



**Watsonville**  
CALIFORNIA

# CITY OF WATSONVILLE

## ECONOMIC DEVELOPMENT STRATEGIC PLAN SUMMARY CITY COUNCIL PRESENTATION

FEBRUARY 27, 2024



2301 Rosecrans Ave., Suite 4140  
El Segundo, CA 90245  
TEL: 424-297-1070 | URL: [www.kosmont.com](http://www.kosmont.com)

# INTRODUCTION

Kosmont Companies ("Kosmont"), a real estate & economics advisory firm serving hundreds of cities and local governments for over 37 years, has been retained by the City of Watsonville ("City" or "Watsonville") to develop an Economic Development Strategic Plan ("EDSP"). In a stride towards realizing City economic aspirations, Kosmont is facilitating development and supporting future implementation of the EDSP to guide the near term and longer term.

Kosmont's approach to preparing the Economic Development Strategic Plan includes the following tasks:

- Review of relevant City documents (budget, planning), together with a tour of the City and its business districts
- Interviews / feedback from City staff, Council members, and community stakeholders
- Assessment of regional economic trends
- Assessment of local demographic and market conditions
- In person stakeholder outreach to gain insights as to needs and challenges
- Assessment of major commercial districts
- Identification of key opportunities and strategies
- Create a timeline and approach to strategies (e.g., support business attraction and expansion)

# VISION AND OBJECTIVES

## ***Vision:***

The EDSP is designed to help the City strengthen its local economic base and fiscal health, provide a wide range of employment opportunities for its residents, enable the City to leverage State and Federal grants, loans and policy tools, and achieve greater resiliency.

## ***Core Objectives:***

1. Increase fiscal revenue;
2. Enhance City's commercial and residential market by attracting a balance of local and national business;
3. Help existing businesses grow
4. Enhance employment, educational and new business opportunities;
5. Create job opportunities for younger generations;
6. Fund critical physical infrastructure improvements.

# COMMUNITY OPPORTUNITY AREAS

## Downtown

The recent Specific Plan should serve to catalyze the revitalization of the Downtown. Historically, Downtown was a thriving commercial center with the City's commercial core of ~30% of the office inventory and ~23% of the retail inventory. But evolving land use trends has introduced the need for new residential units and blended use projects. Further, City assets include ownership of several surface parking lots and two structures.

## Airport Area

Watsonville is home to general aviation airport with 230 aircraft and approximately 60,000 operations annually. The Airport Area including The Hangar offers an experiential draw for the community and its role in the City's economy and surrounding land uses should continue to be explored.

## Highway 1 Gateway

This is the industrial hub of the City, and it offers a great opportunity for attracting regional commercial development (e.g., hotels, restaurants, retail, auto dealers) and will depend on annexation to maximize growth.



# EXECUTIVE SUMMARY

## DEMOGRAPHIC / EMPLOYMENT OVERVIEW

- Watsonville has a **Population** of ~52,100 (14,200 households)
- **Average Household Size** is 3.60 persons, higher than County/State, and the **Median Age** is 31 years, younger than County and State median of 39 and 37 years, respectively
- City **Average Household Income** is \$100,200, approx. ~35% less than County and 24% lower than statewide levels. The residents generate \$359 million in annual retail spending potential across major retail categories
- Watsonville has ~23,900 **Employees**, with a resident workforce of ~5,300 people
- **Jobs in the City** are primarily in *Healthcare / Manufacturing / Retail Trade / Agriculture / Education*. Of these five, two are part of the fastest growing industries in Santa Cruz County (shown in italics)
- **Residents of the City** are primarily employed in Healthcare / Retail Trade / Hospitality-Food Service / Agriculture / Manufacturing

# EXECUTIVE SUMMARY

## ECONOMIC TRENDS

- Economic forces are reshaping local economies across the State:
  - Today's consumers are using online websites for purchasing a broad array of goods. As **e-commerce continues to take an increasing percentage of consumer spending**, cities must take new approaches to land use that explore concepts for public amenities and private attractions that help cities **capture trips** and thus “sales”.
  - Younger **consumers**, with increased use of media and digital communication, **seek gathering places with restaurants, entertainment venues and experiential retail**, rather than simply a collection of traditional store fronts.
  - **Telework dynamics have drastically changed work patterns** over the past few years and are poised to reshape office needs. Creative class professionals are attracted to communities with clustered centers, which provide a sense of vitality, diversity, convenience and a mix of work, entertainment, services, arts and culture.
- In light of these trends, Kosmont is assisting the City in achieving its economic objective by providing market analysis and recommendations with a goal to foster economic vitality in the City, improving business conditions and resident quality of life.

# EXECUTIVE SUMMARY

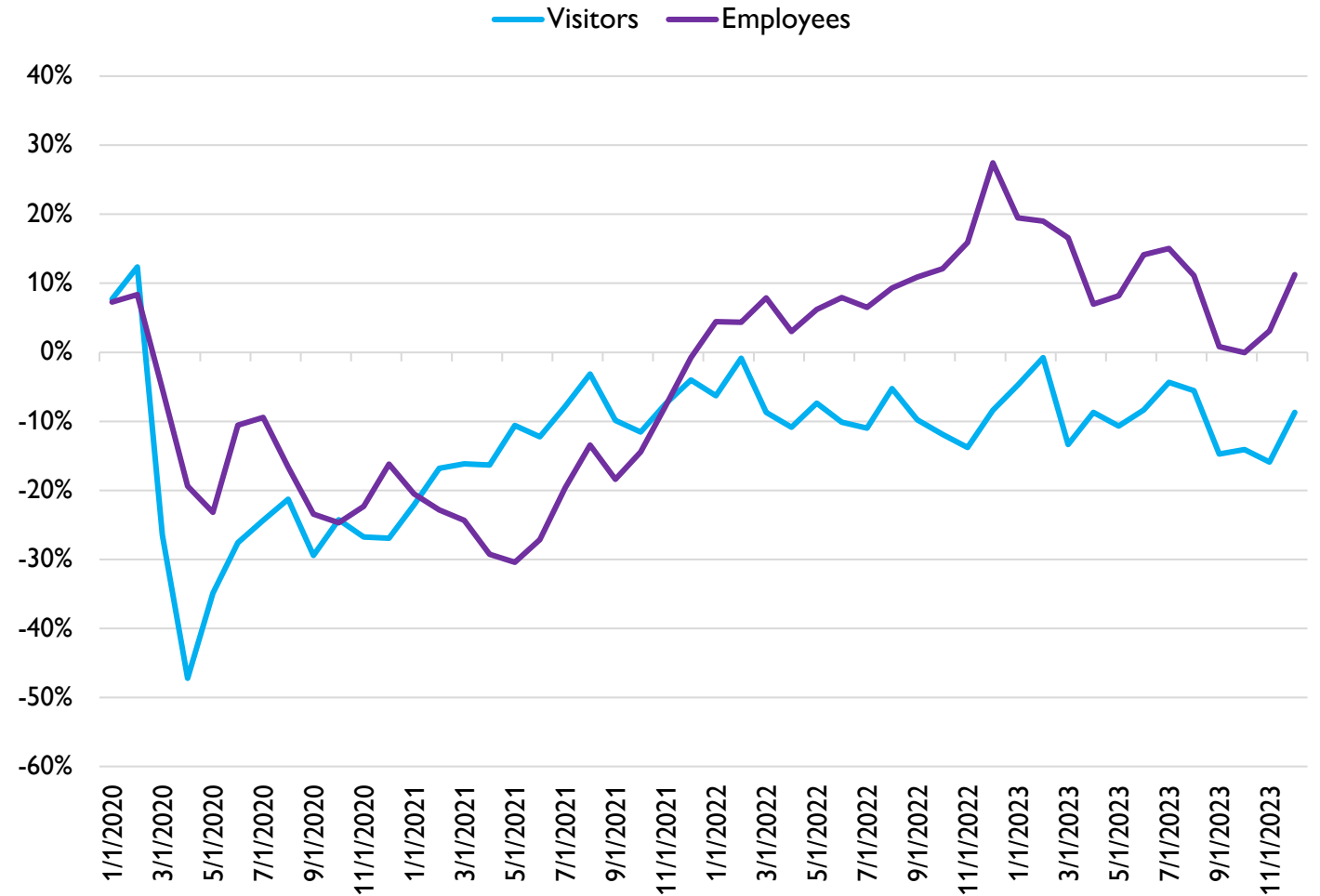
## MARKET DEMAND ANALYSIS

- The retail, office, industrial/flex, and multifamily residential markets in the City are strong, featuring low vacancies compared to the 10-mile radius and Santa Cruz County. Market trends dictate potential demand for these asset classes.
- Although increased e-commerce presence (need for smaller last-mile, flex industrial, and sorting facilities), limits demand for some retail, low vacancies indicate a strong market. **Retail sales grew by almost 70% in past decade, thanks to 120% increase in auto sales and City was minimally impacted by Covid pandemic.**
- Limited demand for office space given **more people are working from home** and utilizing in-home office amenities. It is important to note, however, **there has been medical office demand which indicates there can be future demand for this office type** (e.g., Kaiser and Satellite Healthcare clinics).
- **Industrial/Flex space is in high demand** given the greater need for warehouse, sorting facilities, and last-mile delivery to support e-commerce needs. A 175,300 SF last-mile delivery facility was proposed.
- State's **housing shortage**, more people working from home, coupled with **low vacancy and higher rents drive residential demand**. General Plan Update is focused on providing development opportunities to yield more than 5,000 new units.
- Limited number of economy, midscale and upper midscale hotels in the City. **Commercial sites with proximity to Highway 1 could be developed as a regional hospitality attractor** to capture visitors traveling from Carmel/Monterey to Santa Cruz and produce demand from large hotel chains to open in the City.

# EXECUTIVE SUMMARY

## PLACER.AI LOCATION ANALYSIS

- The COVID-19 pandemic saw a decline in visits to the City by both visitors and employees. The **average monthly visits to the City declined by almost 50% and 20% respectively**
- **Among employees, the average monthly visits returned to pre-pandemic levels by November 2021** and has remained at or above pre-pandemic levels ever since
- **Visits to the City** have approached pre-pandemic baseline levels, but **have remained below the baseline**

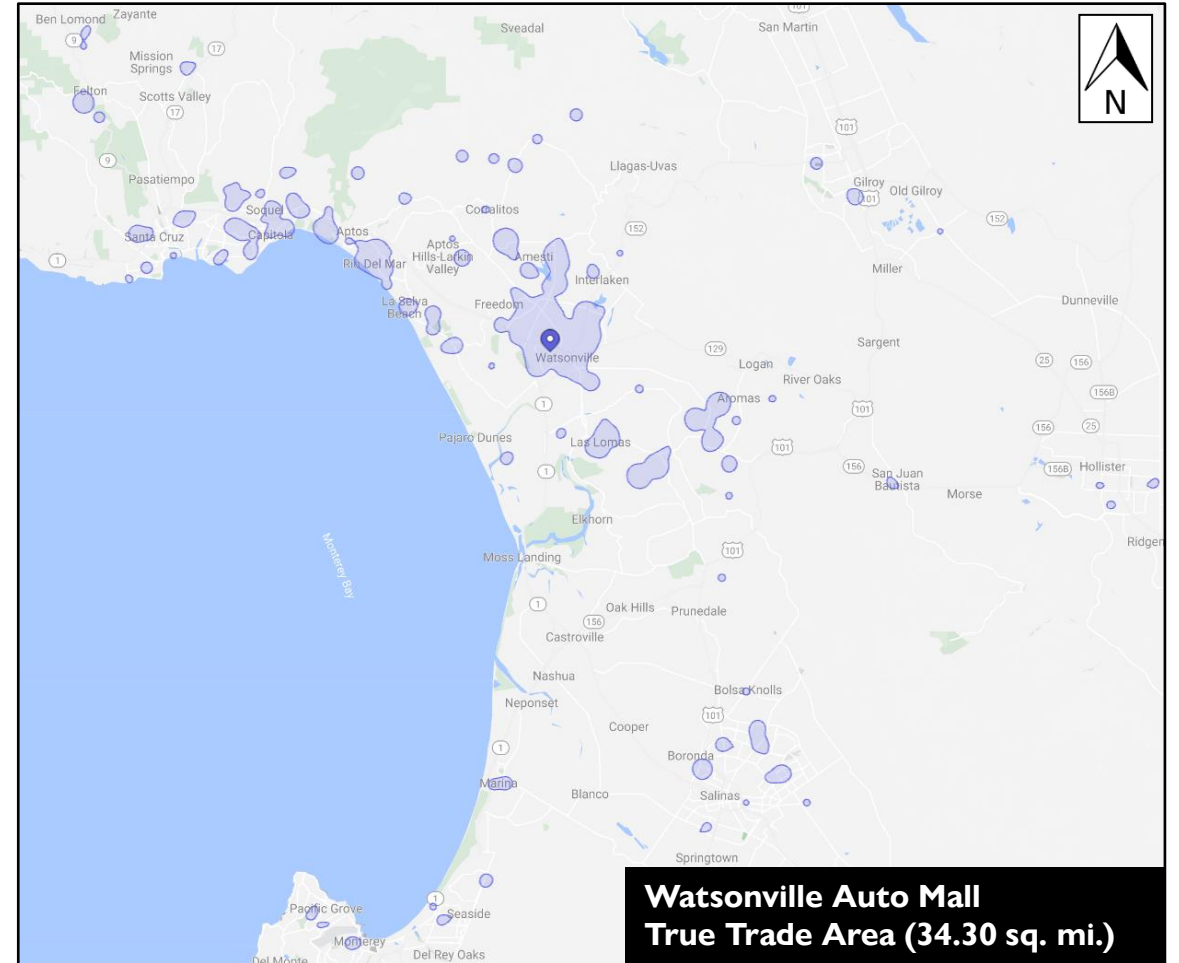




# EXECUTIVE SUMMARY

## PLACER.AI LOCATION ANALYSIS (CONT'D)

- Using Placer.ai, Kosmont examined visitation trends for key locations in the City (Downtown Watsonville, Watsonville Auto Mall, Cinelux Green Valley Cinema, and Watsonville Municipal Airport) compared to a 2019 baseline (pre-COVID-19 pandemic)
  - Visitation to the airport fluctuates greatly – some months visitation will outperform the same month in the pre-pandemic period; **The auto mall was the first among the other locations examined to return to pre-pandemic levels in Oct. 2020, followed by Downtown Watsonville in Oct. 2021**
  - **The movie theater suffered the biggest loss of visitors due to the pandemic and has yet to fully recover** with visitation since Sept. 2021 significantly less than pre-pandemic levels
  - **The airport and auto mall attract regional visitors. Downtown Watsonville and the movie theater are local draws** The auto mall has the largest true trade area out of the locations examined



# EXECUTIVE SUMMARY

## *DOWNTOWN SPECIFIC PLAN*

The City has recently adopted the Downtown Watsonville Specific Plan (“Specific Plan”) to help restore the historic district that has suffered from high commercial vacancy for the past 3 decades following the 1989 Loma Prieta earthquake. The Specific Plan encompasses several thousand acres broken into 8 distinct character areas including Gateway to the east, Civic Core, Historic Core, Commercial and Residential flex and a Workplace industrial area to the south.

The Specific Plan identifies many important goals:

1. Diversify mix of land uses given vibrant center
2. Make City a regional attraction
3. Enhance unique characteristics of all areas
4. Incorporate placemaking concepts
5. Increase production of affordable and market rate housing
6. Enhance historic character of Downtown
7. Enhance walkability in Downtown

# EXECUTIVE SUMMARY

## *ROLE OF ECONOMIC DEVELOPMENT*

The City has had to rely on sales tax increases in recent years to balance budget as growth in property tax and retail sales has not kept pace with cost inflation.

Economic development as a priority can help. What is Economic Development? It requires education...

It is not just “more development” but rather it will:

- Assist City in achieving its strategic vision
- Identify development opportunities to help increase City tax base
- Facilitate growth of small businesses
- Focus on business expansion, attraction and retention

The table on the following page illustrates the annual tax revenues typically generated by strategic private sector development to the City’s long term fiscal stability.

# ILLUSTRATIVE FISCAL IMPACT OF NEW DEVELOPMENT

To evaluate economic development opportunities and understand their impact on City revenues, the table below provides an illustration of incremental tax revenues potentially generated from various types of development on a **hypothetical 2-acre parcel**:

	Top Fast-Casual Restaurant	Auto Dealership	15,000 SF Restaurant	50-unit Multifamily Housing	Mixed Use 40-units & 5,000 SF	100-room Upscale Hotel
Property Taxes + VLF in-lieu	\$10,000	\$20,000	\$20,000	\$65,000	\$55,000	\$70,000
Direct Sales & Use Taxes*	\$150,000	1,000,000	\$100,000		\$25,000	
Indirect Sales & Use Taxes				\$20,000	\$15,000	\$50,000
Hotel TOT						\$300,000
<b>Annual General Fund Revenues</b>	<b>\$160,000</b>	<b>\$1,020,000</b>	<b>\$120,000</b>	<b>\$85,000</b>	<b>\$95,000</b>	<b>\$420,000</b>

# SWOT ANALYSIS SUMMARY

Kosmont has summarized the strengths, weaknesses, opportunities and threats (“SWOT”) as well as goals gleaned from stakeholder outreach, and community feedback during General Plan outreach.

## Goals

- City needs to be more business friendly
- City needs more entertainment/experiential venues
- Evaluate incentives best practices
- Improve infrastructure
- Fiscal sustainability

## Strengths

- Tight knit community comes together when needed
- Manufacturing ecosystem in place
- Major agricultural economy
- Skilled labor pool
- Entrepreneurial spirit
- Excellent location amidst coastal tourism area
- Ramsay Park
- Downtown Specific Plan

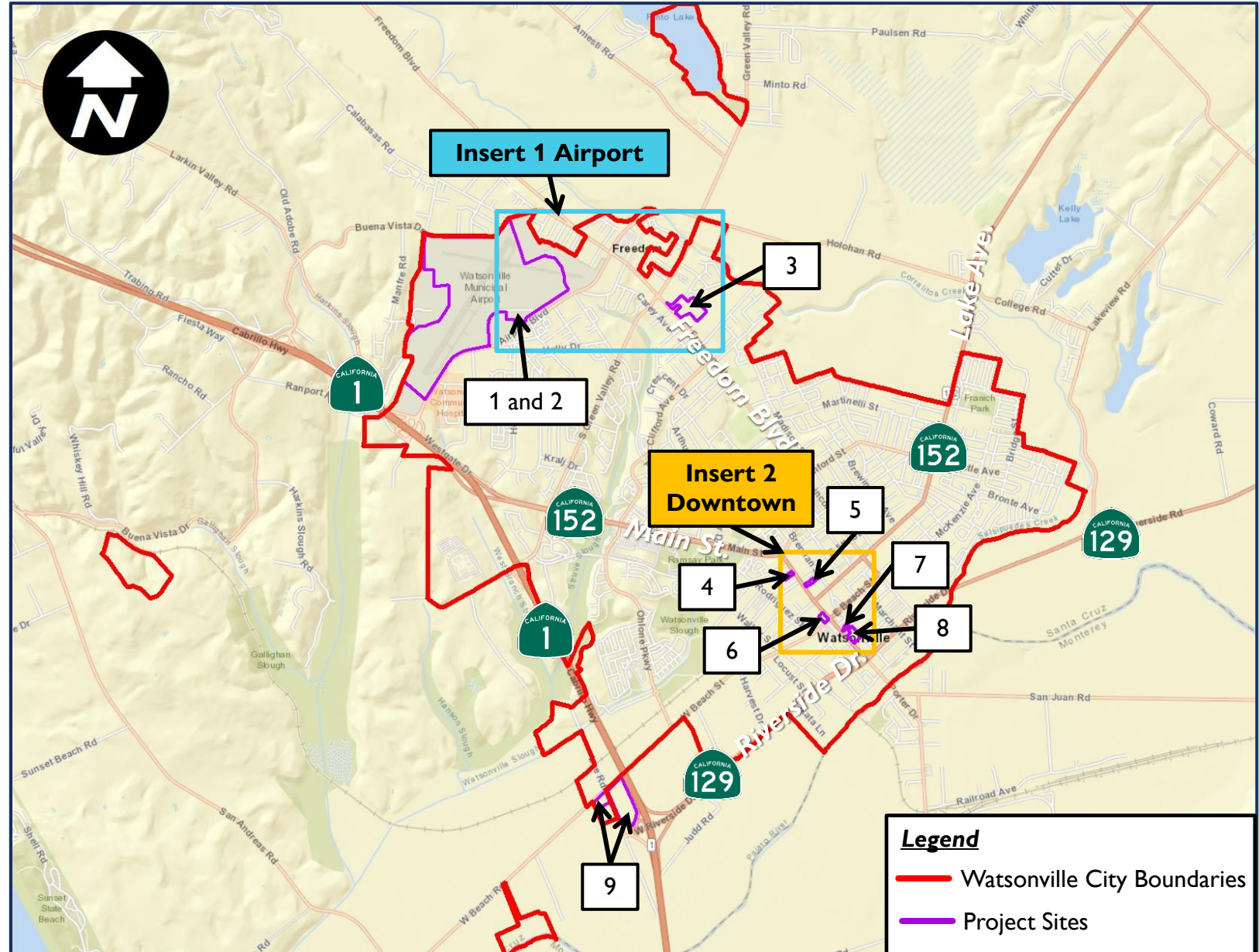
- Limited number of development sites
- Downtown performance
- Heavy reliance on sales tax for general fund
- Lack of national retail tenants
- Growth limits / boundaries
- Permitting delays / over-regulation
- Inclusionary housing requirements

## Opportunities

- Annexation of Highway 1 properties
- Watsonville Municipal Airport
- Downtown infill sites
- Well situated to attract flex industrial uses
- Demand for Single Family housing
- Local business incubators
- Use of public financing tools
- Improve wayfinding from Highway 1

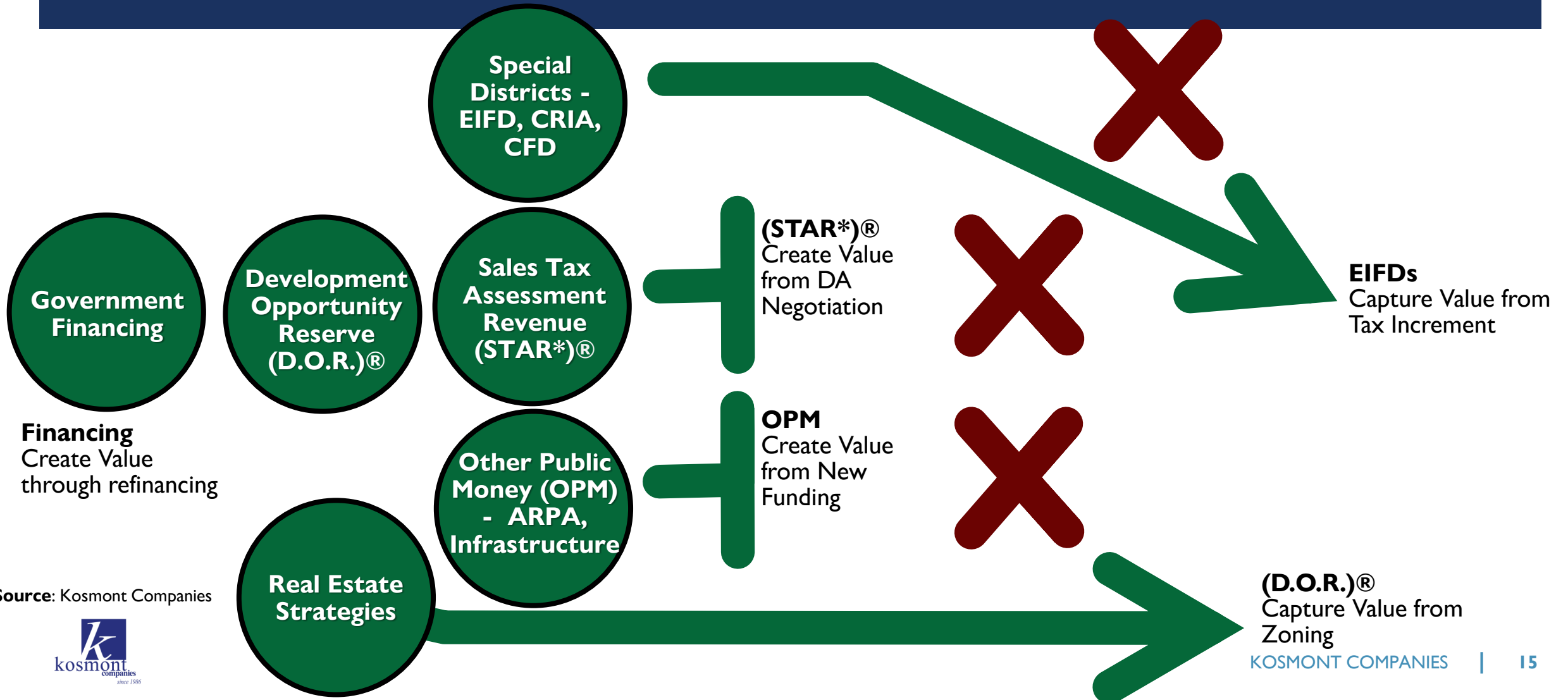
# CITY BOUNDARIES AND PROJECT SITES

# on Map	Project Sites
1	The Hangar
2	Watsonville Diesel
3	Former Kmart Property
4	Repass
5	The Residence Apartments
6	Former Gottschalks
7	Fox Theater
8	Old City Hall
9	Highway 1 Gateway



**Legend**  
 — Watsonville City Boundaries  
 — Project Sites

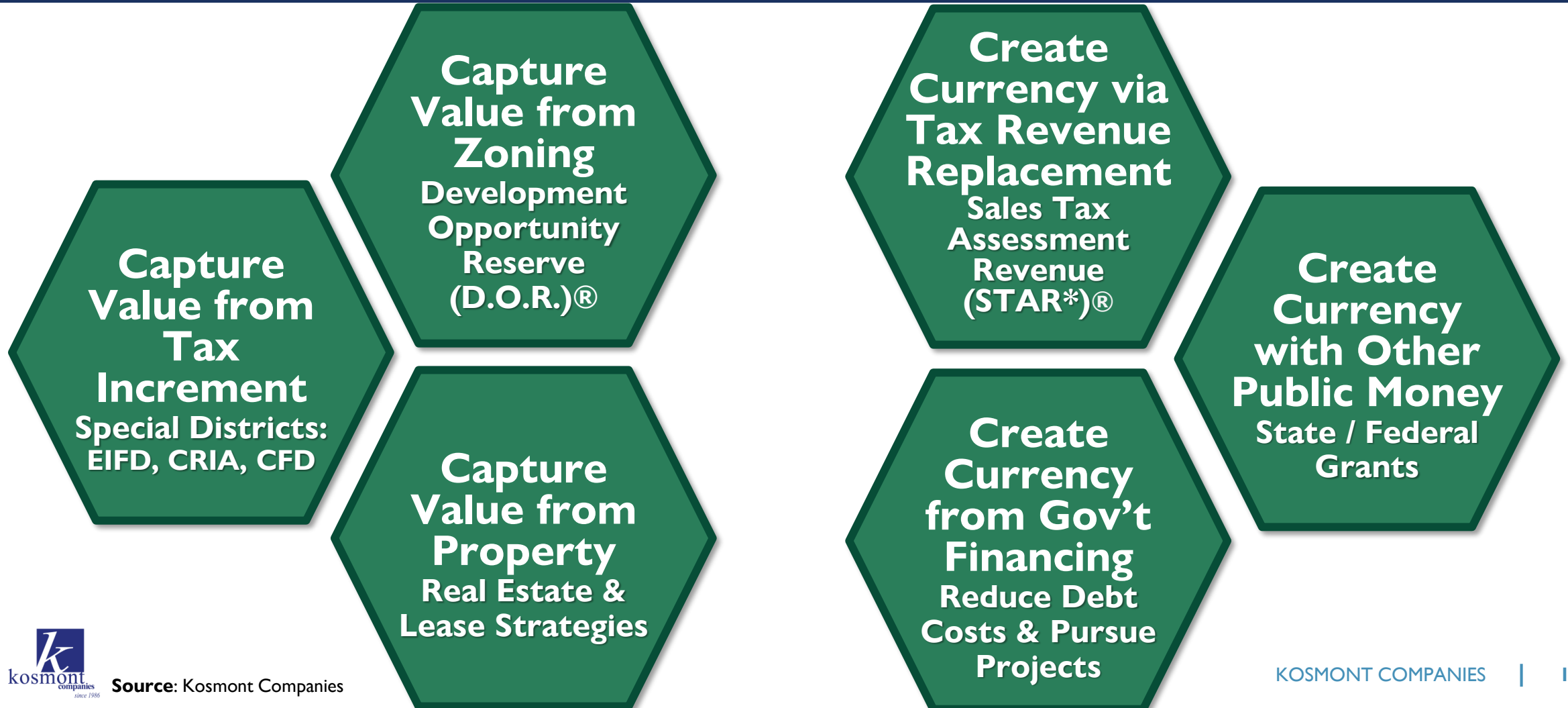
# ECONOMIC DEVELOPMENT PLAYBOOK: CAPTURE VALUE AND CREATE CURRENCY



Source: Kosmont Companies



# CAPTURE VALUE AND CREATE CURRENCY





# EDSP STRATEGIES

Based on the real estate and economic research and input from community and stakeholder outreach, Kosmont has prepared a list of potential Economic Development strategies with Estimated Timeframes for the City to consider to achieve the economic goals.

- 1. Prioritize Growth/Annexation Scenarios – 6 months**
- 2. Public Private Partnership for 250 Main St. (Civic / Former City Hall) - 1 to 2 years**
- 3. Work with Tut Family to achieve Hotel/Retail Development – 1 to 2 years**
- 4. Support Downtown Specific Plan Implementation – 12 months**
- 5. Business Development / Incentives / Permitting – Now and Ongoing**
- 6. Downtown Business Attraction and Retention – Now and Ongoing**
- 7. Consider a Tax Increment Financing for Infrastructure (EIFD) – 12 months**

Action Items for each strategy are identified on the following pages.

# PERFORMANCE METRICS

Performance metrics will allow the City to identify progress made and determine what barriers to Economic Development continue to exist, what responses have proven successful or otherwise, and which projects are scheduled for development. The following metrics can be measured each calendar year and compared to the prior year's results:

1. **Commercial Building Permits in Key Areas** – measure commercial developer interest
2. **Assessed Value of Commercial and Industrial Property** – show increased private sector investment
3. **Number and Type of Business Licenses** – measure new business formations
4. **Employment by Industry** – show success in commercial and industrial business attraction and employment growth
5. **Sales Tax Revenues by Geographic District** – measure success in attracting businesses and economic activity
6. **Hotel Tax Revenues** – measure success in attracting more visitors
7. **Hotel Visitor Survey** – identify types of visitors, short term vs longer term stays
8. **Annual Survey of Business Owners** – identify issues regarding City permitting / zoning process and other programs to inform City staff of progress/shortcomings
9. **Special Event Data: number of events, attendance estimates** – show success of community outreach efforts, revitalization efforts, and general marketing

# ACTION PLAN / NEXT STEPS

Kosmont proposes the following steps to achieve sustained Economic Development in the City:

- 1. Hire a Development “Concierge” / Facilitator (aka Ombudsman) to help small business start-up and expansion**
- 2. Utilize grant writing firm such as California Consulting and Kosmont to pursue federal / state grants for revitalization projects (i.e., Fox Theater and other Downtown Watsonville)**
- 3. Evaluate business incentives for focused business attraction**
- 4. Pursue Highway 1 annexation as critical regional commercial center**
- 5. Utilize third party economic development resources (e.g., Kosmont) and attend ICSC and other conferences to meet with major retailers / restaurants / retail / hotel operators**
- 6. Explore potential redevelopment of 250 Main St. (Civic / Former City Hall) as blended-use catalyst for Downtown revitalization**
- 7. Evaluate and consider forming a TIF District via Enhanced Infrastructure Financing District (EIFD)**

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# **CITY OF WATSONVILLE**

# **ECONOMIC DEVELOPMENT STRATEGIC PLAN SUMMARY**

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# Watsonville Economic Development

City Manager's Office

Community Development Department

Public Works

# Council Update

## Economic Development Plan

- Kosmont

## Exploring Opportunity Sites

## Evaluation of Processes and Development Standards

## Engagement and Education

- Downtown Businesses
- ICSC
- Workshops

## Building a Toolbox

- Revolving Loan
- Other Best Practice Incentives

## Additional Investment & Marketing

# Economic Development Plan & Opportunity Sites



## **RFP for ED Consultant to support the City:**

Economic Development Plan  
Implementation of strategies that support  
business attraction and expansion



## **A summary of the draft plan**



## **Opportunity sites available**

# Evaluation of Internal Processes & Standards

- Public Works and CDD Staff – evaluation of internal processes and standards
- Streamline Communication between PW & CDD and work on alignment
- Receiving IT support that facilitates technology improvements or program enhancements
- The group discussed and agreed to explore Munis to see if we can find a successful outcome with our existing technology.
- Working with Consultant to review current practices and modify standards that hinder development
- Created ‘home screens’ for CDD supervisors so they can track and see what cases, permits or inspections are due or late (real-time information)

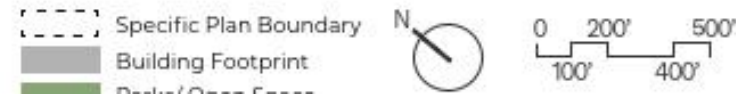


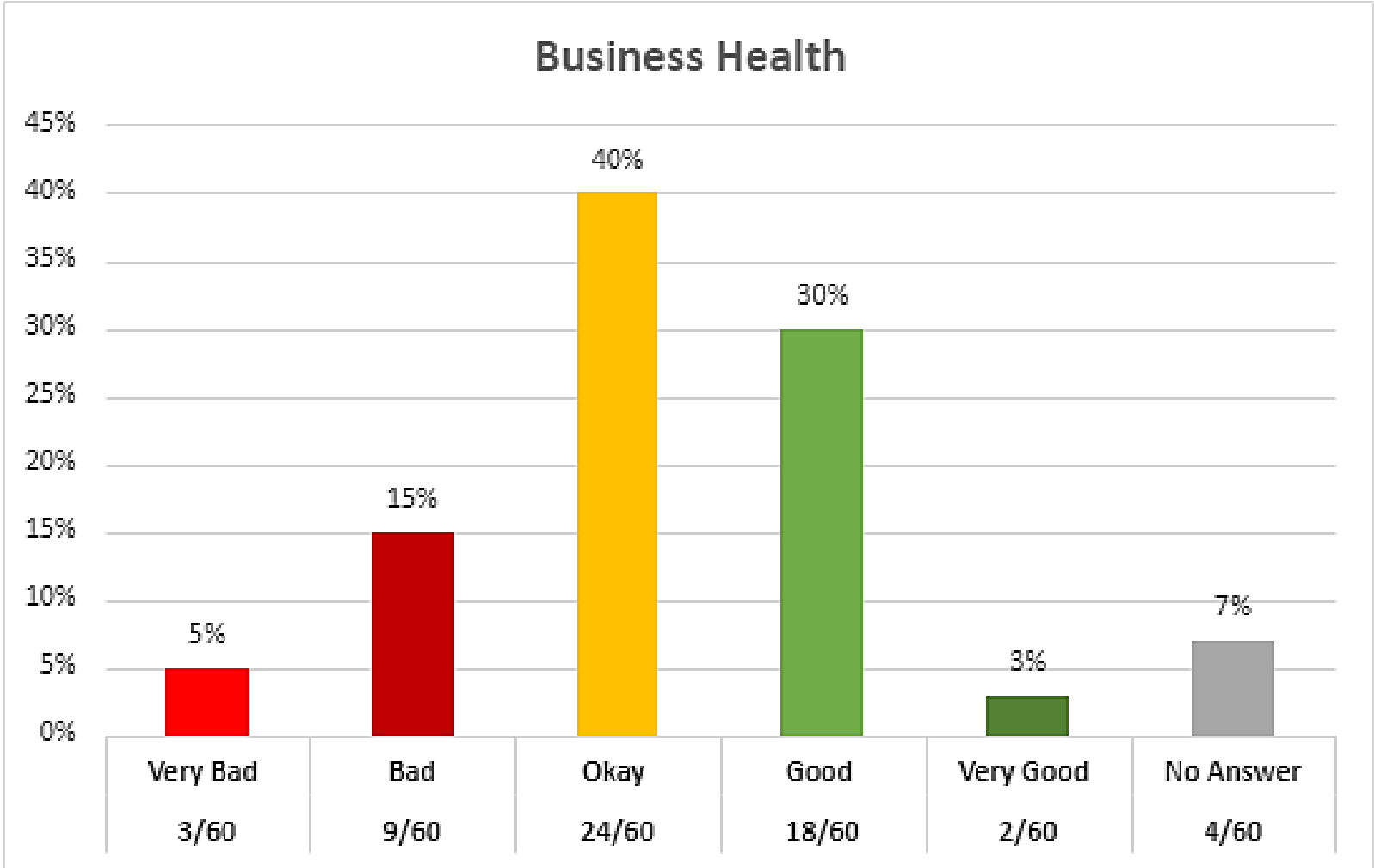
# Downtown Business Survey

- Focused on our Downtown Watsonville Specific Plan Area
- Captures the economic health of our Downtown businesses and how they feel the City can assist them
- Currently 15% of about 392 licensed businesses have been surveyed



DOWNTOWN WATSONVILLE SPECIFIC PLAN AREA



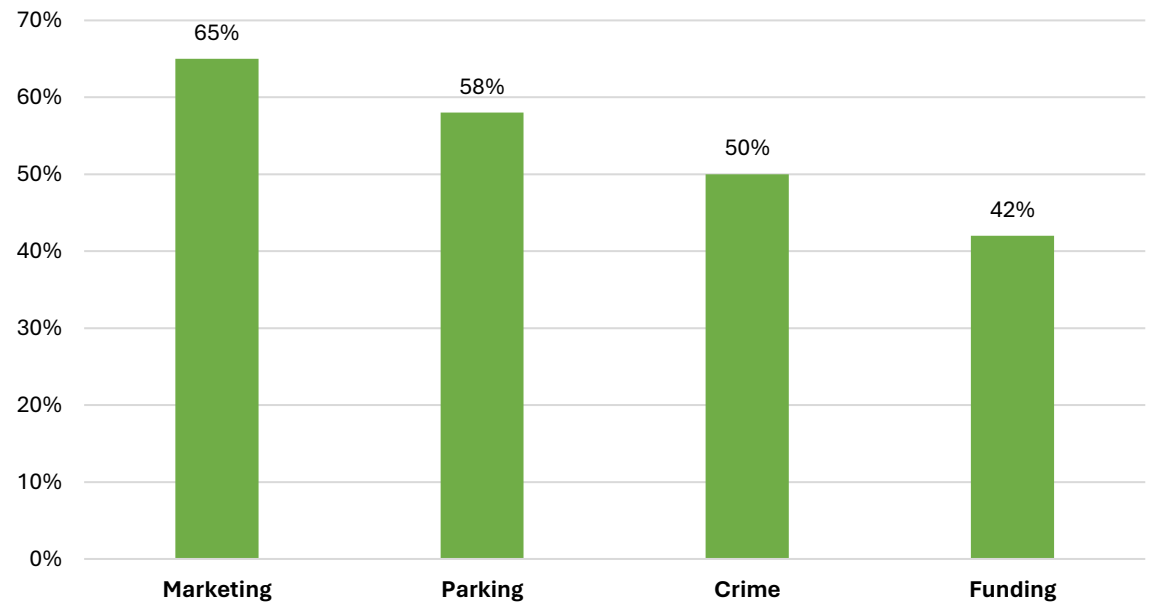


# Downtown Business Survey Findings

# Downtown Business Survey Findings

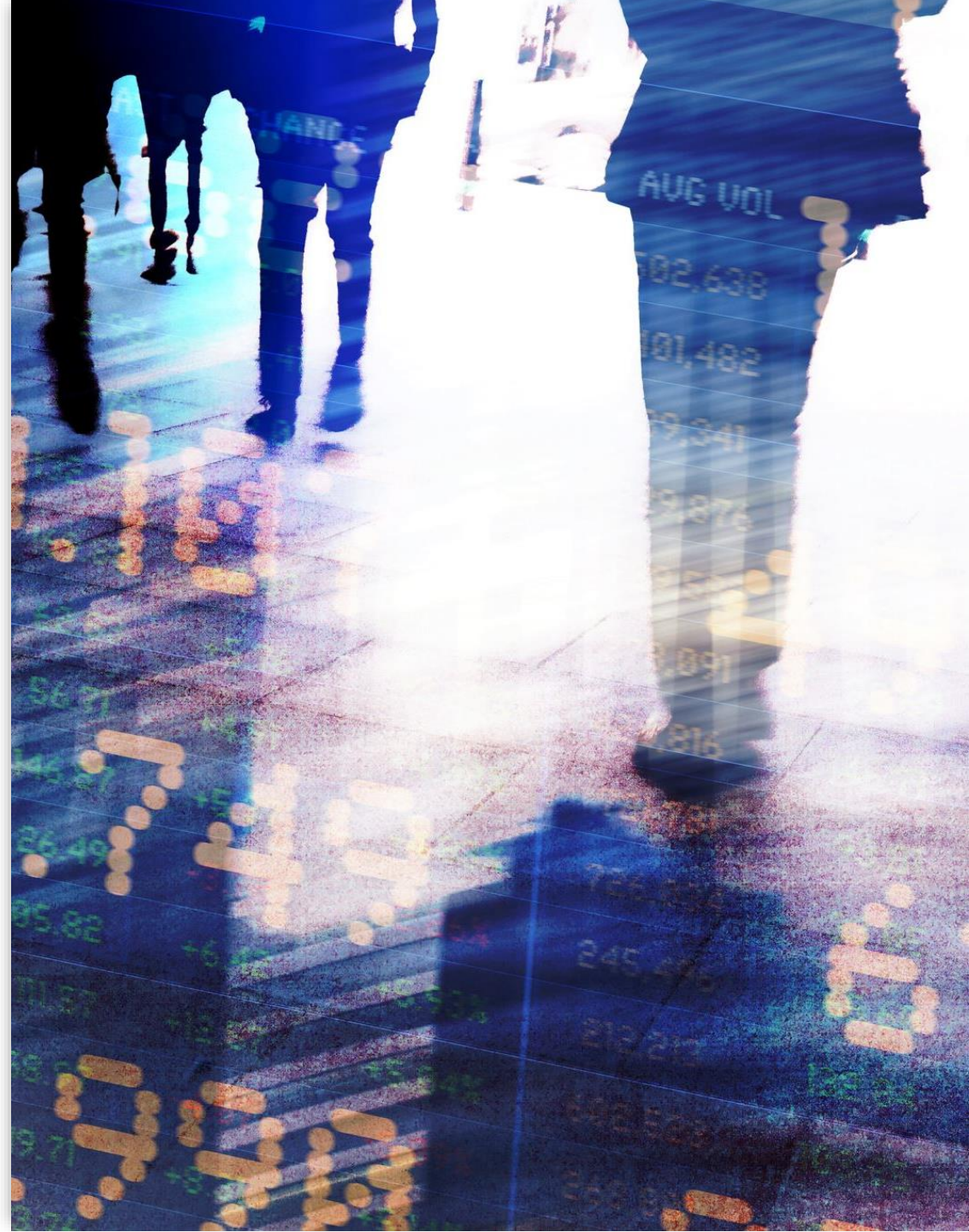
- The top 4 categories in which respondents felt the City could assist them were:
  - Marketing – Help with advertising and drawing visitors to their business
  - Parking - Abuse of posted limits
  - Crime – Concerned with homeless population, safety concerns at our parking garages, not enough police patrols
  - Funding - Expressed a hard time acquiring funds

How Can the City Help?



# Engagement & Education

- ICSC Conference
- 2024 Retail Expansion Outlook: Market Trends and Growth Opportunities
- Money Matters: Funding Sources for Community and Economic Development
- From Vacant Spaces to Vibrant Places: How to Backfill Vacancies in Your Downtown



# Toolbox to Incentivize Development

- Revolving Loan Program
- State Grants that could support new development
- Best Practice Incentives that could support development and stimulate growth of existing businesses
- Kosmont Support



# Marketing and Investment

## Developing Marketing Materials:

- Why Watsonville & What about Watsonville?

## Hire a FT Development Ombudsperson position (Pending Budget Approval)

- Support coordination for current and future development
- Attract and facilitate new/expansion of businesses

## Set aside \$250K on time funds to support ED strategies (Pending Budget Approval)

- Additional resources for economic development, brochures, marketing, outreach.
- Work needed to possibly develop an Enhanced Infrastructure Finance District.
- Attend trade shows
- Incentives

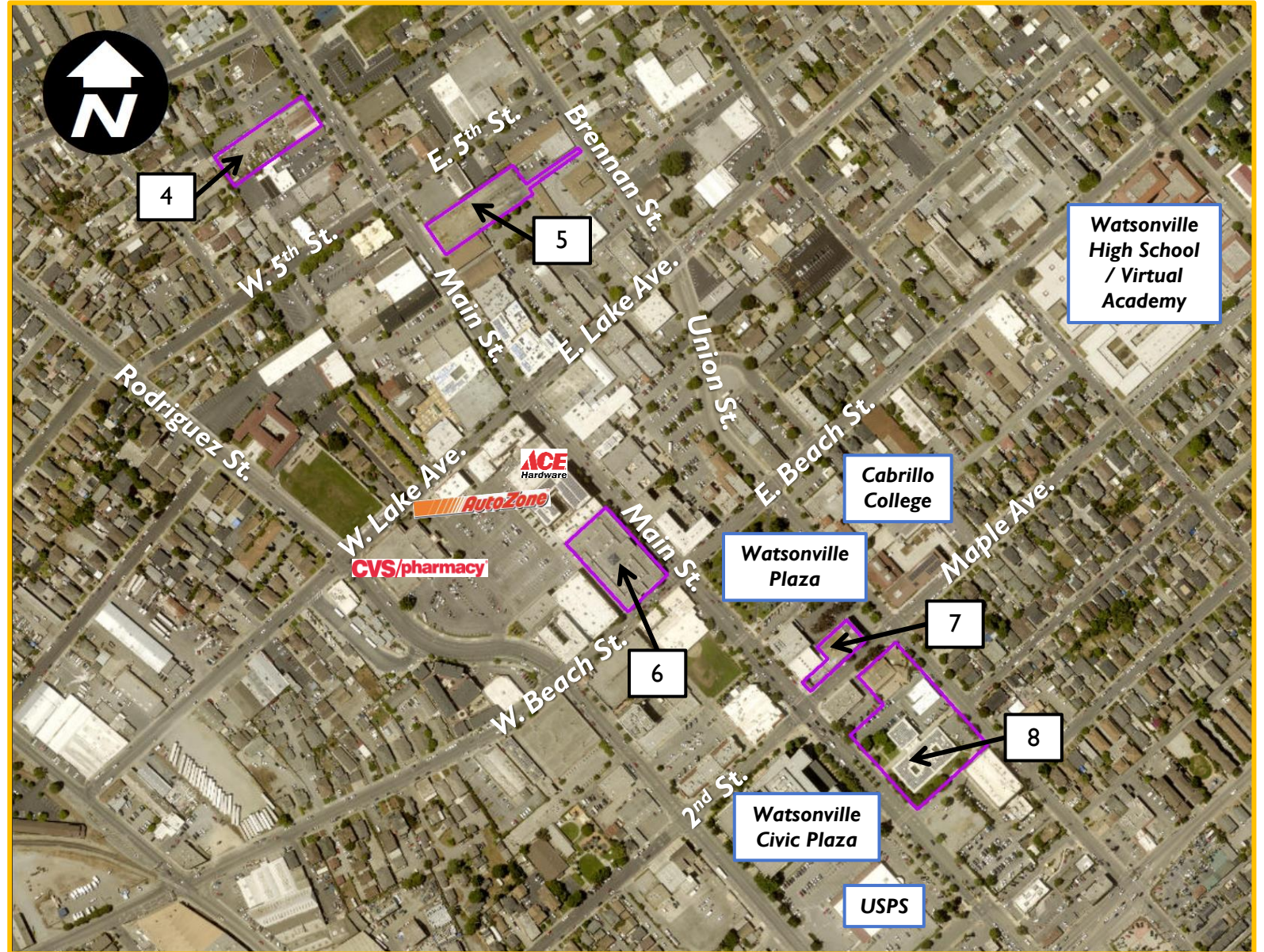
# INSERT 1: AIRPORT AREA

SITES #1-3:  
THE HANGAR,  
WATSONVILLE DIESEL,  
AND FORMER K MART  
PROPERTY



# INSERT 2: DOWNTOWN WATSONVILLE

SITES #4-8:  
REPASS,  
THE RESIDENCE APTS,  
FORMER GOTTSCHALKS,  
FOX THEATER,  
OLD CITY HALL





**SITE #9: HIGHWAY 1  
GATEWAY  
TUT PROPERTIES  
(2.5 ACRES WITHIN CITY  
LIMITS AND 13.6 ACRES  
OUTSIDE THE CITY  
LIMITS – POTENTIAL  
ANNEXATION)**

