



4 ECONOMICS AND DEMOGRAPHICS

SECTION 4.1 INTRODUCTION

This chapter describes the demographic and economic characteristics of the city of Gilroy. Since economics and demographics frequently go beyond city/county boundaries, this analysis uses Santa Clara County and California as a whole for a comparative analysis. In addition, data are provided for a number of comparison cities in the region that represent economic development competitors for Gilroy. These points of reference provide important comparisons and perspective to highlight important qualities of Gilroy. Demographic information is used to identify trends and changes in the makeup, composition, and ultimately the demands of Gilroy's future population. Market conditions in Gilroy and the surrounding region are summarized, showing the economic strengths and potential areas of growth. This chapter is divided into the following sections:

- Introduction (Section 4.1)
- Demographics (Section 4.2)
- Economic Conditions (Section 4.3)
- Market Demand for Future Uses (Section 4.4)

SECTION 4.2 DEMOGRAPHICS

Introduction

This section summarizes and analyzes past and current Gilroy demographic information. Analyzing demographic information yields important information about possible shifts in City service demand, such as, changes in land use policy as families have fewer or more children and changes in economic conditions as ethnic demographics shift over time. This section analyzes U.S. Census and California Department of Finance demographic data, to identify those trends and conditions that are of importance to Gilroy's future.

Major Findings

- Between 2000 and 2010, Gilroy's population increased by 15 percent. Following Dublin with a 35 percent population increase, Gilroy was the fastest growing city among the comparison cities and the fastest among all cities in Santa Clara County.
- Between 2010 and 2013, Gilroy's population continued to accelerate, increasing close to 6 percent over three years, to a current total of 51,544. Compared to the other cities in the list, Gilroy was still the second fastest growing city after Dublin. Dublin had close to 8.5 percent increase in population between 2010 and 2013. Except for Morgan Hill with 6 percent increase, all other cities had less than 3 percent growth. Interestingly enough, Gilroy and Dublin both had close to 50,000 residents in 2013.

Existing Conditions

This section provides benchmark comparison between Gilroy and a selection of other cities in the region on a number of socioeconomic, labor force, real estate and quality of life indicators. The cities included in the comparison are Morgan Hill, Campbell, Dublin, Pleasanton, Livermore, Salinas, Watsonville, and Hollister. These cities either have a similar population size compared to Gilroy or they include similar industries or location characteristics. Analyzing the socioeconomic trends in these cities provides a part of the picture regarding Gilroy's economic competitive position.

Demographic Characteristics

Population Demographics

According to the California Department of Finance, the city of Gilroy's population is 51,544 residents, with 50,738 of them living in households, as shown in Table 4-1. While this is not an especially large population base, Gilroy has had a substantially higher population growth rate (22.4 percent) than the rest of Santa Clara County (7.7 percent), with the highest growth rate between 2000 and 2013.

The average population of the selected city group is 64,228 persons which puts Gilroy lower than the average. However, Gilroy still has a larger population compared to Campbell and Morgan Hill also located in Santa Clara County. Salinas in Monterey County and Livermore in Alameda County had 153,215 and 83,325 residents, respectively. Between 2001 and 2010 Gilroy's population increased by 15 percent, while Santa Clara County and the State of California had 5.6 percent and 9.1 percent population increase, respectively. While Salinas has the largest population of the group, it is the only city to decline in population from 2000 to 2010. After Dublin, Gilroy is the fastest growing city between 2000 and 2010.

**TABLE 4-1
POPULATION GROWTH TRENDS
Santa Clara County
2000-2013**

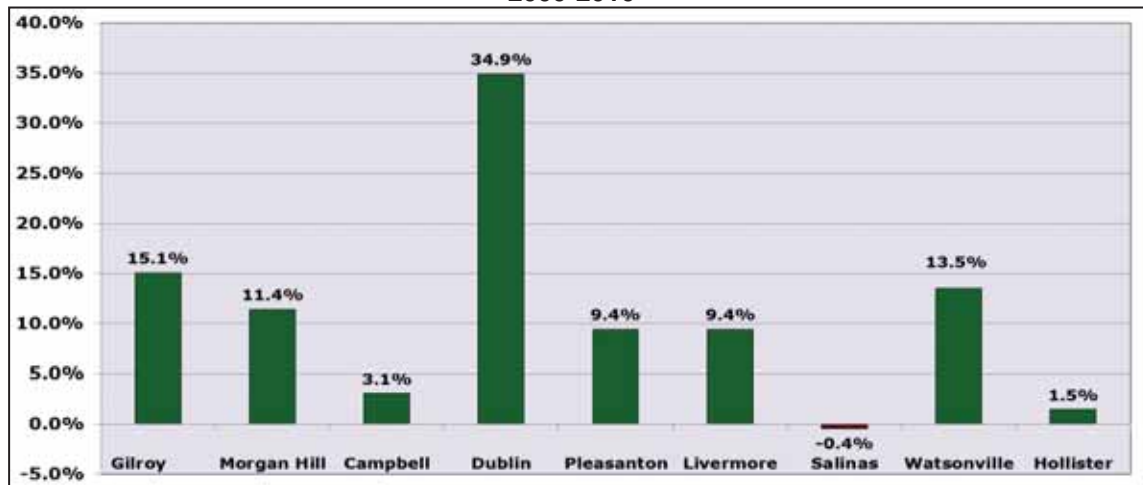
Santa Clara County Household Population¹	2000	2010	2011	2012	2013	2010-2013 Growth Rate	2000-2013 Growth Rate
Campbell	38,138	39,148	39,409	39,619	40,203	2.7%	5.4%
Cupertino	50,602	57,965	58,328	58,594	59,283	2.3%	17.2%
Gilroy	41,464	48,015	48,510	49,275	50,738	5.7%	22.4%
Los Altos	27,693	28,749	28,909	29,187	29,565	2.8%	6.8%
Los Altos Hills	8,025	7,869	7,916	7,962	8,211	4.3%	2.3%
Los Gatos	28,592	29,063	29,263	29,458	29,897	2.9%	4.6%
Milpitas	62,698	64,092	64,690	65,029	65,897	2.8%	5.1%
Monte Sereno	3,483	3,341	3,360	3,368	3,420	2.4%	-1.8%
Morgan Hill	33,586	37,496	37,869	38,681	39,693	5.9%	18.2%
Mountain View	70,708	73,801	74,353	74,892	75,995	3.0%	7.5%
Palo Alto	58,598	63,820	64,270	64,860	65,785	3.1%	12.3%
San Jose	895,131	932,620	944,051	955,909	970,128	4.0%	8.4%
Santa Clara	102,361	113,272	114,802	115,436	117,088	3.4%	14.4%
Saratoga	29,849	29,727	29,954	30,117	30,507	2.6%	2.2%
Sunnyvale	131,844	139,232	140,049	141,825	145,124	4.2%	10.1%
Unincorporated Santa Clara County	99,813	83,082	79,009	79,352	80,222	-3.4%	-19.6%
Santa Clara County Total	1,682,585	1,751,292	1,764,742	1,783,564	1,811,756	3.5%	7.7%

Note:

¹Household population does not include persons living in group quarters. In 2013, Gilroy has 806 persons in group quarters and total population of 51,544.

Source: ADE, Inc.; data from California Department of Finance.

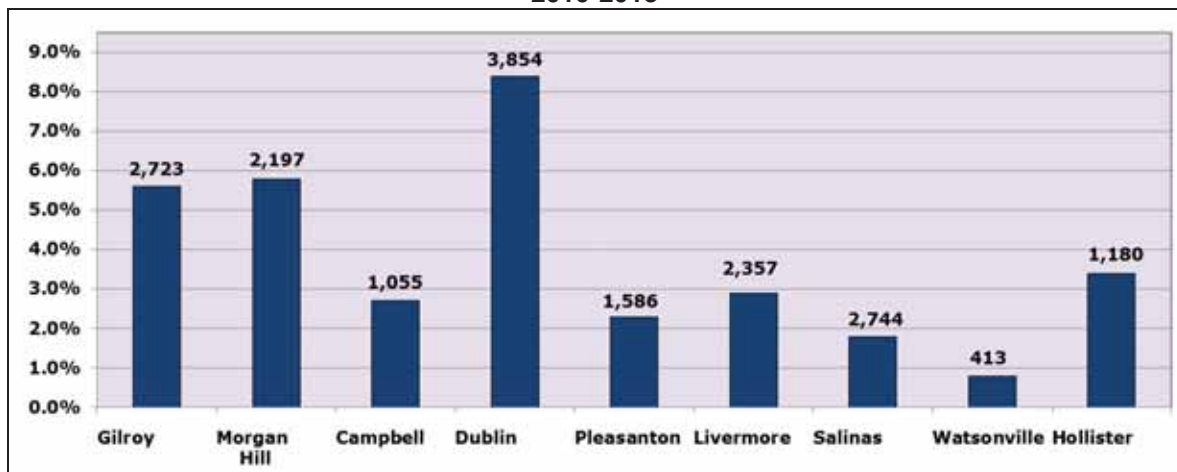
FIGURE 4-1
TOTAL POPULATION CHANGE
 City of Gilroy and Comparison Cities
 2000-2010



Source: ADE, Inc., Decennial Census 2000 and 2010.

Between 2010 and 2013 Gilroy's population increased by 6 percent. Dublin had a growth rate of 8.4 percent or an increase of 3,854 persons. The city of Watsonville had the lowest growth rate of less than 1.0 percent or 413 population change (Figure 4-2).

FIGURE 4-2
TOTAL POPULATION CHANGE
 City of Gilroy and Comparison Cities
 2010-2013



Source: ADE, Inc., Department of Finance 2010 and 2013.

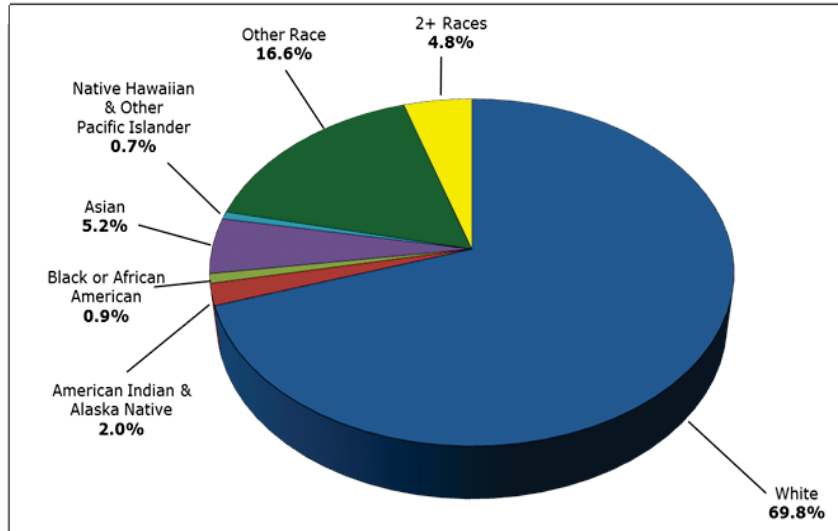
Race and Ethnicity

Gilroy has about the same percentage of residents who classify themselves as white, at nearly 70 percent, as the combined average of the other comparison cities (Figures 4-3 and 4-4). As discussed further below, however, a relatively high proportion of Gilroy residents are also classified as Hispanic (Figure 4-3). Residents classified as Some Other Race with 16.6 percent are the second-most populated racial group in Gilroy. The Asian population and also residents belonging to more than one racial

category both share close to 5 percent of the total population. All other racial groups share less than 2 percent of the total population.

**FIGURE 4-3
RACIAL DISTRIBUTION**

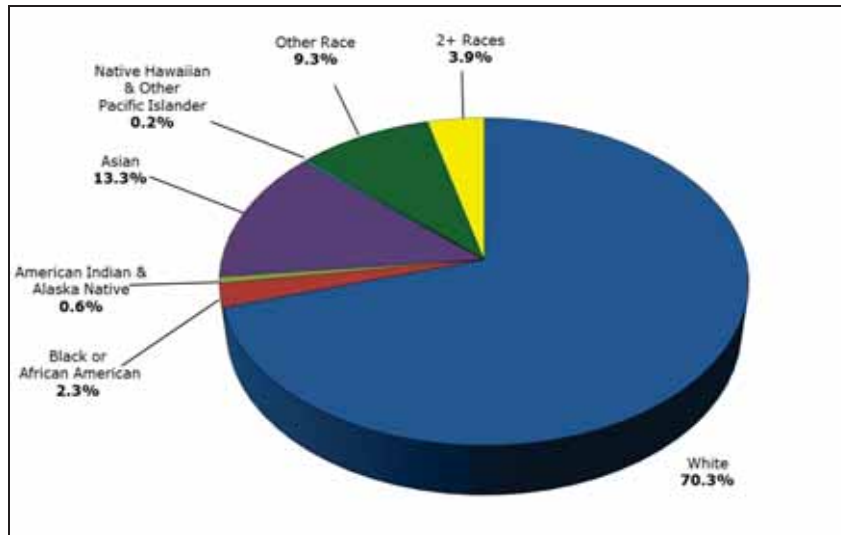
City of Gilroy
2011



Similarly, the combined total for racial group population for cities compared with Gilroy shows that the majority of the population in these cities also belongs to the White race category with 70 percent of the total population (Figure 4-4). However, population classified as Asian has a higher share of 13 percent in the comparison cities. This percentage is three times higher than the city of Gilroy.

**FIGURE 4-4
TOTAL AVERAGE RACIAL DISTRIBUTION IN**

City of Gilroy
2011

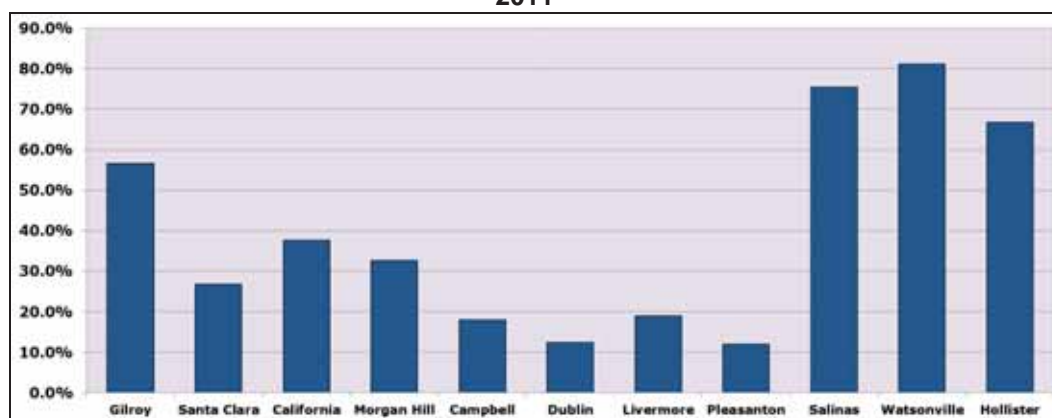


Source: ADE, Inc., American Community Survey 2009 to 2011.

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Compared to both Santa Clara County and the State of California, Gilroy had a higher percentage of Hispanic population between 2009 and 2011. American Community Survey (ACS) reports close to 57 percent of Gilroy's population to be of Hispanic descent (Figure 4-5). One third of Santa Clara's population identified themselves as Hispanic or Latino by 2011. Additionally, ACS reports 38 percent of the California population as Hispanic or Latino. Salinas, Watsonville, and Hollister all reported a higher percentage of Hispanic or Latino residents than Gilroy between 2009 and 2011.

FIGURE 4-5
HISPANIC OR LATINO (OF ANY RACE)
City of Gilroy and Comparison Cities
2011



Source: ADE, Inc., American Community Survey 2009 to 2011.

Population by Age

The 20-44 year old age group is an important part of the labor force in each City. Gilroy has less than 35 percent in this category (Figure 4-6). Campbell in Santa Clara County, Dublin in Alameda County, and Salinas in Monterey County have a larger share (close to 40 percent) of residents that are 20 to 44 years old. The second largest portion relative to age (32 percent) is those under 20 years of age. Among comparing cities, Morgan Hill in Santa Clara County and Pleasanton in Alameda County most closely match Gilroy's pattern of population distribution based on age.

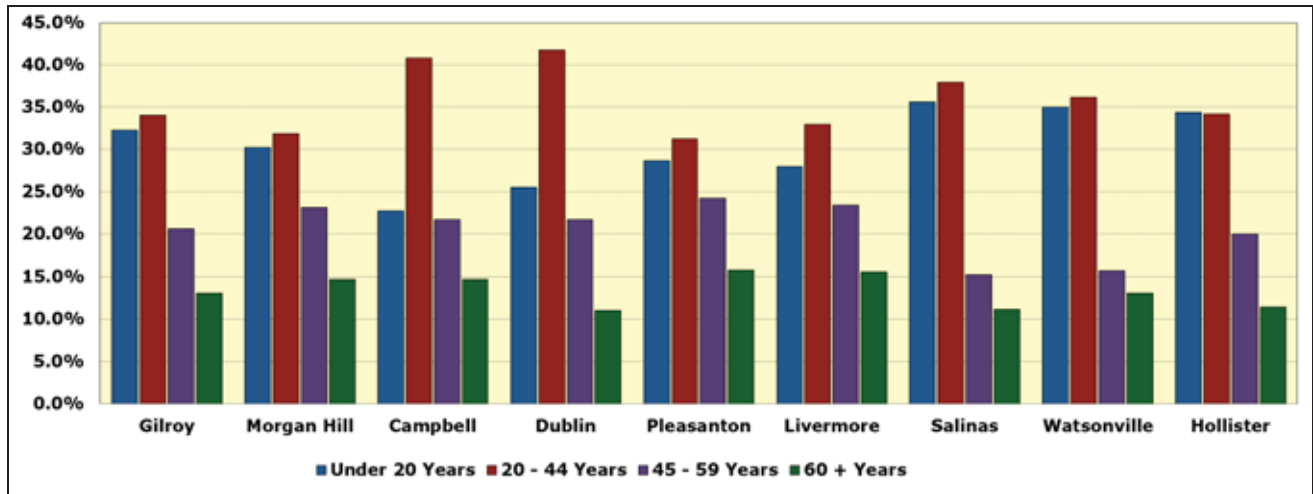
Gilroy, Campbell, and Morgan Hill are located in Santa Clara County. The percent of population under 20 years of age and 20 to 44 years are similar in Gilroy and Morgan Hill, while Campbell has 10 percent more population between 20 to 44 years. In contrast, the city of Campbell has a lower share of persons aged less than 20 years of age.

Salinas is the only comparison city with a higher percentage of population under 20 years old. Thus, Gilroy has relatively more families with children than the other comparison cities.

Dublin is the fastest growing comparison city; it also includes a generally higher percentage of 20 to 44 years old persons. Among the three cities of Livermore, Dublin, and Pleasanton in the Alameda County, Dublin is growing faster with a larger working age population.

**FIGURE 4-6
AGE AS PERCENTAGE OF POPULATION**

**City of Gilroy and Comparison Cities
2011**

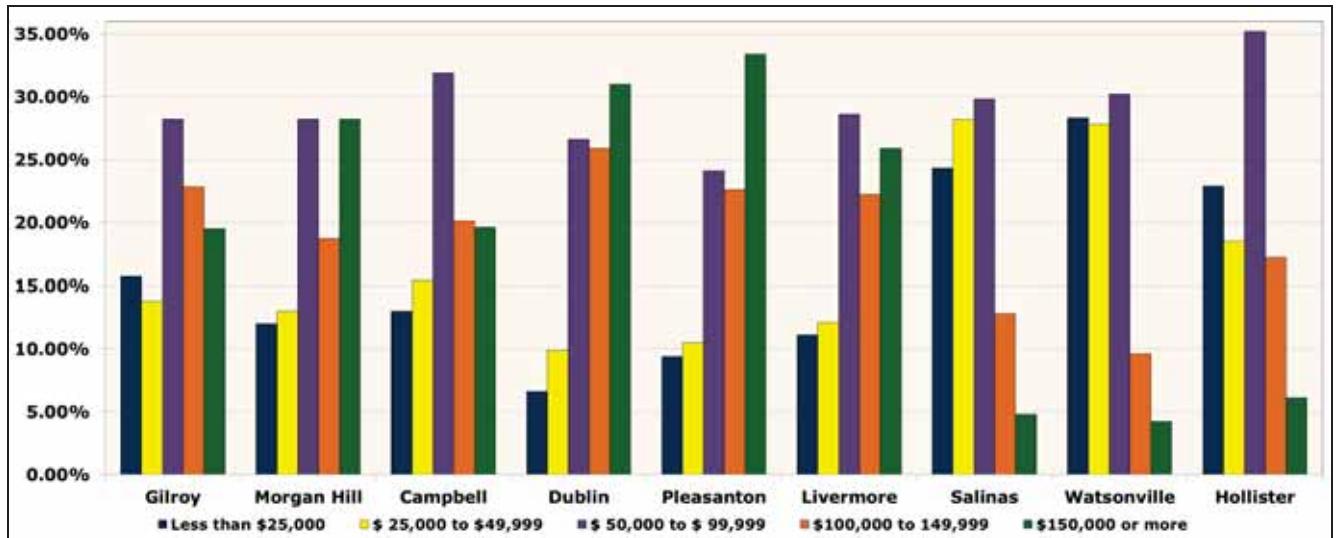


Source: ADE, Inc., American Community Survey 2009-2011.

Household Income

On an average, 30 percent of households in selected cities earn between \$50,000 and \$99,999 annually (Figure 4-7). In Alameda county, the largest percentage of households earn more than \$150,000, while in Santa Clara County, Gilroy, Campbell, and Morgan Hill include households that earn mostly between \$50,000 and \$99,999. Salinas, Watsonville, and Hollister have the lowest number of households who earn more than \$100,000. Among Santa Clara County and Alameda County comparison cities, Gilroy has the lowest percentage of households earning more than \$150,000 annually. However, compared to Salinas, Watsonville, and Hollister, Gilroy has a much higher percentage of households earning more than \$150,000 annually.

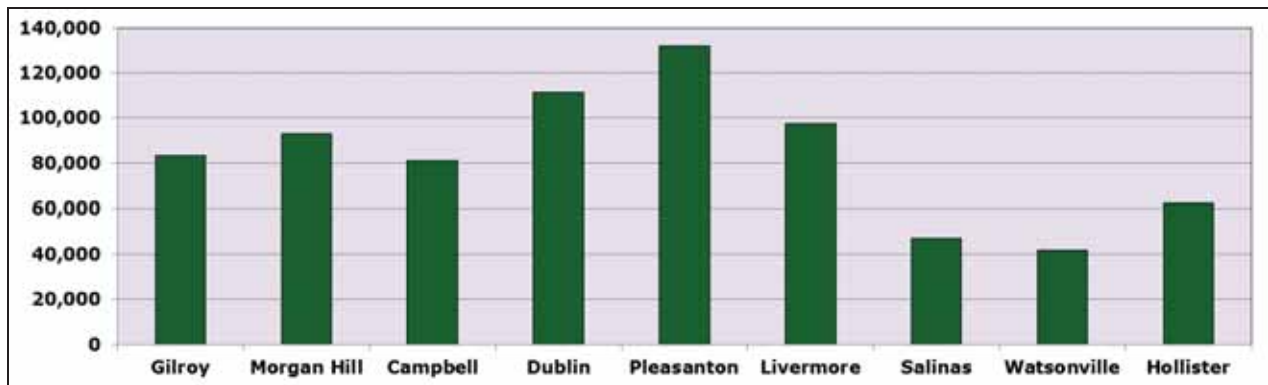
**FIGURE 4-7
HOUSEHOLD INCOME**
City of Gilroy and Comparison Cities
2011



Source: ADE, Inc., American Community Survey 2009-2011.

Gilroy’s median household income is above \$80,000, comparable to Campbell but below Morgan Hill and the comparison cities in Alameda county (Figure 4-8). Salinas, Hollister and Watsonville all have lower median household income figures.

**FIGURE 4-8
MEDIAN HOUSEHOLD INCOME**
City of Gilroy
2011



Source: ADE, Inc., American Community Survey 2009-2011

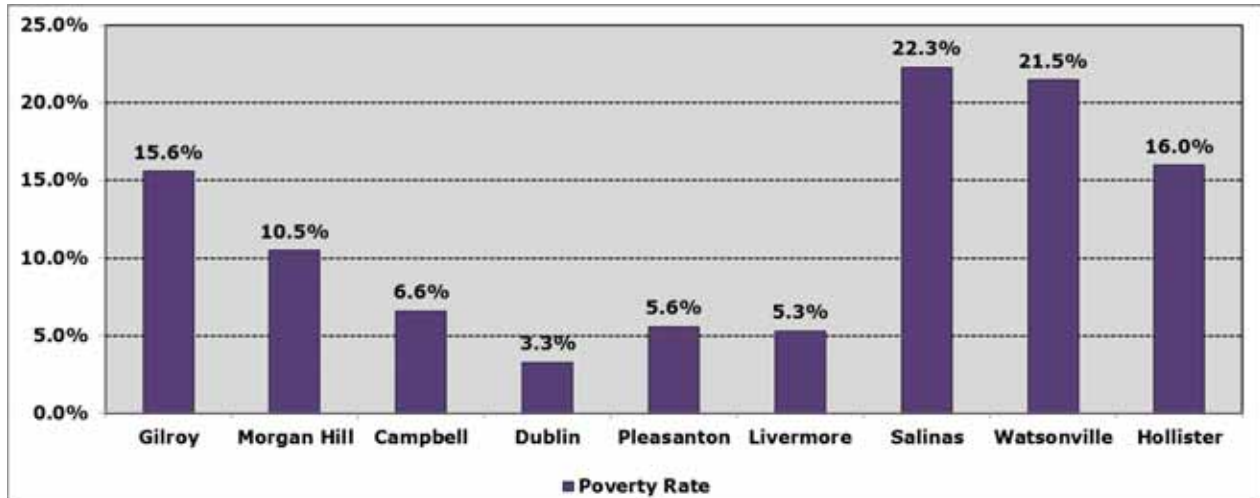
Poverty Rate

Figure 4-9 illustrates Gilroy’s high poverty rate of 15.6 percent. Compared with Dublin as a competing city, the share of residents living below the poverty line in Gilroy is nearly five times higher. Gilroy had the highest poverty rate of all comparison cities from Santa Clara County and Alameda County. Campbell and Morgan Hill from Santa Clara County both had lower poverty rates of 6.6 percent and 10.5 percent, respectively. Dublin, Livermore, and Pleasanton all had lower poverty rates of about 5 percent.

However, Gilroy had a significantly lower poverty rate than comparison communities to the south or west.

**FIGURE 4-9
PERCENT OF RESIDENTS LIVING BELOW POVERTY RATE LEVEL**

**City of Gilroy and Comparing Cities
2011**



Source: ADE, Inc., American Community Survey 2009-2011.

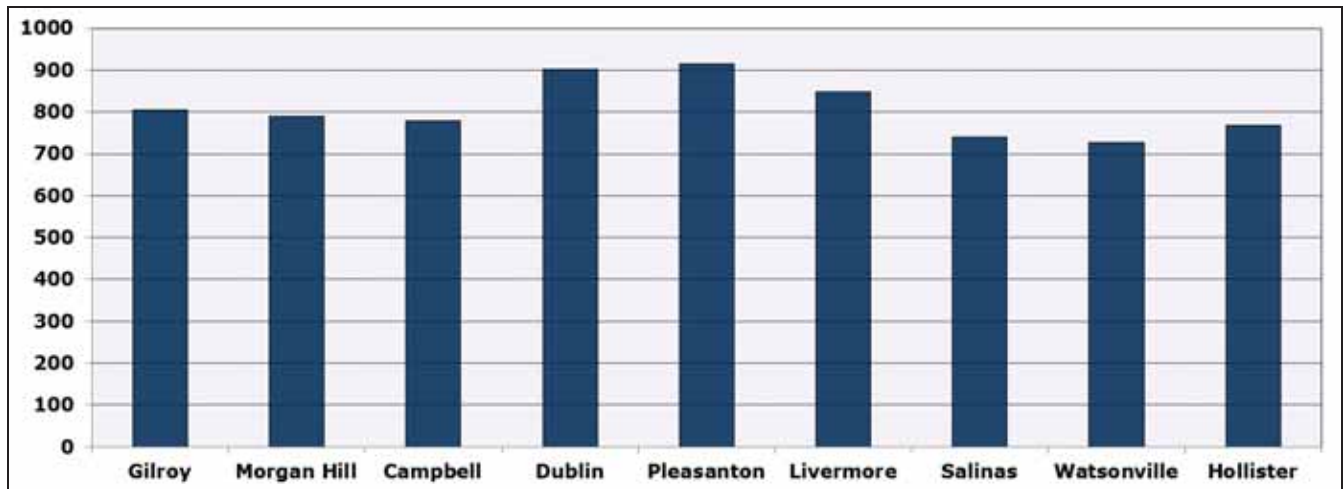
Workforce Education

Academic Performance Index

The Academic Performance Index (API) is a measurement used by the California Department of Education to measure school performance. The index's scale ranges between 200 and 1,000, and the State's target score for all schools is 800. The unified school districts in Gilroy, Morgan Hill, and Campbell show similar scores of 800 while Pleasanton, Dublin, and Livermore have higher scores around 900 (Figure 4-10). Of note, Gilroy Unified School District scores have shown significant improvement in recent years, increasing from 643 to 804 between 2002 and 2013 (Figure 4-11). This upward trend is a positive sign Gilroy's school district will continue to improve its academic performance. The API is currently the best metric for school performance; however, it is anticipated that a new metric will be used in the future, and the Gilroy Unified School District should continue to monitor their performance in relation to the new standards.

**FIGURE 4-10
ACADEMIC PERFORMANCE INDEX**

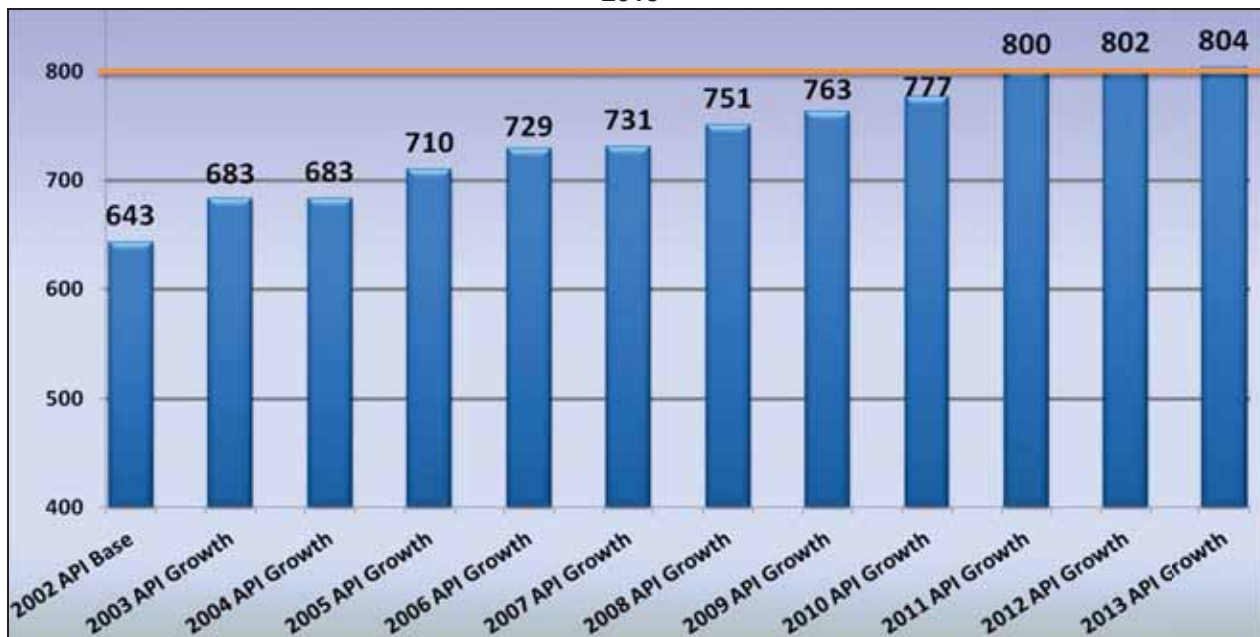
City of Gilroy and Comparing Cities



Source: ADE, Inc., California Department of Education.

**FIGURE 4-11
ACADEMIC PERFORMANCE INDEX GILROY UNIFIED SCHOOL DISTRICT**

City of Gilroy
2013



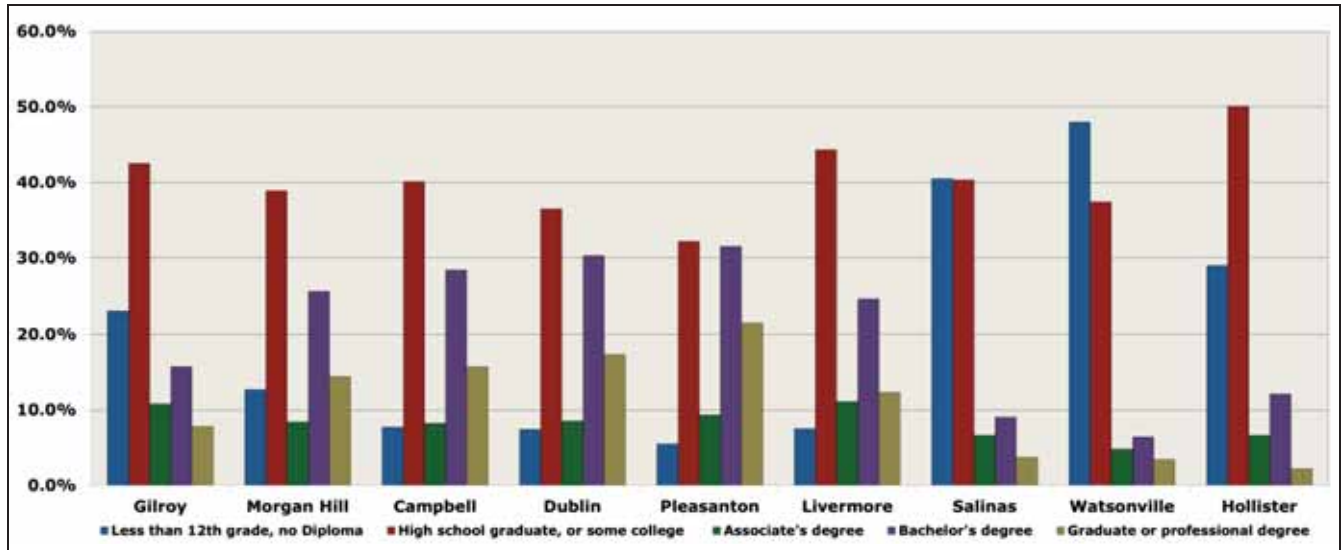
Source: Gilroy Unified School District, 2013

Educational Attainment

Compared to Campbell and Morgan Hill with 25 percent of residents with a bachelor's degree, 15 percent of Gilroy residents have a bachelor's degree (Figure 4-12). In addition, the share of residents with a graduate or professional degree is also lower in Gilroy compared to Campbell and Morgan Hill.

About 30 percent of residents in Pleasanton and Dublin have a bachelor’s degree, which is 15 percentage points higher than the city of Gilroy.

**FIGURE 4-12
EDUCATIONAL ATTAINMENT
City of Gilroy and Comparison Cities
2011**



Source: ADE, Inc., American Community Survey 2009-2011.

SECTION 4.3 ECONOMIC CONDITIONS

Introduction

This section summarizes and analyzes the economic conditions and recent growth trends in Gilroy. The source data used for this section include employment, workforce, income, real estate market indicators. This information identifies how Gilroy fares compared to other comparison cities with these employment and market indicators. This section also assesses how the local workforce matches up with the employment opportunities available in Gilroy, and how Gilroy’s residential and commercial real estate market has performed.

Major Findings

- Gilroy has a higher unemployment rate (10.3 percent) than comparable Bay Area communities, but lower than similar cities in San Benito and Monterey counties.
- The labor force in Gilroy exceeds the available local jobs by about 4,600 positions. This shortfall is especially notable in construction; manufacturing; professional, scientific, and technical services; and educational and health care services.
- Industries in which the number of jobs in Gilroy exceeds the available local workers are concentrated in retail and government.

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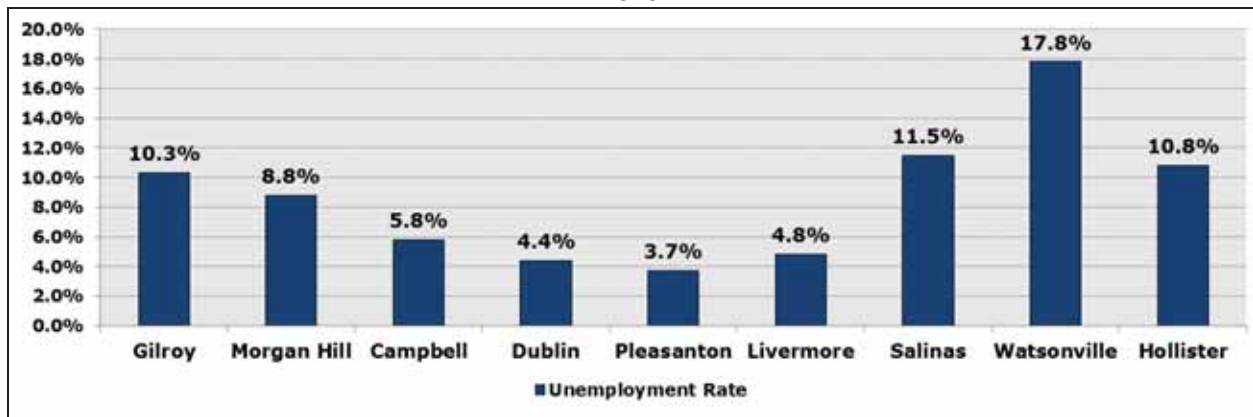
- Commute pattern data shows that about 35.8 percent of Gilroy's employed labor force works in Gilroy. The highest outcommute rates occur with workers in information, professional service, financial services, and similar sectors.
- The average estimated household income required to purchase a median priced home in Gilroy (\$506,000) is about \$117,598. By comparison, Gilroy's median income is \$83,433.
- Among the comparison cities, Gilroy has the second largest inventory (behind Livermore) of vacant industrial land. For office buildings Gilroy's average lease rate of \$1.65 per square foot is about half the average rate for Silicon Valley, and lower than the average rate for the Tri-Valley and Monterey County office markets. In addition, the average industrial lease rate in Gilroy (\$0.36) is lower than the averages for the Silicon Valley, Santa Cruz County, Tri-Valley, and Monterey County markets. The comparative low lease rates in Gilroy are likely due to the relatively high vacancy rates in Gilroy for office and industrial buildings.

Existing Conditions

Workforce Employment and Occupations

Gilroy continues to have a double-digit unemployment rate as of July 2013, at 10.3 percent (Figure 4-13). Morgan Hill and Campbell in Santa Clara County and Livermore, Dublin, and Pleasanton, in Alameda County, had the lower unemployment rates at 4.8 percent, 4.4 percent, and 3.7 percent, respectively, by mid-year 2013. Watsonville had the highest unemployment rate at 17.8 percent. Similar to some other measures, Gilroy has a worse unemployment rate than benchmarking cities to the north, while it has a better unemployment rate than comparison cities to the south, east, and west.

FIGURE 4-13
EMPLOYED CIVILIANS
Gilroy and Comparison Cities
2013



Source: ADE, Inc., Employment Development Department, July 2013.

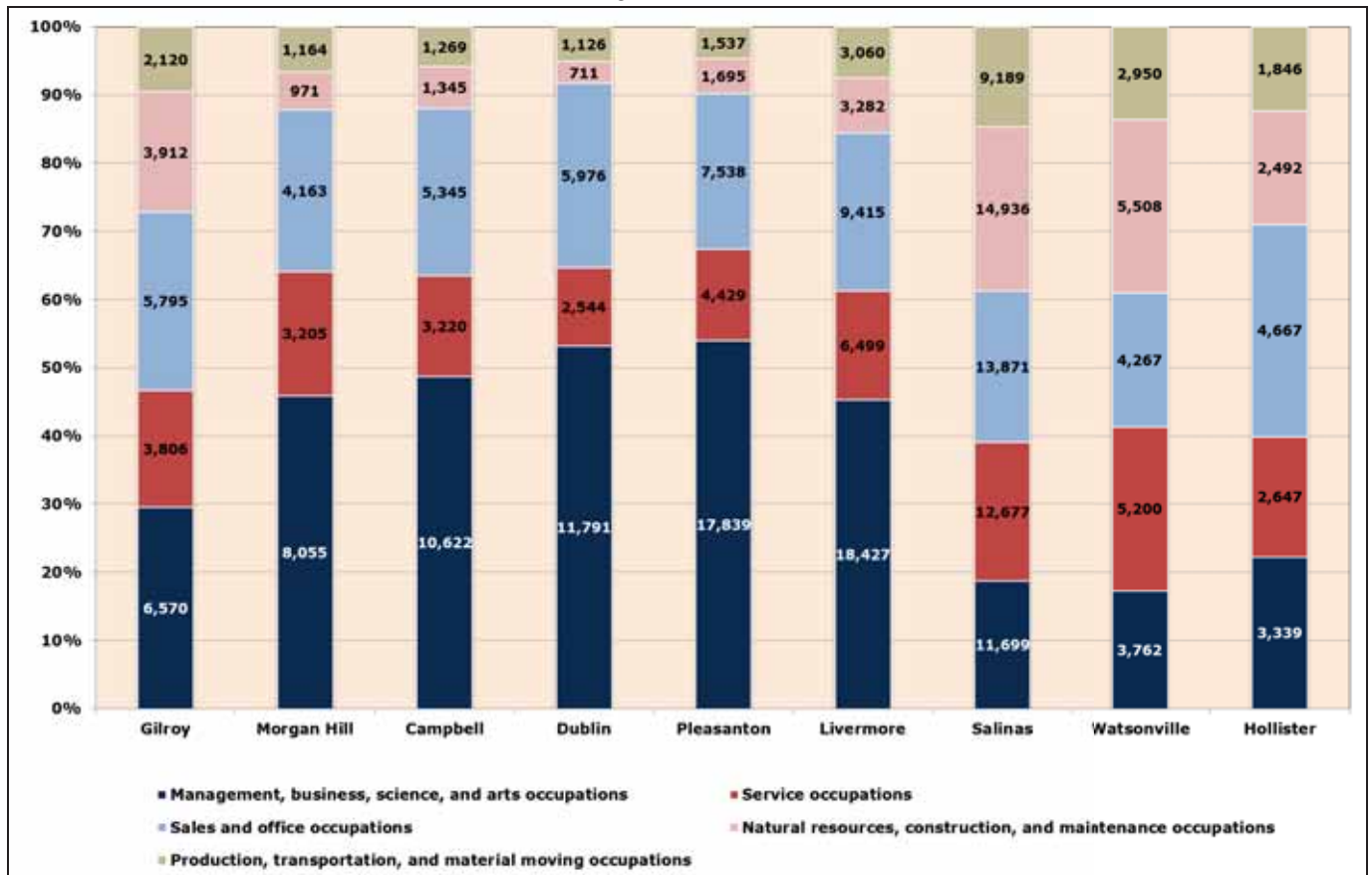
Occupational Distribution

The American Community Survey (ACS) groups workers into five different occupation categories listed below.

- Management, business, science, and arts
- Sales and office
- Service
- Natural resources, construction, and maintenance
- Production, transportation, and material moving

ACS estimated 6,570 of Gilroy residents worked in management, business or art occupations in 2011. Sales and office occupations, with 5,795 workers, were the second leading occupation types in 2011. Service related occupations with 3,806 workers ranked third in Gilroy's occupation list. Gilroy had the least number of its residents working in the production occupation group, but still more than a number of the comparison cities.

**FIGURE 4-14
OCCUPATIONS
Gilroy and Comparison Cities
2011**



Source: ADE, Inc., American Community Survey 2009-2011.

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Comparing Gilroy residents' occupational industries with the job base located in Gilroy, some mismatches in employment opportunities are apparent. As shown in Table 4-2, there are an estimated 21,052 jobs and 26,527 workers in Gilroy.¹ Thus, there is a shortage of nearly 4,600 jobs for the Gilroy workforce, including unemployed workers. In addition, among certain industries, such as manufacturing, professional, scientific and technical services, and educational and health services, there are more workers in Gilroy than there are available jobs.

Similar issues occur in terms of occupational distribution. There tend to be more workers than jobs in Gilroy in occupations such as business and financial operations, computer and mathematical skills, office and administrative support and installation, maintenance and repair (Table 4-3). In contrast, there are many more sales jobs, probably mainly in retail, than there are workers living in Gilroy. This results in part in a large worker out-commute for employment, as described below in further detail.

TABLE 4-2 EMPLOYMENT AND LABOR FORCE COMPARISON City of Gilroy 2013				
NAICS Code	Industry Description	Jobs	Labor Force	Difference
Industrial				
23	Construction	1,237	2,165	928
31-33	Manufacturing	1,142	2,581	1,439
42	Wholesale Trade	503	443	-60
48	Transportation, Warehousing, Utilities	836	585	-251
Commercial				
44	Retail Trade	5,344	3,890	-1,454
52	Finance, Insurance, Real Estate	551	967	416
81	Other Services (except Public Administration)	942	1,232	290
Office				
51	Information	980	446	-534
54	Professional, Scientific, and Technical Services	1,463	2,148	685
Institutional				
61	Educational and Health Care Services (Private)	2,407	3,329	922
90	Government	1,875	813	-1,062
Visitor-Serving				
71	Arts, Entertainment, Accommodations, Food	2,376	2,248	-128
Other				
11	Agriculture, Forestry, Fishing and Hunting	2,157	1,356	-801
99	Other	139	0	-139
<i>Sub-Total Employed Labor Force</i>		<i>21,952</i>	<i>22,203</i>	<i>251</i>
Unemployed Labor Force			4,324	
Total		21,952	26,527	4,575

Source: ADE, Inc. based on EMSI job data, ACS labor force data, and EDD unemployment data, 2013

¹ The jobs in Gilroy are for the 95020 and 95021 zip code areas, which include some agricultural jobs outside the City limits.

Workforce Commute Patterns

Gilroy is in a dynamic labor market area, with higher paying jobs to the north in Silicon Valley that draw a substantial number of Gilroy residents to work each day. At the same time, Gilroy is surrounded by a large labor force in cities like Hollister, Los Banos, Salinas and Watsonville, many of whom commute into Gilroy to work because wages here are higher than in their home areas. Variations in job type and housing prices also contribute to commute patterns for the regional labor force.

Workforce commute data is available from several sources, which provide different perspectives on the characteristics of the workers leaving Gilroy to work. The US Census OnTheMap Longitudinal Employer-Household Dynamics ("LEHD"), includes data on workers who are 25 years and older and who are employed in regular wage and salary jobs. LEHD data is employer-based, meaning that the Census gathers from employers LEHD data such as in what cities localities' employed labor force work, or from where employees working in a given city reside. In addition to the LEHD, we also use the US Census' Census Transportation Planning Products ("CTPP") data set. While the Census obtains its LEHD data from employers, the CTPP is a special tabulation of persons and households surveyed via the annual Census American Community Survey. It uses a broader definition of labor force and includes everyone who is 16 years or older and it includes self-employed workers as well as wage and salary workers. CTPP tends to show more workers living and working in their City of residence than does the LEHD, and it provides greater detail on what types of industries employ out-commuters.

In Table 4-3, the "Difference" column indicates how closely Gilroy's labor force matches its job base. Positive numbers in the "Difference" column indicate that more Gilroy residents work in a certain occupation than there are Gilroy jobs in that occupation.

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**TABLE 4-3
COMPARISON OF GILROY'S EMPLOYED LABOR FORCE BY OCCUPATION TO JOBS IN
GILROY BY OCCUPATIONS**

City of Gilroy
2013

Occupation	Jobs			Percent	
	Employed Labor Force	Jobs In Gilroy	Difference	Employed Labor Force	Jobs In Gilroy
Totals	22,203	21,952	251	100%	100%
01 Management	1,777	1,660	117	8.0%	7.6%
02 Farmers and farm managers	141	100	41	0.6%	0.5%
03 Business and financial operations specialists	916	344	572	4.1%	1.6%
04 Computer and mathematical	503	211	292	2.3%	1.0%
05 Architecture and engineering	676	505	171	3.0%	2.3%
06 Life, physical, and social science	50	128	-78	0.2%	0.6%
07 Community and social service	411	372	39	1.9%	1.7%
08 Legal	102	67	35	0.5%	0.3%
09 Education, training, and library	984	1,216	-232	4.4%	5.5%
10 Arts, design, entertainment, sports, and media	349	133	216	1.6%	0.6%
11 Healthcare practitioners and technicians	661	683	-22	3.0%	3.1%
12 Healthcare support	295	305	-10	1.3%	1.4%
13 Protective service	464	400	64	2.1%	1.8%
14 Food preparation and serving related	1,453	1,271	182	6.5%	5.8%
15 Building and grounds cleaning and maintenance	863	1,005	-142	3.9%	4.6%
16 Personal care and service	731	1,060	-329	3.3%	4.8%
17 Sales and related occupations	3,092	4,070	-978	13.9%	18.5%
18 Office and administrative support	2,703	2,243	460	12.2%	10.2%
19 Farming, fishing, and forestry	1,017	738	279	4.6%	3.4%
20 Construction and extraction	1,734	1,516	218	7.8%	6.9%
21 Installation, maintenance, and repair	1,161	505	656	5.2%	2.3%
22 Production	977	1,571	-594	4.4%	7.2%
23 Transportation and material moving	1,143	1,849	-706	5.1%	8.4%

Source: Ade, Inc., based on EMSI, US Census ACS, and US Census CTPP, 2013.

Table 4-4 provides additional labor force information by sector of employment. Of the 22,203 persons 16 and over in Gilroy's employed labor force, 7,945 or 44.8 percent, work in Gilroy. For specific sectors such as manufacturing, the ratio of employed labor force working locally is lower, or an estimated 25.5 percent. Of the 2,041 employed labor force in manufacturing, an estimated 520 people work in the City of Gilroy, while 1,097 people work in northern Santa Clara County cities of San Jose, Sunnyvale, Cupertino, and Mountain View. Altogether, 74.5 percent of Gilroy's employed labor force in manufacturing work outside of the city. Similarly, 90 percent of the city's information sector workers and more than 80 percent of workers in the finance and professional services sectors commute out of Gilroy to work.

TABLE 4-4
PLACE OF WORK OF GILROY'S EMPLOYED LABOR FORCE BY SECTOR (ESTIMATES)

City of Gilroy

	Gilroy Labor Force	Gilroy	Morgan Hill	Rest of Santa Clara Co. ¹	Santa Cruz/ San Benito/ Monterey ¹	Other Places Beyond ²	Employed Labor Force in Gilroy Working in Gilroy (est.)	Employed Labor Force in Gilroy Working Outside of Gilroy (est.)
Totals	22,203	7,945	1,474	5,927	712	6,144	35.8%	64.2%
01 Agriculture, forestry, fishing, hunting, & mining	1,356	590	0	0	0	766	43.5%	56.5%
02 Construction	2,165	286	143	771	33	932	13.2%	86.8%
03 Manufacturing	2,581	598	278	1,260	129	316	23.2%	76.8%
04 Wholesale trade	443	158	19	136	32	99	35.7%	64.3%
05 Retail trade	3,890	2,176	169	597	54	894	55.9%	44.1%
06 Transportation and warehousing, and utilities	585	184	0	277	0	124	31.5%	68.5%
07 Information	446	44	103	59	147	94	9.9%	90.1%
08 Finance, insurance, real estate & rental & leasing	967	179	140	179	79	390	18.5%	81.5%
09 Professional, scientific, management, administrative, and waste management services	2,148	386	46	824	17	874	18.0%	82.0%
10 Educational, health and social services	3,329	1,115	346	897	120	851	33.5%	66.5%
11 Arts, entertainment, recreation, accommodation and food services	2,248	1,584	158	243	20	243	70.5%	29.5%
12 Other services (except public administration)	1,232	461	37	139	64	530	37.4%	62.6%
13 Public administration	813	184	35	545	17	31	22.6%	77.4%

Note:

¹Rest of Santa Clara County and Santa Cruz/Monterey/San Benito refer to cities in these counties with 20,000 and more population

²Includes cities with less than 20,000 population

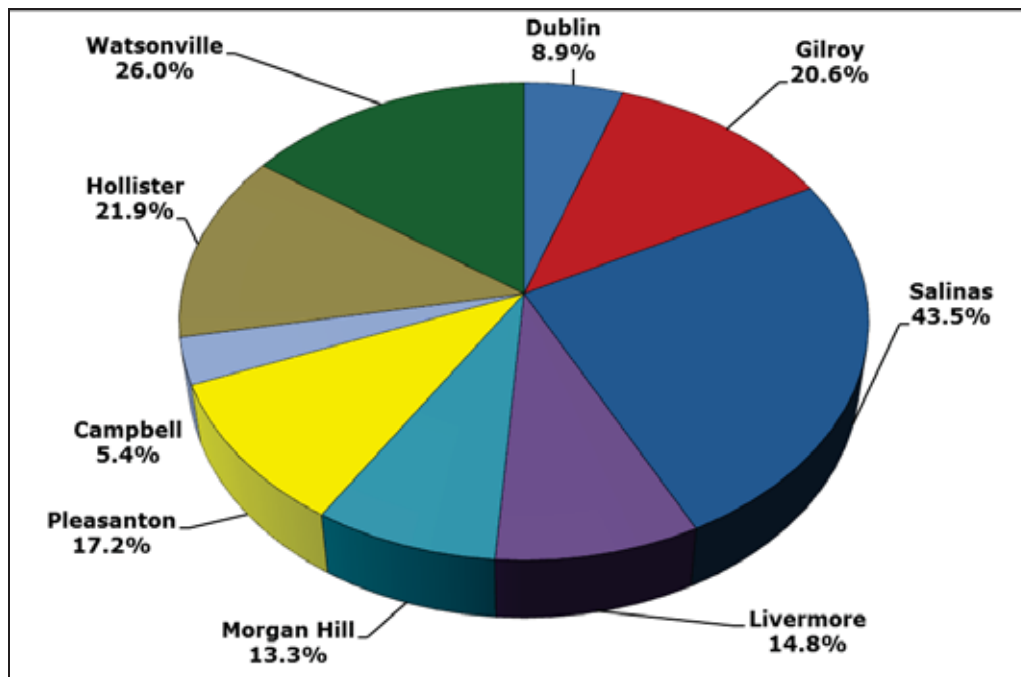
Source: Applied Development Economics, Inc., based on US Census ACS and US Census Transportation Planning Package-Census ACS. For discussion on difference between LEHD place of work and CTPP place of work, go to https://www.fhwa.dot.gov/planning/census_issues/ctpp/faq/#q5

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From the LEHD database, close to 80 percent of Gilroy's older, wage and salary workers commute outside Gilroy as well (see Figure 4-15).

FIGURE 4-15
PERCENT OF WAGE AND SALARY LABOR FORCE (25 YEARS AND OLDER)
WORKING IN THEIR CITY OF RESIDENCE

City of Gilroy and Comparison Cities



Source: ADE, Inc., *Local Employment Dynamics OnTheMap*.

Housing Affordability

As the City seeks to support expansion of manufacturing in Gilroy, there is a concern about housing costs in relation to prevailing wages in manufacturing and distribution businesses. Gilroy is affected by general housing market conditions in Santa Clara County, which are driven by growth in jobs in technology sectors in the central and northern parts of the county. A number of industrial businesses in Gilroy have indicated in interviews that a substantial portion of their workforce commutes in from Los Banos, Hollister, Salinas, and Watsonville, because affordable housing in Gilroy is not as available. Table 4-5 below illustrates this issue, showing estimated median housing prices for Gilroy and the comparison cities and the household incomes and wages required to purchase the homes in each community.

TABLE 4-5
ESTIMATED INCOMES REQUIRED TO PURCHASE MEDIAN PRICED HOMES
City of Gilroy and Comparison Cities

Gilroy and Comparison Cities	Median Housing Price¹	Estimated Monthly Payment plus Taxes/ Ins²	Income Req'd to Purchase Median Priced Home³	Actual Median Income¹	Required Hourly Wage with 1.8 Wage Earners per Household⁴	Required Hourly Wage Converted to Annual Salary
Gilroy	\$506,000	\$2,940	\$117,598	\$83,433	\$31.41	\$65,332
Campbell	\$662,000	\$3,846	\$153,853	\$81,227	\$41.09	\$85,474
Morgan Hill	\$634,500	\$3,687	\$147,462	\$93,192	\$39.39	\$81,923
Pleasanton	\$747,500	\$4,343	\$173,724	\$113,649	\$46.40	\$96,513
Dublin	\$690,000	\$4,009	\$160,361	\$111,453	\$42.83	\$89,089
Livermore	\$505,000	\$2,934	\$117,365	\$97,489	\$31.35	\$65,203
Hollister	\$365,000	\$2,121	\$84,828	\$59,563	\$22.66	\$47,127
Salinas	\$277,000	\$1,609	\$64,377	\$46,854	\$17.19	\$35,765
Watsonville	\$311,000	\$1,807	\$72,278	\$41,649	\$19.31	\$40,155

Source: ADE, based on the followings data sources:

¹ "Median" price means that 50 percent of homes are priced above this level and 50 percent below. Data from American Community Survey 2009-2011

² Assumes a 10 percent down payment, 30 year mortgage at 3.5 percent, plus 1.5 percent annual cost for taxes and insurance.

³ Assumes housing costs equal 30 percent of income.

⁴ It is estimated there are 1.8 workers per household in Gilroy based on ACS labor force data and Department of Finance housing estimates.

Typically, banks require that housing costs, including monthly mortgage payments, taxes, and insurance not exceed 30 percent of the household income of borrowers. Based on this criterion and estimated housing costs, the median-priced home costs in Gilroy would require an annual household income of \$117,600. For the group of comparison cities, this figure is as low as \$64,400 for Salinas and as high as \$173,700 in Pleasanton. For all the communities the required income to purchase the median priced house is more than the median income for the City as a whole. This means that people interested in purchasing housing must have higher than average incomes.

For purposes of this discussion, the two right hand columns in Table 4-5 convert the required income level to hourly and annual wages for individual workers. The analysis of jobs and labor force later in this analysis indicates that there are about 1.8 workers per household in Gilroy. Therefore, this analysis divides the required household income by 1.8 and calculates the individual incomes as both hourly and annual figures. On average, workers in Gilroy would need to make \$31.41 per hour, or \$65,322 per year (and have a spouse that makes 80 percent of this income), to qualify to purchase the median priced home in Gilroy.

According to the 2008-2012 ACS, the median rent level in Gilroy is \$1,286 per month, which is well below the monthly purchase cost shown above. The affordable household income level (at 30 percent) for this rent would be \$51,440. If two workers share the apartment, the primary wage earner would be anticipated to earn about \$28,600 per year, which is equivalent to an hourly wage of \$13.74 for full time

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annual work. As with the ownership analysis above, we assume the secondary wage earner would be at 80 percent of this income.

Many manufacturing jobs in Gilroy pay around \$20 per hour. Gilroy businesses are competing with firms in the Central Valley that pay \$12-\$15 dollars for similar work. The lower wage rates are much more in line with housing costs in Los Banos, Salinas, Watsonville and Hollister than in Gilroy. However, a number of target industries in Santa Clara County do pay annual salaries that would meet this housing affordability threshold in Gilroy (Table 4-5).

Real Estate Market

Land Availability

Using Dataquick records, based on assessor's data, vacant land listed as industrial in Gilroy and the comparison cities is shown in Table 4-6. The table also indicates the land reported as available for sale in Colliers International and Cassidy Turley market snapshot reports. Livermore has a large inventory of vacant industrial land, with 873 acres. Gilroy has the second highest total of vacant industrial land with 453 acres. In all cities studied, the amount of vacant industrial land actually on the market in each city is much lower than the total vacant industrial acreage; however, the City of Gilroy is aware of property owners that are actively seeking sales of vacant industrial properties, even if they are not included on broker's lists of actively marketed properties. This is evidenced by recent sales of multiple large vacant industrial properties that were not captured in the "reported on the market" totals outlined in Table 4-6. With 453 acres of vacant industrial lands, the City of Gilroy is well-positioned to attract a wide variety of industrial development types.

According to the Colliers International research and forecast report for the fourth quarter of 2013, the city of Livermore has 21.3 acres of industrial vacant land directly available on the market. Gilroy had 11.8 acres of available land, at the third quarter of 2013, and Salinas has 23.3 acres by mid-2013, ranking second and third, respectively, in this comparison. According to the same reports, Watsonville had 7.6 industrial acres available while Morgan Hill has 6.5 industrial acres.

City	Vacant Industrial	Reported on the Market		
		Total	Industrial	Office
Gilroy	453	23.5	11.8	5.2
Morgan Hill	339	*	6.5	*
Campbell	NA	8.5	3.3	5.3
Pleasanton	174	33.6	2.2	42.4
Dublin	NA	12.2	5.6	6.8
Livermore	873	36.2	21.3	11.0
Watsonville	60	9.2	7.6	1.7
Salinas	226	30.6	23.3	7.4

On the other hand, Pleasanton includes 42.4 acres of vacant office inventory at the close of fourth quarter of 2013. The Livermore market posted 11.0 acres of available office land. The Colliers report totals the available vacant office land for Gilroy and Morgan Hill at 5.2 acres.

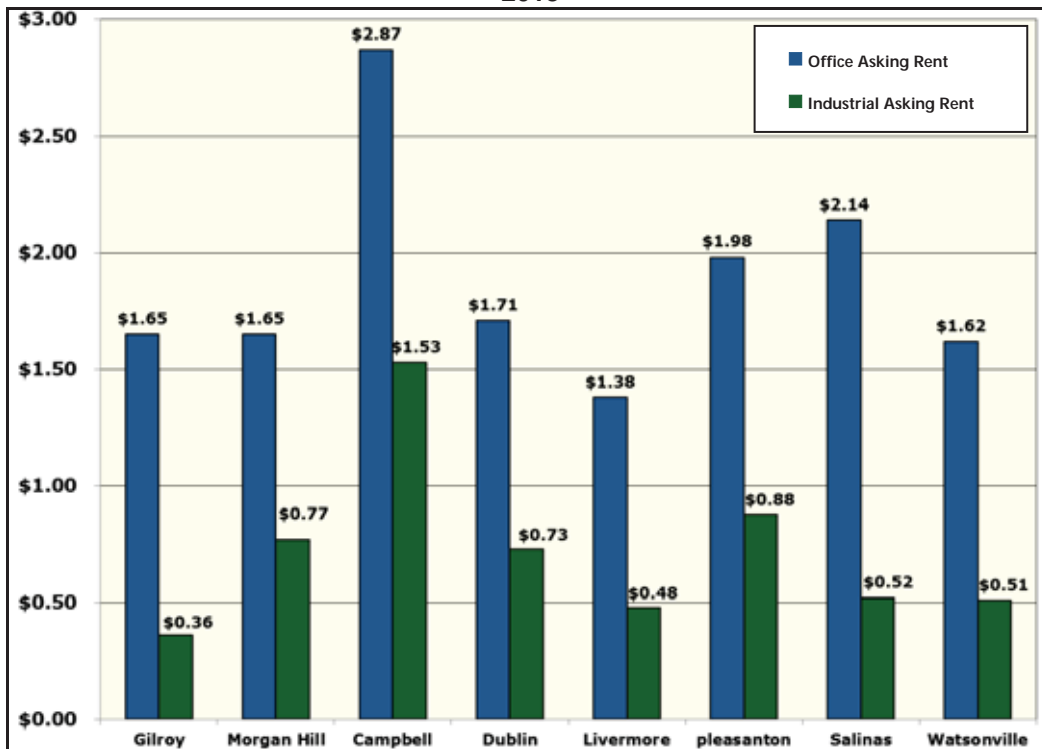
Building Lease Rates

The current highest average asking rate for office space is in Campbell, at \$2.87 per square foot at the close of second quarter in 2013 (Table 4-7 and Figure 4-17). The Salinas submarket closed its office asking rent at \$2.14 per square foot. Pleasanton’s average asking rent for all office types was \$1.98 per square foot. Gilroy and Morgan Hill reported close to \$1.65 per square foot. Livermore market has the lowest average asking rent at \$1.38 per square foot of office space. The average asking rent for industrial uses are, in general, lower than the average office asking rents. Campbell’s market is asking for a one and a half to two times higher asking rent compared to other comparison cities at \$1.53 per square foot. Morgan Hill and Dublin report \$0.77 and \$0.73 per square foot, respectively. Livermore, Salinas, and Watsonville posted rents are at roughly \$0.50 per square foot. The city of Gilroy has the lowest average asking rent of all comparison cities at \$0.36 per square foot by mid-year 2013.

TABLE 4-7 NON-RESIDENTIAL LEASE RATES Gilroy and Comparison Cities 2013					
Area	Type	Lease	Area	Type	Lease
Silicon Valley Total	Office:	\$3.16	Tri-valley	Office:	\$1.93
	Industrial:	\$1.15		Industrial:	\$0.58
Gilroy	Office:	\$1.65	Dublin	Office:	\$1.70
	Industrial:	\$0.36		Industrial:	\$0.78
Morgan Hill	Office:	\$1.65	Pleasanton	Office:	\$2.03
	Industrial:	\$0.77		Industrial:	\$0.89
Campbell	Office:	\$2.87	Livermore	Office:	\$1.36
	Industrial:	\$1.53		Industrial:	\$0.50
Santa Cruz County	Office:	\$1.68	monterey county	Office:	\$2.23
	Industrial:	\$0.73		Industrial:	\$0.49
Watsonville	Office:	\$1.62	Salinas	Office:	\$2.14
	Industrial:	\$0.51		Industrial:	\$0.52

Source: Colliers International Q3, 2013 for Santa Clara County and Alameda County and their cities, Cassidy Turley, Q2 2013, for the counties of Santa Cruz and Monterey and their cities.

FIGURE 4-16
AVERAGE ASKING RENT PER SQUARE FOOT VACANT INDUSTRIAL/OFFICE
City of Gilroy and Comparison Cities
2013



Source: Colliers International Q3, 2013 for Santa Clara County and Alameda County and their cities, Cassidy Turley, Q2 2013, for the counties of Santa Cruz and Monterey and their including cities.

Non-Residential Vacancy Rates

The amount of available vacant space in Silicon Valley and the Tri-Valley (Dublin/Livermore/Pleasanton) office market equates a total of approximately 10.2 million square feet. Of this total, approximately 7.6 million square feet is located in the Silicon Valley area and approximately 2.7 million square feet is in the Tri-Valley office market. Silicon Valley market includes Campbell, Los Gatos, Gilroy, and Morgan Hill submarkets. The Tri-Valley market place is comprised of the cities of Dublin, Livermore, Pleasanton, and San Ramon.

The Gilroy/Morgan Hill submarket has highest direct office vacancy rate at 26.1 percent, or 228,438 square feet of vacant office space (Table 4-8, Figure 16). This generally reflects low demand for office uses and may indicate that hard hit office sectors such as finance and real estate have not recovered in south Santa Clara County. Elsewhere, growth in technology firms has reduced office vacancies substantially. The Campbell/Los Gatos submarket included 229,783 square foot of direct vacant office space, with a vacancy rate of 7.7 percent. Pleasanton and Dublin had office vacancy rates of 11.0 percent and 10.6 percent, respectively, with 1,365,117 square feet of vacant office space available in Pleasanton. Livermore has a relatively high rate of 19.4 percent and may be experiencing similar market conditions as Gilroy. Pleasanton's asking rent for office space of any class is \$1.98 per square foot and Dublin's asking rent is at \$1.71 per square foot, while Livermore's weighted asking rent is \$1.38 per square foot. The office vacancy within the Salinas/Castroville marketplace closed at 13.6 percent at the

end of the first half of 2013. The current asking rent per square foot for office space in the Salinas/Castroville area is \$2.14 per square foot.

TABLE 4-8 NON-RESIDENTIAL VACANCY RATES City of Gilroy and Comparison Cities 2013				
Office Vacancy Rates		Q2, 2013		
		Square Feet	Rate	Asking Rent
Pleasanton		1,365,117	11.0%	\$1.98
Dublin		292,564	10.6%	\$1.71
Livermore		556,737	19.4%	\$1.38
Salinas/Castroville		321,177	13.6%	\$2.14
Campbell/Los Gatos		229,783	7.7%	\$2.87
Gilroy/Morgan Hill		228,438	26.1%	\$1.65
Watsonville		73,541	5.2%	\$1.62
Industrial Vacancy Rates		Q2, 2013		
		Square Feet	Rate	Asking Rent
Pleasanton	Industrial	100,332	4.5%	\$0.88
	Warehouse			
Dublin	Industrial	237,517	18.3%	\$0.73
Livermore	Industrial	457,789	6.8%	\$0.60
	Warehouse	561,970	8.6%	\$0.38
Salinas/Castroville	Industrial	1,013,005	7.0%	\$0.52
Campbell	Industrial	54,694	8.3%	\$1.14
	R&D	87,743	6.8%	\$1.54
Gilroy	Industrial	135,661	10.0%	\$0.41
	R&D	76,000	20.3%	¹
	Warehouse	301,992	9.4%	\$0.34
Morgan Hill	Industrial	112,332	6.0%	\$0.68
	R&D	170,310	6.3%	\$0.84
Watsonville	Industrial	328,986	6.3%	\$0.51

Note:

¹Not available in published reports. ADE is checking with the brokers to obtain the asking rate for this property.

Source: Colliers International Q3, 2013 for Santa Clara County and Alameda County & their cities, Cassidy Turley, Q2 the counties of Santa Cruz and Monterey and their including cities.

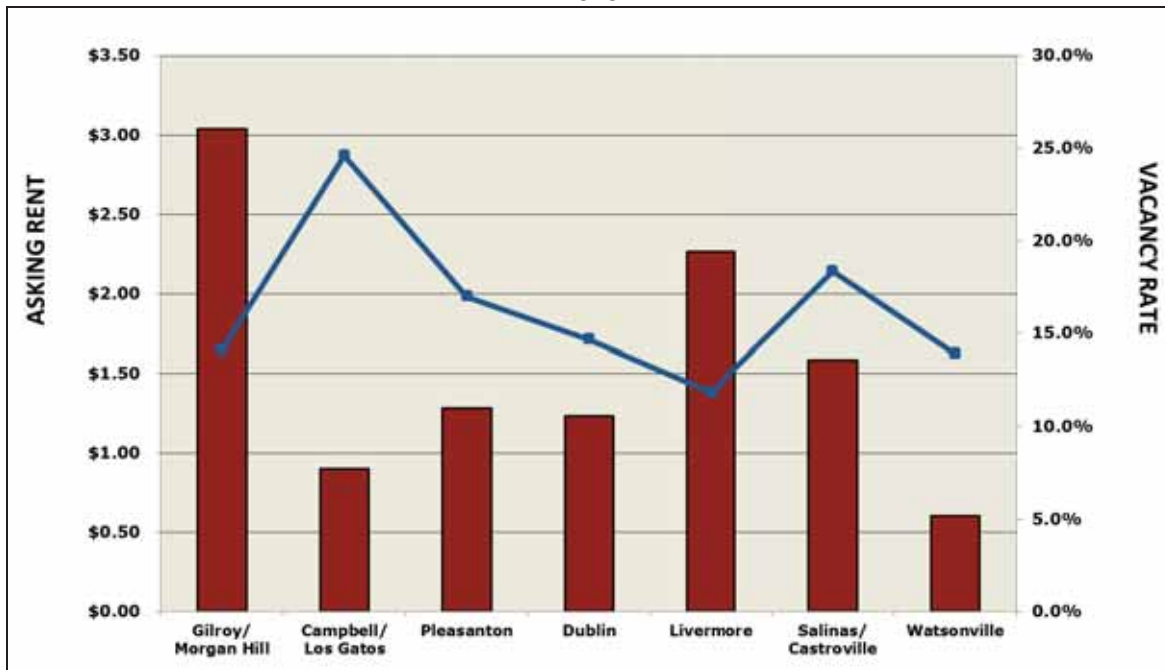
Based on information through Q3 2013, Silicon Valley’s industrial sector slowed down its activity compared to overall 2012. Overall, industrial space transactions included spaces not bigger than 35,000 square feet. More importantly, outside of San Jose, no deals were made for space above 15,000 square feet. The city of Campbell reports the highest asking rent for vacant industrial space at \$1.54 per square foot. Anecdotally, the trend seems to be greater demand for office space and fewer opportunities to expand industrial uses due to price competition of office development.

Pleasanton asking rent ranks second at \$0.88 per square foot. Gilroy’s industrial market asks for the lowest rent at \$0.41 per square foot. The average asking rent for warehousing space in Gilroy is at \$0.34

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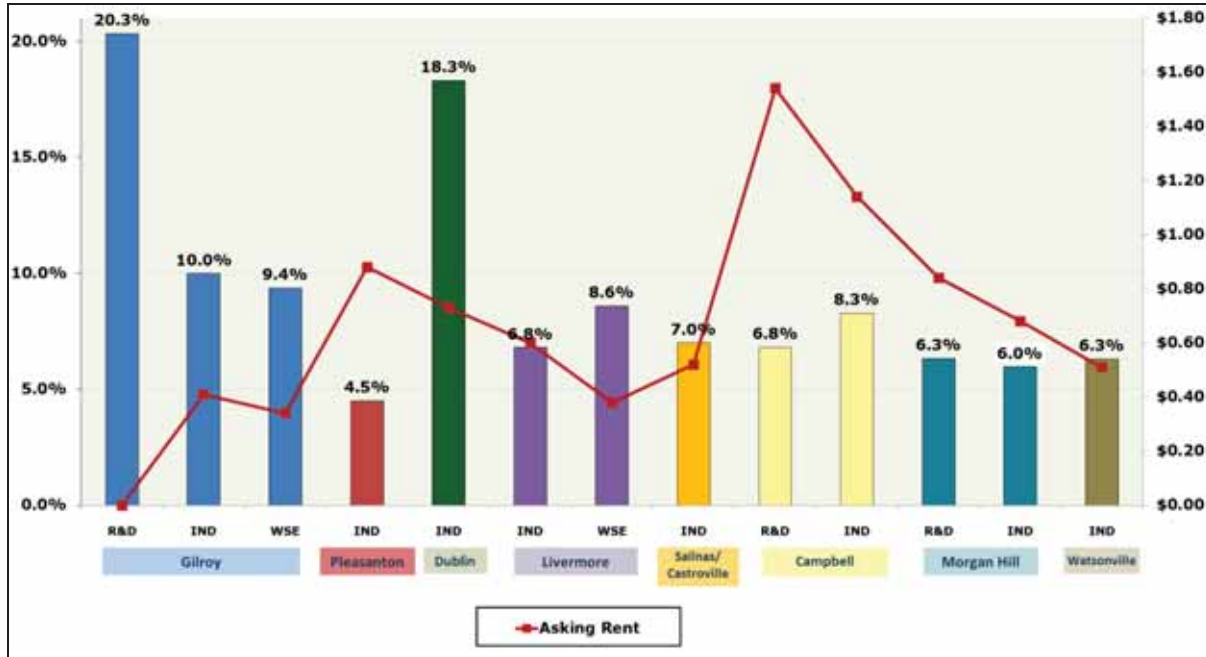
per square foot. Further south, the Salinas/Castroville marketplace is the Monterey region's largest industrial trade area with 1.0 million square feet of industrial space. Cassidy Turley reports a 7.0 percent vacancy rate with an almost flat occupancy growth throughout the first six months. Currently, the average asking rent for industrial space in the Salinas/Castroville marketplace is \$0.52 per square foot (Figure 4-18). As with the office market, the Monterey market is slightly higher than conditions in Gilroy.

FIGURE 4-17
OFFICE ASKING RENT AND VACANCY RATE
City of Gilroy and Comparison Cities
2013



Source: Colliers International Q3, 2013 for Santa Clara County and Alameda County and their cities, Cassidy Turley, Q2 2013, for the counties of Santa Cruz and Monterey and their including cities.

FIGURE 4-18
INDUSTRIAL ASKING RENT AND VACANCY RATE
 City of Gilroy and Comparison Cities
 2013



Source: Colliers International Q3, 2013 for Santa Clara County and Alameda County and their cities, Cassidy Turley, Q2 2013, for the counties of Santa Cruz and Monterey and their including cities.

SECTION 4.4 MARKET ANALYSIS FOR FUTURE USES

Introduction

This section provides an overview of the key target industries for Gilroy, as well as more specific market studies of the retail and tourism markets. The target industry analysis uses regional and local job projections to identify business development and attraction targets that show the greatest potential for Gilroy. The retail market analysis provides an overview of the recent taxable sales trends for specific retail store sectors, and identifies existing market gaps that could also potentially serve as business development and attraction targets. The tourism analysis includes background information about Gilroy’s visitor-serving economy, with a focus on recent trends in hotel occupancy and potential opportunities for further expansion of visitor services.

Major Findings

Target Industries

- The job base in Gilroy was estimated at about 22,000 in 2012. This remains below the totals from 2002, and reflects declines that occurred early in that decade due to changes in the garlic industry. In addition, sectors severely impacted by the recession, such as construction, real estate, finance, and government, have not fully recovered.

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- Projected job growth in Gilroy is expected to average between 0.8 and 1.6 percent annually over the next decade. Much of this job growth is expected to occur in retail, transportation, construction, hospitality, information, and health care.
- Gilroy's proximity to Silicon Valley makes it an attractive location for operations looking for lower cost locations for expansion.
- Given the employment indicators and Gilroy's worker profile, target industries potentially include wholesale/distribution; food manufacturing; sheet metal manufacturing; machine shops; communications equipment manufacturing; other electrical equipment and component manufacturing; professional, scientific and technical services; and health services.

Retail Market

- Over the past two decades, Gilroy has evolved into a major regional center whose commercial activity well exceeds what is typical for a community of Gilroy's size.
- Much of Gilroy's retail support includes regional spending from residents living in surrounding communities, overnight visitors, and day travelers.
- Because of Gilroy's substantial capture of retail spending, most retail categories show a net capture of regional retail sales, which limits the number of retail segments that show spending leakage. Because of the small retail leakage, Gilroy has relatively few business attraction opportunities for new types of retail stores that currently have unmet market demand.
- While Gilroy's success in developing regional commercial centers has created a very large revenue base, the recent recession and other factors have led to declines in some key areas in recent years, such as automobile dealerships and building materials. Concurrently, some competitive threats, such as the Livermore Outlet Center and power center in Morgan Hill, have emerged as other communities compete with Gilroy for retail spending.
- The average income in Gilroy is well above the statewide average, yet ranks as the lowest average income among cities in Santa Clara County.
- Gilroy shows total taxable sales of \$1.2 billion and a high concentration of taxable sales per capita, despite its lower income base compared to the county average. In addition, when looking at Gilroy on a taxable sales per household basis, the community ranks second in the county, trailing only Cupertino.
- Taxable sales in Gilroy are very heavily dependent on retail store sales with over 90 percent generated by retailers, compared to the statewide average of less than 70 percent. The non-retail portion of the taxable sales base typically includes business-to-business and other point-of-sale transactions that are not directed towards household consumers.
- Taxable sales in Gilroy annually showed strong growth over the past decade, and only lost sales during the recessionary period between 2007 and 2009. Sales have since recovered to near pre-recession levels.
- The strongest performing categories in Gilroy are apparel stores, service stations, eating places, and general merchandise stores.
- Retail categories that have shown the greatest sales declines include building materials and automotive.

- Geographically, Premium Outlets, Gilroy Crossing, and Pacheco Pass Center alone account for half of Gilroy's total taxable sales.
- The Premium Outlets represent Gilroy's largest taxable sales generator with nearly \$287 million in 2012. The outlet center also showed strong growth, even during the recession and now accounts for 23.6 percent of the citywide taxable sales.
- Downtown Gilroy accounts for about 3.2 percent of the total taxable sales in the city. After several downturn years between 2006 and 2009, the sales in recent years have recovered to near pre-recession peak levels.
- Gilroy currently has a net capture of regional sales in all retail categories except for florists, nurseries, second hand stores, specialty food stores, and full-service restaurants (including both restaurants with full bar service, and restaurant sales from hotels).
- With full-service restaurants, the leakage is not especially large, and fast-food and limited-service restaurants show a large net capture of sales. However, with Gilroy's large net capture in other retail categories, full-service restaurants could be a potential area of focus.
- Gilroy's major retail centers were developed over the past two decades. Since that time, surrounding communities have developed their own power centers and even the outlets now have competition in the Bay Area.
- The outlets in particular are a significant visitor attraction, while Gilroy Crossing and Pacheco Pass Center function as highway commercial centers for travelers heading east along CA-152. Highway 101 effectively serves as a barrier keeping those visitors from exploring the areas west of Highway 101, including downtown. There is currently very little visible connection between the east side of Highway 101 and the west side. Visitors do not see any visual cues that link the highly trafficked areas with downtown Gilroy and other areas of interest on the west side of Highway 101.
- Downtown Gilroy is a unique asset that is currently underused. Even though sales have rebounded in recent years, the area has a very high vacancy rate. In addition, this problem is compounded by the large number of unreinforced masonry buildings that cannot be occupied. This has the effect of limiting pedestrian activity and constraining complementary activity that can elevate the economic potential of the area.
- Downtown Gilroy currently serves as a center for specialty retail and restaurants. The activities downtown generally serve a more local population base. The potential exists for downtown to become a more prominent visitor attraction with the right mix of dining, entertainment, and retail options.

Tourism Market

- Gilroy serves a wide range of visitor-serving niches. The primary niches include shopping at the outlets, visiting Gilroy Gardens, outdoor recreation, winery tours, and recurring events such as the Gilroy Garlic Festival.
- Gilroy is primarily a regional visitor attraction, with most visitors coming from Northern California. About half of overnight visitors to Gilroy come from outside of California, while more than half of Gilroy's visitors come from day trips.

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- The lodging in Gilroy consists of 736 hotel/motel rooms, plus an RV park and truck stop. Most of the hotel rooms are either budget or midscale facilities. Gilroy currently does not have a full service business hotel, conference facility, or high end boutique lodging.
- The average daily room rate in Gilroy was less than \$90 per night in 2012, which is less than the national average of just above \$100 per night. The data through September 2013 shows about an eight percent increase in room rates compared to 2012.
- The occupancy trends for Gilroy show 2012 with the highest average occupancy rate since 2007 (58.3 percent, based on STR data). The data through September 2013 shows a 4.4 percentage point increase compared to the same time period in 2012.
- Neighboring communities along the Highway 101 corridor, such as Morgan Hill and Salinas, currently have slightly higher average room rates. Looking back through 2007, other Highway 101 corridor hotels had higher occupancy rates; however, in the first three quarters of 2013, Gilroy had a slightly higher occupancy rate than the rest of the Highway 101 Corridor.
- Gilroy currently has dedicated Tourism Business Improvement District funds for tourism marketing, and has prioritized marketing overnight stays and increasing the occupancy rate.
- The lack of a full-service hotel in Gilroy affects the tourism trade and limits the type of visitor that the community can attract.
- Downtown Gilroy is currently underused as a tourism asset. The high number of vacancies, and lack of entertainment and higher end dining options, make the area less appealing to visitors

Existing Conditions

Industry Growth Trends

The number of jobs in Gilroy is estimated for 2012 at nearly 22,000, although this includes some of the surrounding agricultural areas outside the City limits, which adds more than 2,000 agricultural jobs to the total (Table 4-9)². This total is still below the employment level ten years ago in 2002 but much of that decline occurred in the early part of the decade when agriculture and related food processing manufacturing experienced a significant loss due to changes in the garlic industry.

² Estimate provided by EMSI for the 95020 and 95021 zip code areas.

**TABLE 4-9
EMPLOYMENT TRENDS**

City of Gilroy
2002-2012

NAICS Code ¹	Description	2002 Jobs	2012 Jobs	Change
Industrial				
22	Utilities	78	58	(20)
23	Construction	1,633	1,237	(396)
31	Manufacturing	1,933	1,142	(791)
42	Wholesale Trade	593	503	(90)
48	Transportation and Warehousing	415	778	363
Commercial				
44	Retail Trade	4,166	5,344	1,178
52	Finance and Insurance	316	299	(17)
53	Real Estate and Rental and Leasing	330	252	(78)
81	Other Services (except Public Administration)	731	942	211
Office				
51	Information	933	980	47
54	Professional, Scientific, and Technical Services	837	665	(172)
55	Management of Companies and Enterprises	11	<10	--
56	Administrative and Support and Waste Mgmt	970	798	(172)
Institutional				
61	Educational Services (Private)	24	56	32
62	Health Care and Social Assistance	2,245	2,351	106
90	Government (incl. public health and education)	2,120	1,875	(245)
Visitor Serving				
71	Arts, Entertainment, and Recreation	425	401	(24)
72	Accommodation and Food Services	1,719	1,975	256
Other				
99	Unclassified Industry	<10	125	--
11	Agriculture, Forestry, Fishing and Hunting	2,785	2,157	(628)
21	Mining, Quarrying, and Oil and Gas Extraction	<10	<10	--
Total		22,276	21,952	(324)

Note:

¹North American Industrial Classification System (NAICS) is the official means of distinguishing different industry types

²Data are for Zip Codes 95020 and 95021 rather than the City limits.

Source: QCEW Employees - EMSI 2013.2 Class of Worker

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Also though, several of the employment sectors hit hardest by the more recent recession, including construction, real estate, finance and government, still have not regained their employment levels from 2002. Other hard hit sectors such as retail and accommodations have generally recovered in Gilroy.

Industry Growth Projections

There are a variety of growth projections available for Gilroy. The Association of Bay Area Governments (ABAG) has completed projections of total employment, population and households for its Jobs/Housing Connection Strategy. For the thirty years between 2010 and 2040, ABAG projects an average annual growth of 0.8 percent for Gilroy. This would result in 4,300 new jobs during that period (Table 4-10). The City of Gilroy monitors development trends in terms of applications for development projects and extrapolates a projection of what growth would be if these projects are approved and implemented. The time frame for the City projection is 2013 to 2038 and shows a higher employment growth rate of about 1 percent per year. This would result in a total job growth of 5,700 during this period.

TABLE 4-10 ALTERNATE HOUSING AND EMPLOYMENT PROJECTIONS City of Gilroy				
Source	Time Frame	Annual Growth	Growth Rate	Total Growth
ABAG	2010 - 2040		2010-2040	2010-2040
Housing		90 DU	0.6%	2,710
Jobs		143 jobs	0.8%	4,300
City of Gilroy	2013 - 2038		2013-2038	2013-2038
Housing		139 DU	0.9%	3,480
Jobs		228 jobs	1.0%	5,700
EMSI	2012 - 2023		2012-2023	2012-2023
Jobs		357 jobs	1.6%	3,920

Source: ADE, based on data from ABAG, City of Gilroy and EMSI.

ADE has also obtained projections from EMSI Corporation, which analyzes some 90 different databases, including employment trend data from the California Department of Employment Development, to prepare projections by zip code and by county. EMSI's projections have a shorter time frame – 2012-2023 – but they anticipate a jobs growth rate during that period of 1.6 percent per year, twice the longer-term average projected by ABAG. EMSI's more detailed projections are shown in Table 4-11 and would result in 3,924 new jobs during this ten year period.

TABLE 4-11 EMSI EMPLOYMENT PROJECTIONS City of Gilroy				
Description	2012 Jobs	2023 Jobs	Change	Percent Change
Industrial				
Utilities	58	30	(28)	-48.3%
Construction	1,237	1,592	355	28.7%
Manufacturing	1,142	775	(367)	-32.1%
Wholesale Trade	503	608	105	20.9%
Transportation and Warehousing	778	1,275	497	63.9%
Commercial				
Retail Trade	5,344	7,218	1,874	35.1%
Finance and Insurance	299	339	40	13.4%
Real Estate and Rental and Leasing	252	249	(3)	-1.2%
Other Services (except Public Administration)	942	1,171	229	24.3%
Description	2012 Jobs	2023 Jobs	Change	Percent Change
Office				
Information	980	1,267	287	29.3%
Professional, Scientific, and Technical Services	665	739	74	11.1%
Management of Companies and Enterprises	<10	13	--	
Administrative and Support and Waste Mgmt	798	880	82	10.3%
Institutional				
Educational Services (Private)	56	74	18	32.1%
Health Care and Social Assistance	2,351	2,588	237	10.1%
Government (incl. public health and education)	1,875	1,912	37	2.0%
Visitor Serving				
Arts, Entertainment, and Recreation	401	557	156	38.9%
Accommodation and Food Services	1,975	2,317	342	17.3%
Other				
Unclassified Industry	125	175	50	40.0%
Agriculture, Forestry, Fishing and Hunting	2,157	2,096	(61)	-2.8%
Mining, Quarrying, and Oil and Gas Extraction	<10	<10	--	
Total	21,952	25,876	3,924	17.9%

Note:

Data are for Zip Codes 95020 and 95021 rather than the City limits

Source: QCEW Employees - EMSI 2013.2 Class of Worker.

These kinds of projections, particularly those from ABAG and EMSI, reflect regional trends in economic conditions and attempt to assign a share of regional growth to individual jurisdictions such as Gilroy. Actual employment growth will result from decisions by private businesses to locate new facilities in certain places and expand based on market conditions within their specific industries. For example, the EMSI projections continue the trend of employment declines in manufacturing, but more recent

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conversations with commercial real estate brokers indicate that demand for new kinds of food processing facilities is trending upward and the manufacturing sector in Gilroy may see resurgence as a result. The City of Gilroy can affect its economic growth through a proactive economic development program. The next section identifies industry types throughout the region that are projected to grow over the next ten years. Gilroy has the opportunities to attraction some of this growth by positioning its sites and workforce to meet the needs of these industries.

Projected Growth Industries

The following tables identify selected industries in both Santa Clara and Alameda Counties that are projected by EMSI to grow over the next ten years. The types of industries are generally limited to those that would occupy industrial or office space. As shown in Table 4-12, the concentrations of job growth in Santa Clara County heavily lean towards technology-driven sectors such as computer products, information services, and professional, scientific, and technical services. The county also has significant concentrations of projected employment in construction and health care. The average earnings for these sectors in Santa Clara County are also considerably higher than the statewide averages for those industries. For Alameda County, professional services, construction, and health care will also generate significant projected job growth (Table 4-13).

TABLE 4-12
DETAILED GROWING INDUSTRY PROJECTIONS
Santa Clara County

NAICS Code	Description	2012 Jobs	2023 Jobs	Change	2013 Earnings	2013 State Earnings
Industrial						
Construction						
236	Construction of Buildings	7,040	8,647	1,607	\$87,052	\$74,843
237	Heavy and Civil Engineering Construction	2,001	2,441	440	\$95,274	\$93,073
238	Specialty Trade Contractors	24,090	33,325	9,235	\$80,492	\$64,611
Manufacturing						
312	Beverage and Tobacco Product Manufacturing	805	1,153	348	\$70,073	\$78,932
313	Textile Mills	128	167	39	\$82,970	\$40,527
314	Textile Product Mills	180	267	87	\$53,873	\$47,004
321	Wood Product Manufacturing	564	602	38	\$47,652	\$49,797
332	Fabricated Metal Product Manufacturing	8,995	9,553	558	\$66,238	\$65,300
334	Computer & Electronic Product Mfg	108,173	121,452	13,279	\$216,371	\$159,346
335	Electrical Equip., Appliance, & Component Mfg	3,084	4,121	1,037	\$125,472	\$86,980
339	Miscellaneous Manufacturing	5,417	5,478	61	\$152,919	\$99,358
Wholesale Trade						
423	Merchant Wholesalers, Durable Goods	24,142	27,876	3,734	\$141,955	\$84,052
424	Merchant Wholesalers, Nondurable Goods	6,184	7,094	910	\$63,078	\$68,366
425	Wholesale Electronic Mkts & Agents/Brokers	4,414	6,030	1,616	\$135,087	\$88,819

TABLE 4-12
DETAILED GROWING INDUSTRY PROJECTIONS
Santa Clara County

NAICS Code	Description	2012 Jobs	2023 Jobs	Change	2013 Earnings	2013 State Earnings
Transportation and Warehousing						
484	Truck Transportation	3,782	4,972	1,190	\$53,915	\$55,402
485	Transit & Ground Passenger Transportation	1,641	2,360	719	\$36,739	\$36,261
488	Support Activities for Transportation	1,730	2,094	364	\$52,860	\$68,540
Office Information						
511	Publishing Industries (except Internet)	15,129	21,089	5,960	\$251,307	\$146,067
512	Motion Picture & Sound Recording Industries	2,000	2,755	755	\$67,203	\$114,960
515	Broadcasting (except Internet)	1,543	1,552	9	\$96,761	\$112,730
518	Data Processing, Hosting and Related Services	5,081	7,083	2,002	\$220,966	\$149,814
519	Other Information Services	20,639	27,463	6,824	\$327,719	\$208,136
Finance, Insurance and Real Estate						
522	Credit Intermediation and Related Activities	11,462	14,187	2,725	\$138,028	\$92,737
523	Securities, Commodity Contracts, and Other Financial Investments and Related Activities	3,692	4,592	900	\$244,618	\$233,396
531	Real Estate	10,660	11,480	820	\$68,362	\$62,590
Professional, Technical and Business Services						
541	Professional, Scientific, and Technical Svcs	115,489	143,083	27,594	\$154,268	\$110,248
561	Administrative and Support Services	48,585	57,796	9,211	\$76,594	\$45,593
562	Waste Management and Remediation Svcs	1,979	2,124	145	\$78,853	\$67,116
Health Care						
621	Ambulatory Health Care Services	33,877	42,496	8,619	\$96,845	\$76,582
622	Hospitals (Private)	20,141	20,286	145	\$123,399	\$86,325
623	Nursing and Residential Care Facilities	12,190	16,104	3,914	\$41,890	\$37,451
624	Social Assistance	12,644	16,074	3,430	\$37,415	\$33,621

¹North American Industrial Classification System (NAICS) is the official means of distinguishing different industry types.

Source: EMSI.

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**TABLE 4-13
DETAILED GROWING INDUSTRY PROJECTIONS
Alameda County**

NAICS Code	Description	2012 Jobs	2023 Jobs	Change	2013 Earnings	2013 State Earnings
Industrial						
Construction						
236	Construction of Buildings	6,812	9,333	2,521	\$81,179	\$74,843
237	Heavy and Civil Engineering Construction	3,748	5,620	1,872	\$110,171	\$93,073
238	Specialty Trade Contractors	21,911	31,110	9,199	\$81,368	\$64,611
Manufacturing						
312	Beverage and Tobacco Product Manufacturing	1,743	2,045	302	\$76,342	\$78,932
314	Textile Product Mills	269	348	79	\$50,168	\$47,004
321	Wood Product Manufacturing	490	716	226	\$46,152	\$49,797
324	Petroleum and Coal Products Manufacturing	364	436	72	\$149,586	\$302,121
325	Chemical Manufacturing	4,428	4,945	517	\$167,730	\$135,074
332	Fabricated Metal Product Manufacturing	5,471	5,748	277	\$66,613	\$65,300
333	Machinery Manufacturing	5,244	5,688	444	\$132,263	\$94,820
335	Electrical Equip., Appliance, & Component Mfg	1,581	2,273	692	\$113,504	\$86,980
Wholesale Trade						
424	Merchant Wholesalers, Nondurable Goods	13,975	16,232	2,257	\$83,500	\$68,366
Transportation and Warehousing						
483	Water Transportation	1,195	1,544	349	\$143,522	\$107,621
484	Truck Transportation	5,389	5,963	574	\$58,980	\$55,402
485	Transit and Ground Passenger Transportation	1,756	2,587	831	\$40,413	\$36,261
487	Scenic and Sightseeing Transportation	87	113	26	\$34,903	\$42,348
488	Support Activities for Transportation	3,961	5,328	1,367	\$91,171	\$68,540
493	Warehousing and Storage	3,403	3,633	230	\$68,738	\$56,259
Office						
Information						
523	Motion Picture & Sound Recording Industries	2,726	3,429	703	\$170,855	\$114,960
531	Broadcasting (except Internet)	2,224	2,852	628	\$87,794	\$112,730
532	Other Information Services	1,105	1,165	60	\$166,241	\$208,136
Finance, Insurance and Real Estate						
522	Securities, Commodity Contracts, and Other Financial Investments and Related Activities	1,696	2,053	357	\$139,584	\$233,396
523	Real Estate	6,283	7,119	836	\$66,609	\$62,590
531	Rental and Leasing Services	2,616	2,760	144	\$52,818	\$57,891
Professional, Technical & Business Services						
541	Professional, Scientific, and Technical Svcs	61,466	79,871	18,405	\$115,167	\$110,248
551	Management of Companies and Enterprises	20,953	29,249	8,296	\$145,468	\$121,217
561	Administrative and Support Services	29,313	34,487	5,174	\$46,271	\$45,593

TABLE 4-13
DETAILED GROWING INDUSTRY PROJECTIONS
 Alameda County

NAICS Code	Description	2012 Jobs	2023 Jobs	Change	2013 Earnings	2013 State Earnings
562	Waste Management and Remediation Svcs	3,004	3,553	549	\$74,374	\$67,116
Health Care						
621	Ambulatory Health Care Services	33,695	43,601	9,906	\$95,346	\$76,582
622	Hospitals (Private)	18,565	19,830	1,265	\$102,030	\$86,325
623	Nursing and Residential Care Facilities	12,174	16,333	4,159	\$40,807	\$37,451
624	Social Assistance	10,719	12,941	2,222	\$35,728	\$33,621

North American Industrial Classification System (NAICS) is the official means of distinguishing different industry types.
 Source: EMSI.

Retail Market Analysis

Over the past two decades, Gilroy has evolved into a major regional center whose commercial activity well exceeds what is typical for a community of Gilroy’s size. The existing base of retail stores and local-serving businesses creates a broad and diverse base that serves a variety of constituents, such as residents, commuters, visitors, and travelers passing through. During this time, Gilroy has developed some key commercial centers that serve a large population that extends well beyond the city limits.

This has put the city in a position where much of its retail support comes through attracting household spending from a large market area that not only includes the surrounding communities, but also overnight visitors and day travelers. The result of this substantial capture of retail spending is that most of Gilroy’s retail categories show a net capture of regional retail sales. This limits the retail segments that show spending leakage. While this demonstrates that Gilroy residents do not need to travel to other communities to meet their most of their retail needs, the lack of substantial leakage in most categories also means that Gilroy has relatively few business attraction opportunities for new types of retail stores that currently have unmet market demand.

While Gilroy’s success in developing regional commercial centers has created a very large revenue base, the recent recession and other factors have led to declines in some key areas in recent years. Concurrently, some competitive threats have emerged as other communities compete with Gilroy for retail spending.

This analysis will look at how Gilroy has fared in recent years, and identify areas where existing retail sales leakage can potentially be resituated into support for new stores in Gilroy. In addition, the analysis looks at how the retail sales trends have differed between different areas within Gilroy.

Demographic Trends Driving Retail Demand

Typically, the support for retail stores largely comes from population and income (with addition demand from visitors, commuters, and other local businesses), which is the primary generator of household spending demand. With Gilroy’s high retail capture rates, much of its retail sales come from visitors. As indicated previously, has 50,738 residents, which is not an especially large population base. However, the community does provide easy access to surrounding unincorporated communities. In addition,

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Gilroy has had a substantially higher population growth rate (22.4 percent) than the rest of Santa Clara County (7.7 percent), with the highest growth rate between 2000 and 2013.

In 2011, Gilroy had an average (median) household income of about \$89,703 (mean income of \$92,700), along with an aggregate household income of over \$1.3 billion (Table 4-14). The distribution of income shows concentrations of income in the middle and upper income ranges, with 37 percent of households earning at least \$100,000, and 65 percent of households earning at least \$50,000.

Income Range	Percent of Total Households
Less than \$10,000	6.3%
\$10,000 to \$14,999	3.9%
\$15,000 to \$19,999	3.6%
\$20,000 to \$24,999	4.0%
\$25,000 to \$29,999	3.5%
\$30,000 to \$34,999	2.9%
\$35,000 to \$39,999	3.6%
\$40,000 to \$44,999	4.3%
\$45,000 to \$49,999	2.7%
\$50,000 to \$59,999	7.6%
\$60,000 to \$74,999	7.7%
\$75,000 to \$99,999	12.8%
\$100,000 to \$124,999	11.9%
\$125,000 to \$149,999	7.9%
\$150,000 to \$199,999	10.3%
\$200,000 or more	6.9%
Median Household Income	\$89,703
Aggregate Household Income	\$1,315,767,400

Notes: The American Community Survey replaces the demographic data formerly collected during the decennial U.S. Census of Population. The ACS is collected on an annual basis, and the data in this table reflects the one-year sample from 2011. ACS data also includes larger three- and five-year sample data

Source: ADE, Inc.; data from American Community Survey 2011 sample.

The average income in Gilroy is well above the statewide average (\$57,287), yet ranks as the lowest average income among incorporated cities in Santa Clara County. However, as commuters from Silicon Valley continue to move into Gilroy, this will continue to raise the income level in the community. This income growth will create opportunities for commercial expansion, and potentially reposition Gilroy for higher end retail uses as the affluence in the community increases.

In contrast, the taxable sales in Gilroy show the community with one of the stronger concentrations in Santa Clara County on a per capita basis, despite its lower average income base. In addition, when looking at Gilroy on a taxable sales per household basis, the community ranks second in the county, behind only Cupertino. Moreover, the average taxable sales per household in Gilroy (\$81,192) represents 87.6 percent of the average household income. This is a strong indicator that Gilroy attracts its taxable sales regionally and has a strong hold on local household demand.

**TABLE 4-15
HOUSEHOLD INCOME AND TAXABLE SALES INDICATORS**

**Santa Clara County
2011**

City	Taxable Sales (July 11 June 12)	Per Capita Taxable Sales	Household Population	Households	Mean Household Income	Taxable Sales Per Household	Percent of HH Income
Campbell	\$817,925,723	\$20,345	40,203	16,240	\$104,937	\$50,365	48.0%
Cupertino	\$2,003,041,391	\$33,788	59,283	20,194	\$146,231	\$99,190	67.8%
Gilroy	\$1,190,035,908	\$23,455	50,738	14,657	\$92,700	\$81,192	87.6%
Los Altos	\$207,615,355	\$7,022	29,565	10,812	\$205,745	\$19,202	9.3%
Los Altos Hills	\$7,242,046	\$882	8,211	2,889	\$316,311	\$2,507	0.8%
Los Gatos	\$793,991,700	\$26,558	29,897	12,436	\$167,602	\$63,846	38.1%
Milpitas	\$1,670,278,862	\$25,347	65,897	19,300	\$109,000	\$86,543	79.4%
Monte Sereno	\$1,410,560	\$412	3,420	1,213	\$268,517	\$1,163	0.4%
Morgan Hill	\$597,711,354	\$15,058	39,693	12,767	\$119,961	\$46,817	39.0%
Mountain View	\$1,308,281,654	\$17,215	75,995	32,197	\$118,334	\$40,634	34.3%
Palo Alto	\$1,902,302,337	\$28,917	65,785	26,718	\$175,371	\$71,199	40.6%
San Jose	\$12,885,837,239	\$13,283	970,128	306,727	\$102,220	\$42,011	41.1%
Santa Clara	\$3,453,252,175	\$29,493	117,088	43,511	\$104,152	\$79,365	76.2%
Saratoga	\$90,077,400	\$2,953	30,507	10,778	\$195,962	\$8,358	4.3%
Sunnyvale	\$2,716,760,398	\$18,720	145,124	54,443	\$113,945	\$49,901	43.8%
Santa Clara County Total	\$34,696,798,830	\$19,151	1,811,756	611,426	\$116,722	\$56,747	48.6%

Source: ADE, Inc.; data from California Board of Equalization, American Community Survey 2011 Sample, and California Department of Finance.

Gilroy Taxable Sales Trends

Over the past decade, Gilroy's taxable sales saw strong year-over-year growth, except for the recessionary period between 2007 and 2009 (Table 4-16). The largest year-over-year decline during the recession occurred in 2009, when taxable sales declined by 11.5 percent. Sales are recovering towards pre-recession levels; however, City sales tax revenue is still approximately \$1 million less than it was at its peak. It should be noted that taxable sales in Gilroy are much more dependent on retail store sales than the statewide average. In 2012, Gilroy generated about 90 percent of its taxable sales from retailers, while the statewide average is typically less than 70 percent. The non-retail portion of the taxable sales base typically includes business-to-business and other point-of-sale transactions that are not directed towards household consumers.

The taxable sales from retail stores in Gilroy totaled about \$1.1 billion in 2012 (Table-4-17). This represents about 90.2 percent of the total taxable sales in Gilroy. Because of how retail dominates the total taxable sales, the year-over-year sales growth trends in Gilroy for retail sales follow the overall

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taxable sales with healthy sales growth with a three-year recessionary trend in the middle. The composition of this sales growth however does differ when looking at the retail store categories in greater detail.

TABLE 4-16 TAXABLE SALES TREND City of Gilroy 2003-2012		
Annual Taxable Sales	Gilroy Total	Year-Over-Year Change
2003	\$974,692,500	n/a
2004	\$1,135,866,300	16.5%
2005	\$1,232,665,300	8.5%
2006	\$1,266,001,700	2.7%
2007	\$1,250,936,900	-1.2%
2008	\$1,145,659,200	-8.4%
2009	\$1,014,425,500	-11.5%
2010	\$1,069,646,700	5.4%
2011	\$1,165,022,800	8.9%
2012	\$1,214,473,300	13.5%

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

TABLE 4-17 TAXABLE SALES TREND FOR RETAIL STORES City of Gilroy 2003-2012				
Annual Taxable Sales	Retail Store Taxable Sales	Year-Over-Year Change	Percent of Total Taxable Sales	Gilroy Total
2003	\$827,124,800	n/a	84.9%	\$974,692,500
2004	\$994,911,700	20.3%	87.6%	\$1,135,866,300
2005	\$1,091,501,000	9.7%	88.5%	\$1,232,665,300
2006	\$1,107,009,600	1.4%	87.4%	\$1,266,001,700
2007	\$1,103,554,500	-0.3%	88.2%	\$1,250,936,900
2008	\$1,021,814,100	-7.4%	89.2%	\$1,145,659,200
2009	\$916,966,000	-10.3%	90.4%	\$1,014,425,500
2010	\$956,445,500	4.3%	89.4%	\$1,069,646,700
2011	\$1,051,903,200	10.0%	90.3%	\$1,165,022,800
2012	\$1,094,911,100	4.1%	90.2%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

Apparel Store Taxable Sales

The apparel store category in Gilroy is very prominent and has increased its concentration of sales over the past decade. In 2012, apparel stores accounted for 23.6 percent of the taxable sales in Gilroy, with a total of \$287 million (Table 4-18). More importantly, the sector showed remarkable resilience during the recession with only a 1.0 percent decline in 2009. Every other year, the apparel store category had year-over-year taxable sales growth.

Annual Taxable Sales	Apparel Store Taxable Sales	Year-Over-Year Change	Percent of Total Taxable Sales	Gilroy Total
2003	\$146,154,200	n/a	15.0%	\$974,692,500
2004	\$171,578,500	17.4%	15.1%	\$1,135,866,300
2005	\$193,197,900	12.6%	15.7%	\$1,232,665,300
2006	\$200,540,100	3.8%	15.8%	\$1,266,001,700
2007	\$210,701,700	5.1%	16.8%	\$1,250,936,900
2008	\$216,024,000	2.5%	18.9%	\$1,145,659,200
2009	\$213,905,100	-1.0%	21.1%	\$1,014,425,500
2010	\$227,698,400	6.4%	21.3%	\$1,069,646,700
2011	\$259,670,100	14.0%	22.3%	\$1,165,022,800
2012	\$273,352,000	5.3%	22.5%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

Automotive Taxable Sales

The automotive category includes a combination of new and used vehicle dealerships, as well as parts retailers. Since 2003, Gilroy has lost about half of its taxable sales in this category. While sales losses occurred throughout an industrywide sales decline that predated the Great Recession, the magnitude of the losses in Gilroy were steeper. In addition to sales declines by dealerships, the trend was exacerbated by the relocation of two key auto dealerships to nearby Morgan Hill.

In 2003, the automotive category accounted for 18 percent of the total taxable sales in Gilroy. By 2012, this had reduced to 8.1 percent (Table 4-19). Sales in this category peaked in 2005 with \$200 million in taxable sales, but had declined to \$88.5 million by 2009. Sales have since recovered to \$98.4 million in 2012.

Service Station Taxable Sales

The service station category includes businesses whose primary trade is gasoline sales. These businesses will often incorporate a convenience store, car wash, and/or repair service component. As shown in Table 4-20, this category has significantly increased its sales concentration in Gilroy, with the percentage of total taxable sales increasing from 6.5 percent in 2003 to 12.5 percent in 2012. Sales trends showed double-digit year-over-year growth almost every year over the past 10 years, and only one year-over-year decrease. While a lot of the increase in service station sales follows with the general increase in

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gasoline prices over the past decade, it could also indicate that Gilroy is increasingly taking advantage of its strategic location as a highway commercial services provider.

**TABLE 4-19
TAXABLE SALES TREND FOR AUTOMOTIVE BUSINESSES**

**City of Gilroy
2003-2012**

Annual Taxable Sales	Automotive Taxable Sales	Year-Over-Year Change	Percent of Total Taxable Sales	Gilroy Total
2003	\$175,808,100	n/a	18.0%	\$974,692,500
2004	\$196,944,800	12.0%	17.3%	\$1,135,866,300
2005	\$200,300,300	1.7%	16.2%	\$1,232,665,300
2006	\$195,348,000	-2.5%	15.4%	\$1,266,001,700
2007	\$188,017,900	-3.8%	15.0%	\$1,250,936,900
2008	\$134,102,200	-28.7%	11.7%	\$1,145,659,200
2009	\$88,512,700	-34.0%	8.7%	\$1,014,425,500
2010	\$92,825,900	4.9%	8.7%	\$1,069,646,700
2011	\$97,870,900	5.4%	8.4%	\$1,165,022,800
2012	\$98,407,700	0.5%	8.1%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

**TABLE 4-20
TAXABLE SALES TREND FOR SERVICE STATIONS**

**City of Gilroy
2003-2012**

Annual Taxable Sales	Service Station Taxable Sales	Year-Over-Year Change	Percent of Total Taxable Sales	Gilroy Total
2003	\$63,082,600	n/a	6.5%	\$974,692,500
2004	\$73,600,400	16.7%	6.5%	\$1,135,866,300
2005	\$85,922,400	16.7%	7.0%	\$1,232,665,300
2006	\$94,422,700	9.9%	7.5%	\$1,266,001,700
2007	\$109,100,300	15.5%	8.7%	\$1,250,936,900
2008	\$126,087,000	15.6%	11.0%	\$1,145,659,200
2009	\$95,193,800	-24.5%	9.4%	\$1,014,425,500
2010	\$118,986,500	25.0%	11.1%	\$1,069,646,700
2011	\$149,039,400	25.3%	12.8%	\$1,165,022,800
2012	\$152,038,600	2.0%	12.5%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

Building Materials Dealer Taxable Sales

This broadly defined category includes a combination of hardware stores, home improvement centers, building materials and lumber dealers, and other similar establishments. It does not include wholesalers or businesses that cater more to the professional building trades. Since 2003, this category has seen a general decline in both sales and concentration in Gilroy. Sales in this category peaked in 2004 with \$131.6 million in taxable sales, and saw year-over-year declines every year until 2011 when sales began increasing again.

TABLE 4-21 TAXABLE SALES TREND FOR BUILDING MATERIALS DEALERS				
City of Gilroy 2003-2012				
Annual Taxable Sales	Building Materials Dealers Taxable Sales	Year-Over-Year Change	Percent of Total Taxable Sales	Gilroy Total
2003	\$110,423,800	n/a	11.3%	\$974,692,500
2004	\$131,616,900	19.2%	11.6%	\$1,135,866,300
2005	\$128,719,500	-2.2%	10.4%	\$1,232,665,300
2006	\$118,912,900	-7.6%	9.4%	\$1,266,001,700
2007	\$109,942,600	-7.5%	8.8%	\$1,250,936,900
2008	\$87,612,100	-20.3%	7.6%	\$1,145,659,200
2009	\$75,034,000	-14.4%	7.4%	\$1,014,425,500
2010	\$73,934,800	-1.5%	6.9%	\$1,069,646,700
2011	\$78,399,700	6.0%	6.7%	\$1,165,022,800
2012	\$81,689,400	4.2%	6.7%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

Drug Store Taxable Sales

Businesses in the drug store category include establishments whose primary product line consists of pharmaceuticals and other prescription medications. Because prescription medication sales are not taxable in California, the taxable sales data in Table 4-22 only account for the other product lines typically carried by drug stores and pharmacies. These products often duplicate many of the merchandise lines carried at large-format general merchandise stores.

In general, the taxable sales for drug stores in Gilroy did not show much change over the past decade, with sales totaling around \$8 million annually. Because this flat sales trend occurred during a time in which Gilroy had a sizable population increase, it could indicate that drug stores have seen at least some of their potential customers move over to general merchandise stores. It should be noted that general merchandise stores and supermarkets will often have their own pharmacies, so any growth in those store categories could also have a competitive impact on drug stores.

Eating Places Taxable Sales

The eating places category combines together all establishments involved in serving prepared food and/or drinks. This includes fast food establishments, full-service restaurants, limited-service

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restaurants, and bars. Taxable sales in this category showed a very large expansion between 2003 and 2007, with sales increasing from \$66.7 million to \$101.0 million. During the recession, the category showed slight declines, but sales have recovered since that time and 2012 showed a new sales peak with \$101.9 million in sales.

TABLE 4-22 TAXABLE SALES TREND FOR DRUG STORES City of Gilroy 2003-2012				
Annual Taxable Sales	Drug Store Taxable Sales	Year-Over-Year Change	Percent of Total Taxable Sales	Gilroy Total
2003	\$8,034,400	n/a	0.8%	\$974,692,500
2004	\$7,951,200	-1.0%	0.7%	\$1,135,866,300
2005	\$7,848,400	-1.3%	0.6%	\$1,232,665,300
2006	\$7,612,300	-3.0%	0.6%	\$1,266,001,700
2007	\$7,573,200	-0.5%	0.6%	\$1,250,936,900
2008	\$7,710,700	1.8%	0.7%	\$1,145,659,200
2009	\$7,631,500	-1.0%	0.8%	\$1,014,425,500
2010	\$7,992,500	4.7%	0.7%	\$1,069,646,700
2011	\$8,310,900	4.0%	0.7%	\$1,165,022,800
2012	\$8,303,000	-0.1%	0.7%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

TABLE 4-23 TAXABLE SALES TREND FOR EATING PLACES City of Gilroy 2003-2012				
Annual Taxable Sales	Eating Places Taxable Sales	Year-Over-Year Change	Percent of Total Taxable Sales	Gilroy Total
2003	\$66,710,400	n/a	6.8%	\$974,692,500
2004	\$75,357,600	13.0%	6.6%	\$1,135,866,300
2005	\$86,761,000	15.1%	7.0%	\$1,232,665,300
2006	\$99,102,100	14.2%	7.8%	\$1,266,001,700
2007	\$100,981,800	1.9%	8.1%	\$1,250,936,900
2008	\$100,019,500	-1.0%	8.7%	\$1,145,659,200
2009	\$98,550,100	-1.5%	9.7%	\$1,014,425,500
2010	\$96,266,300	-2.3%	9.0%	\$1,069,646,700
2011	\$98,716,700	2.5%	8.5%	\$1,165,022,800
2012	\$101,915,300	5.9%	8.4%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

Food Store Taxable Sales

The food store category includes a combination of supermarkets, convenience stores, and specialty food retailers. Generally, the majority of sales for food stores include groceries and other non-prepared food

items, which are non-taxable in California. The taxable sales for food stores will include prepared foods, soft drinks, alcoholic beverages, as well as non-food merchandise.

In Gilroy, the taxable sales for food stores saw declines between 2003 and 2005, and between 2009 and 2010 (Table 4-24). In general, sales at food stores will follow population trends. However, Gilroy also saw expansions in general merchandise stores, which also carry grocery items. These expansions created disruptions in the market that required adjustments by food stores in Gilroy. Sales trends would seem to indicate that local food stores have made those adjustments, as 2012 saw a new peak in annual sales for this category, with \$27.0 million in taxable sales.

Annual Taxable Sales	Food Store Taxable Sales	Year-Over-Year Change	Percent of Total Taxable Sales	Gilroy Total
2003	\$22,637,000	n/a	2.3%	\$974,692,500
2004	\$21,998,100	-2.8%	1.9%	\$1,135,866,300
2005	\$21,683,900	-1.4%	1.8%	\$1,232,665,300
2006	\$23,792,600	9.7%	1.9%	\$1,266,001,700
2007	\$23,958,400	0.7%	1.9%	\$1,250,936,900
2008	\$24,587,600	2.6%	2.1%	\$1,145,659,200
2009	\$24,361,400	-0.9%	2.4%	\$1,014,425,500
2010	\$23,076,200	-5.3%	2.2%	\$1,069,646,700
2011	\$25,874,200	12.1%	2.2%	\$1,165,022,800
2012	\$27,040,100	4.5%	2.2%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

General Merchandise Store Taxable Sales

The general merchandise category includes a broad combination of discount department stores, traditional department stores, warehouse clubs, and variety stores (including dollar stores). Stores in this category will generally carry a wide range of merchandise, and will often have overlaps with many different retail store categories. It should be noted that warehouse clubs also generate much of their sales as wholesale transactions for resale. Those transactions are not included in the taxable sales.

As shown in Table 4-25, this store category has seen a large expansion in Gilroy over the past decade, with sales growing from \$109.7 million in 2003 to \$184.0 million in 2012 (which represents a new peak sales level in Gilroy). Much of the growth occurred between 2003 and 2006, and sales saw a decline between 2007 and 2008 during the recession. Since the recession, the category has seen more modest sales gains.

Home Furnishings Taxable Sales

The home furnishings category includes a combination of stores that primarily carry furniture, appliances, electronics, and other home decorating items. Stores in this category saw a large sales increase between 2003 and 2005; however, sales have declined steadily since that time (Table 4-26). In general, stores in this category were more severely impacted by the recession than other store

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categories. In addition, these stores are also susceptible to declines in home prices, which tend to suppress consumer spending on high expense items that might be considered discretionary, such as furniture and electronics.

TABLE 4-25				
TAXABLE SALES TREND FOR GENERAL MERCHANDISE STORES				
City of Gilroy				
2003-2012				
Annual Taxable Sales	General Merchandise Store Taxable Sales	Year-Over-Year Change	Percent of Total Taxable Sales	Gilroy Total
2003	\$109,748,100	n/a	11.3%	\$974,692,500
2004	\$141,484,300	28.9%	12.5%	\$1,135,866,300
2005	\$165,882,900	17.2%	13.5%	\$1,232,665,300
2006	\$180,883,800	9.0%	14.3%	\$1,266,001,700
2007	\$178,693,600	-1.2%	14.3%	\$1,250,936,900
2008	\$174,027,500	-2.6%	15.2%	\$1,145,659,200
2009	\$176,011,700	1.1%	17.4%	\$1,014,425,500
2010	\$175,910,900	-0.1%	16.4%	\$1,069,646,700
2011	\$177,193,800	0.7%	15.2%	\$1,165,022,800
2012	\$183,998,400	3.8%	15.2%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

TABLE 4-26				
TAXABLE SALES TREND FOR HOME FURNISHINGS STORES				
City of Gilroy				
2003-2012				
Annual Taxable Sales	Home Furnishings Store Taxable Sales	Year-Over-Year Change	Percent of Total Taxable Sales	Gilroy Total
2003	\$24,948,000	n/a	2.6%	\$974,692,500
2004	\$49,386,900	98.0%	4.3%	\$1,135,866,300
2005	\$58,178,800	17.8%	4.7%	\$1,232,665,300
2006	\$58,140,800	-0.1%	4.6%	\$1,266,001,700
2007	\$55,852,900	-3.9%	4.5%	\$1,250,936,900
2008	\$46,309,500	-17.1%	4.0%	\$1,145,659,200
2009	\$45,198,800	-2.4%	4.5%	\$1,014,425,500
2010	\$44,433,400	-1.7%	4.2%	\$1,069,646,700
2011	\$43,812,800	-1.4%	3.8%	\$1,165,022,800
2012	\$41,623,900	-5.0%	3.4%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

Gilroy Taxable Sales by Subarea

As indicated, Gilroy's taxable sales are dominated by retail stores. Gilroy also has its retail sales largely concentrated in the three major retail centers east of Highway 101, with these retail centers alone accounting for about half of Gilroy's total taxable sales. The outlets in particular are a significant visitor attraction, while Gilroy Crossing and Pacheco Pass Center function as highway commercial centers for travelers heading east along CA-152. Highway 101 effectively serves as a barrier keeping those visitors from exploring the areas west of Highway 101, including downtown. There is currently very little visible connection between the east side of Highway 101 and the west side. Visitors do not see any visual cues that link the highly trafficked areas with downtown Gilroy and other areas of interest on the west side of Highway 101.

This section details the taxable sales trends for the Premium Outlets, Pacheco Pass Center, Gilroy Crossing, and downtown Gilroy.

Premium Outlet Center Trends

As shown in table 4-27, the Gilroy Premium Outlets center currently generates the largest portion of taxable sales in Gilroy, with nearly \$287.0 million in 2012. The outlet center is also largely responsible for the high concentration of apparel store sales in Gilroy, with over 85 percent of the total taxable sales (\$246.3 million) at the center coming from apparel stores. Specialty retail stores make up about 11 percent of the outlet center's sales.

Since 2003, the retail center has steadily increased its sales, and these sales did not experience a large downturn during the recession, with only a 2.4 percent decline in 2009. The center's role as a regional attraction, serving Bay Area residents and out-of-town visitors, has continued to increase and the outlet center has historically had few vacancies at any given time.

It should be noted that while the outlet center has not had significant competition in the inner Bay Area counties since it opened, a new outlet center in Livermore opened in November 2012. The Paragon Outlets in Livermore were subsequently purchased by Simon Property Group, which also owns the Gilroy Premium Outlets. It is not known yet how this ownership arrangement will affect the Gilroy outlet operations, but it represents the first competitive property in close proximity to the Gilroy outlets' customer base. In the most recent sales tax reporting quarter (second quarter 2013), the competition from Livermore has affected the Gilroy outlets' year-over-year sales, which declined by 6.2 percent on a year-over-year basis. Clearly, this is a situation that will require close monitoring, given how important a role the outlets serve for Gilroy's regional retail attraction and tourism market, and how the outlets have now been around for more than 20 years.

Pacheco Pass Center Trends

The Pacheco Pass Center is located on the northeast corner where Highway 101 intersects with Highway 152. This center was Gilroy's first major power center development, and it currently ranks second behind the Gilroy Premium Outlets in taxable sales. The sales composition of the Pacheco Pass Center is dominated by general merchandise store sales, while home improvement and furniture/home furnishings stores account for more than 20 percent of the total sales at Pacheco Pass Center.

The sales trends at Pacheco Pass Center show very rapid growth through 2006, at which time sales declined during the recession (Table 4-28). Even though sales have recovered since 2010, the current

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taxable sales levels remain below the pre-recession peak. Part of this could be due to the recently developed power center in Morgan Hill, which reduces the amount of retail spending that Gilroy can attract from residents living north of Gilroy.

TABLE 4-27
TAXABLE SALES TREND FOR GILROY PREMIUM OUTLETS
City of Gilroy
2003-2012

Year	Outlet Center Taxable Sales	Year-Over-Year Change	Percent of Total Gilroy Taxable Sales	Gilroy Total
2003	\$186,029,000	n/a	19.1%	\$974,692,500
2004	\$205,756,700	10.6%	18.1%	\$1,135,866,300
2005	\$226,124,300	9.9%	18.3%	\$1,232,665,300
2006	\$226,976,000	0.4%	17.9%	\$1,266,001,700
2007	\$236,758,300	4.3%	18.9%	\$1,250,936,900
2008	\$239,259,100	1.1%	20.9%	\$1,145,659,200
2009	\$233,514,100	-2.4%	23.0%	\$1,014,425,500
2010	\$242,238,800	3.7%	22.6%	\$1,069,646,700
2011	\$274,871,300	13.5%	23.6%	\$1,165,022,800
2012	\$286,978,600	4.4%	23.6%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

TABLE 4-28
TAXABLE SALES TRENDS FOR PACHECO PASS CENTER
City of Gilroy
2003-2012

Year	Pacheco Pass Center Taxable Sales	Year-Over-Year Change	Percent of Total Gilroy Taxable Sales	Gilroy Total
2003	\$129,655,800	n/a	13.3%	\$974,692,500
2004	\$189,471,300	46.1%	16.7%	\$1,135,866,300
2005	\$218,915,400	15.5%	17.8%	\$1,232,665,300
2006	\$242,742,200	10.9%	19.2%	\$1,266,001,700
2007	\$233,856,200	-3.7%	18.7%	\$1,250,936,900
2008	\$219,214,700	-6.3%	19.1%	\$1,145,659,200
2009	\$210,242,200	-4.1%	20.7%	\$1,014,425,500
2010	\$210,844,300	0.3%	19.7%	\$1,069,646,700
2011	\$214,349,100	1.7%	18.4%	\$1,165,022,800
2012	\$225,959,300	5.4%	18.6%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

Gilroy Crossing Trends

The Gilroy Crossing retail center is located on the southeast corner of the Highway 101 and 152 interchange. Like the Pacheco Pass Center, Gilroy Crossing has general merchandise as one its major anchors; however, the tenant mix also includes a high concentration of specialty retail stores, and eating places.

Gilroy Crossing rapidly ramped up in 2003 and 2004, with sales peaking in 2006 before the recession led to a sales decline (Table 4-29). As with the Pacheco Pass Center, Gilroy Crossing has had recent sales increases. However, the sales levels remain below the 2006 peak, and Gilroy Crossing is similarly affected by the newer development in Morgan Hill.

Year	Gilroy Crossing Taxable Sales	Year-Over-Year Change	Percent of Total Gilroy Taxable Sales	Gilroy Total
2003	\$9,898,300	n/a	1.0%	\$974,692,500
2004	\$57,557,100	481.5%	5.1%	\$1,135,866,300
2005	\$87,350,500	51.8%	7.1%	\$1,232,665,300
2006	\$96,283,300	10.2%	7.6%	\$1,266,001,700
2007	\$95,224,200	-1.1%	7.6%	\$1,250,936,900
2008	\$84,798,800	-10.9%	7.4%	\$1,145,659,200
2009	\$86,440,000	1.9%	8.5%	\$1,014,425,500
2010	\$90,561,000	4.8%	8.5%	\$1,069,646,700
2011	\$94,271,600	4.1%	8.1%	\$1,165,022,800
2012	\$94,411,000	0.1%	7.8%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

Downtown Gilroy Trends

Gilroy's downtown area has a diverse range of businesses, and currently serves primarily a local customer base. The taxable sales in downtown Gilroy largely come from the service stations, eating places, specialty retail stores, home furnishings stores, and non-retail businesses such as beauty shops and auto repair. Service stations on the periphery of the downtown core also contribute to overall downtown sales. Downtown Gilroy is a unique asset that is currently underused. The potential exists for downtown to become a more prominent visitor attraction with the right mix of dining, entertainment, and retail options.

Downtown Gilroy currently generates about 3.2 percent of the total taxable sales in Gilroy, with \$39.4 million in 2012 (Table 4-30). The trends show a steep sales decline that occurred between 2006 and 2009. However, since 2010 the sales in downtown Gilroy have shown a very strong recovery, with 2012 taxable sales nearly equaling the pre-recession peak in 2005.

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Even though sales have rebounded in recent years, the area has a very high vacancy rate. In addition, this problem is compounded by the large number of unreinforced masonry buildings that cannot be occupied. This has the effect of limiting pedestrian activity and constraining complementary activity that can elevate the economic potential of the area.

TABLE 4-30 TAXABLE SALES TRENDS FOR DOWNTOWN GILROY				
City of Gilroy 2003-2012				
Year	Downtown Taxable Sales	Year-Over-Year Change	Percent of Total Gilroy Taxable Sales	Gilroy Total
2003	\$38,397,000	n/a	3.9%	\$974,692,500
2004	\$39,036,300	1.7%	3.4%	\$1,135,866,300
2005	\$39,571,900	1.4%	3.2%	\$1,232,665,300
2006	\$36,011,600	-9.0%	2.8%	\$1,266,001,700
2007	\$33,126,200	-8.0%	2.6%	\$1,250,936,900
2008	\$31,724,800	-4.2%	2.8%	\$1,145,659,200
2009	\$28,337,300	-10.7%	2.8%	\$1,014,425,500
2010	\$32,057,300	13.1%	3.0%	\$1,069,646,700
2011	\$37,412,700	16.7%	3.2%	\$1,165,022,800
2012	\$39,386,200	5.3%	3.2%	\$1,214,473,300

Source: ADE, Inc.; data from California Board of Equalization and MuniServices.

Retail Leakage

Retail leakage occurs when existing household demand for specific retail store types is not met by local stores in that category, and those shoppers go to stores located outside of their local market area instead. This happens when local stores do not meet the needs of shoppers, whether that results from an insufficient quantity of stores in a particular category, or existing stores otherwise not sufficiently attracting spending from local shoppers. Concurrently, net capture occurs when retail stores (within a specific category) attract shoppers from neighboring communities, and the store sales exceed the local demand.

Retail leakage represents both a shortcoming and an opportunity, because the unmet retail demand that currently goes elsewhere can potentially be recaptured within a local market area by establishing new stores (or expanding existing businesses) that do a better job at capturing household spending. In general, if the leakage in a particular retail category is high enough, then it can potentially support a discrete retail store of that type.

In order to estimate the retail leakage, the analysis relied on the sales tax capture and gap analysis tracking data that MuniServices provides to the City of Gilroy. This data source is confidential and the retail leakage analysis does not report any raw numbers that might disclose sales for individual businesses.

The MuniServices report estimates the retail capture and unmet demand by comparing the actual sales tax receipts for each business category with the potential sales tax. The potential sales tax uses the Bay Area region's buying patterns as the benchmark.

Gilroy's overall retail sales currently far exceed the local household demand. Using data from MuniServices and Claritas, the consumer-driven business categories currently capture over 170 percent more taxable sales than would be expected based on the combined income from Gilroy households. This indicates that Gilroy likely serves not only as a net retail provider to the surrounding communities, but its status as a visitor attraction also captures significant retail spending activity.

Moreover, Gilroy's strong net capture of regional retail sales cuts across a large majority of retail store categories. This leaves very few specific retail categories in which the existing store sales do not meet the existing demand. The notable retail store categories in which Gilroy currently has retail leakage are listed below.

- Restaurants (with on-sale liquor)
- Hotel food sales
- Specialty food store
- Florists
- Nursery
- Second hand stores

Potential Store Attraction Opportunities

Restaurants

The restaurant category as a whole generates sales that exceed the expected household demand by 39 percent. While this is significant, the net capture in this category is also well below the overall net capture for all retailers. This indicates that there might still be some opportunities in Gilroy for restaurant attraction, given how the overall spending patterns are currently situated.

In particular, the restaurant (with on-sale liquor) category currently has about \$12 million in unmet demand. This category includes all restaurants with full alcohol licenses, which are generally full-service establishments and would include fine dining and destination dining. Gilroy's net capture with restaurants comes from fast food restaurants and restaurants with beer/wine licenses. Those types of establishments are generally more casual and oriented towards limited service and take-out. Qualitatively, this indicates that Gilroy is well served with limited service and mid-range dining, but has potential opportunities in the higher end categories.

In addition, the restaurant category also has significant unmet demand with hotel food sales. This results from Gilroy not having a full-service or luxury hotel with dining and catering facilities.

Specialty Food Stores

Specialty food stores include specialized grocery establishments such as meat markets and vegetable markets. Existing stores in Gilroy currently meet about 84 percent of the expected household demand in this category. It should be noted that the taxable sales for the food market category as a whole currently exceed the expected demand by 10 percent. While this is below the overall net capture rate for Gilroy retailers, food stores generally cater more to a local customer base. In addition, the market potential for specialty food stores might already be met by the numerous fruit and vegetable stands that operate on farms in and near Gilroy.

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Other Retail Leakage Categories

Florists and nurseries currently have an unmet household demand of about \$3.8 million. With nurseries, some of the market potential for this category might already be met by the existing home improvement stores, which together have a net capture of 178 percent above the expected household spending.

Second hand stores currently have an unmet demand of about \$3.1 million. However, it should be noted that areas such as downtown Gilroy that anecdotally have large concentrations of second hand stores, generate significant sales in the home furnishings category.

Other Opportunities

Even though most retail categories in Gilroy show net attraction of retail spending, Gilroy is a very dynamic location with increasing population and increasing income levels. As the local spending base grows, consumer preferences will also potentially evolve into higher end retail stores. For example, various community members have expressed an interest in attracting a higher end grocery store. This type of growth would originate locally, but would also potentially raise Gilroy's profile with people who already shop in Gilroy from other communities.

Tourism Market

Introduction

Gilroy is situated between two distinct visitor-serving markets – Silicon Valley, including the greater San Francisco Bay Area, and the Central Coast. In addition, Gilroy has a unique role as a highway interchange for travelers going between the Bay Area and destinations in the Central Valley and Southern California. The community has a strong base of existing visitor attractions, as well as some underdeveloped resources that can potentially be used for future diversification and expansion of Gilroy's visitor trade.

Over the decades, Gilroy has become synonymous with garlic. Its moniker as the "Garlic Capital of the World" is well-known and serves as the community's image and brand-developing signature. Yet, while the annual Gilroy Garlic Festival is a major event that draws thousands of visitors every year, the community also has numerous other attractions that draw visitors throughout the year.

Gilroy has characteristics that distinguish it from much of both Silicon Valley and the Central Coast. The Gilroy Welcome Center's marketing situates the community as part of the Central Coast market. This creates a unique destination, but Gilroy also loses out to other communities in those regions that might have a stronger base of visitor attractions and facilities, and a stronger identity as a destination for business and/or leisure travel. In particular, Gilroy primarily serves as a place for day visitors, rather than overnight stays. Some of Gilroy's distinguishing characteristics are listed below.

- Opportunities for outdoor recreation
- Strong image built around food and agriculture, including garlic and wine
- A distinctive regional family attraction in Gilroy Gardens
- Shopping opportunities with the Premium Outlets
- Highway 152 connects travelers going between the Bay Area, the Central Valley and Southern California

- Newly implemented Tourism Business Improvement District (TBID) has begun a new marketing campaign designed to increase overnight stays

Visitor Spending Trends for Santa Clara County

According to Dean Runyan Associates’ most recent travel impacts study, Santa Clara County’s tourism sector accounted for approximately \$4.4 billion of total impact on the regional economy in 2011 (Table 4-31).³ This created about 29,200 jobs. According to data from the Gilroy Welcome Center and Strategic Marketing Group, Gilroy visitors accounted for about \$67.3 million in visitor spending.

**TABLE 4-31
VISITOR SPENDING BY CATEGORY
City of Gilroy and Santa Clara County
2011**

Visitor Spending Category	Santa Clara County	Gilroy (Estimated)	Percent of Total
Accommodations	\$641,000,000	\$10,090,537	1.6%
Food and Beverage Service	\$987,000,000	\$16,817,562	1.7%
Food Stores	\$120,000,000	\$2,018,107	1.7%
Ground Transportation and Fuel	\$905,000,000	\$14,126,752	1.6%
Arts, Entertainment, & Recreation	\$512,000,000	\$8,745,132	1.7%
Retail Sales	\$610,000,000	\$10,763,239	1.8%
Air Transportation	\$254,000,000	\$4,708,917	1.9%
Total	\$4,029,000,000	\$67,270,246	1.7%

Source: ADE, Inc.; data from Dean Runyan Associates, Gilroy Welcome Center, and SMG.

The general trend in Santa Clara County shows a steep decline in tourism activity that occurred between 2008 and 2009 during the recession.⁴ However, the 2011 visitor spending figure represents a new high for the county. Gilroy’s share of the transient occupancy tax accounted for only 1.3 percent of the countywide total as calculated by ADE. Estimates by the Welcome Center’s marketing consultant suggest that Gilroy’s share of accommodations is slightly higher than the total share (1.6 percent in Table 4-31 above), but it is clear that the centers for overnight stays in the county are in other communities such as San Jose, Santa Clara, and Palo Alto.

Visitor Serving Activities in Gilroy

Shopping

Over the past two decades, Gilroy has evolved into a major regional shopping destination. The strongest retail center identified in the retail market analysis was the Gilroy Premium Outlets. The outlets have become a visitor destination in their own right. While visitors to the outlets do not generally stay overnight, they are a significant part of the itinerary for visitors that do stay overnight in Gilroy. Gilroy’s downtown area also has some independent businesses that potentially serve the visitor trade, such as restaurants and antique/second hand stores.

³ Dean Runyan Associates; *California Travel Impacts by County: 1992-2011*; May 2013.

⁴ Dean Runyan Associates.

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Gilroy Gardens

This family attraction draws visitors from throughout Northern California, and the annual visitorship is typically over 350,000 visitors. Gilroy Gardens is unique in that the City owns the land as well as the fixed assets. Currently, more than two-thirds of the land area for the facility remains undeveloped. The Gilroy Gardens primarily serves families with young children, and attendance has held steady in recent years as no significant capital projects have been built at the park since 2006. However, a new water feature is being added in 2014 that is expected to increase attendance.

Outdoor Recreation

Outdoor recreation is another one of Gilroy's primary attractions for visitors. Gilroy's location is within close driving distance to Mt. Madonna County Park, Henry Coe State Park, Pinnacles National Monument, and lakes and reservoirs. In addition, the community has facilities for golfing, hiking, and road biking in close proximity.

Special Events

The Gilroy Garlic Festival is a world famous event and serves as the community's primary visitor attraction, with over 102,000 attendees over the three-day event. While Gilroy also hosts other special events throughout the year, these other events have not seen comparable success as a regional attraction.

Wineries

The Wineries of Santa Clara Valley functions as a trade group for wineries in the Silicon Valley region. The local wineries have been growing and stepped up their marketing efforts with special events designed to increase interest in local wineries. The organization has a total of 22 member wineries, and 11 of them identify Gilroy as their place of business on the organization's website. This makes Gilroy a prominent center of the growing wine tourism market in the Santa Clara Valley.

Food and Agritourism

Gilroy has cultivated a well-defined image for itself as a preeminent center for garlic production. The annual Garlic Festival is the community's strongest visitor attraction, and numerous garlic-themed businesses also operate along Highways 101 and 152. In addition to the garlic attractions, numerous farm produce stands operate in the vicinity. Agritourism has not been a focus of Gilroy's tourism marketing efforts in the past, but it does represent a potential growth opportunity and area of focus as Gilroy expands its marketing campaign.

While Gilroy has a strong core of limited-service restaurants that serve visitors and highway travelers moving through Gilroy, the full-service restaurant market remains relatively underdeveloped by comparison. With its strong agricultural economy and identity with garlic, Gilroy has an opportunity to parlay those advantages into expanded dining and other food-related activities.

Gilroy's Lodging Market

The lodging market in general consists of all types of transient accommodations outside of private residences, including hotel/motel establishments, bed and breakfast facilities, and RV parks and campgrounds.

Hotel/motel establishments have a wide range of facilities, rooms, amenities, and price ranges. At the lower-priced end of the market, budget hotels and motels simply provide a room with a private bathroom and basic amenities. The middle market hotels might be newer and/or have better appointed rooms with more amenities. The upper end hotels might add conference facilities, restaurants, room service, distinctive architecture, and/or resort amenities.

Bed and breakfast (B&B) establishments differ from hotels and motels in that they often more closely resemble a private residence, and are primarily small-scale facilities. The majority of B&B owners live on the premises with very little absentee ownership. Often, B&B rooms have shared restrooms and/or a common dining area. Campgrounds and RV parks will typically provide limited site amenities, and rely on travelers bringing their equipment.

Gilroy Overnight Accommodations

Gilroy has a relatively small lodging market that serves multiple lodging niches. The community has a total of 16 facilities for overnight lodging. This includes 744 guest rooms (from hotels, motels, and B&B inns) and 334 RV park hookup sites.

As shown in Table 4-32, the lodging facilities in Gilroy encompass a broad range of hotel classes. Most of Gilroy's hotels and motel facilities serve the economy/budget market.⁵ Four of the hotel facilities are considered midscale hotels or higher. The Hilton Garden Inn is the only facility in Gilroy classified as an upscale hotel; and while it has the necessary spaces for business meetings, the facility is not especially large with 137 guest rooms. Built in 2001, this hotel is also the most recently built hotel in Gilroy.

Some potential niches that Gilroy's lodging market does not currently serve include luxury and upper upscale facilities such as high-end boutique hotels and conference or resort hotels. In addition, the Fitzgerald House Bed & Breakfast inn recently closed, which leaves Gilroy without anything that serves the B&B market segment. While Gilroy has multiple meeting rooms scattered throughout the city, the largest meeting room with adjoining lodging is the Hilton Garden Inn with a maximum space of 2,200 square feet and capacity of 280 seats. No other lodging facility provides multiple spaces for meetings and conferences. This limits the potential market for Gilroy hosting larger conferences and groups.

⁵ The hotel classifications come from Smith Travel Research (STR Global). The facilities that were not classified generally fit the description for economy class hotels.

**TABLE 4-32
LODGING FACILITIES**

**City of Gilroy
2014**

Lodging Facility	STR Hotel Class/Facility Type	Opening Date	Room/Space Count
Americas Best Value Inn	Economy Class	Jun-84	65
Best Western Plus Forest Park Inn	Upper Midscale Class	Jun-87	122
Budget Motels/Whiterock	n/a	n/a	19
Garlic Farm Inn	n/a	n/a	16
Gilroy Inn	n/a	n/a	44
Hilton Garden Inn	Upscale Class	Jun-01	137
Kings Rest Motel	n/a	n/a	24
Motel 6	Economy Class	Jul-66	127
National 9	n/a	n/a	24
Oaks Motel	n/a	n/a	22
Quality Inn & Suites	Midscale Class	Jun-87	47
Ramada Limited	Midscale Class	Jun-83	41
Super 8	Economy Class	Dec-85	53
Gilroy Fitzgerald House B&B	Bed & Breakfast	n/a	3
Gilroy Farm RV Park	RV Park	n/a	158
Gilroy Garlic USA RV Park	RV Park	n/a	176

Source: ADE, Inc.; data from STR Global, SMG, and Gilroy Welcome Center.

Room Occupancy Indicators

According to data from Smith Travel Research, Gilroy's room occupancy in 2012 was approximately 57.3 percent (Table 4-33).⁶ This represented the highest annual occupancy rate since 2007, and a steady recovery from the recession that saw occupancy rates go as low as 47.4 percent. More importantly, the year-to-date occupancy rate (through the end of September 2013) increased from 58.2 percent in 2012 to 64.8 percent in 2013. If this trend holds up, Gilroy's annual occupancy level will be well over the 60 percent level that generally indicates a healthy lodging market.

In comparison with the other overall market for the Highway 101 corridor from Morgan Hill to Salinas, Gilroy has historically had a slightly lower occupancy rate. However, in more recent years, Gilroy's lodging market has tracked more closely with the other communities along the corridor.

⁶ The Smith Travel Research data includes 7 out of the 14 hotel properties in Gilroy, and 592 out of the 744 total rooms.

	Occupancy Rate	
Year	Gilroy	101 Corridor
2007	57.8	60.1
2008	52.9	55.8
2009	47.4	50.4
2010	49.9	53.6
2011	56.4	57.0
2012	57.3	58.3
2013 (YTD thru Sept.)	64.5	64.4
	Average Daily Room Rate	
Year	Gilroy	101 Corridor
2007	\$74.66	\$86.28
2008	\$80.21	\$87.32
2009	\$78.45	\$78.79
2010	\$78.32	\$78.81
2011	\$79.62	\$79.96
2012	\$83.57	\$85.12
2013 (YTD thru Sept.)	\$86.78	\$92.84

Notes:

¹The Gilroy hotel sample includes 592 out of the 744 total rooms in the city.

²The 101 Corridor hotel sample includes Morgan Hill, Gilroy, Hollister, and Salinas.

³This sample represents a total of 2,369 hotel rooms.

Source: ADE, Inc.; data from STR Global.

In addition to the increasing the room occupancy, the average daily room rate (ADR) also increased in 2012, going from \$79.63 in 2011 to \$83.57 in 2012. The year-to-date sample through the month of September shows that the ADR has continued to increase, going from \$84.66 in 2012 to \$86.78. Compared to the overall average for the 101 Corridor from Morgan Hill to Salinas, Gilroy's ADR has been comparable in recent years. However, the year-to-date trend for 2013 shows the overall corridor with a notably faster growing ADR at \$92.84.

Gilroy Visitor Data Findings

The Gilroy Welcome Center tracks data for visitors who drop by the center, which is located in the Gilroy Premium Outlets. The data that the Welcome Center tracks includes the visitors' place of origin, purpose of visit, and interests. Some of the more relevant findings are summarized below.

- Gilroy visitors currently consist primarily of day visitors and Bay Area residents.
- Overnight visitors make up about 26 percent of the total.
- The average length of stay for Gilroy overnight visitors is 2.4 nights.

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- Bay Area residents represent about 47 percent of Gilroy visitors, while Central Valley and Monterey County residents make up 20 percent of visitors.
- The demographics of Gilroy visitors show an average age of 43 years, and an average income of \$101,000.

In addition to the visitor data tracked by the Welcome Center, Gilroy Gardens (then known as Bonfante Gardens) conducted a comprehensive survey of its visitors back in 2006. Even though the survey is dated, the basic findings are consistent with the profile of visitors who go to Gilroy Gardens. The most relevant findings are summarized below.

- San Francisco Bay Area residents (inclusive of Gilroy and Morgan Hill residents) made up 71 percent of Gilroy (Bonfante) Gardens visitors, while visitors from the Sacramento Valley and Monterey-Salinas area made up 20 percent of visitors.
- Local residents from Gilroy, Morgan Hill and Hollister made up 18 percent of visitors.
- The age demographics of the facility heavily concentrate on families with young children, with 27 percent of the visitors aged 6 and under. Children between 7 and 11 years of age made up about 11 percent of visitors. The teenage and young adult age groups (between 12 and 24 years of age) only made up about 12 percent of visitors.
- The most significant competitors identified were Great America, Disneyland, and the Santa Cruz Beach Boardwalk.

Tourism Expansion

Diversification Opportunities

Gilroy currently has established a niche as a regional destination for highway travelers, and for shopping, family entertainment, and outdoor recreation. The tourism assets in Gilroy appeal more to a middle market visitor, and the community has not yet established itself as a higher end tourism destination or prominent conference and business travel destination.

Gilroy's image as a destination for garlic represents a theme that the community can use to develop into a higher end tourism destination. Gilroy has an underdeveloped market for full-service restaurants, and improving the dining options represents an opportunity for both serving local demand (as Gilroy's household income increases) and meeting the potential demand from visitors drawn to Gilroy because of its prominence as a food producer.

In addition, the combination of wineries and scenery in the undeveloped areas along Hecker Pass Road lend themselves to developing visitor-serving uses such as destination dining, resorts and spas. Gilroy currently lacks a boutique hotel and this type of facility could benefit from the topographic features and proximity to wineries.

The City should explore financing strategies for completion and operation of the Sports Park in accordance with the Sports Park Master Plan. This could allow the City to expand and promote events for youth sports and regional tournaments, either to supplement regional events currently hosted in South County or to create a new niche for itself. Currently, Gilroy could also market itself as a lodging destination for other youth sports events occurring in the region.

Diversification would also entail expanding Gilroy's amenities for business travelers. Currently, Gilroy is constrained by its limited inventory of hotel rooms and meeting space that can accommodate conferences and business functions. Expanding the hotel and conference space is an important asset to have if Gilroy wants to attract and develop technology businesses. A high-end hotel would help capture more executive overnight stays, and it would help with marketing to larger national and international companies. The last major hotel development in Gilroy occurred in 2001.

The City currently has a Tourism Business Improvement District (TBID) in place, and the marketing campaign funded by the TBID has prioritized expanding overnight stays. As the occupancy rates increase, the market expansion creates opportunities for developing new lodging. Part of the consideration for new lodging in Gilroy entails not only increasing the inventory of rooms, but also raising the standard for the new lodging. This increases the number of overnight visitors to Gilroy, but also includes visitors who might otherwise not currently consider Gilroy as an overnight destination.

Expanding Role of Gilroy Gardens

Gilroy Gardens has established itself as a prominent family attraction in Northern California. With no new major development projects at the park since 2006, the annual attendance has generally settled in between 350,000 and 400,000 visitors in recent years. In addition, the demographics for attendees has largely remained concentrated with young children and their parents. While the park has remained profitable and well maintained, the lack of recent capital investment has limited Gilroy Gardens' ability to increase its attendance.

Gilroy Gardens' unique ownership arrangement means that capital projects need to be approved by the City of Gilroy. The property remains largely undeveloped, so the park has space available for physical expansion and diversification into other uses.

The issue for Gilroy Gardens comes down to what measures the City is prepared to undertake in order to increase attendance. On the one hand, Gilroy Gardens can continue to operate as an attraction that primarily appeals to small children, and target any improvements towards increasing the park's appeal to that demographic. On the other hand, Gilroy Gardens can expand its market reach by implementing attractions for older children. For example, adding a waterpark element to Gilroy Gardens would significantly increase its appeal to families with older children. Other types of uses in the currently undeveloped land such as recreation, wineries, spa or resort uses could also work to further expand and diversify the visitor-serving trade around Gilroy Gardens.

Expanding Downtown's Role

In the tourism market, Downtown Gilroy represents an underused asset. The area currently serves a largely local customer base, with limited appeal to visitors. The downtown area has numerous unique buildings and historic assets that can attract visitors, however the area's upside potential is currently limited by the large number of unreinforced masonry buildings that cannot be occupied. The City has made progress with vacant building registrations and window dressing ordinances to help address aesthetic issues; however, the empty buildings can still create a blighted appearance and a negative visual image for visitors passing through.

Even with these current limitations, downtown Gilroy has great potential to become a significant visitor attraction. The downtown area has the right physical layout and historic character to become a more prominent destination for dining and entertainment.

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For tourism, a major challenge remains connecting the visitor destinations with the downtown area. The major shopping destinations and highway commercial amenities are located on the east side of Highway 101, with limited road access and visual indicators to connect those visitors to the downtown area. The City and the Welcome Center are collaborating to implement new wayfinding signs to help address this issue. While additional signage would help direct visitors to downtown, the built environment could also be improved in a manner that draws people from the east side of Highway 101 towards downtown. To draw people towards downtown, the City should consider development standards and policies that promote high-quality architecture and site design in the primary corridors leading people to and from the east and west sides of Highway 101, namely Leavesly Road and 10th Street. A transition in development forms would take time, as widespread redevelopment of properties typically does not occur rapidly. However, in time, such a strategy would help improve the image of Gilroy for visitors only seeing the areas in the immediate vicinity of the Highway 101 off-ramps and it would also entice visitors to explore more of the City, particularly downtown.

Similarly, Gilroy Gardens is located west of downtown, and while wineries are located in all directions from downtown, most of the wineries in the immediate vicinity of Gilroy are located to the west of downtown. Visitors to those attractions west of downtown can travel back north without passing through downtown. Downtown Gilroy can evolve into a more prominent visitor attraction with the right mix of revitalization and appealing dining and entertainment options. However, better visual and physical connectivity with the city's visitor attractions is an important element in elevating downtown Gilroy's profile with visitors.

Special Events

The annual Gilroy Garlic Festival has evolved into a large-scale event that attracts tens of thousands of visitors to Gilroy. While the Garlic Festival serves as the community's most renowned event, Gilroy also hosts numerous other events on a recurring basis. These events include the Art & Wine Festival, Fun Run & Car Show, and parades for Memorial Day and Christmas. Downtown Gilroy serves as the focal point for these other events. Currently, the City of Gilroy provides about \$20,000 a year to the Downtown Business Association, which sponsors many of the special events downtown. The City also processes Special Events Permits at no cost and regularly invests in a variety of other infrastructure and policy updates that support special events, such as the new pedestrian paseo linking parking to Monterey Street and the recent over-the-street banner policy that can allow for promotion of special events.

While these events can potentially attract out-of-town visitors to downtown Gilroy, they serve an important role in drawing local residents to the downtown area and highlighting the presence of local businesses. Strategies that other communities have used to promote their downtown areas include art walks in which local artists and performers are invited set up on the sidewalks, and designated days of the week or month in which businesses agree to stay open late. As these events evolve and expand, then the number of out-of-town visitors also potentially increases. A limiting factor for downtown is the current state of the area, which has limited appeal as a destination for out-of-town visitors. While Gilroy has not yet developed another signature special event that complements the success of the Garlic Festival, special events in downtown Gilroy can serve as an important role as part of more comprehensive revitalization process.

Lodging Opportunities

Gilroy's lodging market has seen a recovery over the last couple of years that has positioned the community to consider expanding its lodging options. As the TBID implements its marketing program,

Gilroy will gain new exposure with tourists that might not have considered Gilroy as an overnight destination. As this program expands in the upcoming years, Gilroy can reposition itself to attract a broader range of overnight visitors. This would include higher end lodging with resort amenities that would complement the growing wineries in Gilroy, as well as options that can appeal to business travelers. With 744 hotel rooms and only one relatively small full service facility, Gilroy is not currently in a good position to attract business groups and conferences. The question is whether this market is large enough to support a more dedicated facility for those uses.

If the Gilroy wants to move into a larger market for meetings and conferences, it needs to expand on its base of hotel rooms. With rising revenues and occupancy rates now moving above the 60 percent threshold often considered necessary for profitability, Gilroy is now in a position where expansion in the lodging can at least be considered if the growth continues. The issue here is whether the recent market recovery and newly implemented marketing campaign can sustain the increased room demand and support new lodging facilities.

REGULATORY SETTING

None.

KEY TERMS

The following key terms used in this chapter are defined as follows:

Employment. The number of persons who hold a job in a given time period. These jobs include both full-time and part-time work. Employment often refers to the labor force that resides in a city or county. The term “job”, then, refers to jobs that are located in the city or county.

Household. All persons that occupy a housing unit as their usual place of residence.

Jobs. Work positions available in a particular location in each industry sector, within a specific time period. These positions include both full-time and part-time work.

Lease Rate. The average amount paid per square foot to lease a building space. The averages described in this section are differentiated by building types, such as retail and office buildings.

Median Income. The average income as the midpoint at which 50 percent of households earn more than the median income, and the same proportion earn less. This differs from the mean income, which is a simple average of aggregate income divided by the number of households.

NAICS. North American Industry of Classification System.

Occupation. The type of work that a person does on a job. Occupational employment statistics classify these jobs based on categorical descriptions of their primary activities and duties.

Population. The count of all persons living within a specified geographic area. Household population will only include those persons residing in housing units, and excludes the population count from group quarters and similar accommodations.

Poverty. A household is defined as living in poverty if their annual income falls below a specified threshold. As defined by the Census Bureau (for use in the American Community Survey figures cited in

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this section), the Federal poverty threshold varies depending on the number of persons living in a household, and the number of dependent children. This figure is adjusted annually. This slightly differs from the poverty guideline used by Health and Human Services in determining eligibility for certain government aid programs.

Race and Ethnicity. Data sources reporting data on racial and ethnic characteristics, such as the U.S. Census, identify these characteristics based on self-reporting. The guidelines used by the Census reporting the following racial categories at a minimum: White, Black or African American, American Indian or Alaska Native, Asian, and Native Hawaiian or Other Pacific Islander. Racial categories also include the option for respondents to self-identify as “Some Other Race.”

Retail Demand. Households create demand for a broad range of different goods and services. Retail demand focuses on those goods that are typically provided by retail businesses. This demand is expressed in terms of potential dollars spent for goods or dollars spent with specific types of retail businesses.

Retail Leakage. The extent to which existing household demand for specific retail store types is not met by local stores in that category, and those shoppers go to stores located outside of their local market area instead. This unmet demand serves as a measure by which to evaluate potential retail store attraction or expansion options.

Room Occupancy. The occupancy rate is one of the commonly used measures to track economic activity for hotels and motels. Within a specific geographic area or market segment, this rate looks at the total number of room-nights available and compares it to the actual number of nights in which the room was occupied.

Unemployment Rate. The number of persons who participate in the labor force, but do not hold a job in a given time period. Labor force participation is defined as persons who either work or are looking for work.

Vacancy Rate. The amount of vacant building square footage as a percentage the overall building space inventory. The averages described in this section are also differentiated by building type.

Visitor Spending. Travelers passing through and coming to Gilroy do so for business, leisure, family, shopping, and other purposes. While in Gilroy, they spend money on goods, services, accommodations, and transportation. This spending is expressed in terms of dollars spent in specific categories.

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