



OFFICE OF THE CITY ADMINISTRATOR

DRAFT TERMS OF AGREEMENT PASEO NUEVO REDEVELOPMENT

City Council, June 2, 2026

Recommendation

- Receive a presentation on the negotiated framework for agreements to implement the Paseo Nuevo Redevelopment Project and the associated community benefits; and
- Direct staff to return with the Disposition and Development Agreements and other related agreements to this transaction for approval on June 16, 2026

Presentation Overview

- Paseo Nuevo Background
- Disposition and Development Agreements
- Project Overview
- Public Benefits
- CEQA
- Recommendation

Paseo Nuevo Background

Redevelopment Agency

- The City's Redevelopment Agency (RDA), formed in 1968, was a public entity established by local government to eliminate urban blight through revitalization projects.
- In 1980s RDA initiated revitalization through development of Paseo Nuevo Mall.



Paseo Nuevo's History

- Downtown was struggling, and community supported idea of new shopping mall downtown
- City's RDA subsidized construction of the Paseo Nuevo Shopping Center by paying for land assembly and constructing City Lots 2 and 10
- Private developer financed and constructed mall and mall's parking structure
- 75-year ground leases originated in 1989 with City's RDA
- Paseo Nuevo opened in 1990



Ground Leases and Uses Allowed

- When RDA dissolved, Paseo Nuevo property and ground leases transferred to City
- Terms of leases became subject to City's Charter which only allows 50-year leases that can't be extended
- Leases expire in 2065 (39 years)
- Although City owns the land under mall, the ground leases assign ownership rights of all buildings to lessees
- Uses allowed in these buildings are controlled by reciprocal easement agreement (REA)



Paseo Nuevo Not Financially Viable Development

- Developer's leasehold interest sold shortly after opening at loss compared to development cost
- City has **never** received any annual lease revenue
- Mall never hit performance targets that would have triggered rent payments under ground leases and not expected to for remainder of lease (39 years)

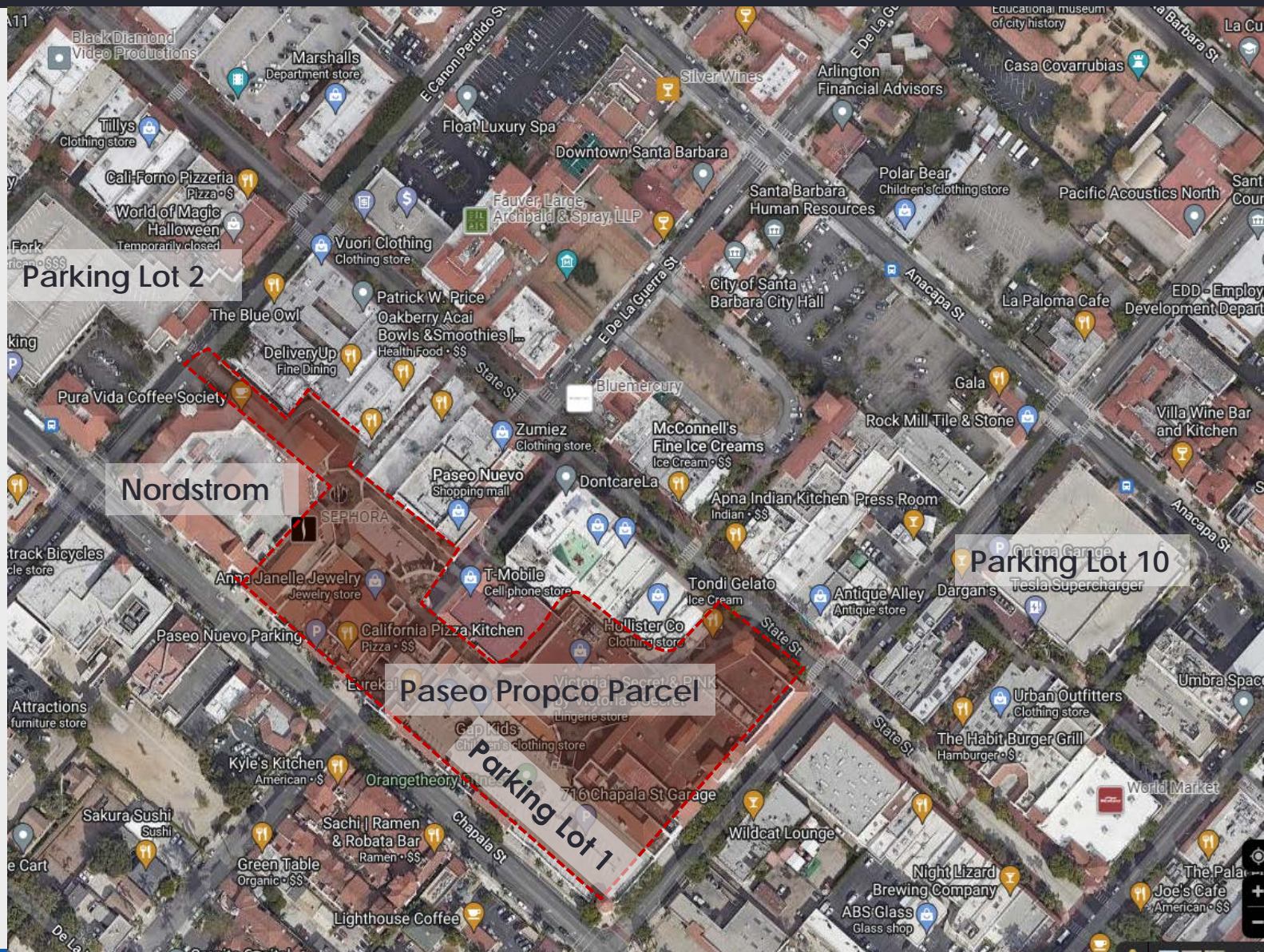
Vacant Anchor Tenant Buildings

- Macy's: vacant in 2017 (9 years ago)
- Nordstrom: vacant in 2020 (6 years ago)



Current Ground Lease Interests

- Paseo Propco holds lease for former Macy's building, in-line shops, and Lot 1
- DSP has Nordstrom ground lease and Lot 1 easement
- Parking lots 1, 2, and 10 were built to serve mall
- City owns land but has no ownership or control of buildings
- Paseo Propco and DSP have complete operating control
- All parties are bound by Reciprocal Easement Agreement (REA)



Disposition and Development Agreements

What are the Disposition and Development Agreements (DDAs)?

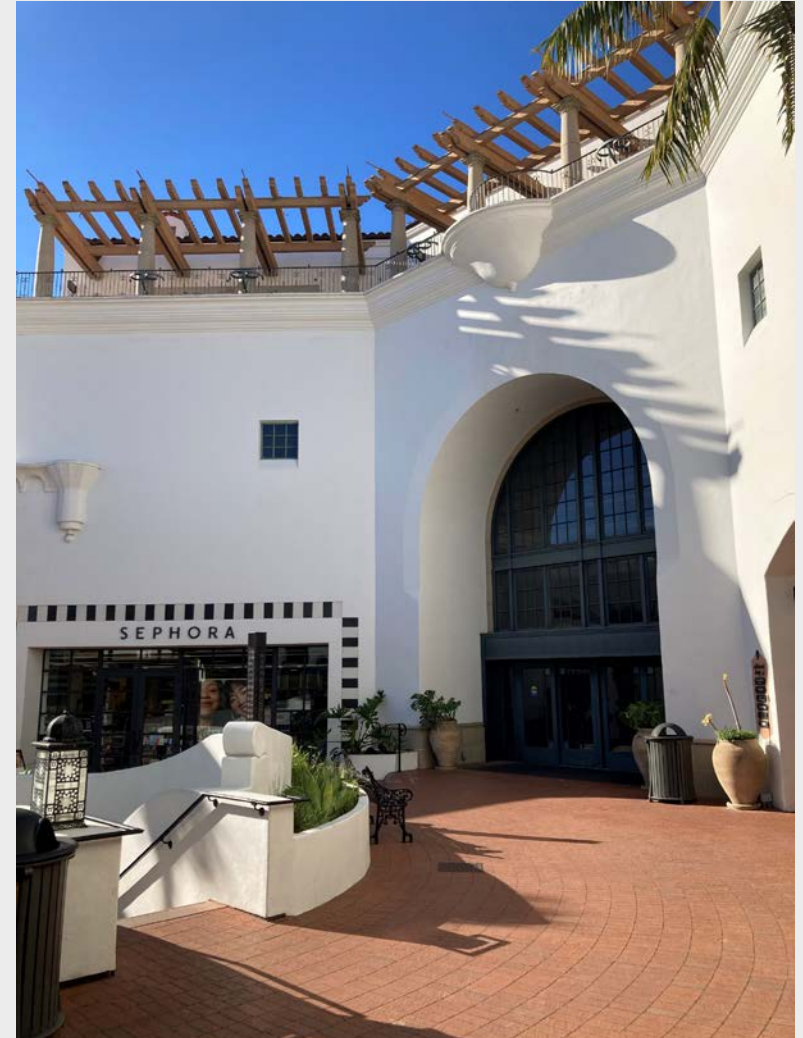


- The DDAs are binding contracts to accomplish redevelopment of the mall property, former Macy's building, former Nordstrom building, and Lot 1.
- They establish all obligations that must be met before transfer of the property, as well as ongoing obligations.

Project Overview

Proposed Project Statistics

- Former Macy's Building: Yardi Systems corporate offices – reuse of existing building
- Former Nordstrom Building: 80-112 rental housing units with adaptive reuse; 10% at 80-120% AMI
- Inline retail is retained and revitalized
- Fee simple property transfer to Yardi Systems and DSP



Deal Terms – DSP

DSP – Deal Terms
80 – 112 units of housing developed within former Nordstrom building footprint, potential for commercial use at ground floor
Fee transfer of Nordstrom parcel
\$1 million payment for public benefit contribution and \$700,000 to the Local Housing Trust Fund
Covenants prohibiting short-term rentals
Use restrictions under REA terminated.
Exclusive use and access to 49 parking spaces in Lot #1
80 parking spaces to be made available in Lot #2 for project
Housing project to include 10% inclusionary (moderate-income) units onsite

Deal Terms – Yardi Systems

Yardi Systems – Deal Terms
Renovation of Macy’s building for use as corporate offices
Fee transfer of Macy’s, Inline Retail, and Parking Lot #1 Parcels
Parking Lot #1 to remain open for public use <ul style="list-style-type: none"> - 49 spaces dedicated to DSP housing units - 115 spaces dedicated to Yardi Systems - 392 public spaces available - Yardi Systems to own and operate lot
250 parking permits between Lot #2 and Lot #10 made available for Yardi Systems
Use restrictions under REA terminated
City to continue to manage trash removal at Paseo Nuevo
\$5 million public benefit contribution to the Local Housing Trust Fund
\$700,000 public benefit contribution to the Downtown Parking Fund
Nonprofit community uses, such as theater and museum spaces, at Paseo Nuevo remain supported
Paseo Propco, LLC involvement in property extinguished upon close of escrow

Public Benefits

Public Benefits: Contributions for Downtown

- DSP contribution of \$1 million for downtown improvements
- Yardi Systems contribution of \$700,000 to the Downtown Parking Fund



Public Benefits: Housing Trust Fund Contributions

- Local Housing Trust Fund (\$5.7 million):
 - Yardi Systems contribution of \$5 million to the Local Housing Trust Fund
 - DSP contribution of \$700,000 to the Local Housing Trust Fund
- Proposed housing contribution could support between 100 to 200 affordable units at 80% AMI or below
- City could also use funds to leverage deed-restricted workforce housing for incomes above 80% AMI

Other Public Benefits from Project

- Combined retail spending by residents and employees is estimated to generate between \$3-\$4 million per year
- Annual hotel room spending ~\$1.5 million

Total increased annual spending ~\$5 million

Other Public Benefits from Project

- Increased revenue estimated:
 - \$180,000 increase in TOT
 - \$95,000 annual sales tax
 - \$120,000 property tax
 - \$ 320,000 parking permit revenue

Increased annual revenue to the City is >\$700,000 annually



Other Considerations

- Additional business gross receipts tax revenues expected to increase
 - Directly from Yardi Systems business tax
 - Indirectly from more business activity downtown
- Parking and Business Improvement Area (PBIA) assessment
- Potential impacts:
 - Additional public safety needs
 - Additional trash collection needs
 - Increase to cleaning and maintenance services

California Environmental Quality Act (CEQA)

CEQA

- City Council previously adopted a resolution declaring transfer of the City's fee interest to be exempt from the Surplus Land Act
- Consistent with City's General Plan and Zoning
- Work will be accomplished by modification of existing structures
- Interior modifications and minor exterior work
- Subsurface excavation or grading not anticipated
- CEQA documentation/ exemption findings will be presented to Council with proposed DDAs

Recommendation

How This Project Revitalizes Downtown

- Empty anchor buildings become office and housing; helps meet state-mandated targets for housing in downtown core
- Rest of mall maintained and improved
- Adaptive reuse leads to transformation faster
- Project is entirely funded with private capital
- Triggers \$100+ million of private reinvestment at heart of State Street
- Significant new annual revenue for the City >\$700,000
- Shifts construction and leasing risk onto private capital
- Public parking remains accessible and parking revenue increases

Next Steps

- Return to Council for approval of the DDAs
- Submit/resubmit formal land use and entitlement applications in 2026
- Design review and approval by the Historic Landmarks Commission
- Begin construction in 2027



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THANK YOU

Paseo Nuevo Redevelopment

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PROPOSED SITE PLAN - GROUND LEVEL



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