and eminent domain proceedings in 1999 to acquire its needed land, resulting in two years of litigation between BART and the four mall property owners. Ultimately the landowners were awarded \$34 million in 2001, which was dedicated to construction of a three-level parking structure. The BART station opened in 2003.

Wattson Breevast hired architecture firm Altoon + Porter to design the renovation of the mall's in-line retail spaces, followed by a one-year design approval process by the anchor tenants. Upon approval, Wattson Breevast was able to easily remove most of the in-line tenants in 2003 since the prior landlord had kept them on month-to-month leases in anticipation of redevelopment.

The renovation went to great lengths to avoid disturbing the anchor tenants while working within the available space. The in-line store spaces were stripped down to little but exterior wall concrete, including removal of the mall's roof. Unusually small work trucks were used during demolition so the vehicles could drive directly in and out of the mall without creating a major noise or visual disturbance. Ultimately Wattson Breevast did not need to compensate anchor tenants for lost business since their sales *increased* during construction.

The mall reopened in October 2005 upon completion of the \$140 million renovation. Reconfiguration of the mall's interior resulted in 110 storefronts compared to 70 previously, though leasable space only increased by 10 percent. A movie theater opened in 2008, built atop the new parking garage; a police substation was also constructed by the garage. The mall quickly had a positive effect on San Bruno's city finances, with sales tax revenues from the interior stores doubling compared to previous performance. With this success accomplished, the City of San Bruno has recently undertaken a General Plan update envisioning an even more dramatic transformation of the un-refurbished portions of the mall.

Lessons for 41st Avenue / Capitola Mall

- Redeveloping properties can require long-term focus.

Six years passed between Wattson Breevast's acquisition of The Shops at Tanforan and the opening of the new interior stores. Another two years passed before the movie theater was completed. This process was drawn out by the negotiations with BART, approvals of renovation plans by each anchor store, and unanticipated delays in demolition due to state recycling requirements. Delays would have been even worse (if not insurmountable) if more tenants held long-term leases. Fortunately Wattson Breevast initiated the redevelopment process recognizing the likelihood of such delays and budgeting appropriately.

- Potential fiscal benefits to cities can justify participation and assistance in the redevelopment process.

The redevelopment of Shops at Tanforan reduced vacancy rates from 40 percent to less than 10 percent while adding stores, improving the tenant mix, and slightly increasing the mall's leasable area. The improved sales dramatically increased the city's sales tax revenue from the interior stores at a time when the City was suffering from the unexpected loss of a major automobile dealership in

2005. Although The Shops at Tanforan was largely a private project, the public sector can clearly benefit from participation in improvements to the retail base.

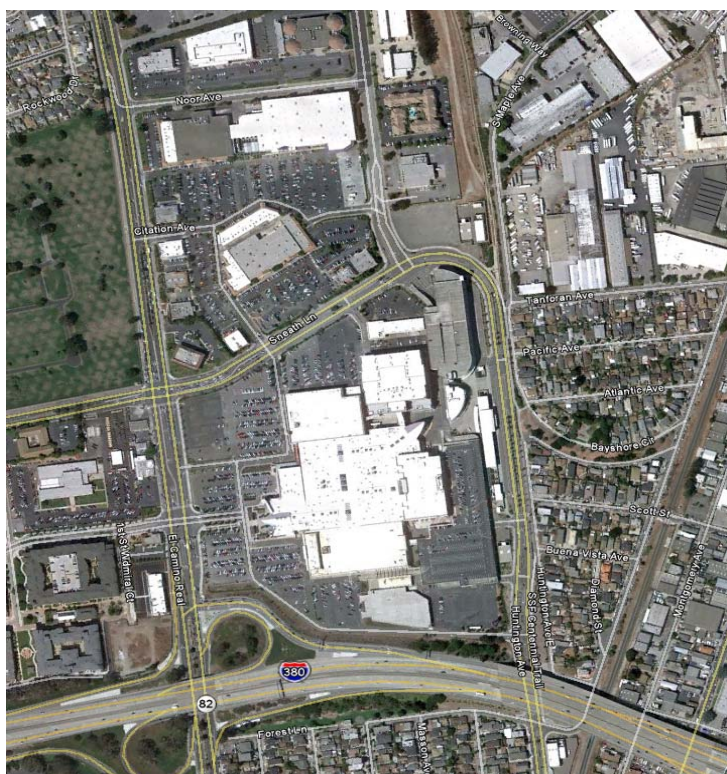
- Complicated ownership agreements and structures at traditional malls can limit redevelopment possibilities and require a strategy to overcome additional constraints.

Similar to Capitola Mall, the anchors at The Shops at Tanforan owned their own sites and held contractual control over the property in general. Wattson Breevast ultimately chose a redevelopment plan that required minimal approval from and disruption to the other property owners, since a more sweeping overhaul of the entire property would require years of negotiations and possible compensation for disruption to those store's sales. Notably, the anchor tenants required a year to approve even the more modest plans, and construction was made more difficult by the need to avoid disrupting their sales.

- Transit access can benefit a mall, but integrating it into the property can be a contentious process.

Redevelopment plans for The Shops at Tanforan were delayed by the three years of contentious litigation over BART's eminent domain action. Though this transit surely brings additional shoppers to the mall, this case study illustrates the difficulties in balancing transit needs with a mall facility, similar to discussions surrounding the transit center at Capitola Mall.

The Shops at Tanforan Case Study Images



Aerial view of the Shops at Tanforan. El Camino Real runs along the west side of the mall, and Interstate 380 to the south. The BART station and tracks lie to the east/northeast of the mall. *Source: Google Maps.*



Interior view of the renovated Shops at Tanforan. *Source: BrokenSphere / Wikimedia Commons.*



Exterior view of the renovated Shops at Tanforan. *Source: BrokenSphere / Wikimedia Commons.*

Shops at Tanforan Case Study Sources

Koch, David. "Case Study: Tanforan Turnaround." *Retail Traffic*. 1 September 2005.
Murtagh, Heather. "San Bruno Going to the Movies." *The Daily Journal*. 8 April 2008.
Staff Report. "The Shops at Tanforan Meet Hopes." *The Examiner*. 25 May 2006.

DEVELOPMENT COSTS

In a future task, Strategic Economics will perform financial analysis of design alternatives for the 41st Avenue/Capitola Mall Re-Visioning Plan. This section describes preliminary development and land cost information gathered during interviews with local developers. This data will be used to inform the financial analysis, along with additional data gathered from industry standard sources such as *RS Means*.

Land Costs

- \$50 per square foot for a clear site with good such as access and visibility.
- Costs are higher for sites near the beach or Capitola Mall.
- \$10 per square foot for poor sites.
- The range is very wide depending on the land's development potential.

Construction Costs

- Approximate average of \$150 per square foot for “hard” construction costs for a non-podium wood-frame structure.
- Soft costs are approximately 30 percent of hard costs.
- Add \$40 per square foot for tenant improvements.
- \$225 to \$250 per square foot “all-in” without significant parking structures or podiums.
- \$180 to \$190 per square foot for hard costs in projects with podium parking structures.

SUMMARY OF KEY ECONOMIC ISSUES AND OPPORTUNITIES

The previous sections have discussed current market conditions and longer term economic trend indicators for retail, attached housing and mixed use development, office and hotel uses; each discussion concludes with strategic land use recommendations for reversing negative trends and making the corridor more vital over time. This section summarizes these key findings and recommendations, and describes critical next steps toward implementing any new community vision for the corridor. A strong organizational and regulatory structure is necessary if a new vision is to be acted on and realized.

Key Findings Regarding Retail

- **Long-term Downward Retail Revenue Trends**

Between 2000 and 2009, the 41st Avenue corridor experienced a 41.8 percent decline in retail sales revenue. Although the decline accelerated with the beginning of the recession at the end of 2007, there was steady, on-going loss in comparison, automotive and convenience retails sales from the beginning of the decade.

- **Recent Influx of Daily/Weekly Needs Retailers**

With the recent expansion of daily and weekly needs retailers (Trader Joe's, BevMo, Whole Foods and Target), 41st Avenue is developing a strong concentration of more local-serving stores. This expands commercial services for Capitola's residents, but also increases trips to and within the corridor given the greater frequency of shopping trips for groceries and other household goods. In the case of a mass merchandiser, such as Target, replacing a more specialty-oriented department store anchor, like Gottschalks, this change in tenancy also decreases the corridor's regional appeal.

- **Recessionary Declines in Lease Rates; Stable Occupancy**

Lease rates within the corridor have declined 10 to 25 percent since the beginning of the recession. This is a relatively smaller decline than retail rents county-wide, however, current approximate rates per square foot per month of \$2.25 to \$2.75 are insufficient to support new construction. Occupancy within the corridor has remained relatively healthy due to landlord concessions and adjustments in tenanting strategy.

- **Need for Investment & Renewal**

Recent investment in corridor retail development has taken place exclusively within the footprint of existing projects (i.e. Whole Foods, Target, Kohl's). While there are real and perceived constraints that encourage this type of re-use, on-going negative revenue trends will not be reversed by such conservative investments alone. As the corridor is largely built out, with the notable exception of surface parking, fundamental changes in the format of existing retail space are necessary if the corridor is to retain its regional orientation in the face of increasing external competition.

Specific recommendations include:

- improving visibility and intensifying existing commercial uses through re-location of the Capitola Mall Transit Center, reconfiguration of the Mall's entrance and externalization of the food court, and development of existing surface parking lots over time;
- expanding and improving eating and entertainment options to diversify the corridor's offerings and lengthen shoppers' stays; and
- better connecting the City's two major destinations, Capitola Village & 41st Avenue/Capitola, so that visitors and residents may easily enjoy both attractions.

Key Findings Regarding Attached Housing & Mixed Use

- **Weak Short-term Demand for Attached Housing in the Corridor; Market Rate Housing is Unlikely to Lead Change**

Recent condominium project challenges and declining re-sale values rule out near-term condominium development in the corridor. Apartment demand is stronger, but may not be sufficiently strong to support new construction in a redevelopment context in the near-term. In addition to the broader residential market challenges, the corridor does not currently provide sufficient locational amenities to create value for development, beyond the project itself. Together, these factors make it unlikely that market-rate housing will initiate change within the corridor.

Well-designed, publicly-assisted affordable or mixed-income multi-family projects could assist in pioneering residential uses in the corridor, as they are less susceptible to market fluctuations. Such projects could begin to change the corridor's physical form and introduce residential activity, laying the groundwork for later market-rate projects.

- **Need for “Value Premiums” to Improve Corridor’s Attractiveness to Residential Investment**

Residential developers describe the corridor as lacking in the types of amenities that drive additional value for housing. The corridor's excellent access to commercial services, jobs via Highway 1 and proximity to the beach are masked by its current appearance, lack of gathering space and heavy traffic. The same short-term improvements needed to improve the corridor's retail position can help make it more welcoming to residential development in the mid-term: re-location of the bus mall, improved way-finding through-out the corridor, green improvements to visually relieve surface parking lots, and, especially, the creation of an outdoor eating and gathering space.

- **Mixed Use Development Requires Intensification & Re-formatting of Surrounding Uses to Succeed**

The outlook for mixed-use in the corridor depends foremost on improvements in demand for attached housing. Demand must be sufficiently strong to support development types that minimize surface parking on open lots. This is a mid- to long-term prospect. Secondarily, mixed-use development will not succeed as small, individual projects, given the current lack of street edge, store front retail. Mixed-use should be encouraged as part of a larger concept (i.e. a two-sided, walkable shopping street) that will create a consistent street edge and shared activity between projects. Locations and building design must be carefully selected to create a mutually-supportive relationship between the uses within the project and across adjacent developments.

Key Findings Regarding Office

- **Modest Demand Over Time for Smaller Office Spaces**

Over the mid- to long-term, there may be sufficient demand for a small increment of new office in the 41st Avenue corridor. Capitola's base of household-serving office users value client accessibility, and therefore often prefer visibility, easy automobile access, and/or co-location with other conveniences, such as that available on 41st Avenue. Within the corridor, locations north of the Mall are likely to be favored.

Key Findings Regarding Hotel

- **Moderate Demand in the Mid-term, Depending on Additional Hotel Development in Other Capitola Locations**

Following broader trends, the Capitola hotel market has experienced declining occupancy since 2007/2008, but performance is still strong relative to the County overall. 41st Avenue is generally a good location for larger, mainstream, mid- to high-range hotels rather than luxury or boutique offerings that are better suited to Capitola Village. The prospective opening of the Fairfield Inn and Suites by Marriott this summer is likely to satisfy short-term demand for additional hotel in the corridor; however, additional new hotel projects should be possible more than five years out depending on hotel activity in other Capitola locations. Hotel uses are highly desirable for diversifying uses in the corridor, better linking it with the Village, and supporting retail.

Implementation & Next Steps

The previous recommendations have addressed strategic changes in land uses, intensity of development and phasing necessary to improve the corridor's vitality over time. The following two recommendations are critical next steps for developing the local capacity and regulatory structure necessary to implement significant change in the corridor.

Build Property Owner Organization & Opportunity for Common Investment

The corridor currently has several large and numerous smaller commercial property owners. Alongside the City, these stakeholders have the greatest investment in the corridor and control over its direction. Especially given the uncertain future of redevelopment authority and tax-increment finance in California, implementation of a new vision for the corridor requires strong participation by property owners. This involves buy-in to the Plan itself, on-going communication and the potential for common investment in improvements and programming determined to be mutually beneficial to participating property owners.

The most commonly used tools for revitalization of commercial districts in California are business improvement districts (BIDs) or property-based business improvement districts (PBIDs). These districts provide a legal mechanism for assessment of either businesses or properties to pay for specific types of improvements, including parking facilities, parks, streets, street furniture, lighting and decoration, and services, including promotional activities and events, public safety programs, economic development and enhanced street cleaning and landscaping services. Among the most common and visible BID programs across the state are district identity branding efforts such as banners, special "clean & green" programs above the level provided by city services, and common marketing efforts. Passage of property-based BIDs requires endorsement by owners of more than 50 percent of property value, as well as an additional mail ballot process. Assessments are made based on the proportional value of improvements or services received by a property. PBIDs are governed by boards of property and business owners and have a maximum life of five years, without re-petitioning.

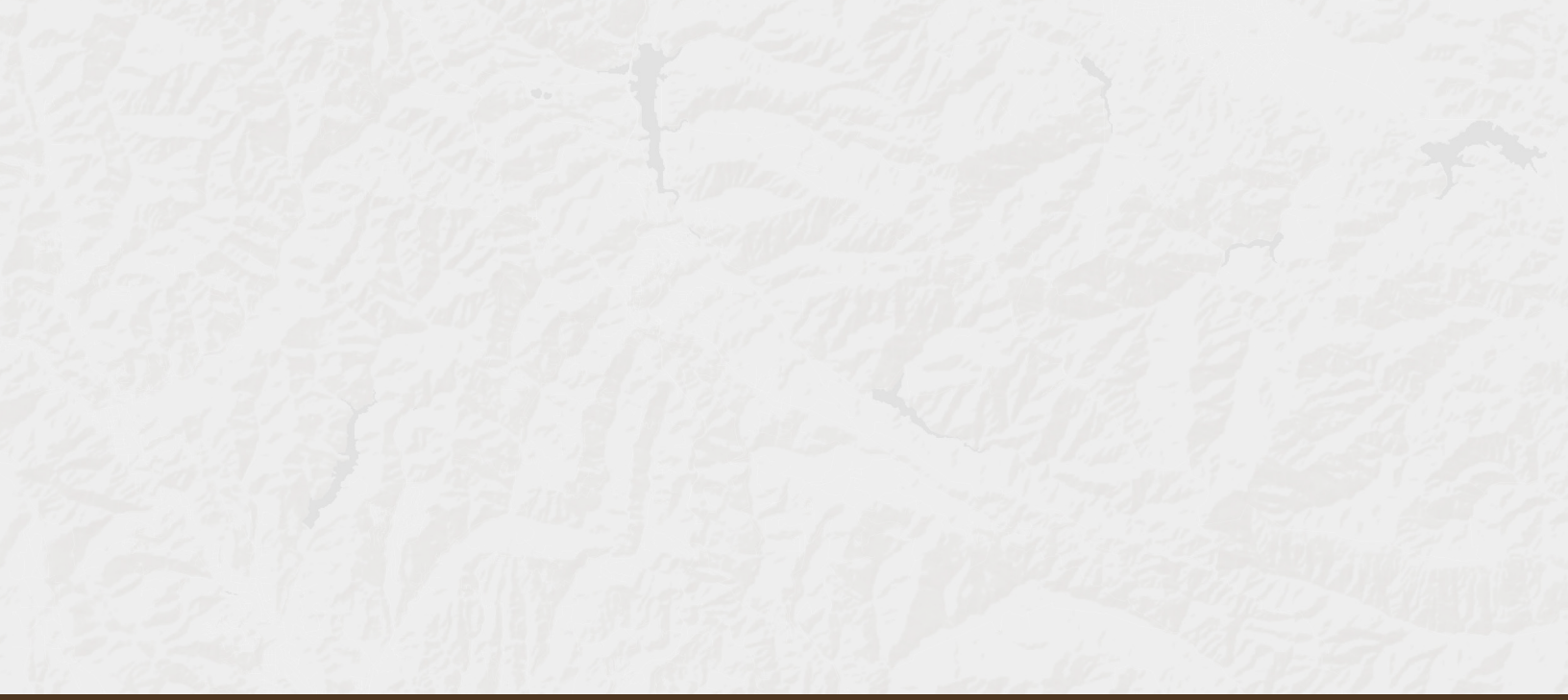
The creation of a PBID would allow business and property owners to participate in common efforts that have a greater impact on the perception and experience of shopping on 41st Ave than individual projects. This type of organizing and investment structure is needed for programming and common improvements that support land use and development changes on individual properties.

Need for Strong, but Flexible, Regulatory Structure & Implementation Tools

Depending on the outcome of the visioning process and the depth of change desired by the community and property owners, it is likely that a strong regulatory structure is needed to guide investment in the corridor. From an economic perspective, existing revenue trends are unlikely to

improve without change in the physical form of development along the corridor. Given the uncertainty of current real estate market conditions and the poor outcome of recent mixed use projects on the corridor, regulations that focus foremost on form and secondarily on use, i.e. form-based zoning code, are desirable.

This type of code can channel investment into new formats that improve legibility and access and provide needed amenities, like outdoor social space, while allowing more flexibility regarding use. It is also likely that a strong planning & regulatory tool, such as a Specific Plan, which includes implementation and financing strategy, as well as plan-level environmental approvals, will be needed to bring major new investment to the corridor. The adoption of a Specific Plan would provide prospective developers and investors with greater assurance regarding entitlements for proposals in keeping with the Plan. Given Capitola's reputation regarding opposition to proposed projects, such assurance, in keeping with an articulated community vision, is needed.



1625 SHATTUCK AVENUE, SUITE 300 BERKELEY, CALIFORNIA 94709 TEL: 510 848 3815 FAX: 510 848 4315

