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GILROY PRELIMINARY SWOT, MARKET ANALYSIS AND ACTION PLAN

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THE CITY OF GILROY**

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INTRODUCTION AND SUMMARY

INTRODUCTION

This report represents a preliminary progress report for the Gilroy Economic Development Strategic Plan (EDSP). It includes a benchmarking analysis for a number of socioeconomic and labor force indicators as well as preliminary retail leakage and target industry analysis. Based on the information gathered to date, and input from the General Plan Advisory Committee (GPAC) on October 9, 2013, the report presents a preliminary action plan for the EDSP.

The report is organized to begin with a summary of findings and an outline of strengths, weaknesses opportunities and threats (SWOT). The SWOT identifies the strategic issues that the City should address in its economic development program and serves as a foundation for the action plan.

Following the action plan in the report, the background data and analysis available to date is provided for reference. A number of additional studies are underway and will be added to the next version of the report. These include:

- Tourism and lodging market analysis
- Site analysis of the feasibility of future development options
- Land values comparison
- Comparison of development impact fees among cities
- Housing affordability
- Description of cultural and live theater venues and events

SUMMARY OF FINDINGS

The benchmark analysis compares Gilroy to other nearby cities, including Morgan Hill, Hollister, Watsonville and Salinas, as well as to other cities on the regional edge that are also competing for similar types of businesses. These cities include Livermore, Dublin and Pleasanton in Alameda County and Campbell in Santa Clara County.

As a general trend, Gilroy out performs the cities to south on most of the socioeconomic indicators such as income levels and educational attainment, but does not compare well with the other East Bay and Santa Clara County cities. However, Gilroy has a more highly skilled labor force than its current job base demands, and therefore sees a sizable portion of its labor force commute north to work.

At the same time, market conditions in portions of Silicon Valley are pricing out industrial firms that may then look for lower cost locations further south. Gilroy can market both its labor force and its relatively low land and building costs to these kinds of firms to increase the mix of manufacturing firms located in the City.

POPULATION TRENDS

- 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. The trend continued between 2010 and 2013, with Gilroy adding about 2,700 new residents.
- 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 have close to 50,000 residents in 2013.

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 incorporated 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 underutilized. 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 downtown buildings that cannot be occupied currently. 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, restaurants, and service stations. 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.

OUTLINE OF STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT)

STRENGTHS

- Gilroy exhibits a good quality of life with a crime rate below the national average and a relatively high level of park and recreation facilities per capita.
- Gilroy's local schools score well (API index) compared to Morgan Hill and Hollister.
- Gilroy commercial activity well exceeds what is typical for a community of its size.
- Gilroy's market reach extends into households from the surrounding communities, overnight visitors and day travelers.
- Strong population growth continues to expand the retail market.
- Taxable sales in Gilroy saw strong year-over-year growth over the past decade, except during the recession.
- Gilroy has a high concentration of taxable sales per capita, despite its lower income base compared to the county average.
- Apparel stores, service stations, eating places, and general merchandise stores have all shown strong performance over the past decade.
- The Gilroy Premium Outlets, Gilroy Crossing, and Pacheco Pass Center generate over half of Gilroy's total taxable sales.
- Visitors currently have many compelling reasons to visit Gilroy, such as shopping, Gilroy Gardens, outdoor recreation, winery tours, and the Garlic Festival.
- Hotel sector has recovered to pre-recession levels.

WEAKNESSES

- Job base does not provide adequate employment opportunities for all of the workforce, meaning that many highly-skilled workers commute out of Gilroy for work. (This represents an opportunity for business development.)
- Gilroy has a high vacancy rate in the office sector and relatively low lease rates, signaling low market demand for office types of businesses.
- Gilroy's substantial capture of retail spending limits the number of retail segments that present new business attraction opportunities.
- While high compared to the rest of the state, Gilroy's average household income ranks lowest among cities in Santa Clara.
- Retail categories that have shown the greatest weakness include building materials and automotive.
- High vacancy rate in downtown Gilroy creates an image problem.
- Lack of visual linkage and interaction between the two sides of Highway 101.
- Lack of full-service business hotel and other higher end lodging limits market opportunities for Gilroy's visitor market.
- Downtown Gilroy has a lack of higher end dining and entertainment options that would appeal to out-of-town visitors.

OPPORTUNITIES

- Growth in manufacturing industries that are being priced out of other areas of Santa Clara and Alameda counties.
- Gilroy offers attractive office and industrial lease rates for businesses priced out of Silicon Valley.
- Skilled labor force currently commuting to other job centers.
- Downtown Gilroy is an underutilized resource, with architecturally distinct buildings that could potentially be repositioned into higher end uses.
- The potential exists for downtown to become a more prominent visitor attraction with the right mix of dining, entertainment, and retail options.
- Full-service restaurants are currently underserved compared to other retail sectors.
- Large number of shoppers and visitors on the east side of Highway 101 could present opportunities for businesses on the other side of Highway 101, particularly downtown Gilroy.
- Gilroy is currently a regional visitor attraction, but can expand its geographic reach with overnight visitors, particularly international.
- Downtown Gilroy can capitalize on the community's garlic capital image.
- Newly implemented Tourism Business Improvement District will fund marketing activities that can expand Gilroy's market reach.
- Large volume of travelers passing through along Highway 152 could create opportunities for highway commercial uses and for downtown.

THREATS

- Recent retail developments in other communities potentially reduce the regional spending capture and expansion potential for Gilroy's commercial centers.
- Retail stores generate over 90 percent of taxable sales in Gilroy, compared to the statewide average of less than 70 percent. High concentration of taxable sales in retail could indicate weaknesses with other non-retail revenue sources, such as business-to-business suppliers. Gilroy's high reliance on retail sales for revenue also creates significant risk in terms of implications of retail declines.
- The Premium Outlets center is more than 20 years old.
- High number of unoccupied unreinforced masonry buildings in downtown Gilroy will hinder revitalization efforts until those buildings can be reused.
- 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's current room rates remain below the national averages, which reflects its existing status as a largely budget and middle market lodging concentration.

PRELIMINARY ACTION PLAN

1. Diversify the local economy by creating jobs with career opportunities for the local workforce.

1.1. Establish business development and attraction targets that are consistent with the skills of the workforce.

Comparing the mix of jobs in Gilroy to the industries employing its workforce, there are opportunities to target business development and attraction in those industries in which Gilroy has a strong resident workforce. In addition, due to rapid expansion of technology companies in Silicon Valley, a number of components manufacturers and distribution companies may need to seek lower cost locations in order to achieve their own larger scale expansions. Many of these companies also fit the Gilroy worker profile well. Appropriate business targets include, but are not limited to:

- Wholesale/distribution
- Food manufacturing
- Sheet metal work mfg.
- Machine shops
- Communications equipment mfg.
- Other electrical equipment and component mfg.
- Professional, scientific and technical services
- Health services

1.2. Identify emerging industries for which Gilroy can capture future market share.

Several of the industry targets listed above could spawn new products and services, particularly in the area of professional, scientific and technical services. In addition, there is tremendous innovation occurring in food processing and health care currently as these industries adapt to changing market conditions and opportunities. While it is difficult reliably to predict “the next big thing”, it is useful to monitor industry growth trends for small industries that are growing rapidly. These businesses often represent a new generation of “gazelles” that continue to expand rapidly. Based on recent industry growth trends in Santa Clara and Alameda counties, the following additional industries may be worth investigating:

- Heating and air purification equipment
- Measuring and controlling devices
- Unlaminated plastics profile shape manufacturing
- Urethane and other foam products
- Fabric coating mills

- 1.3. Ensure that Gilroy businesses have access to a full network of business support services through partnerships with specialized agencies and organizations such as the small business development center, the workforce investment board, local commercial lenders and others.
- 1.4. Coordinate with local business organizations to support business growth and expansion, including the Economic Development Corporation, the Chamber of Commerce, and the Welcome Center.

Gilroy needs to design and operate a comprehensive marketing and branding program, as well as a business retention and expansion program that maintains communication with existing businesses in Gilroy and addresses their needs for growth and expansion. Each of the organizations devoted to these efforts in Gilroy have a role to play and working together, they and the City can leverage the manpower and resources among the organizations.

- 1.5. Participate in regional economic development and marketing efforts.

As one of the jurisdictions in Santa Clara County, Gilroy needs to maintain its seat at the table for discussions of business growth and expansion in Silicon Valley. Through its business targeting efforts and marketing plan, the City needs to establish its niche among the other jurisdictions in the County so that businesses can find appropriate locations in Gilroy that meet their needs.

- 1.6. Ensure that a range of building spaces and new building development options exist in Gilroy to meet the needs of a variety of different kinds of businesses.
- 1.7. Continue to monitor City fees and development costs to identify instances where the costs create impediments to business development in relation to costs in other competitor cities.
- 1.8. Maintain a toolkit of potential economic development funding sources and mechanisms.

2. Enhance Gilroy's position as a regional retail center.

- 2.1. Support expansion of car dealer row

Over the past decade, the auto dealership sector has declined by about half, with two major dealerships moving out of Gilroy. The City needs to stay current with the needs of the remaining dealerships and identify any business climate or other issues that affect their ability to operate in Gilroy. In addition, now that the automobile industry has recovered from its recessionary decline, Gilroy can examine potential expansion opportunities, including attracting brands and auto dealership groups that do not currently have a presence in Gilroy.

- 2.2. Target important retail niches, such as a higher end grocery stores and restaurants, to improve the shopping mix.

As Gilroy's population base continues to evolve and add higher income households, the retail base will need to also evolve in order to address these changing demographics. Because of the community's high net capture of retail sales, the retail base has few business attraction opportunities. However, opportunities potentially exist with higher end retail niches, such as more

specialized grocery stores and full-service restaurants. In addition to serving the evolving local spending base, higher end retail can also support the tourism base.

2.3. Work with retail centers to maintain a fresh mix of stores and an attractive shopping environment.

As consumer preferences evolve, Gilroy needs to make sure that its retail centers remain relevant to the needs of growing retail store types and configurations. This includes maintaining contact with the EDC, Chamber, commercial center managers, and regional economic development agencies to find out what prospective businesses are looking for, and what the City can do to accommodate those evolving preferences. If existing retail configurations no longer meet the needs of the businesses that might otherwise locate in Gilroy, then the City should look into whether existing codes, incentives, or programs need to be reconfigured to better address market opportunities.

3. Increase tourism to Gilroy.

3.1. Promote winery tourism.

Wineries in Gilroy have raised their profile in recent years, and at least 16 wineries are shown on the city's tourism map. Expanded wine tourism would entail not only marketing, but also integrating the wineries into efforts to attract higher end dining and lodging to Gilroy.

3.2. Expand and promote events for youth sports and regional tournaments.

Youth sports tournaments not only enhance recreation opportunities for Gilroy young people but also create an additional visitor segment that has important economic benefits for the City. Out of town participants in tournaments often stay in local lodging facilities and definitely eat at local restaurants during their stay in Gilroy.

3.3. Explore the opportunity to attract a full-service business hotel with conference facilities to attract more business travel to Gilroy.

If Gilroy successfully develops and attracts technology-related companies and divisions, the need for a higher end business hotel will increase. The existing lodging market largely serves the budget and middle markets, and has limited rooms and facilities for business travelers, large-scale meetings, and conferences. In addition, the Tourism Business Improvement District (TBID) is starting up a marketing campaign designed to boost overnight stays in Gilroy. Expanding the range of lodging options would also broaden the tourism market as well.

3.4. Develop additional attractions and identify linked itineraries to encourage visitors to see multiple locations such as downtown, wineries, culinary outlets and cultural performances in the same visit.

The current visitor concentrations in Gilroy center on shopping, recreation, Gilroy Gardens, and recurring events such as the Gilroy Garlic Festival. However, there are also missed opportunities to better link multiple itineraries in Gilroy. Encouraging multiple activities by Gilroy visitors entails better linkages between downtown, the wineries, and the commercial areas east of Highway 101. In addition, longer visitor stays would likely require evolving underutilized assets such as downtown into visitor attractions, and increasing the range of lodging options for visitors who equate Gilroy's image as the "Garlic Capital of the World" with dining and wine.

4. Invest in arts and cultural programs and facilities.

4.1. Create additional opportunities for live theater and concert events, particularly in the Downtown.

5. Support Downtown development to further Downtown's status as a local and visitor destination for cultural, recreational, and culinary activities.

5.1. Address the need to upgrade unreinforced masonry buildings.

Downtown Gilroy has a high number of vacancies, and much of this comes from unreinforced masonry buildings that cannot currently be occupied. This creates an image problem, and it impedes downtown Gilroy from being able to respond to any market opportunities that might arise in the meantime. The City has stepped up code enforcement while relaxing some of the regulatory restrictions. However, other options, such as incentives and financing, might need to be explored in order to better prepare these buildings for occupancy.

5.2. Promote downtown for tourism, including wine tasting.

Downtown Gilroy primarily serves a local customer base. While signage and Welcome Center itineraries include the downtown area, downtown remains underutilized as a tourism asset. Making downtown a focus for business attraction with restaurants and entertainment uses in particular will help raise the profile of the area as a destination.

5.3. Implement improvements to parking, safety, lighting and other infrastructure in downtown.

5.4. Create visual cues and connections to attract visitors and shoppers from the destination commercial areas on the east side of Highway 101 to the Downtown area.

Much of the visitor activity in Gilroy is currently concentrated along the east side of Highway 101. There is limited visual connectivity to the downtown area, and no coherent land use link between the commercial districts. Aside from signage and streetscape design, the City can also consider form-based approaches that create a more interesting and inviting corridor that can draw visitors to downtown Gilroy.

6. Build on regional infrastructure such as the high speed rail (HSR) to create business nodes in Gilroy

6.1. Protect commercial and employment generating land use designations on sites in proximity to the HSR.

6.2. Identify where job density can be increased in proximity to the future HSR.

7. Ensure that broadband capacity and availability in the City meets the needs of the business community, as well as the residents and other organizations.

7.1. The City needs to determine the future vendor arrangements for broadband at City Hall and whether the City should own the infrastructure or contract with a vendor.

7.2. The City should benchmark the prices and levels of service available to commercial accounts.

7.3. The City should review zoning and development standards related to broadband infrastructure to consider whether conduit installation should be required of new development and how other aspects of broadband facilities and infrastructure should be designed into public and private spaces.

7.4. The City should consider joining the Monterey Bay Regional Broadband Consortium to gain better information and support from other jurisdictions negotiating services with broadband providers.

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