imagine Capitola



BASELINE ANALYSIS REPORT

41st Avenue/Capitola Mall Re-Visioning Plan

JUNE, 2011

TABLE OF CONTENTS

List of Figures

List of Tables

EXECUTIVE SUMMARY

The City of Capitola is preparing the 41st Avenue/Capitola Re-Visioning Plan as part of the comprehensive General Plan Update. The purpose of the Re-Visioning Plan is to establish a renewed vision for the 41st Avenue corridor to ensure the long-term success of this important area. This Baseline Analysis Report describes existing conditions and key issues within the Plan area to allow for an informed discussion of land use, urban design, and transportation alternatives for the corridor.

The 41st Avenue corridor is the primary regional retail destination in Santa Cruz County. The Plan area contains an estimated 1.2 million square feet of commercial space within a 150-acre area over 1 mile long. The corridor is home to Capitola Mall, the county's only enclosed shopping mall, and a number of shopping centers and stand-alone commercial establishments.

Over the past decade, retail sales within the Plan area have declined by 42 percent. Declines within the Plan area began prior to the 2007-2009 recession, and were more severe during the recession than elsewhere in the county or state. This data suggests that a renewed vision for the Plan area is needed to ensure that the corridor remains successful in the future.

A renewed vision for the Plan area will be based on an understanding of existing conditions within the corridor:

- **Land Use**. Approximately 92 percent of the Plan area is occupied by commercial land uses distributed along the entire length of the corridor. The Plan area limited non-commercial land uses, almost no vacant land. The dominant land uses are the Capitola Mall and other shopping centers such as Kings Plaza. The Plan area has a fragmented pattern of ownership, with most shopping centers under control of multiple owners.
- **Urban Design**. The development pattern within the corridor is oriented around the needs of the automobile. Wide arterial streets serve vehicles arriving from Highway 1 and surrounding areas. Large blocks accommodate shopping centers and other commercial establishments, resulting in a limited number of intersections within the Plan area. Buildings are irregularly placed on parcels, often setback a considerable distance from

the front property line. Portions of properties not occupied by buildings are almost entirely occupied by surface parking lots.

- **Circulation**. As a regional shopping area, the corridor experiences high traffic volumes and congestion, particularly north of Capitola Road. The corridor is served by nine bus transit routes, all of which use the Transit Center in the Capitola Mall as a mid-county transit hub. Most streets have sidewalks and bike lanes, but the high traffic volumes on 41st Avenue and the automobile-oriented development pattern create an environment that is not particularly friendly for bicyclists and pedestrians.
- **Economics**. Declining retail sales have been matched with a shift from region-serving to more local-serving retailers. Due to constraints on new development, the corridor has experience limited new investment to update the corridor into a more modern retail destination. The corridor currently lacks many of the amenities necessary to attract new residential and mixed use development. Current economic conditions mean that major investment in the corridor is unlikely to occur within the next five years.

The Re-Visioning Plan will identify a vision for the corridor that will be implemented over the short-, medium-, and long-term. The Plan will establish a roadmap to address key land use, design, and transportation issues within the corridor, and will lay the foundation for a more sustainable development pattern in 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 is preparing the Capitola Mall/41st Avenue Re-Visioning Plan as part of the City's comprehensive General Plan Update. This Re-Visioning Plan will establish a long-term vision for land use, urban design, and transportation in this important area. This Re-Visioning Plan will help to 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 will be an inclusive process with numerous opportunities for public participation. In February 2011, the City hosted a work session of 41st Avenue stakeholders attended by property owners, business owners, developers, commercial brokers, and representatives from the Capitola Mall. Participants provided valuable information on key issues and opportunities within the corridor. Notes from this work session are attached to this report as Appendix A.

Next steps for the Re-Visioning Plan process are as follows:

- The General Plan Advisory Committee (GPAC) will meet 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.

- City staff and consultants will prepare an Alternatives Workbook that will describe and analyze multiple land use, urban design, and transportation alternatives for the Plan area.
- The City will host a community workshop on Wednesday, July 20 to receive public input on the alternatives.
- City staff and consultants will release a Draft Re-Visioning Plan in August 2011 for public review and input.
- City staff and consultants will incorporate public input into a Final Re-Visioning Plan in September 2011.

Details on future meetings and products can be found on the General Plan Update website, www.plancapitola.com.

B. Re-Visioning Plan Location

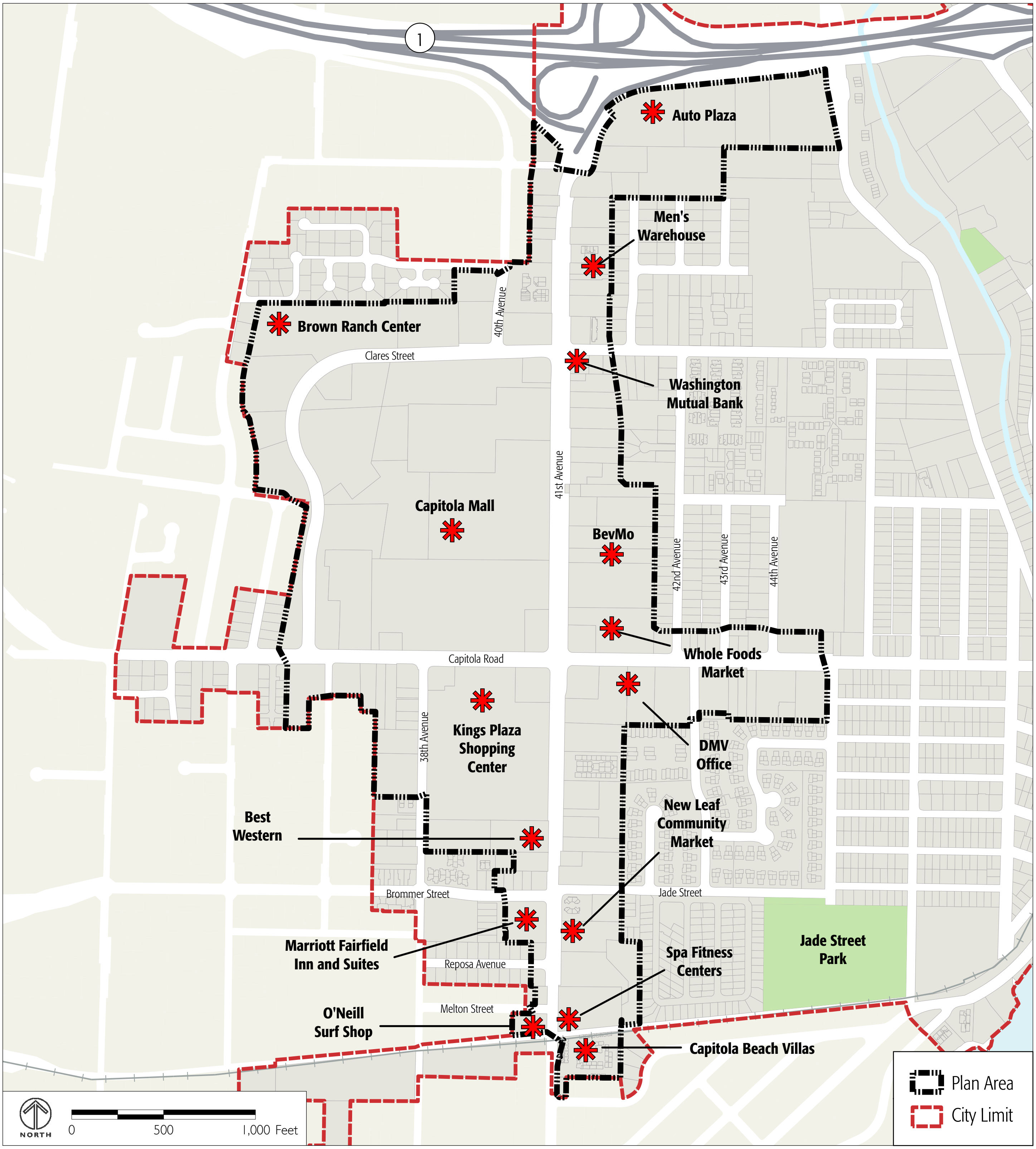
As shown in Figure 1, the 41st Avenue/Capitola Mall Re-Visioning Plan area is located on the eastern side of Capitola along 41st Avenue from Highway 1 to the southern City limit. The Plan area is approximately 150 acres in size. To the east of the Plan area are the Jewel Box and West Capitola residential 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 1

RE-VISIONING PLAN AREA CONTEXT



Source: City of Capitola, 2011.

FIGURE 2

RE-VISIONING PLAN AREA BOUNDARY

C. Report Overview

This report provides important existing conditions information about the Plan area and discusses key issues, opportunities, and constraints within the 41st Avenue corridor. This report will help support an informed discussion of alternatives for the corridor and focus this discussion on the most critical issues. With this in mind, this report is divided into the following chapters in addition to this Introduction:

- **Chapter 2: Land Use** discusses existing land uses within the Plan area, recent development projects, ownership patterns, and City land use regulations.
- **Chapter 3: Urban Design** discusses the design qualities of the Plan area, including block structure, parcel size and intersection density, building form and placement, and streetscape design.
- **Chapter 4: Transportation** discusses the transportation network within the Plan area, including the roadway system, transit service, and bicycle and pedestrian facilities.
- **Chapter 5: Economics** summarizes key findings from the Baseline Economic Analysis Memorandum for the Re-Visioning Plan, prepared by Strategic Economics. This memorandum is incorporated into this report as Appendix B.

II. LAND USE

A. *Existing Land Use*

1. Land Use Within the Plan Area

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. Existing land use refers to the type of business or activity that currently occupies a particular property. Land use regulations within the Plan area, as specified in the City's General Plan and Zoning Code, are described in Section E below.

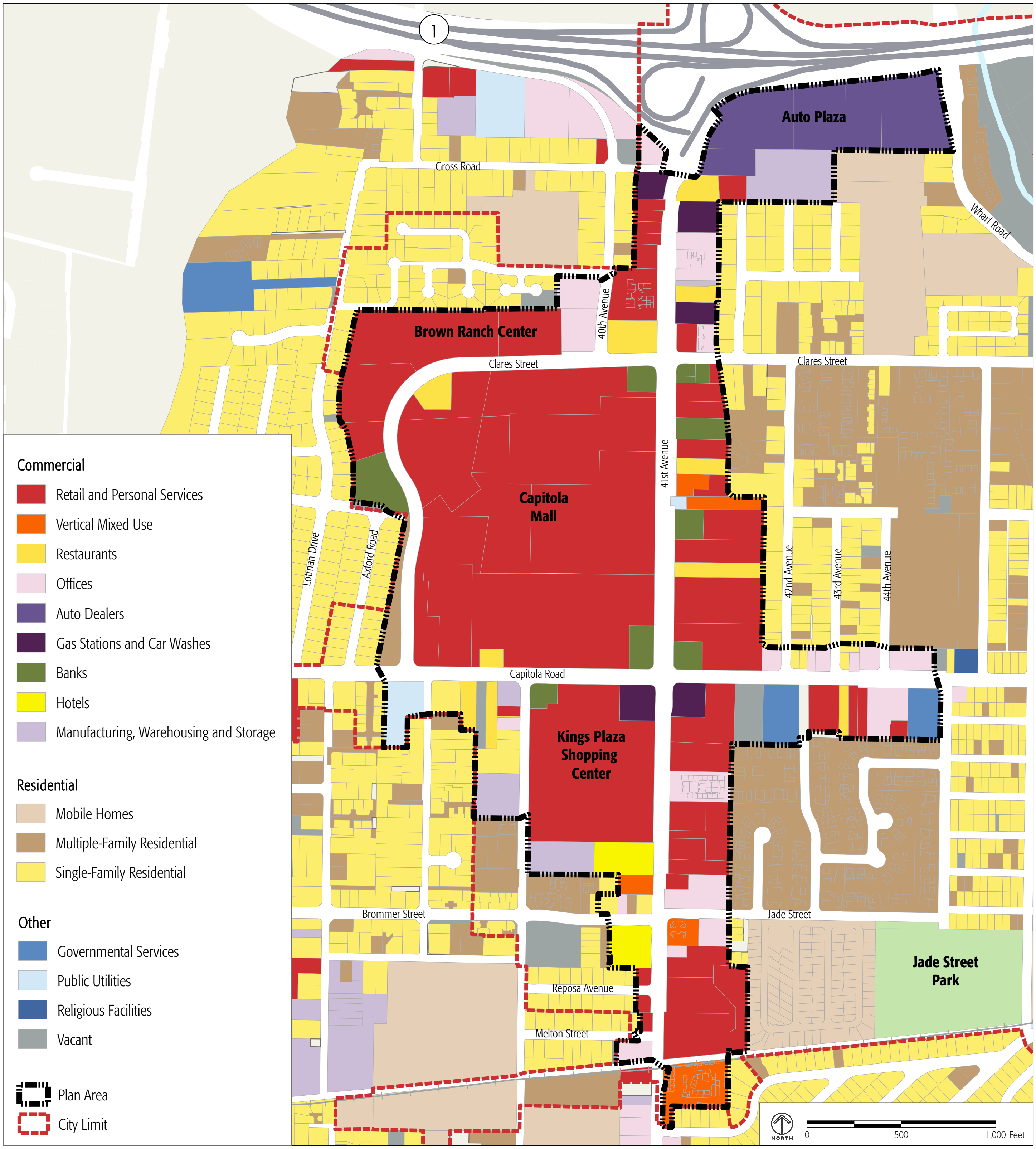
Existing land use within the Plan area is dominated by the Capitola Mall (top) and shopping centers such as Kings Plaza (middle) and the Brown Ranch Center (bottom).

As shown in Table 1, approximately 137 acres (92 percent) of the 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. The Capitola Mall, with almost 500,000 square feet of commercial space occupying a nearly 50-acre site, is the dominant land use within the Plan area.

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.

There are few residential uses 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.



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
Subtotal	*137.5*	*92.1%*
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
Subtotal	*7.5*	*5.0%*
Other Uses		
Governmental Services	2.5	1.6
Vacant	1.5	1.0
Public Utilities	0.1	0.1
Subtotal	*4.1*	*2.7*
Grand Total	**149.3***	**100%**

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

The Re-Visioning Plan will need to consider whether existing land uses should be maintained and continued over time, or if different land uses should be introduced into the corridor. For example, introducing additional vertical mixed use development into the corridor has previously been discussed as a possibility. Additional mixed use could add vitality to certain areas of the corridor and contribute to a more pedestrian-oriented environment.

Land uses adjacent to the Plan area include the Home Depot (top) and ProBuild (middle) north of Highway 1 and sidewalk-oriented commercial uses (bottom) south of the City limit

The real estate market and economic issues associated with mixed use development is discussed in Chapter 5 of this report.

The Re-Visioning Plan may also consider concentrating certain types of land uses within corridor subareas. Currently, general commercial uses are dispersed throughout the 1-mile long corridor. There may be benefits to clustering complementary uses within subareas as part of a place-making strategy. For example, local and visitor-serving retail and service uses could be concentrated at the southern end of the Plan area to build from successful sidewalk-oriented businesses that predominate 41st Avenue south of the City limit. Light industrial/service commercial uses on 38th Avenue south of Capitola also could provide the foundation for a specialized cluster of unique land uses within the Plan area.

Finally, the near absence of vacant land within the Plan area represents a constraint on future development within the corridor. New development will require the redevelopment of properties currently occupied by existing structures, which introduces additional costs and uncertainties into the development process.

2. Adjacent Land Uses

As shown in Figure 3, the Plan area is surrounded to the east and west primarily by existing residential land uses, including single-family homes, multiple-family housing, and mobile home parks. In many areas, single-family homes directly abut the Plan area boundary. These adjacent land uses will be an important consideration for the Re-Visioning Plan. Changes within the Plan area, including the introduction of new land uses and redevelopment of existing properties, will need to carefully consider potential impacts to adjacent neighborhoods. The Plan will need to consider issues relating to design compatibility, parking, and traffic impacts. Ideally, the Plan will establish a vision for change within the corridor that benefits adjacent neighborhoods and enhances the quality of life for nearby residents.

Commercial land uses on 41st Avenue south of the City limit feature an eclectic mixture of visitor and local serving shops, restaurants, and services. Additional large-format commercial land uses on 41st Avenue north of Highway 1 include a Home Depot, Safeway, and the ProBuild building supply store.

Existing and future land uses on 41st Avenue north and south of the City limit present both opportunities and constraints for the Plan area. The Re-Visioning Plan may seek ways for Capitola to capitalize on the vitality and unique identity of 41st Avenue south of the City limit. Commercial uses north of Highway 1 may emerge as an important future challenge in the form of competition for retailers along 41st Avenue in Capitola.

Recent development projects in the Plan area include the Fairfield Inn (top), Whole Foods (middle), and the Capitola Beach Villa's mixed-use project.

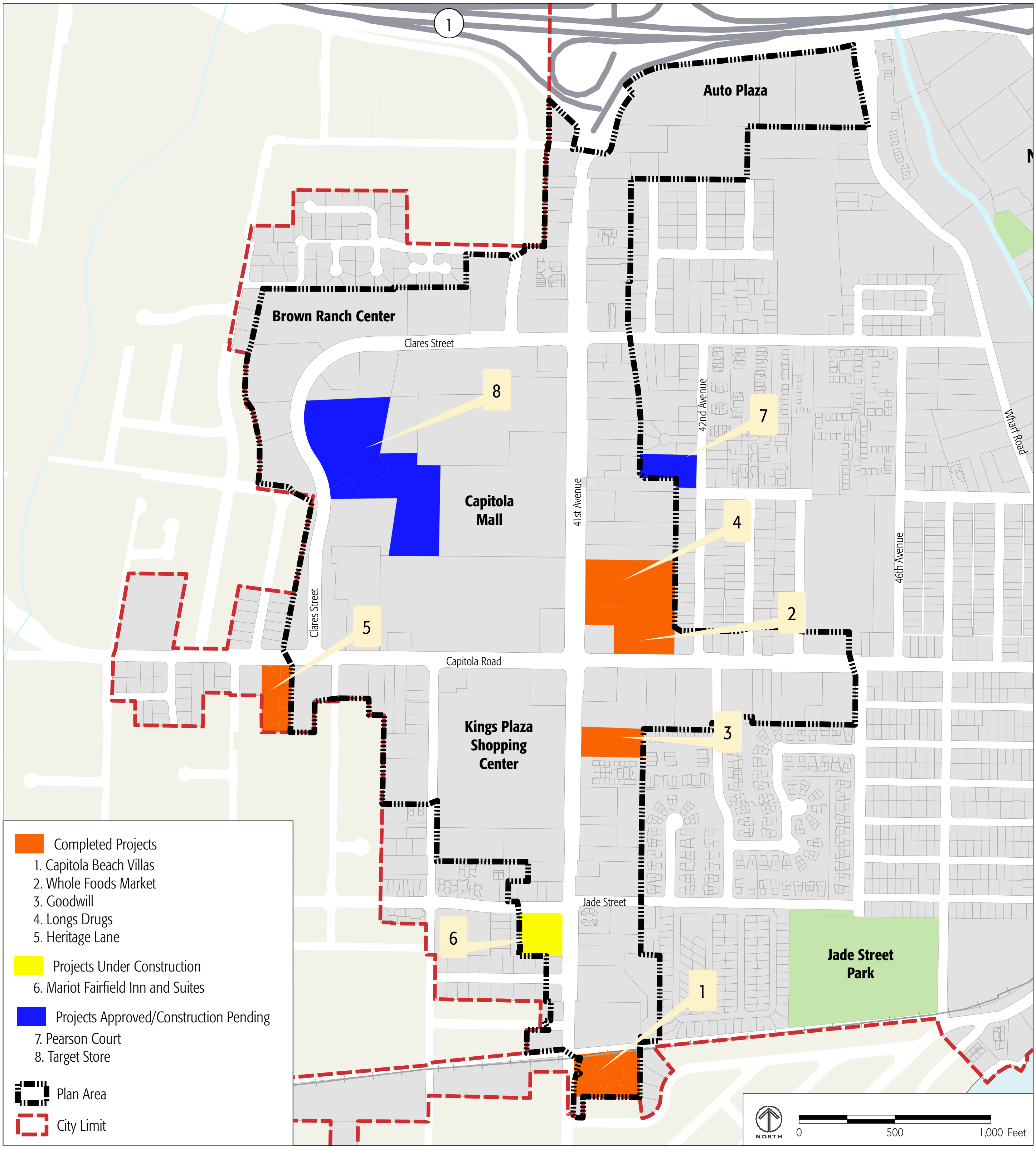
B. Recent Development Projects

Table 2 identifies major development projects in the Plan area from 2005 to 2010. These projects are divided into three categories: 1) completed projects, 2) projects under construction, and 3) projects approved by the City, but not yet under construction. The project description in Table 2 identifies which projects were new construction versus remodels of existing structures. Figure 4 shows the location of these projects.

It is important to note that almost all major new development projects in Capitola over the past five years have been located within or adjacent to the Plan area. These development projects have included major remodels and new construction of residential, commercial, and mixed use projects. Chapter 5 of this report discusses the implications of this recent development activity on the future market demand for different types of development within the Plan area. This economic analysis will play an important role in the preparation of land use alternatives and the selection of a preferred alternative for the Re-Visioning Plan.

C. Ownership Patterns

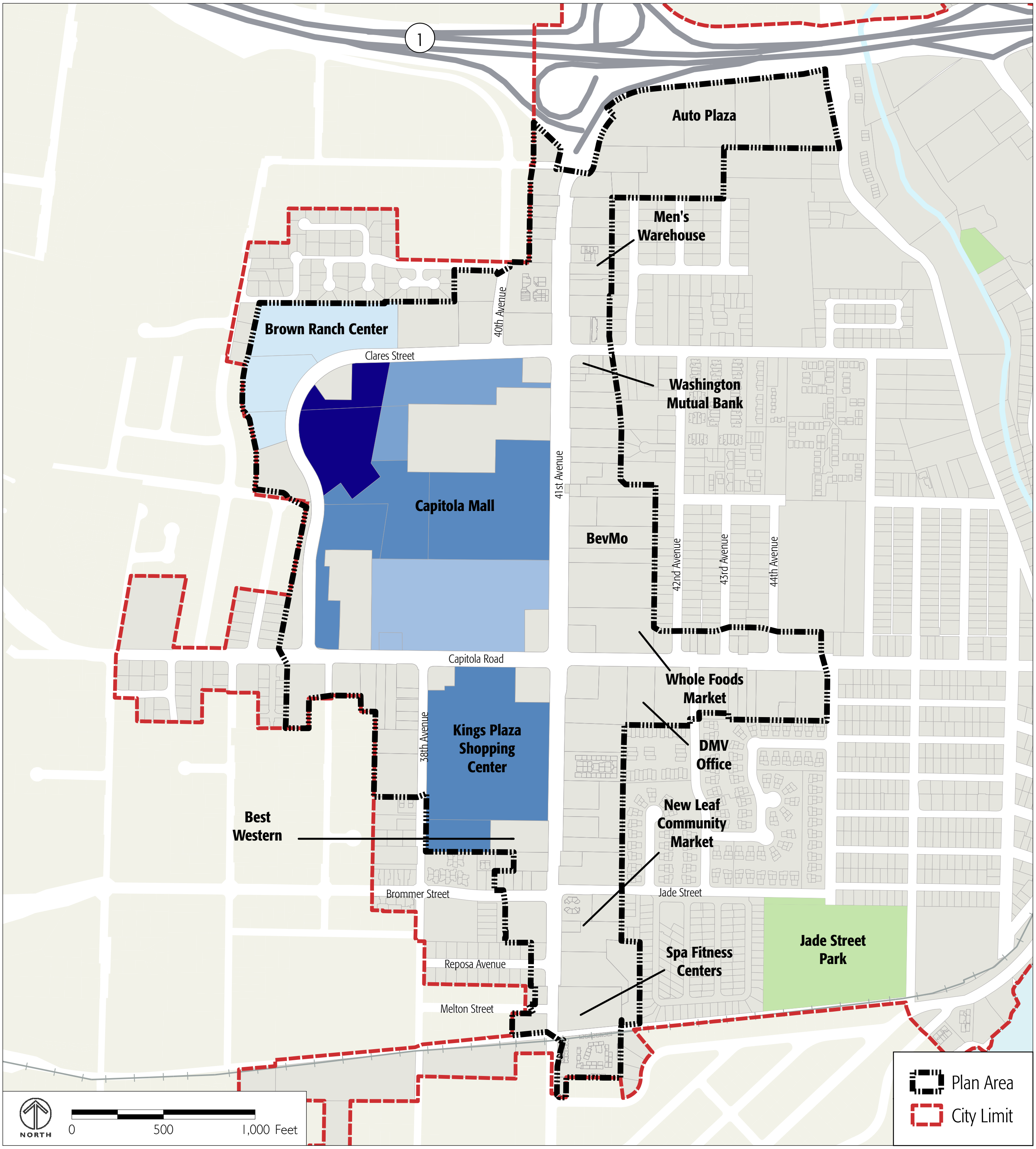
The Re-Visioning Plan area is characterized by a fragmented pattern of property ownership. A number of areas feature a series of small parcels, each occupied by a freestanding structure under separate ownership. For example, the east side of 41st Avenue north of Clares Street contains more than ten parcels, each less than an acre in size and each under separate ownership. Even the Capitola Mall and large shopping centers that might appear to be a single property actually have multiple owners. Figure 5 shows the number of



Source: City of Capitola, 2011.

FIGURE 4

RECENT DEVELOPMENT PROJECTS



Source: City of Capitola, 2011.

FIGURE 5
LARGE PARCELS UNDER SINGLE OWNERSHIP

TABLE 2 **MAJOR DEVELOPMENT PROJECTS WITHIN THE 41ST AVENUE PLAN AREA (2005-2010)**

Project Name	Address	Status	Description
Capitola Beach Villas	1066 41st Ave.	Completed	55 new residential condo units and 3,000 square feet of retail commercial condo space.
Whole Foods Market	1710 41st Ave.	Completed	Extensive interior and exterior remodel of the former Ralph's supermarket to establish a new Whole Foods Market.
Goodwill	1550 41st Ave.	Completed	Extensive remodel of an existing 17,000 square foot shopping center to expand a Goodwill store and establish a cosmetology school.
CVS	1750 41st Ave.	Completed	Extensive remodel of the former Longs Drugs store.
Heritage Lane	3606-3610 Capitola Rd.	Completed	12 new single-family homes and 4 secondary dwelling units.
Marriot Fairfield Inn and Suites	1255 41st Ave.	Under Construction	New 84-unit hotel with 31,582 square feet of associated facilities. Anticipated opening date is July 2011.
Target Store	1825 41st Ave.	Approved, Construction Pending	Interior and exterior remodel of the former Gottschalk's building to establish a new Target store. Construction to start in spring of 2011 with an estimated opening of Summer 2012.
Pearson Court	1911 42nd Ave.	Approved, Construction Pending	10 single-family homes. Construction to begin in 2011.

Source: City of Capitola, 2011.

property owners for Capitola Mall and the large shopping centers in the Plan area. There are a total of nine current owners of the Capitola Mall site.

Across 41st Avenue from the Mall, the shopping center occupied by CVS and Whole Foods has six property owners. The Kings Plaza Shopping Center is primarily under single ownership, though two smaller parcels along Capitola Road are under separate ownership.

Fragmented property ownership represents a constraint on redevelopment within the Plan area. In general, fragmented ownership of smaller parcels can limit the supply of opportunity sites of sufficient size for redevelopment projects. Multiple owners on larger sites, such as the Capitola Mall, can complicate plans for the redevelopment of these areas. Capitola may also support the creation of a new business improvement district (BID) for the corridor, which can help facilitate agreement among property owners in areas targeted for redevelopment.

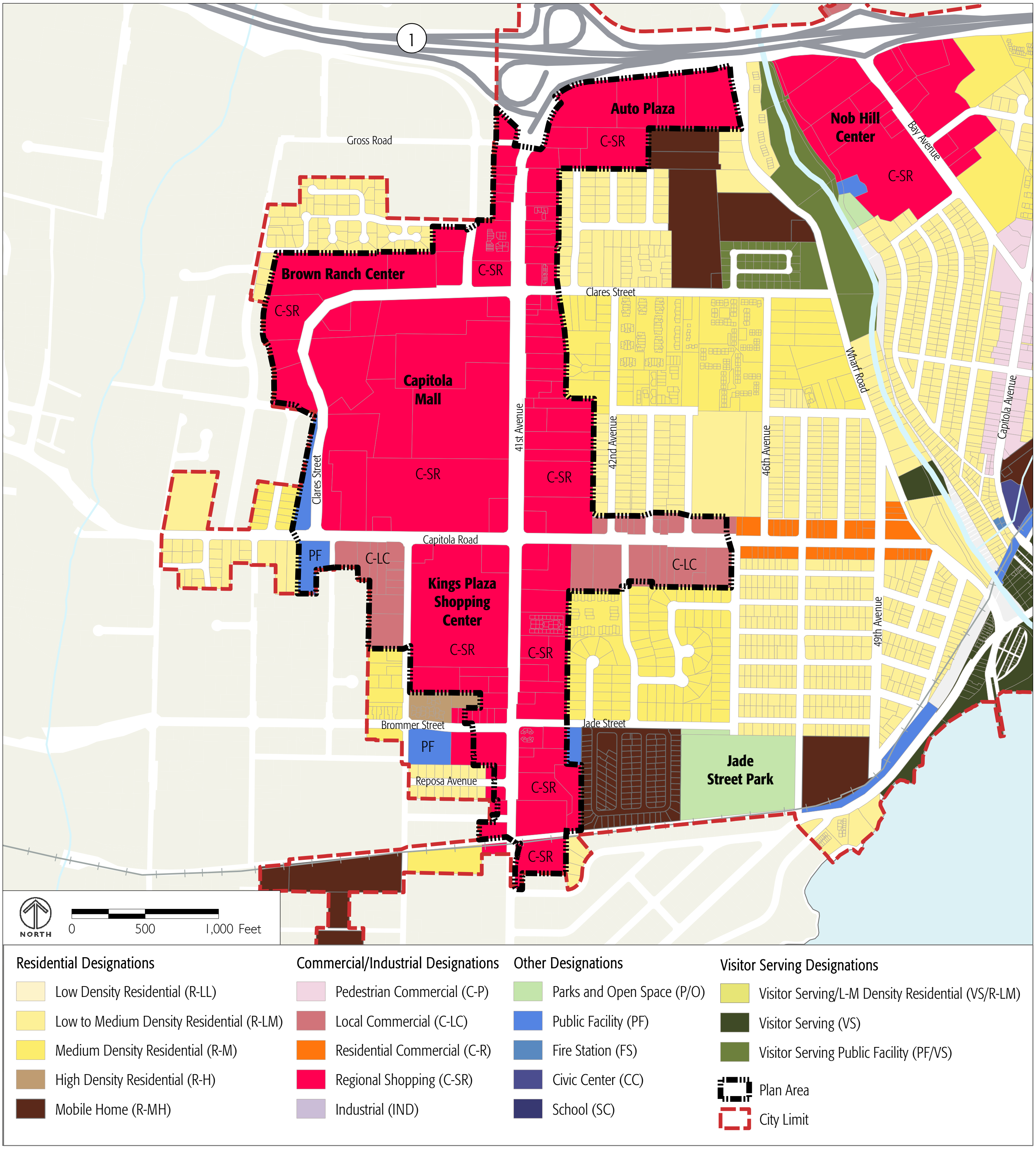
D. Land Use Regulations

Capitola's General Plan and Zoning Code identify permitted land uses within the Plan area. Land use regulations within the General Plan and Zoning Code are required by law to be consistent. Generally speaking, land use regulations in the Zoning Code tend to be more specific than those in the General Plan. An important task for the Re-Visioning Plan will be amending the General Plan and Zoning Code land use regulations to reflect the community's vision for the Plan area.

1. General Plan Land Use Map

Capitola's General Plan Land Use Map applies a number of different land use designations to all land within the City limits. Figure 6 shows the General Plan land use designations that apply within the Plan area boundaries. Almost all of the area is designated as Regional Shopping (C-SR). This designation is intended to allow for large-scale retailers that provide goods and services to the regional population. A number of parcels within the Plan area fronting Capitola Road are designated as Local Commercial (C-LC), which is a designation intended to accommodate commercial uses serving local neighborhoods. Two parcels fronting Capitola Road at Clares Street are designated as Public Facility (PF), and occupied by an affordable housing development for persons with disabilities, a small-lot single-family residential development, and a commercial structure.

General Plan land use designations surrounding the Plan area mirror the existing land uses described above in Section A. The majority of these designations are residential, including Low to Medium Density Residential, Medium



Source: City of Capitola, 2011.

FIGURE 6

GENERAL PLAN LAND USE DESIGNATIONS

Density Residential, High Density Residential, and Mobile Home designations. Land use designations in areas surrounding the Plan area boundary are not anticipated to change as part of the Re-Visioning Plan.

2. Housing Element

California State law requires Capitola to identify in its General Plan Housing Element adequate sites to accommodate the city's "fair share" housing need for all income levels, known as the Regional Housing Needs Allocation (RHNA). For the current 2007-2014 planning period, Capitola's assigned RHNA is 143 units.

Capitola's current Housing Element, adopted in 2010, identifies three Housing Opportunity Sites within the Re-Visioning Plan area to accommodate a total of 38 units. As shown in Figure 7, these sites include the Freight and Salvage property at 1575 38th Avenue, the restaurant property at 4250-4310 Capitola Road, and the Anderson/Dharma's site at 4250-4310 Capitola Road. All of these sites are zoned Neighborhood Commercial (CN), which permit residential uses up to a maximum density of 25 units per acre.

The Re-Visioning Plan may consider an alternative vision for these Housing Opportunity Sites and identify a non-residential use as the preferred land use for these sites. However, this would require the City to identify alternative replacement sites within Capitola sot that the City continues to accommodate its assigned RHNA. Given the limited supply of sites appropriate for multiple-family housing, identifying suitable replacement sites within Capitola could be challenging.

Capitola will again update its Housing Element in 2013 and will likely need to identify additional sites to accommodate multiple-family housing. It is likely that Capitola's RHNA for this next Housing Element planning period will be greater than the 143 units assigned to Capitola for the current period. In addition, Capitola's next Housing Element Update will need to be consistent with the region's Sustainable Communities Strategy (SCS) prepared under SB 375 to reduce greenhouse gas emissions from the transportation sector. This SCS will likely emphasize additional development along transit corridors such as 41st Avenue.

Source: GillSans Light, 7.5 pt.

FIGURE 7

HOUSING OPPORTUNITY SITES

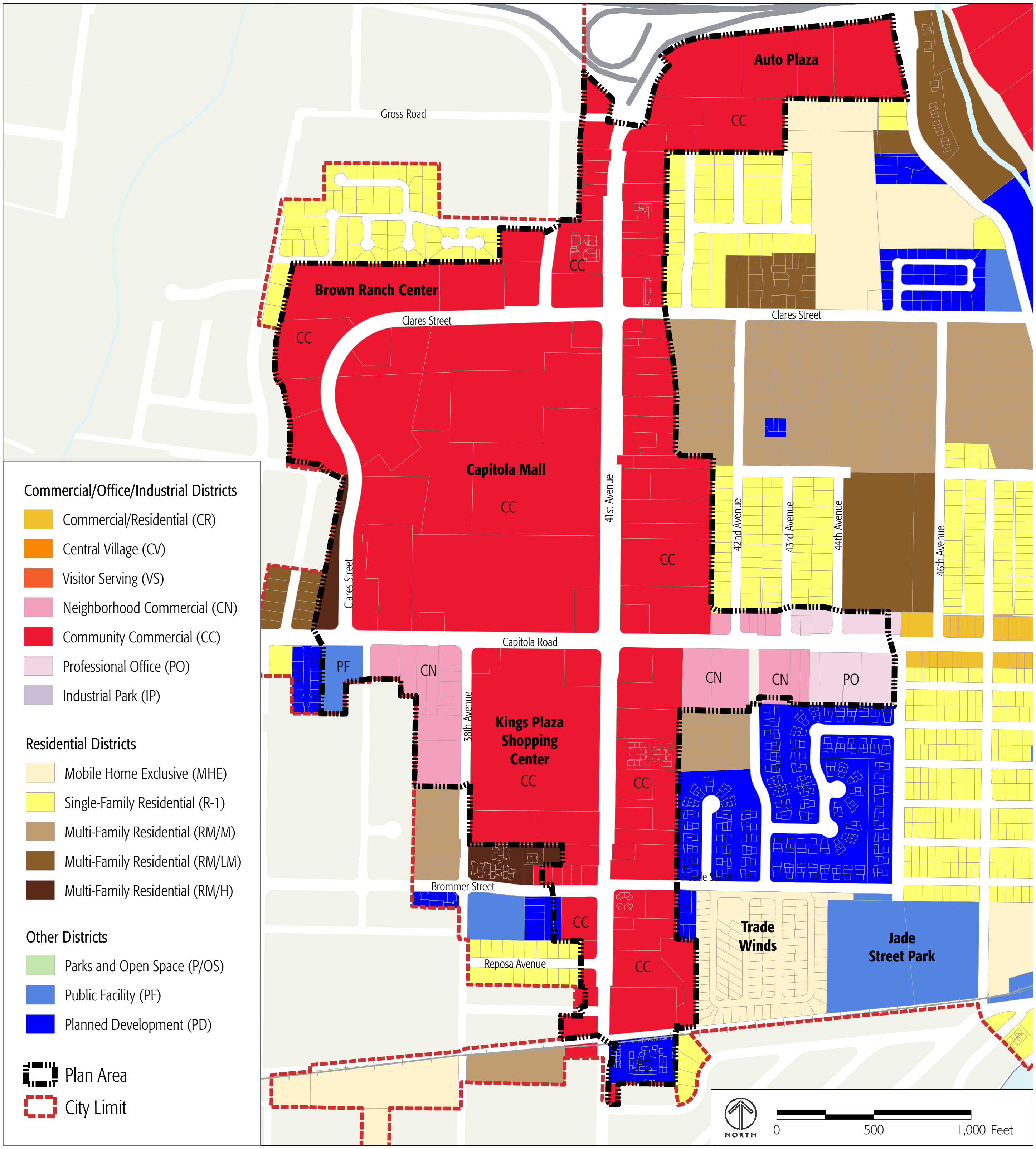
The Re-Visioning Plan should recognize future RHNA requirements and the upcoming SCS process. The Plan should consider whether the corridor is appropriate for additional housing and if so, where and in what form. The Plan should consider if additional mixed use development similar to the Capitola Beach Villas project is desirable, or if single-use multiple-family housing would be more appropriate in certain areas of the corridor.

3. Zoning Code

Like the General Plan Land Use Map, Capitola's Zoning Map divides the city into a number of different zoning districts. Figure 8 shows the zoning districts that apply within the Plan area. These zoning districts are intended to implement the General Plan Land Use Map with more detailed land use and development regulations. The majority of land within the Plan area is zoned Community Commercial (CC). Other areas of the Plan area are zoned Neighborhood Commercial (CN), Professional Office (PO), Public Facilities (PF), and Planned Development (PD). Information about these zoning districts is provided in Table 3.

As shown in Table 3, Capitola's Zoning Code requires the approval of a Conditional Use Permit (CUP) for most commercial land uses located outside of shopping centers or the Capitola Mall. CUPs must be approved by the Planning Commission at a public hearing, which can be a time consuming, expensive, and uncertain process. The Re-visioning Plan will consider if the CUP requirement in the Community Commercial zone should be relaxed or eliminated.

Table 3 also reveals that the land use regulations and development standards that apply to zoning districts within the Plan area occasionally differ in arbitrary ways. For example, the maximum permitted building height is 3 stories or 35 feet in the Professional Office zone and 27 feet in the Neighborhood Commercial zone, even though both of these zones are located adjacent to one another on Capitola Road and abut the same types of adjacent residential uses. The Re-Visioning Plan will identify needed revisions to existing development standards to address this issue.



Source: City of Capitola, 2011.

FIGURE 8
ZONING DISTRICTS

TABLE 3 **ZONING DISTRICTS WITHIN THE PLAN AREA**

Zoning District	District Purpose	Permitted Uses	Conditionally Permitted Uses	Maximum Building Height
Community Commercial (CC)	Provides areas for a wide variety of commercial uses which serve a large trading area population	Department stores, furniture, appliance, or home furnishing stores; other retail uses within a shopping center of at least 3,000 square feet	A variety of commercial uses, including general retail, professional offices, banks, personal services, car sales, hotels, service stations, other similar uses	40 feet, with exceptions for special circumstances
Neighborhood Commercial (CN)	Allows for limited commercial uses to meet the basic shopping needs of people residing in nearby areas	Professional offices, personal services, small retail businesses, single-family homes, commercial/mixed use development, other similar uses	A variety of commercial uses, including banks, medical offices, motels, multiple-family housing, other similar uses	27 feet
Professional Office (PO)	Allows office development that is designed to be compatible with adjacent residential uses	Single-family homes, multiple-family housing, professional offices	Research and medical laboratories, school of personal enrichment, public and quasi-public uses	3 stories or 35 feet
Multi-Family Residential – High (RM-H)	Provides areas for multiple-family homes up to 20 units per acre	Single-family homes, multiple-family housing	A variety of public and quasi-public uses, including private schools, religious facilities, nursery schools, other similar uses	35 feet
Public Facility (PF)	Provides areas for governmental, public utility, and education facilities that area compatible with adjacent land uses	Governmental facilities, public and private schools and colleges	Public utilities under jurisdiction of the Federal Communications Commission or the Interstate Commerce Commission	As determined by architectural or site plan review
Planned Development (PD)	Allows for flexibility in zoning regulations to achieve quality development in areas with unique site constraints and opportunities	As allowed by the General Plan	As allowed by the General Plan	As specified in the individual PD zone

III. Urban Design

A. *Urban Design Overview*

As described in the previous chapter, the 41st Avenue corridor is a regional commercial center occupied by the Capitola Mall, multiple shopping centers, and an assortment of additional retail, service, and office uses. As such, the needs of the automobile is the primary factor shaping the overall urban design character of the area. Wide streets are designed to accommodate high traffic volumes and facilitate vehicle access into commercial properties. Large parcels and long block lengths facilitate vehicle circulation within shopping centers. Buildings tend to be setback from the street with highly visible parking lots occupying a prominent place along the street edge. Generally speaking, the design quality of the public realm is largely ignored along both City streets and on private property. The 41st Avenue corridor is a classic example of form following function.

The Plan area includes a number of different subareas with unique design characteristics.

Figure 9 provides an overview of the urban design framework within the Plan area. This framework identifies some of the corridor's basic design characteristics discussed in the sections below. The framework is a useful starting point to consider some of the key urban design issues, opportunities, and constraints within the Plan area. Key issues identified in this framework include the following:

- **Design Quality of Major Streets.** 41st Avenue and Capitola Road are the major arterials by which people access and travel through the Plan area. As such, the design quality of these thoroughfares plays an important role in shaping the impressions and experiences of visitors to the area.

- **Key Intersections.** The intersections of 41st Avenue with Clares Street and Capitola Road are the two principle intersections within the Plan area. The Re-visioning Plan will need to carefully consider the form and use of development at these locations. These intersections may represent locations for new activity nodes or special design treatment.

- **Gateways and Connections.** Visitors access the Plan area primarily at the Highway 1 interchange, but also at opposite ends of Capitola Road

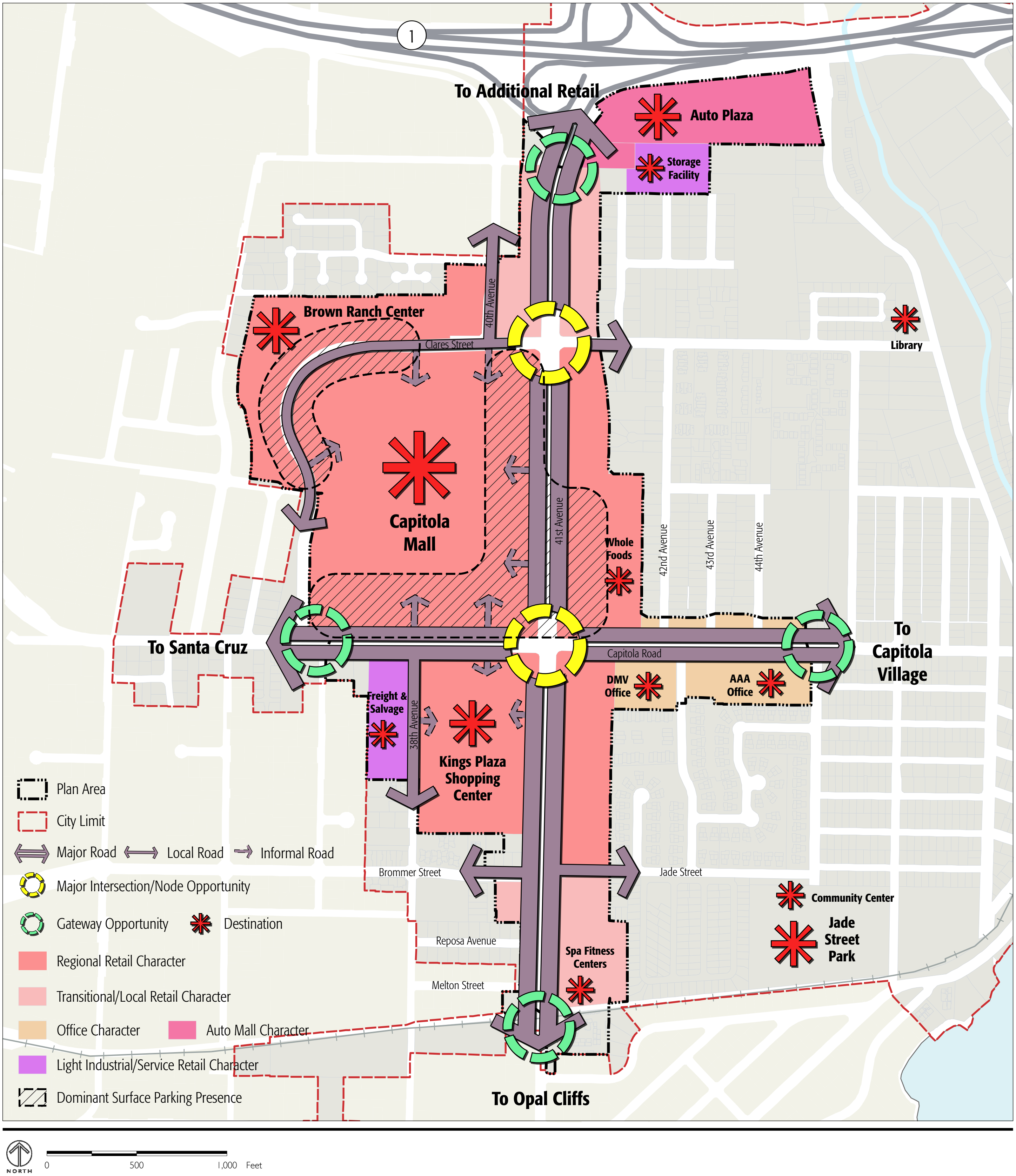


FIGURE 9
EXISTING COMMUNITY CHARACTER FRAMEWORK

and the southern end of 41st Avenue. Capitola Road is the primary connection between the Village and the Plan Area. The Re-Visioning Plan may consider how to enhance these areas as gateways into the area. The Re-Visioning Plan should also explore ways to improve connections between the corridor and other areas, particularly the Village.

- **Destinations.** As described in the previous chapter, the Plan area contains a number of key destinations, including the Capitola Mall, Kings Plaza Shopping Center, and the Brown Ranch Center. These destinations have an important impact on defining the identity and overall character of the area.

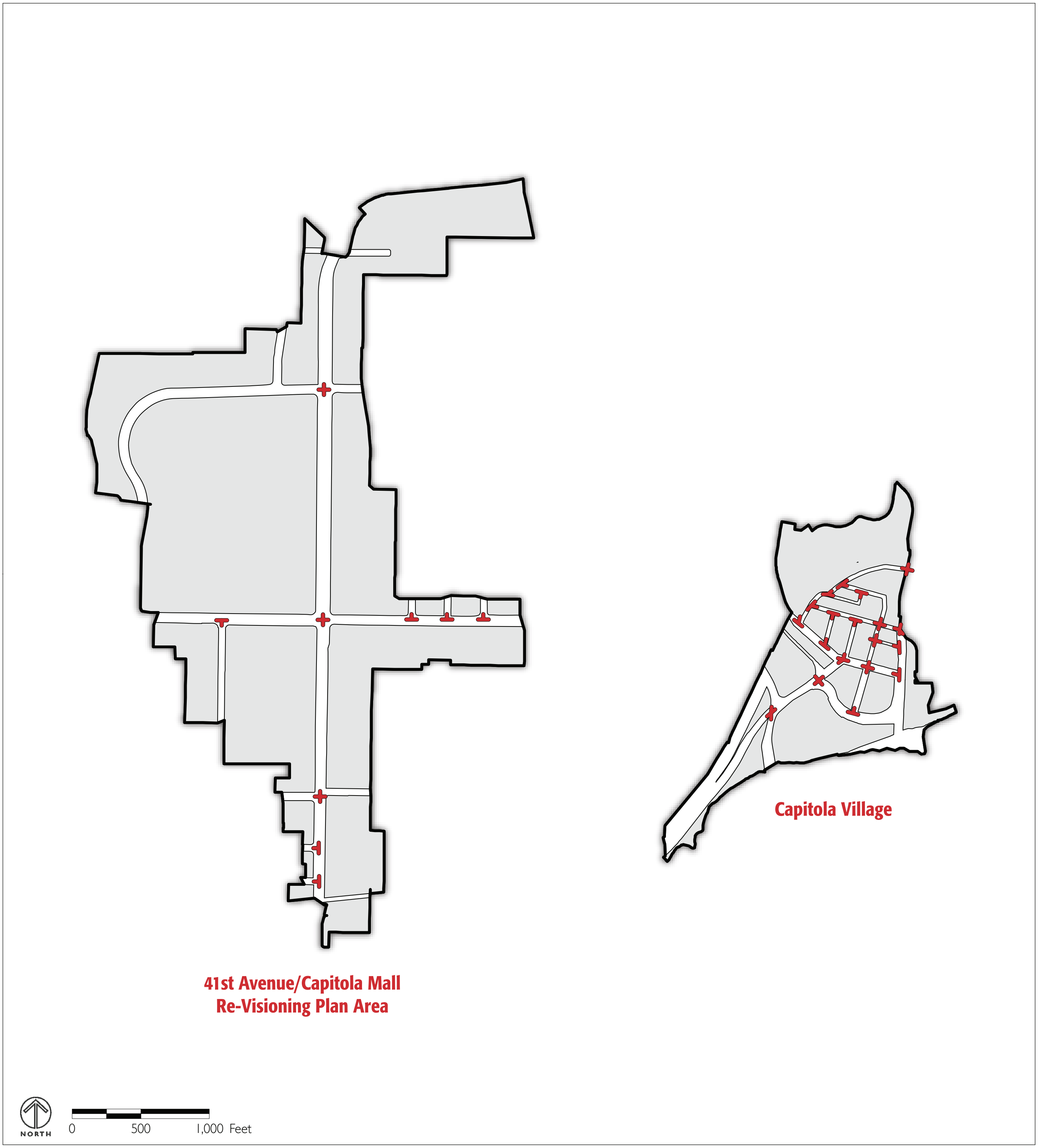
- **Design Character Subareas.** The Plan area can be divided into a number of design character subareas which are largely a function of the primary land uses within the subarea. The Re-Visioning Plan will need to consider the unique characteristics of these subareas when formulated on overall design vision for the corridor.

B. 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 10 and Table 4 compare 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. For example, the distance from Clares Street to Capitola Road along 41st Avenue is almost 2,000 feet. Within the 150-acre Plan area, there are just nine intersections, including three four-way intersections. This translates to an intersection density within the Plan area of approximately 6 intersections per 100 acres.

By contrast, the Village is characterized by relatively small block size and high intersection density. The typical block length within the core of the Village is less than 250 feet. There are a total of 19 intersections within a 47-acre area, translating to an intersection density of approximately 40 intersections per 100 acres.



Source: City of Capitola, 2011.

FIGURE 10
BLOCKS AND INTERSECTIONS

TABLE 4 **BLOCK SIZE AND INTERSECTION DENSITY ANALYSIS**

	41st Avenue Corridor	Capitola Village
Typical Block Length	1,000 – 2,000 ft.	100 – 300 ft.
Number of Intersections	9	19
Number of Four-Way Intersections	3	7
Intersection Density (intersections per 100 acres)	6	40

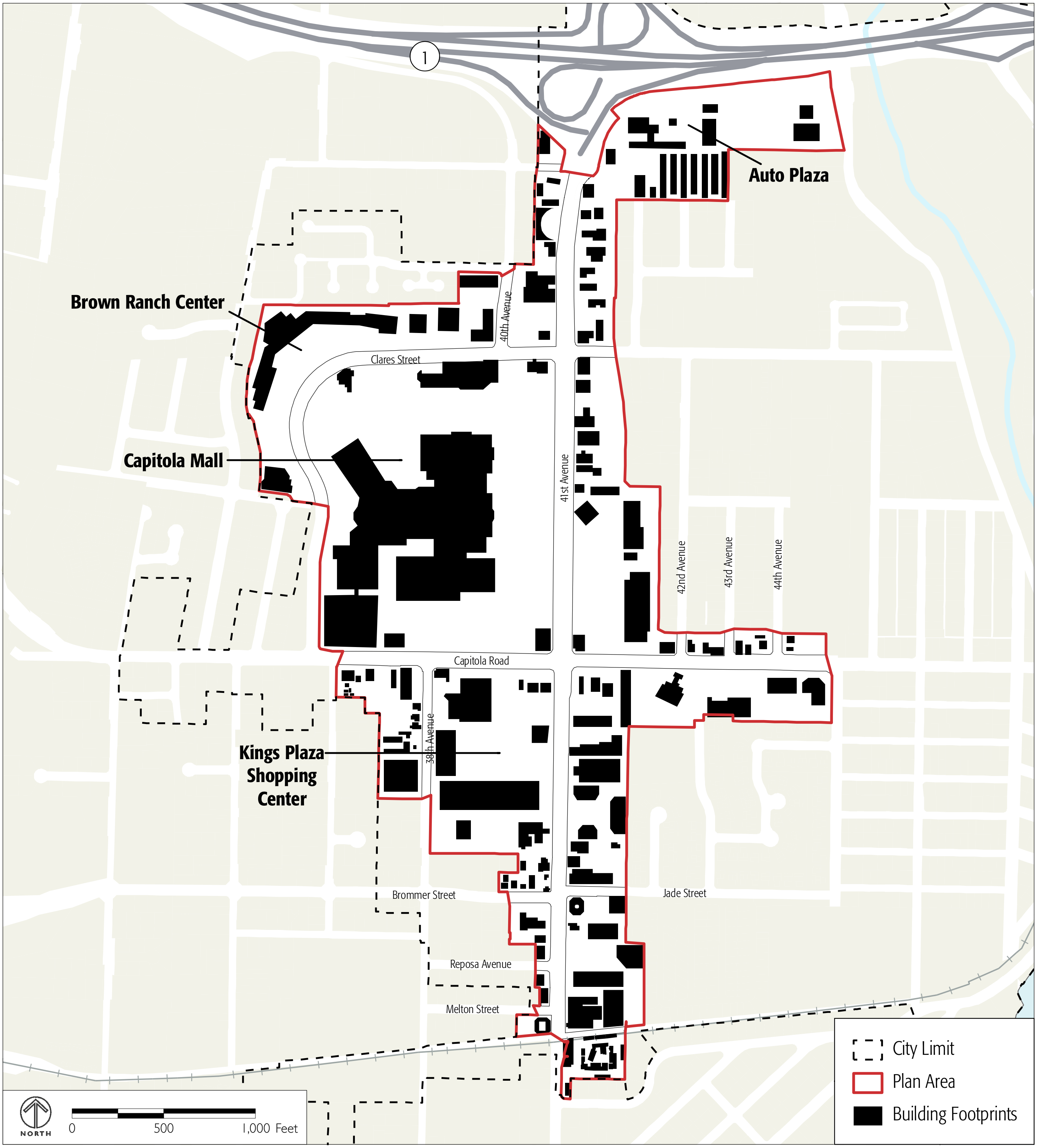
Source: DC&E, 2011.

Capitola Village is a very different place from 41st Avenue, and it would not be appropriate to attempt to replicate the block structure of the Village within 41st Avenue. However, the Re-Visioning Plan will examine ways to create a finer grain urban fabric within the corridor, possibly by introducing additional streets, pathways, and connections within the largest blocks in the Plan area. For example, additional buildings could replace existing surface parking lots within large shopping centers in a way that creates pedestrian pathways fronted by new sidewalk-oriented retail. A more dramatic transformation of the Capitola Mall could involve the introduction of one or more new public or private streets that intersect with 41st Avenue, Capitola Road, ad/or Clares Street. New buildings could front these new streets in a way that supports a more pedestrian-oriented environment.

C. *Building Placement, Form, and Design*

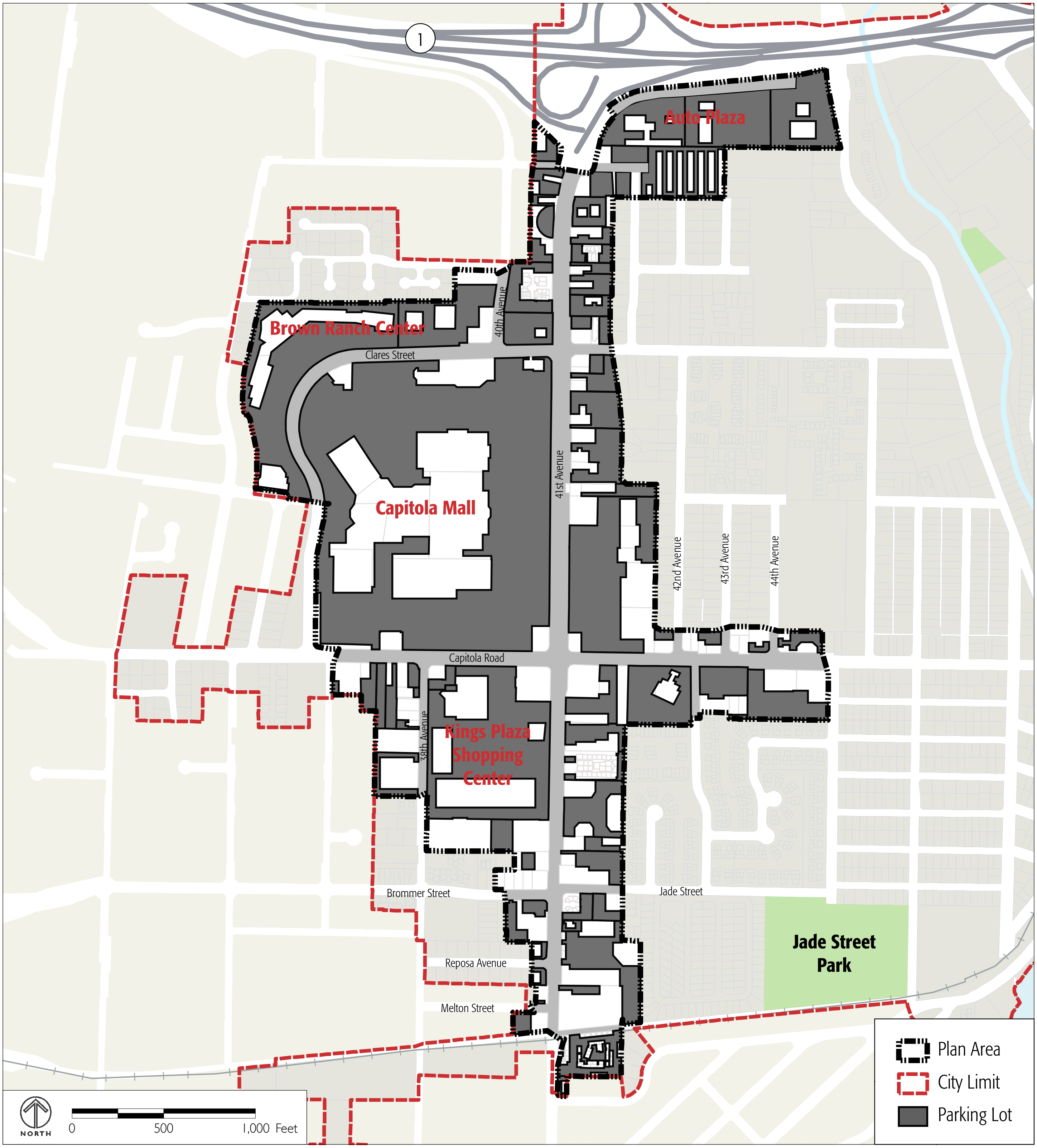
Figure 11 shows the location of buildings on their lots, and Figure 12 shows areas used for surface parking. These figures illustrate the following conditions:

- Building placement within the corridor is highly irregular. Larger buildings tend to be set back a considerable distance from the front street. Smaller buildings tend to be located closer to front property lines, though this is not always the case.



Source: City of Capitola, 2011.

FIGURE 11
BUILDING FOOTPRINTS



Source: City of Capitola, 2011.

FIGURE 12

LAND DEDICATED TO 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.

- Some buildings 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.
- 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.
- On many properties, large parking lots occupy the entire primary street frontage between the street and the structures which they serve. This is particularly true for the Capitola Mall, the Whole Foods/CVS shopping center, and the Brown Ranch Center.

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 parcels on which they are located. This contributes to the corridor's appearance as a dispersed, suburban-scale environment lacking concentrated activity centers. The architectural design of buildings reinforces the absence of a coherent identity or unique sense of place within the Plan area. Figure 13 presents photographs of typical buildings within the area.

The Re-Visioning Plan will establish a renewed vision for the placement, form, and design of development within the corridor. In certain areas, the Plan may call for buildings to be built close to or adjacent to public streets in order to better define the public realm and create a pedestrian-oriented environment. As discussed further in Chapter 4, the Plan may include standards for the placement and design of parking lots to minimize the visual dominance of these areas. The Plan will need to balance the need to provide convenient vehicle parking while improving the design character of the corridor. The Plan may also seek to promote a particular identity or even "brand" through design standards and guidelines. These standards and guidelines will focus on promoting the long-term economic vitality of the corridor by creating a high-quality, memorable, and inviting design environment.

FIGURE 13

BUILDING DESIGN

D. Public 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.

The absence of civic gathering places in the Plan area contrasts with conditions in the Village and other neighborhoods in Capitola. In the Village, the Esplanade, Capitola Beach, and other public spaces provide a location for informal social interaction and organized public events and activities. Parks, schools, and other civic institutions serve a similar function in other areas of the city.

Preliminary input from Capitola residents identified the absence of civic gathering places as one of the key issues that needs to be addressed as part of the Re-Visioning Plan. Public gathering places could become a valued amenity for residents in adjacent neighborhoods, providing a space to interact with neighbors and strengthen community connections. New public gathering places would also improve the retail environment by creating an environment that is an enjoyable destination for shoppers. Such gathering places could help build the market for mixed use and residential infill development by introducing amenities that are highly valued by residents of urban neighborhoods.

The Re-Visioning Plan may seek to introduce a range of both public and semi-public gathering places into the corridor. Options to consider include the addition of a new public park, town square, or plaza. Introducing a new civic institution could serve residents and visitors. The Plan may also identify ways to incorporate publically accessible gathering places into the design of redeveloped commercial properties. Outdoor dining areas, café seating fronting public sidewalks, and other commercial uses that open out into the street could function as semi-public gathering places that also enhance the overall appeal and vitality of the corridor.

E. Streetscape Design

As mentioned above, the design of streets within the Plan area plays an important role in defining the character of the corridor. As shown in Figure 14, 41st Avenue at Capitola Road occupies a 105-foot right-of way, with the roadway ay 93 feet in width curb-to-curb. The roadway includes eight lanes, with five travel lanes and three turn lanes. There is a six-foot sidewalk and a 5-foot bike lane on one side. The sidewalk, however, is often partially obstructed by utility poles or other structures.

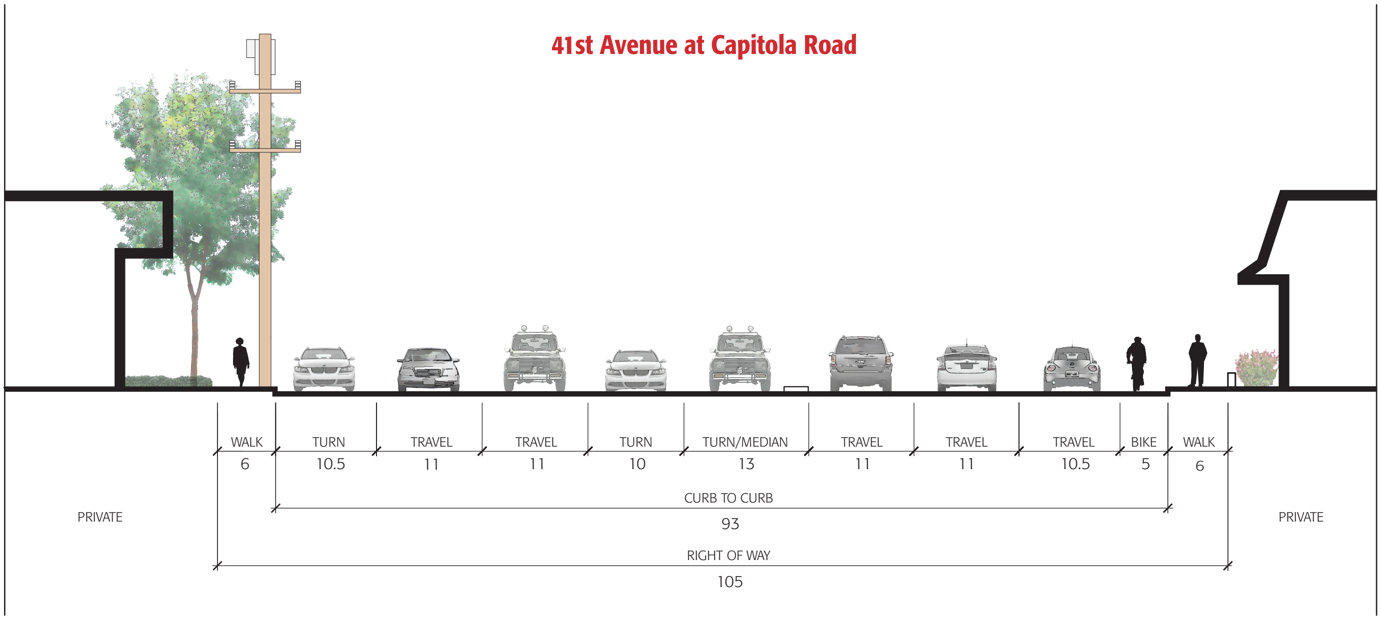
The character of 41st Avenue within the Plan area contrasts greatly with the roadway south of the City limit.

The design character of 41st Avenue within the Plan area is that of a wide major arterial designed to accommodate a high volume of vehicles. This contrasts noticeably with 41st Avenue south of the City limit. As shown in Figure 14, 41st Avenue at Portola Drive has been reduced to two vehicle lanes occupying a roadway of 51 feet from curb-to-curb. Sidewalks are 8 and 6 feet in length with bulb-outs, street trees, and other streetscape improvements contributing to a pedestrian-friendly environment.

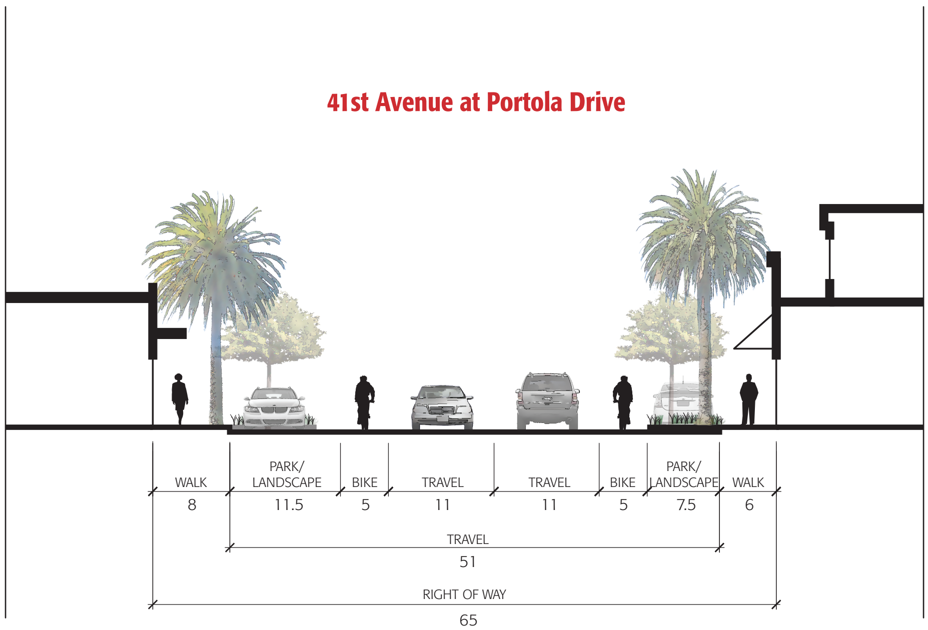
Driveways also frequently interrupt the pedestrian environment in the Plan area. As shown in Figure 15, there are ten driveways crossing a 950-foot stretch of sidewalk on both sides of 41st Avenue north of Clares Street – one every 95 feet on average, or approximately one every 30 steps. 38th Avenue within the Plan area also has a high concentration of driveways crossing sidewalks – eight driveways over 700-foot distance on the west side of the street. The perimeter of Capitola Mall actually has a relatively low frequency of driveways crossing public sidewalks. The sidewalk on the Mall side of Clares Street is crossed by eight driveways over a distance of over 2,700 feet.

The Re-Visioning Plan will need to consider how streetscape improvements can enhance the design quality of the public realm within the Plan area. Typical streetscape improvements in commercial districts include street trees, widened sidewalks, improved pedestrian street crossings, and street furniture such as benches and decorative light fixture. Streetscape improvements could be coordinated in a way to reinforce a specific identity or brand for the area.

41st Avenue at Capitola Road



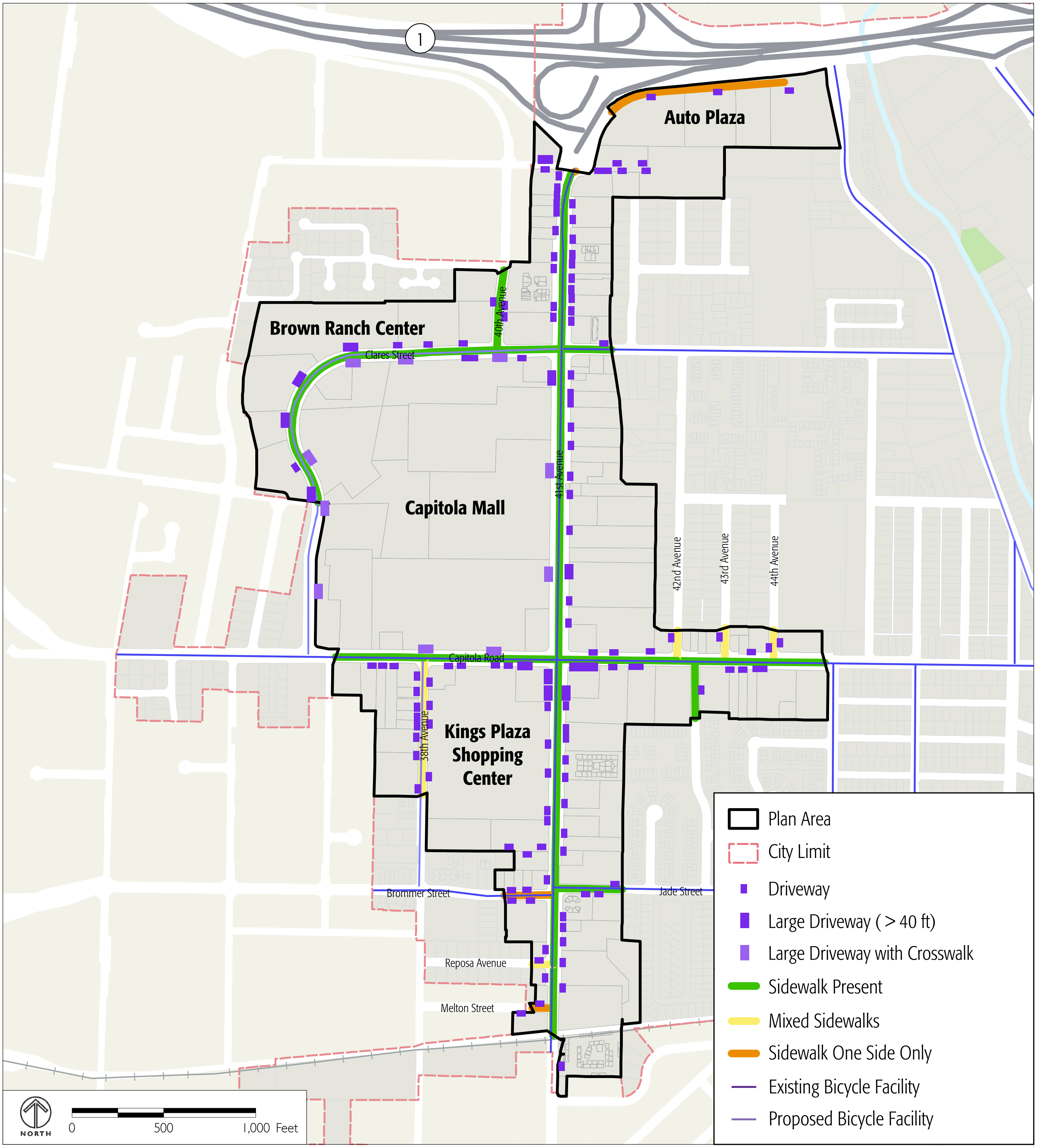
41st Avenue at Portola Drive



0 10 20 Feet

FIGURE 14

EXISTING STREET SECTIONS



Source: City of Capitola, 2011.

FIGURE 15

DRIVEWAYS, SIDEWALKS & BICYCLE FACILITIES

Planned Improvements to 41st Avenue Streetscape

In April of 2011 the City of Capitola and Macerich Partnership, the owner and operator of the Capitola Mall reached an agreement to fund public improvements associated with redeveloping the Mall. Under the agreement, the City will provide approximately $1 million in Redevelopment Funding. Those funds will be used to widen sidewalks, install landscaping, street trees, and street furniture within public right-of-way; assist with the reconstruction of the existing public transit center currently located within the Capitola Mall to improve public access and circulation; and improve bicycle access. The City's funding is predicated on Macerich commencing Mall redevelopment, which includes construction of frontage improvements along the 41st Avenue frontage and updating existing architectural features, and various other site improvements.

Streetscape improvements may be targeted in concentrated areas to maximize the impact of this investment, and should be closely coordinated with land use and design changes called for in the Plan. Ideally, public streetscape improvements will help create the conditions needed to stimulate property owners to initiate investments in redevelopment of private property.

IV. TRANSPORTATION

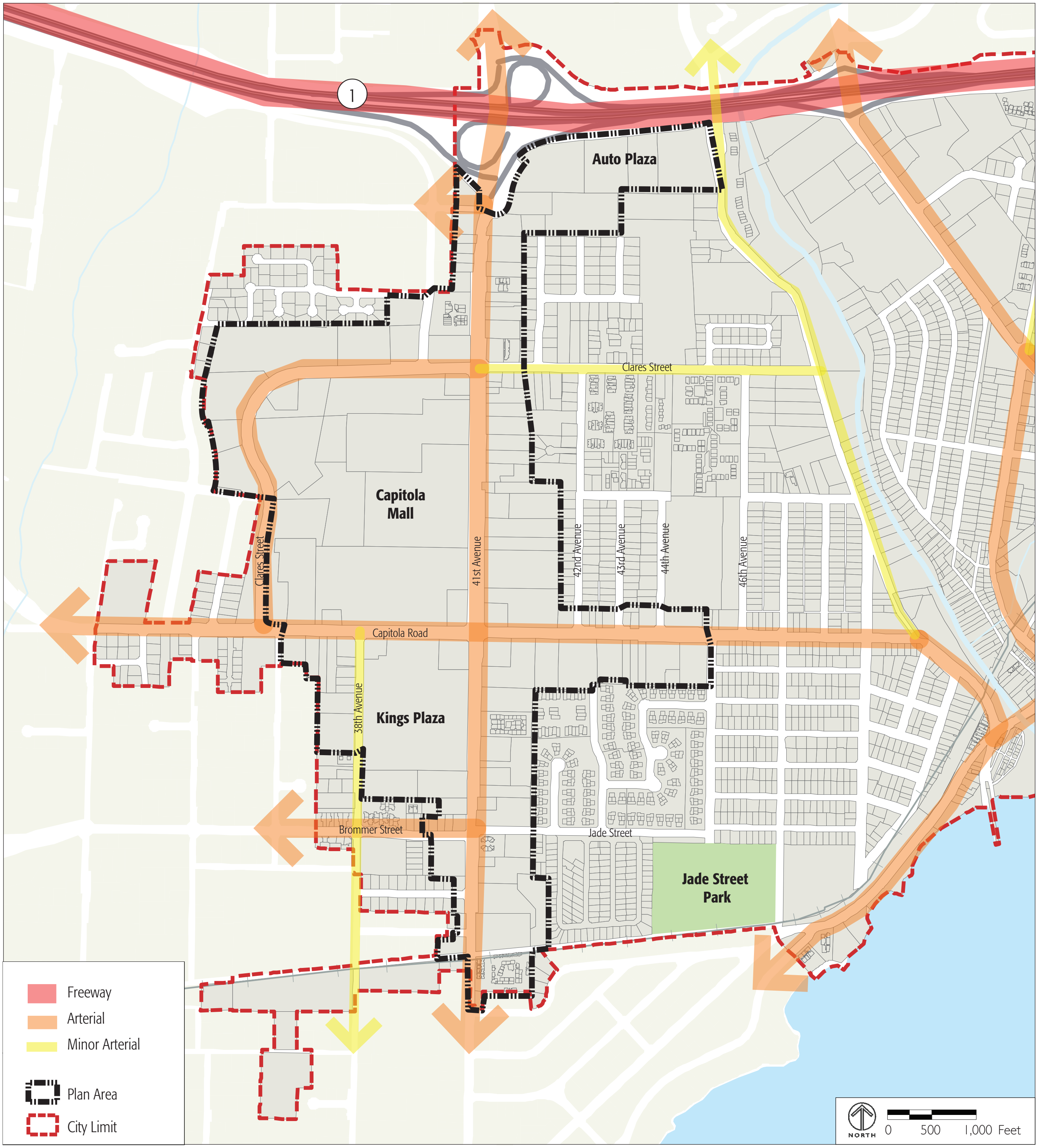
A. Roadway System

Figure 16 shows the roadway system within the Plan area, which has been described in previous chapters of this report. 41st Avenue is characterized by high traffic volumes and congested intersections, particularly north of Capitola Road. As shown in Figure 17, 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.

Principle arterial streets in the Plan area include 41st Avenue (top), Capitola Road (middle), and Clares Street (bottom).

High vehicle volumes at the northern end of 41st Avenue correlate with noticeable traffic congestion at the Highway 1 interchange and the Clares Street and Capitola Road intersections. According to the traffic impact analysis prepared for the Rispin Mansion EIR in 2002, the 41st Avenue/Clares Street intersection operates at LOS D during the peak period of noon to 2:00 p.m. A traffic report prepared for the Fairfield Inn project in 2009 found that the 41st Avenue/Capitola Road intersection operates at LOS D during peak hours. These three locations do not comply with the City's LOS C standard for all areas outside of the Village. Recent traffic studies have found that 41st Avenue intersections south of Capitola Road comply with the City's LOS standard. The Rispin Mansion EIR traffic impact analysis also found that the Highway 1 interchange at 41st Avenue operates at an acceptable level of LOS B.

High traffic volumes and congestion on 41st Avenue is an important issue for the Re-Visioning Plan. The Plan will need to consider how changes within the Plan area might impact current traffic conditions, and how existing traffic volumes might affect the demand for different land uses within the corridor. The contrasting roadway conditions north and south of Capitola Road may also influence future changes to development patterns along 41st Avenue. Lower traffic volumes and congestion south of Capitola Road may contribute to conditions that are more appropriate for mixed use and residential development than areas north of Capitola Road. On the other hand,



Source: City of Capitola and RBF Consulting, 2011.

FIGURE 16

EXISTING ROADWAY NETWORK

Source: City of Capitola, 2011.

FIGURE 17

AVERAGE DAILY TRAFFIC VOLUMES

additional development and intensification of land use south of Capitola Road may exacerbate the already difficult traffic situation at the northern end of 41st Avenue. This could increase cut-through traffic to local streets and negatively impact adjacent residential neighborhoods.

Ultimately, the Re-Visioning Plan will need to consider short-, medium-, and long-term solutions to existing and future traffic issues. Over the short- and medium-term, the Plan may identify incremental changes to the roadway system to improve conditions and minimize impacts from new development. Over the long-term, the Plan may also consider more dramatic changes to development patterns in addition to physical changes to the roadway system. New development that emphasizes pedestrian convenience and safety could help reduce dependence on the automobile and increase opportunities for residents, visitors, and employees to travel within the corridor on foot, by bicycle, and by public transit. The City may also consider re-evaluating its existing LOS standards in order to increase priority for pedestrian, bicycle, and transit modes of transportation.

B. Parking

As discussed in Chapter 3, the design character of the Plan area is defined to a large extent by the presence of large surface parking lots located immediately adjacent to the street. These parking areas reinforce the corridor's identity as an automobile-oriented shopping district that is neither pedestrian- nor bicycle-friendly. An important goal for the Re-Visioning Plan is to continue to provide needed parking in a way that supports a vibrant and attractive shopping experience within the Plan area.

To plan for future parking needs in the corridor, it is important to understand existing parking supply and demand conditions. Many properties within the corridor appear to be "over-parked," meaning that 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. Additional details about current parking supply and demand at Capitola Mall and Kings Plaza Shopping Center are provided below.

1. Capitola Mall

Capitola Mall has a total of 3,032 parking spaces, including spaces located within the mall's parking structure. Mall management estimates that during busiest shopping times (holiday weekends) approximately 70 percent of the mall's parking spaces area occupied. Mall parking spaces are approximately 65 to 70 percent occupied on regular weekends, and about 50 percent occupied on regular weekdays.

Mall management reports that parking space occupancy varies considerable among different locations on the mall property. For example, the parking area between Ross and Calendars, near Bank of America, is always empty. By contrast, the area near the food court is typically fully occupied. Other highly occupied parking areas include the location near the south elevation of Sears, which is regularly at 75 to 80 percent occupancy, and the area near Takara.

2. Kings Plaza

The Kings Plaza shopping center currently has 701 parking spaces. Shopping center management reports that during busiest times approximately 80 percent of parking spaces are occupied. Shopping center parking spaces are approximately 60 to 70 percent occupied during the middle of the day on regular weekends, and approximately 40 percent occupied on regular weekdays. Kings Plaza is currently 100 percent occupied and is one of the busiest shopping centers in the county.

Kings Plaza management reports that the center's current parking supply is less than required by Capitola's Zoning Code. A parking study prepared in 2008 found that 1,003 parking spaces were required by the Zoning Code to serve shopping center tenants at that time. Since 2008, parking spaces required by the Zoning Code have actually increased for Kings Plaza as two restaurants have moved into the center (the parking required for restaurants is greater than for general retail).

Kings Plaza management believes that the center provides sufficient off-street parking, even though the supply of parking spaces is less than required by the Zoning Code. However, management reports that shopping center tenants may believe that the center has insufficient parking since customers cannot always find an available parking space directly adjacent to their storefront.

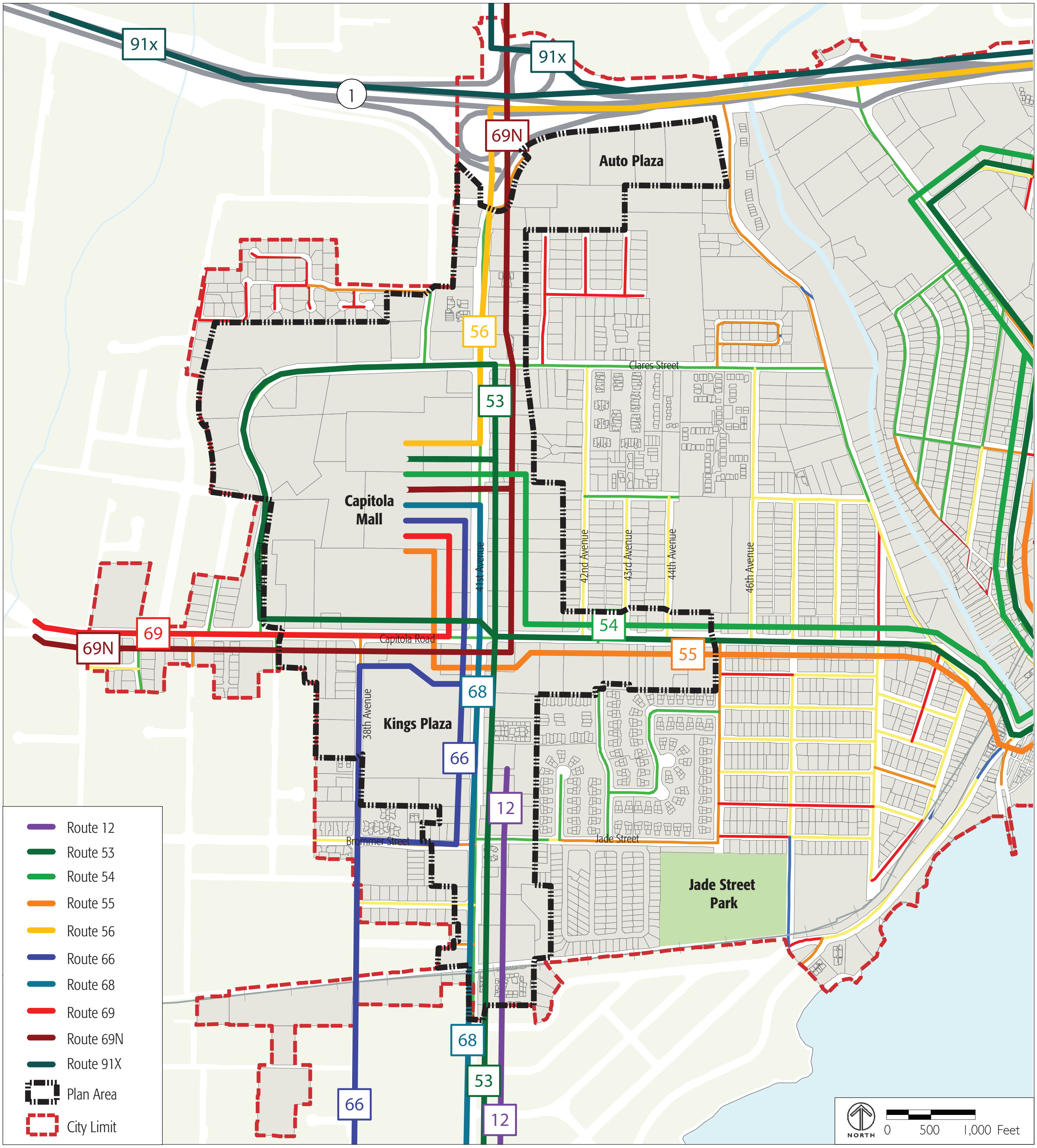
3. Considerations for Re-Visioning Plan

The Re-Visioning Plan process will consider changes to the design, location, and management of parking within the 41st Avenue corridor. The Plan may call for new surface parking serving to be located behind buildings or screened from view along primary street frontages. The Plan also may call for the redevelopment of existing surface parking lots with new structures fronting the street. On properties that are currently over-parked, such as Capitola Mall, it may be possible to redevelop portions of surface parking lots without replacing eliminated parking spaces. Redevelopment of surface parking in shopping centers that do not have an excess supply of parking would require new parking to replace eliminated parking and serve new uses. This parking need could be met with new parking structures, either located on-site our off-site as part of a shared public parking facility.

A parking strategy for the Plan area will consider management of parking demand in addition to increasing the supply of parking. One approach may involve encouraging the shared use of parking between uses with peak parking demand occurring at different times of the day. Mixed use development and improved pedestrian and bicycle facilities could increase non-vehicle trips in the Plan area and thus reduce parking demand. Finally, the Plan could call for the creation of a new parking district with the ability to raise revenue for a coordinated parking management program within the Plan area. This program could include new public parking facilities, signage, real-time parking availability information, variable pricing, and other tools to more fully utilize existing parking supply.

C. Transit Service

Bus transit service within the Plan area is provided by Santa Cruz Metropolitan Transit (Metro). As shown in Figure 18 there are nine Metro transit lines that serve the Plan area, all of which stop at the Capitola Mall.



Source: City of Capitola, 2011.

FIGURE 18

BUS TRANSIT ROUTES

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

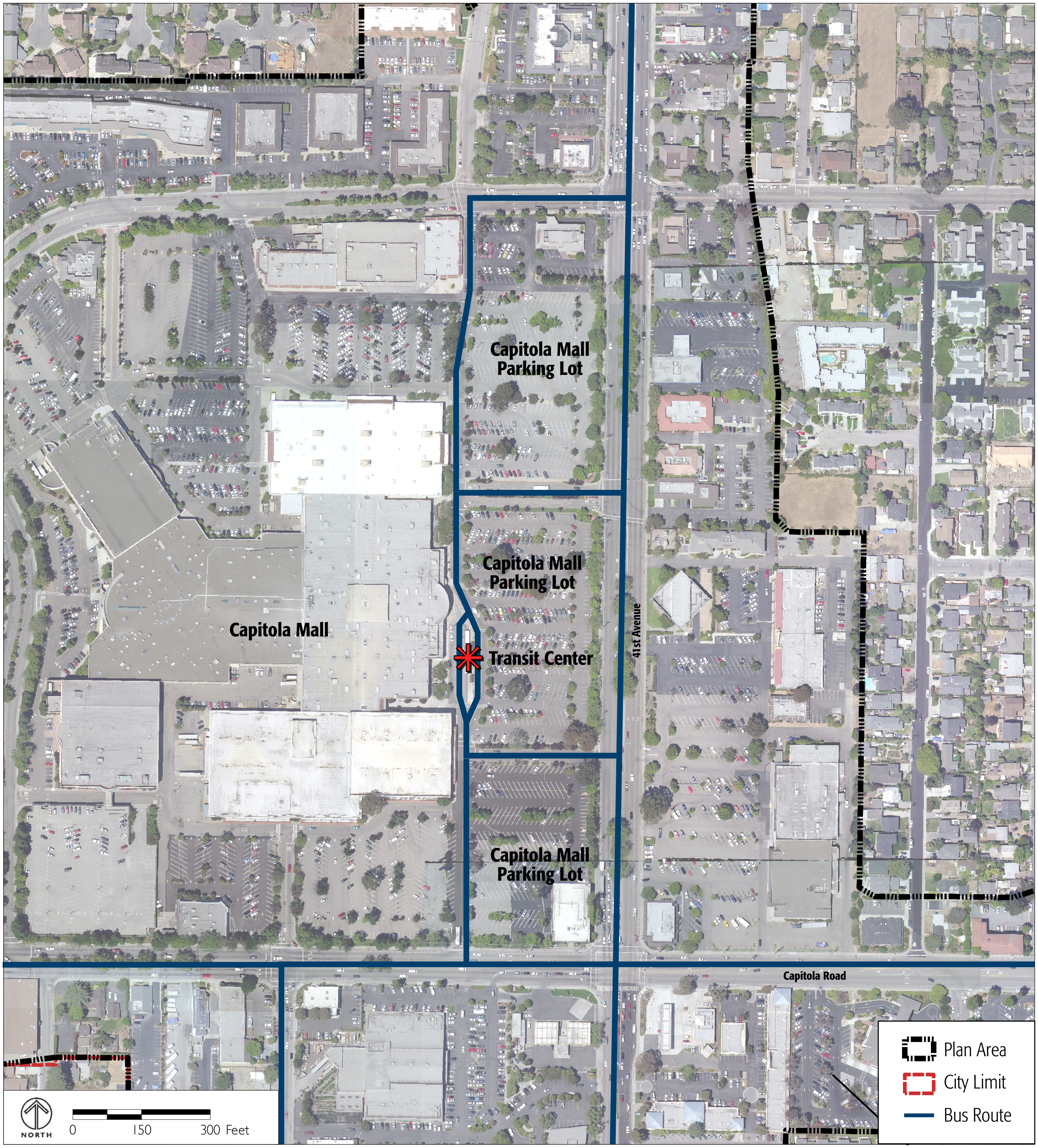
Located within the mall is the Capitola Mall Transit Center, which serves as the primary mid-county transit hub. Metro does not collect data on specific numbers of passengers using the Transit Center, but Metro staff estimates that thousands of passengers utilize the Transit Center every day, including 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.

Figure 19 identifies the location of the Transit Center on the mall property, and the route that buses follow to enter and exit the Transit Center. The Transit Center is located immediately adjacent to the mall's front entrance facing 41st Avenue. To enter the mall property, the majority of bus routes enter from the mall's main entrance on 41st Avenue, though some routes also enter from the northern Clares Street entrance or the southern Capitola Road entrance. Buses travel through the mall's parking lots to the Transit Center, and then exit the mall either from 41st Avenue or Capitola Road.

The location, design, and operational characteristics of the Capitola Mall Transit Center is an important issue for the Re-Visioning Plan. Representatives of the Capitola Mall have stated that they would prefer the Transit Center to not be located immediately adjacent to the mall's "front door." Metro also reports that the Transit Center's location can negatively impact bus operations. Particularly during busy shopping season, shoppers walking across the bus lanes from their cars to the mall entrance can delay buses entering and exiting the center. These delays can, on occasion, significantly affect the ability for buses to leave the center to stay on schedule.

However, Metro reports that the Transit Center location also has benefits. Metro believes that the proximity of the Center to the mall contributes to high ridership numbers as it is quick and convenient to access the mall from the Center. The mall's proximity to the Center also allows transferring passengers to quickly make purchases at the mall while waiting for their next bus.

The Re-Visioning Plan will consider alternative locations and designs for the Transit Center on the Capitola Mall property. These alternatives will need to address current issues with the Center's location while maintaining the



Source: Santa Cruz METRO. 2011.

FIGURE 19

TRANSIT CENTER BUS CIRCULATION

benefits that this location provides to passengers and mall retailers. Ideally, a redesigned Transit Center will be an asset to the entire community and will contribute to the long-term vitality of the corridor. The redesigned Transit Center could also incorporate and facilitate transfers to Capitola's Shuttle System and to bicycle and pedestrian walkways and bikeways so that it becomes a truly multi-modal center. The Transit Center could become a new focal point for the corridor, integrated with its environment in a way that creates a vibrant, transit-oriented activity node. Land use, public infrastructure, public spaces, and circulation patterns could be coordinated in a way to create a new public space for residents, workers, and visitors to gather and enjoy. A redesigned Transit Center could help facilitate a shift towards a more sustainable development pattern within the Plan area that also enhances the long-term economic vitality of the corridor.

D. Pedestrian and Bicycle Facilities

1. Bicycle Facilities

Figure 20 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. Proposed facilities are taken from Capitola's Bicycle Transportation Plan, adopted in 2011.

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.

The Plan area has a relatively complete network of bicycle paths on City streets, but this doesn't mean the area is bicycle-friendly. 41st Avenue is neither safe nor convenient for bicycles, due largely to the traffic volume and congestion, particularly north of Capitola Road. The frequency of driveways and complex turning movements for vehicles adds to the hazards for bicycles. Since 2002, 19 bicycle collisions on 41st Avenue have been reported to the Capitola Police Department, which constitutes approximately ¼ of all reported collisions in Capitola during this period. Over ¾ of bicycle collisions

Source: City of Capitola and RBF Consulting, 2011.

FIGURE 20

BICYCLE FACILITIES

Conditions for bicyclists on 41st Avenue north of Capitola Road (above) contrast dramatically with conditions south of the City limit.

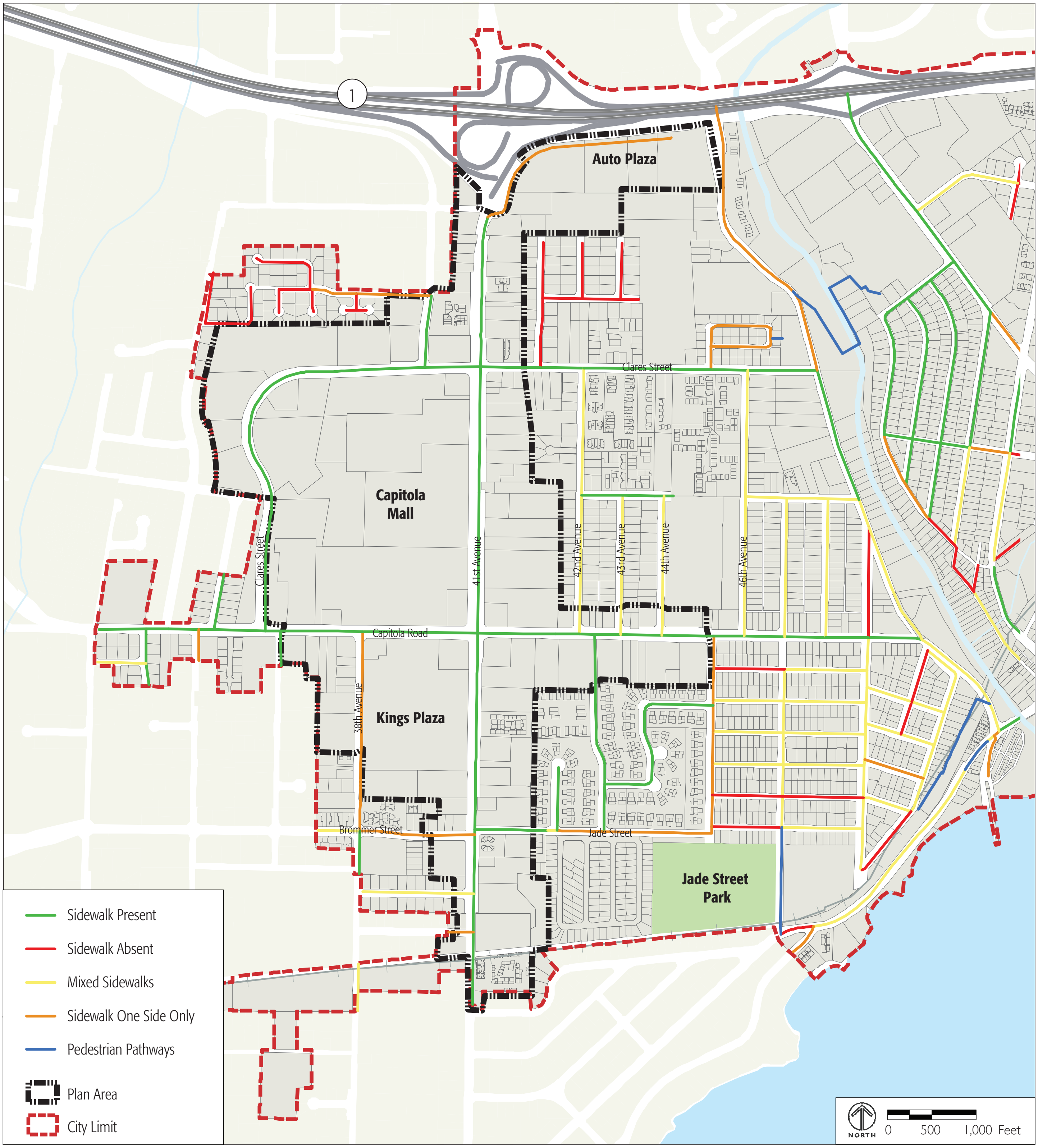
within the Plan area occurred north of Capitola Road, with the 41st Avenue/Gross Road intersection being a particularly dangerous area for bicyclists.

South of Capitola Road, 41st Avenue becomes more bicycle friendly. This is the product of lower traffic volumes, reduced traffic congestion, and the gradual transition in land use from a regional shopping center to a smaller-scale retail environment. South of the City limit the environment for bicyclist's changes dramatically. The street narrows to two lanes, vehicles travel at slower speeds, and streetscape improvements create a more bicycle- and pedestrian-friendly environment. The bicycle-friendly nature of this segment of 41st Avenue is accentuated by the presence of the Family Cycling Center with bicycle rentals available adjacent to the sidewalk. Future development of the Rail Trail along the existing rail line will add Class I bike way access to this area of 41st Avenue and will provide for a safe and direct bicycle connection between 41st Avenue and the Village.

The Re-Visioning Plan will examine ways to create a more bicycle-friendly environment within the Plan area. Achieving this goal north of Capitola Avenue will be difficult given existing traffic volumes and congestion. Perhaps the greatest factor contributing to conditions for bicyclists is the regional-serving nature of Capitola Mall and other land uses within the Plan area. By their very nature, regional-serving commercial uses attract large numbers of shoppers traveling in automobiles. These vehicles travel along 41st Avenue and turn into shopping centers with large parking areas located adjacent to the roadway. A challenge for the Re-Visioning Plan will be to continue to meet the needs of regional-serving commercial uses while improving conditions for bicycles. Incorporating bicycle facilities (parking and maybe bike rental opportunities) into the re-designed Transit Center will be an important improvement. In the short-term there may be ways to incorporate bicycle routes into the design of existing larger parking lots. Over the longer-term, more significant changes in the form of development, and the way in which commercial uses engage the public realm, may help to resolve this tension.

2. Pedestrian Facilities

As shown in Figure 21, sidewalks are present on both sides of most major streets in the Plan area, including along 41st Avenue, Capitola Road, and



Source: City of Capitola and RBF Consulting, 2011.

FIGURE 21

SIDEWALKS AND PEDESTRIAN PATHWAYS

Pedestrian mobility within the Plan area is affected by obstructions within sidewalks (top) and frequent driveways (middle). The absence of sidewalks on streets in surrounding areas (bottom) limits pedestrian connections between the study area and adjacent neighborhoods.

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. The City's current project to install a sidewalk to the western side of 38th Avenue will be completed in late 2011.

As with bicycle facilities, the presence of pedestrian infrastructure within the Plan area does not, in itself, create a pedestrian-friendly environment. The volume and speed of vehicle traffic creates an environment that is uninviting and unsafe for pedestrians. Crossing 41st Avenue, with its 105-foot right-of-way, can be a particularly harrowing experience. The frequency of driveways providing vehicle access from streets into shopping centers and other commercial uses presents additional hazards for pedestrians. Accessing businesses from sidewalks can also be difficult for pedestrians. Most buildings are set-back from the street with parking lots located adjacent to sidewalks. In many areas there are no walkways that provide direct pedestrian connections from the front sidewalk to the building entrances.

Since 2002, there have been 12 reports of vehicle collisions with pedestrians along 41st Avenue, constituting approximately 20 percent of all reported pedestrian collisions in the city during this period. Approximately 2/3 of reported pedestrian collisions within the Plan area occurred along the block fronted by the mall. The Police Department has received fewer reports of pedestrian collisions north of Clares Street and south of Capitola Road.

Residents in adjacent neighborhoods also experience difficulties walking to destinations within the Plan area. Many adjacent neighborhoods either lack sidewalks or have incomplete sidewalks. North of Jade Street, nearby residents can access 41st Avenue only via sidewalks along Capitola Road and Clares Street. In many locations these sidewalks are in poor condition or obstructed with telephone poles, utility cabinets, and other similar structures. Navigating through these conditions can be particularly difficult for persons with disabilities. South of Jade Street, there are more local streets that connect to 41st Avenue. However, Brommer Street, Reposa Avenue, and Melton Street all lack complete sidewalks on both sides of the street.

The Re-Visioning Plan will address the quality of the pedestrian experience both along City streets and within private property. Short-term improvements are possible to public sidewalks and crosswalks to improve connections to adjacent neighborhoods to allow for improved pedestrian circulation within the Plan area. Short-term improvements could also include the designation safe pedestrian walkways through existing large parking lots. Over the longer-term, changes to basic development patterns within the corridor will be necessary to significantly enhance the pedestrian experience. For example, locating new or redesigned commercial properties adjacent to the street with parking located to the rear of buildings would dramatically improve the pedestrian experience. The Capitola Mall and other larger shopping centers also could be reconfigured to allow for improved internal pedestrian circulation and better pedestrian connections between adjacent properties.

V. ECONOMICS

The 41st Avenue/Capitola Mall Re-Visioning Plan will be firmly grounded in economic realities. Recommended land use and urban design changes within the Plan area will reflect the market demand for different types of development over the short-, medium-, and long-term. Capitola can also help stimulate private investment in the corridor by using Redevelopment Agency funds to make infrastructure and other public improvements within the Plan area. This chapter provides information on Capitola's Redevelopment Agency and presents baseline information about economic conditions within the Plan area.

A. Capitola Redevelopment Agency

California law allows cities to form redevelopment agencies to revitalize deteriorated and blighted areas within their jurisdictions. Capitola's Redevelopment Agency was formed in 1982 and established a redevelopment project area that applies to most of the Re-Visioning Plan area north of Capitola Road (see Figure 22). In 2003, the Rispin Mansion site was added to this project area.

Initially, Capitola's Redevelopment Agency was formed primarily to improve public infrastructure such as streets, sidewalks, and curb and gutters within the project area. Funds for these improvements are generated from increased property tax revenue from redevelopment activity, known as "tax increment." State law also requires that 20 percent tax increment revenue be invested in the development or rehabilitation of affordable housing.

The activities of Capitola's Redevelopment Agency are guided by the Capitola Redevelopment Project Implementation Plan and Housing Strategy. This document outlines broad redevelopment goals and identifies the following projects and programs to receive funding during the 2010-2014 period:

- ♦ Public infrastructure and improvements, including enhanced pedestrian connections and access, improved transportation and parking, and improved public spaces.

Source: City of Capitola, 2011.

FIGURE 22
REDEVELOPMENT PROJECT AREA BOUNDARY

- Public facilities, including funding for future construction of a new library in or near to the project area.
- General economic development strategies, such as land assembly, public/private partnerships, and façade improvements.

Capitola's Redevelopment Agency expects to receive $2.0 to $2.5 million in tax increment revenue each year through 2014. The Agency's current Expenditure Plan estimates that approximately $280,000 of tax increment will be available for projects and programs during the 2010-2014 period, after mandatory expenses are paid. In addition, the Agency is permitted to allocate $3 million for "Special Projects" during the next planning period. The 2010-2014 Plan identifies Rispin Mansion as a Special Project, though these funds could also be used for alternative projects within the project area.

Capitola's Redevelopment Agency will be an important source of funding for infrastructure improvements needed to implement the Re-Visioning Plan. As described in Chapter 3 of this report, Capitola recently committed approximately $1 million in redevelopment funds for streetscape and other public improvements adjacent to the Capitola Mall site. Redevelopment funding could be used in other areas of the corridor to improve bicycle and pedestrian circulation, establish public gathering places, improve the design character of the area, and generally serve as a catalyst for private investment and redevelopment within the Plan area.

It is important to note that the future of redevelopment agencies in California is currently uncertain due to Governor Brown's proposal to eliminate redevelopment agencies to help reduce the State's budget deficit. At the present moment it is hard to predict if Brown's proposal will be adopted by the Legislature. However, it is likely that, at a minimum, there will soon be major redevelopment reform that may result in decreased tax increment revenue available to redevelopment agencies. This reform, if it occurs, may mean that in future years Capitola will have reduced redevelopment funds to invest in infrastructure, housing, and other improvements within the Re-Visioning Plan area.

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.

B. Baseline Economic Conditions

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

tion of common areas, and building design. REAs often make significant redevelopment of commercial centers difficult.

- **Concentration of Retail.** Retail uses are dispersed throughout the 41^{st} 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 consolidate retail over time. This could be achieved through the redevelopment of parking lots, or creating a new two-sided shopping street off of 41^{st} 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.

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.

<u>Attached Residential and Mixed Use</u>

- **Urban Amenities.** The 41^{st} 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 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

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

should be encouraged as part of a larger vision 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 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 La Bahia in Santa Cruz and 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 Village is important for new hotels. A new hotel within the Plan area could also help support and benefit from focused activity nodes with quality urban amenities.

The Baseline Economic Conditions Memorandum also describes case studies of successful revitalization of commercial corridors and shopping malls. The following three case studies were chosen based on their relevance to the 41st Avenue corridor:

- Brea Avenue and Birch Street, Brea, California
- Northgate Mall, Seattle, Washington
- The Shops at Tanforan, San Bruno, California

The revitalization of these corridors and malls involved adding retail space, introducing lifestyle retail components, introducing housing and mixed use, and making public infrastructure and streetscape improvements. Specific tools uses by communities to achieve these changes included specific plans, tax increment financing, finance/redevelopment assistance, developer agreements, streetscape improvements, public/private development negotiations, and transit improvements.

Some of the key lessons learned from these case studies include the following:

- Leasing of retail space in mixed use buildings outside of large cities is challenging.
- Finding appropriate, independent retailers requires pro-active outreach.
- Flexibility in permitted ground floor uses may be needed for vertical mixed use projects
- A sufficiently large daytime population is important for the success of mixed use retail.
- Public subsidy is often necessary for pioneering redevelopment.
- 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.
- Re-investment by a mall owner is made more appealing by complementary investments and focus from the public sector.
- Spurring major change requires a shared vision and cooperation among public sector participants and community buy-in.
- Redeveloping properties can require long-term focus.
- Potential fiscal benefits to cities can justify participation and assistance in the redevelopment process.
- Complicated ownership agreements and structures at traditional malls can limit redevelopment possibilities and require a strategy to overcome additional constraints.
- Transit access can benefit a mall, but integrating it into the property can be a contentious process.

Additional information on these findings and the three case studies can be found in Appendix B.

41ST AVENUE/CAPITOLA MALL STAKEHOLDER WORK SESSION NOTES

DESIGN, COMMUNITY & ENVIRONMENT

1625 SHATTUCK AVENUE
SUITE 300
BERKELEY, CA 94709
TEL: 510 848 3815
FAX: 510 848 4315
www.dceplanning.com

MEMORANDUM

DATE June 9, 2011

TO Derek Johnson
City of Capitola

FROM Ben Noble

RE **41st Avenue Stakeholder Work Session**

This memorandum provides a summary of the stakeholder work session for the 41st Avenue Re-Visioning Plan held on February 23, 2011. Work session participants included property owners, merchants, brokers, and developers familiar with conditions within the corridor.

A. *Key Themes Expressed by Work Session Participants*

Participants expressed a diversity of opinions at the work session. However, there were some common sentiments and shared concerns expressed, summarized as follows:

- **Transit Facility**. The location and design of the transit facility is a major problem for the mall and needs to be addressed as part of this study.
- **Retailers**. Capitola needs to attract higher-quality retailers that match the local demand. The City needs to understand the local demand and help to change perceptions about Capitola among major national retailers.
- **Community Attitudes**. It will be important to build the support of Capitola residents for change and improvements in the corridor.
- **City Reputation**. The City needs to improve its reputation as a community that is business friendly.
- **City Regulations**. The City needs to revise its regulations and procedures to be more flexible, reasonable, and business friendly.
- **City Services**. The City should focus efforts on providing infrastructure and key services that will create an environment attractive for private investment.
- **Housing**. Additional housing is possibility in the corridor, but it will need to be carefully located to minimize conflicts with commercial land uses.

B. Notes on Individual Comments

Below are notes of comments made by participants at the stakeholder workshop.

- The mall is tired and needs a make-over in a grand scale
- Government needs to do less "to me."
- Regulations need to be flexible and enable the City to react to development project applications as they come in over time.
- City needs to focus on providing core public services
- We need to bring more people into the corridor.
- The location of the bus transit facility is a key issue. It's a bad front door for the mall, creates safety concerns.
- Other regions have better success with the same demographic make-up.
- Traffic is a reality for a large shopping area, and is not a critical issue. Cars need to be accommodated over bikes and pedestrians. The problem is the perception of traffic, not the reality. The key parking issue is with management, not supply. Don't take traffic lanes away.
- Traffic is not issue but rather a cluster of exciting amenities.
- Redevelopment of the Pro Build site in the county could be a competitive issue for the corridor.
- Regarding the establishment of new pads along the street, this could help attract better restaurant, which like street frontage.
- Existing leases hamstring the mall property. Pads could be a possibility if parking can be worked out.
- The problem is that there is not a lot to go to in the corridor
- A key issue is how the community reacts to change
- Property owners and developers need city backing to promote change.
- The City needs to remove the barriers and stick to a long-term clear vision that is stable. City needs to be supportive and consistent. Regulations need to be flexible.
- Zoning regulations that prohibit investment is a problem
- The City's first responsibility is to provide the infrastructure. What are the investments over the next 20 years? E.g. relocate the transit center
- We should concentrate like uses or more activity in key locations, rather than spread it out over the whole corridor. We don't want a long boulevard of commercial. We need to define sub-areas within the corridor.

- We need a roadmap for public sector improvements.
- Housing or mixed-use can be a problem due to conflicts between commercial and residential uses.
- The City should keep permitted land uses very broad to allow residential if a property owner wants to add it.
- Residential uses are not appropriate in the northern part of the study area. It is not compatible with a regional mall. A shift occurs at Jade Street.
- Mall REA's prohibit residential uses on the mall site.
- Housing along the periphery of the study area could be okay.
- Will new housing benefit merchants? Not really - A few hundred units will not affect retail market.
- Hotels are acceptable and encouraged by City.
- The existing 40-foot height limit works well.
- The County's population growth is forecasted to grow very little in future which does not drive a growth for more retail demand; so key is to retain existing tenants or attract new tenants (e.g. Apple).
- The corridor does not have the right retail mix.
- The corridor needs higher-end retailers.
- The City should do a survey to find out what retailers to community would like to see in Capitola.
- We need to get the community to buy into retail businesses in Capitola.
- Demographics are part of the problem.
- Increase in senior citizens may change things
- The City needs to send proper signals that they are "open for business." Approval of the Target store was a good sign.
- There is a demand for larger format retail but insufficient supply. Many retailers need a 20,000 to 30,000 footprint. Example: REI, Michaels
- It's a problem that a conditional use permit is needed to establish a new business
- LOS C or D service of standard by voter approval is a critical issue. Consider a global capacity envelope for LOS & FAR by sub-areas.
- Need a program EIR w/overall constraints to allow streamline future CEQA review, allow future development and create more certainty in targeted zones.
- The Borders project sent a message that the City is not friendly to business.
- Capitola has A+ demographics but B- perception

- We need community buy-in of enhancement to the corridor
- Projects with 12,000 sq. ft. require PC approval (17.60.030(d))
- Look at 20-foot landscape setback requirement as app. for transit center.
- We need a set of design guidelines to create better certainty for project approvals design, signage, landscaping, art, etc.

APPENDIX B

BASELINE ECONOMIC ANALYSIS MEMORANDUM

STRATEGIC ECONOMICS

MEMORANDUM

Date: June 8, 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: 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.

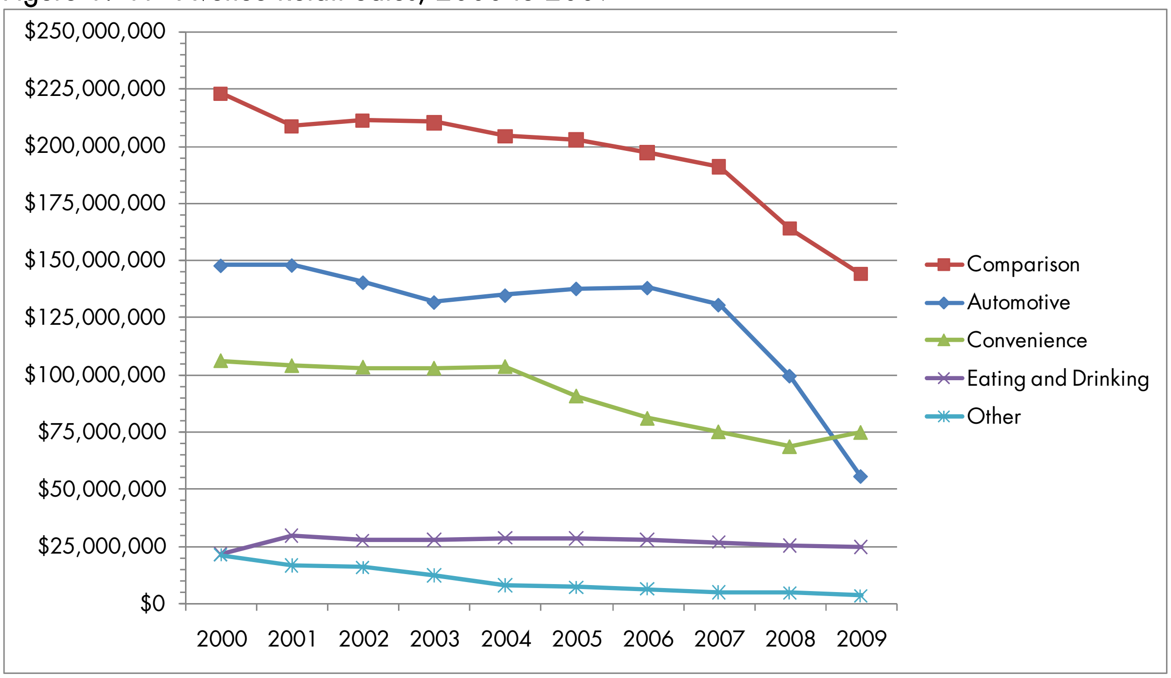
RETAIL DEVELOPMENT CONDITIONS & STRATEGIC CONSIDERATIONS

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 675,000 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. It is important to note that sales were steadily falling even during the strong economy prior to the recession.

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

---

[1] 2011 California Retail Survey.

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.

The 42 percent drop in total retail sales between 2007 and 2009 is significant and has a major impact on the fiscal health of the City as retail sales account for a large portion of taxable sales in the City. Declines in total taxable sales in the City as a whole, were also worse than in Santa Cruz County or state-wide, during this same time period. [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.

Declining sales along 41st Avenue will have a negative effect on the City's ability to provide services and amenities to residents. According to a previous analysis by Applied Development Economics, the 41st Avenue Corridor accounts for over 80 percent of citywide retail sales in 2007. As a result, the dramatic sales declines along 41st Avenue have a major impact on sales tax revenues for the City's General Fund. Losses along the corridor are therefore not only a matter of concern for business interests.

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 tenanting 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, ground floor spaces in the Capitola Beach Villas mixed-use project, have encountered difficulties in obtaining tenants since opening in 2008, although

[2] Between 2007 and 2009, total taxable sales declined by 28 percent in Capitola, 25 percent in Santa Cruz County, and 21 percent state-wide (California Board of Equalization). Total retail sales and total taxable sales are similar, but not equivalent; total taxable sales exclude some retail sales & include other non-retail sales. For example, a majority of sales at grocery stores are not taxed (i.e. most food items), but some non-retail sales such as business-to-business transactions are taxed.

tenants are now showing interest. The project's financial troubles – largely driven by the housing market – hampered tenanting, but design and location concerns also limit the project's appeal relative to more significant concentrations of retail. Located on 41st Avenue just south of the railroad tracks, the project was designed with limited retail visibility, with recessed storefronts overhung by the building, and a relatively isolated location. 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 a reminder of retail's need for visibility and access, and that locations away from major concentrations are best suited for retail serving a more local population.

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) – 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. Furthermore, 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

[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.

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 and other shifts in retail approaches and formats have diversified retail competition and left the Capitola Mall looking dated and diminished as a regional destination in comparison with competitors.

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 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. 17) 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, Maintain Retail Character, and Intensify Retail Over Time

41st Avenue is currently a challenging 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.

Maintaining a strong concentration of retail throughout the corridor and further intensifying retail development in key nodes is also critical. Currently, retail is scattered throughout the mile-long and sometimes quarter-mile wide corridor, separated by numerous surface parking lots and, increasingly, other non-retail uses. This is challenging to would-be customers, as it necessitates multiple trips within the corridor and creates little synergy between stores. There is danger of further dilution of existing retail, if, as previously described, non-retail uses such as small medical and professional office space continue to slowly replace current retail uses. Maintaining the corridor's core regional retail identity, while encouraging the expansion of community-serving daily needs retail in a complementary way, is critical to sustaining the area role as a vital source of sales tax revenue to the City and community it serves. The restriction of ground-floor uses to retail in key portions of the corridor, such as the intersection of 41st Avenue and Capitola Road, is recommended to maintain it as a regional and local shopping destination.[5] The City may also consider requiring a percentage of ground floor street frontage be devoted to retail uses in the intermediary blocks between nodes and towards the edges of the Study Area.

In addition to maintaining the predominantly retail character of the area, existing core retail areas should be intensified. 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 3.3 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 developing untapped opportunities.

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

[5] In this context, retail includes retail goods outlets, restaurants and personal services business such as salons and drycleaners that typically co-locate with retail goods outlets. Ideally, these three types of businesses serve the same customers and contribute to a synergy of uses that together have greater appeal and encourage shoppers to visit more than one store or business in the course of a single trip.

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 and resistance to development. 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. 15). 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, with occupancy above 97 percent. 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.

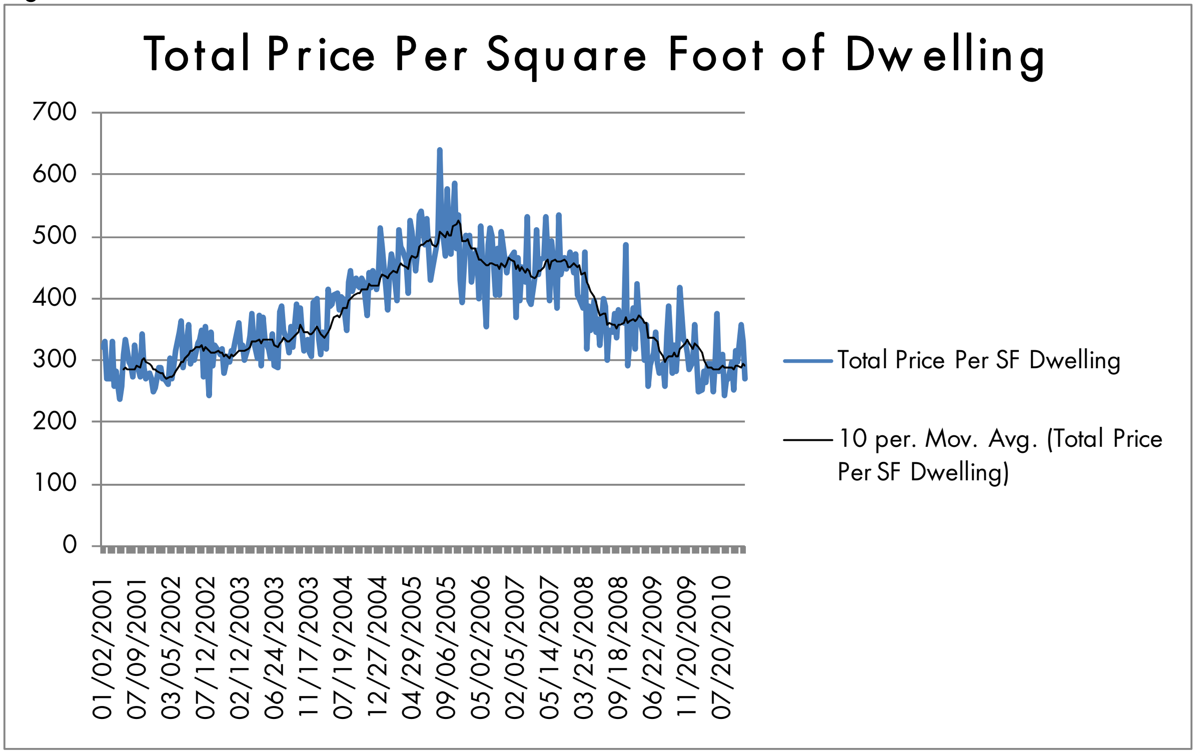
Developers and brokers indicate strong on-going demand for apartments, in part due to the major amenity provided by the beach. However, current rents are unlikely to support new construction in a redevelopment context, which includes demolition and land costs that must be sufficiently high to displace 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 and synergy 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, isolated and disjointed 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. Notably, Capitola Beach Villas has filled its units quickly after conversion to rentals due to the stronger rental market, but it remains to be seen whether potential future buyers find the project attractive once it converts to condominium.

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. 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. General demographic trends favor growth in mixed-use and compact housing types as the Baby Boomer population ages and downsizes, and the young adult "Millenial" population continues to exhibit preferences for this housing. Capitola stands a better chance of capturing this demand if a walkable, mixed-use place exists to create a value premium for condominiums.

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.[6]

[6] Under specific market and regulatory circumstances, it could be possible to design dwelling units as apartments in the short-term and convert to condos when the market is ready; however this is rare for relatively new construction. Some of this viability is dependent on whether apartments and condominiums have different code requirements; in many markets this conversion is rare because condominiums are subject to additional parking and other requirements, making them more expensive to build than apartments and not a logical choice for a developer seeking to rent units for a period of time. Developers also often specialize in owner versus rental housing due to differing financing arrangements and capital reinvestment strategies, and different preferences regarding whether to invest in a community over the long-term or to build and exit.

Community concerns with rental projects further discourage new apartment prospects.[7] 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 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.[8]

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

[7] 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.

[8] 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.

landscaping improvements and requirements could also improve the corridor's appearance. In particular, additions of permeable 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 – by contributing to the larger value premium of a desirable, walkable, appealing area.

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 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.[9] 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.[10] 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. Matching those reports, developers stated 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.

---

[9] Dun & Bradstreet, 2011; Strategic Economics, 2011.

[10] 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 interviews with local developers have indicated that the Capitola Hotel in Capitola Village is on hold pending broader 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.[11] 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.

[11] Originally, 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 tenanting 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.

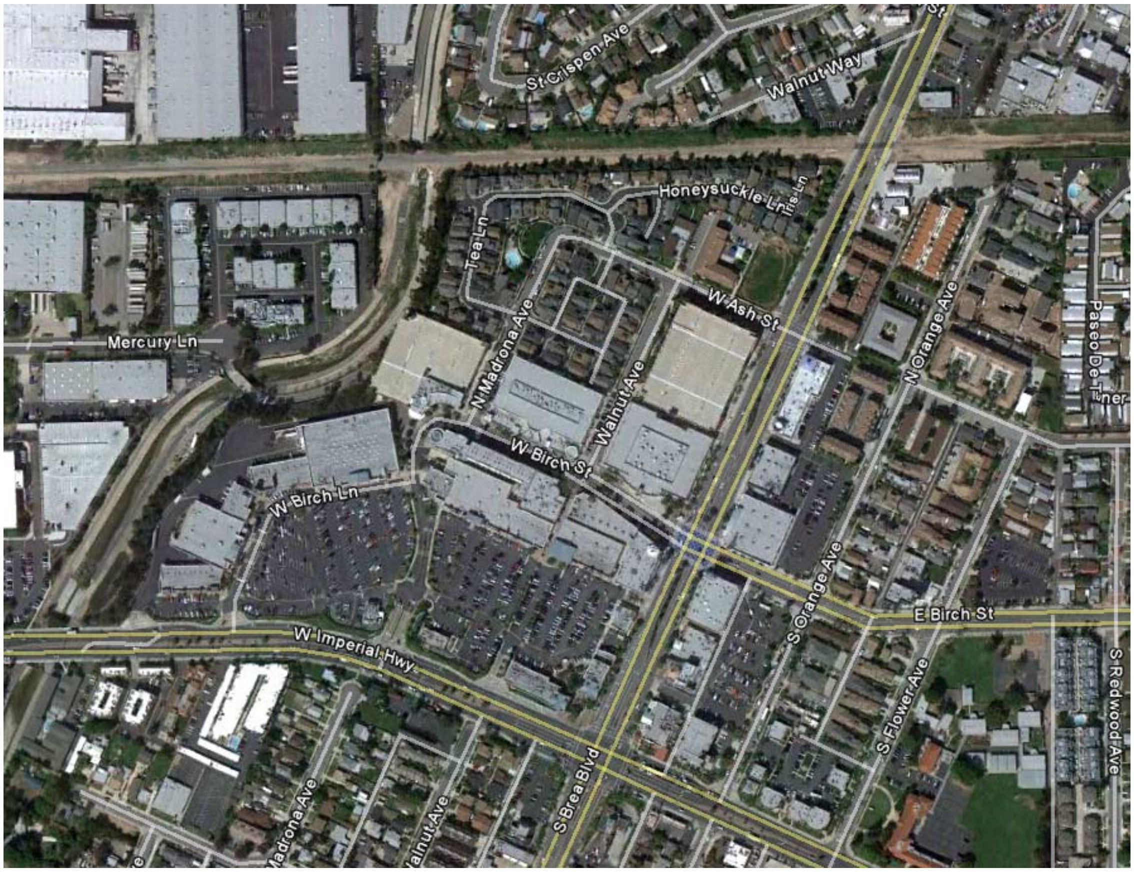
- Daytime population is important for the success of mixed-use retail.

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 during the summer tourist season, Capitola has a low daytime population, as it is primarily a residential community whose working residents overwhelmingly leave the city to work. 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 centered at Birch Street and Brea Avenue. *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.

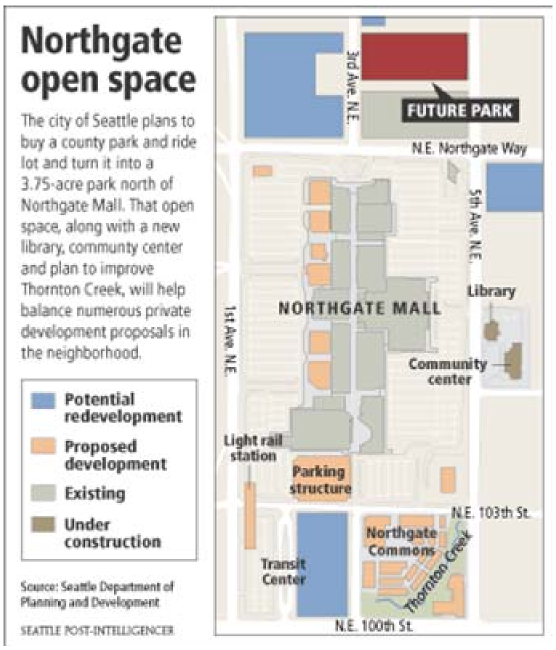
There are no indications that Northgate Mall was failing prior to renovations in 2005. However, public sector agencies created significant momentum for private reinvestment by focusing investments and attention on the area and encouraging new development. Additional working capital was provided to the 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.*



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

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

Sidewalk image of 507 Northgate, a mixed-use residential development. *Source: Wallace Properties, 2011.*

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 attributes, 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 from new retail locations and formats.

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.

THE PLANNING CENTER

DESIGN, COMMUNITY & ENVIRONMENT

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