

MEMORANDUM

To: Simran Malhotra; Raimi + Associates

From: Benjamin C. Sigman and Anisha Gade;
Economic & Planning Systems, Inc.

Subject: Watsonville Downtown Specific Plan & EIR, Market
Assessment and Demand Analysis; EPS #181074

Date: July 30, 2020

The Economics of Land Use



The City of Watsonville has retained a consulting team led by planning, urban design and research firm Raimi + Associates (R+A) to prepare a Downtown Specific Plan. R+A engaged Economic & Planning Systems (EPS) to assist with socioeconomic analysis, real estate analysis, economic development, and public finance aspects of the planning effort. This memorandum analyzes demographic, economic, and real estate conditions and trends in the study area and region, and also presents information gleaned from economic development stakeholder interviews. The memorandum commences with high-level key findings and concludes with more detailed recommendations for planning and implementation. EPS anticipates that these data and associated findings will help inform land use planning efforts and public policy considerations.

Downtown Watsonville is the city's historic business core and civic center. As with other infill areas within urbanized Watsonville, the City seeks to provide housing and economic opportunities Downtown. The City is preparing the Downtown Watsonville Specific Plan to catalyze new infill development and intensification of land uses along and in the vicinity of Main Street. In support of establishing a baseline understanding of the existing conditions of the Downtown, this memorandum provides analysis of the area's social and demographic factors, as well as economic and real estate market characteristics. This memorandum focuses on market-oriented perspectives, while subsequent efforts of the Downtown Watsonville Specific Plan & EIR process will address affordable housing issues in detail.

EPS prepared this memorandum as the nation and world seek to address the coronavirus pandemic, an unprecedented public health crisis. Research for this memorandum was completed before the severity of the

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crisis became apparent. In late March and early April 2020, the economic fallout was both significant and abrupt. Given that the length and severity of the coronavirus pandemic are still unknown, economic implications will depend fundamentally on how the crisis unfolds. The current consensus is that negative economic impacts are likely to dissipate gradually, although the exact pace and timeframe for economic recovery remain unclear. The potential implications of the pandemic for the Downtown Watsonville Specific Plan are not further considered here.

Key Findings

The Downtown Watsonville Specific Plan Area and the City of Watsonville have social and demographic characteristics that define a unique part of Santa Cruz County.

Watsonville is young and ethnically rich, with larger households and more children than countywide. Downtown is even more distinct from the county in these ways, with an even lower median age, greater Hispanic population, and more kids, though household size is smaller there. The local populations in Watsonville and Downtown in particular also are distinctly economically disadvantaged, with relatively low educational attainment and income. Building on the momentum of growth in Downtown Watsonville in recent years, planning for the area seeks to embrace the neighborhood's cultural richness while also promoting new housing and economic vibrancy.

Watsonville has enjoyed growth in non-agricultural economic sectors and remains a countywide leader in agricultural and logistics industries. Economic sustainability in Watsonville's historic employment drivers, combined with recent growth in healthcare and government jobs bodes well for workspace development potential in the city. The job growth may be leveraged to catalyze economic development Downtown through public sector strategies to target employment growth Downtown. There may be opportunities to locate headquarters functions, administrative, or management operations in new Downtown offices, even for industries that commonly select non-urban office sites. A growing and evolving downtown with regularly occurring special events, convenience retail, and restaurants is likely to be increasingly attractive to employers.

Watsonville's Downtown has seen the successful delivery of new mid-rise housing, a clear sign that denser housing may be viable at other sites in the Downtown area.

Watsonville's housing stock is approximately two-thirds single-family units, while Downtown, albeit a modest share of the city's housing, is 60 percent multifamily units. And developers have delivered new multifamily housing downtown in recent years. The Terrace at 445 Main Street is a new mid-rise apartment building, an ideal format for downtown. With micro units, structured parking, and a central location the project achieves per-square-foot rents that are unprecedented in the local market. The Terrace project illustrates that denser urban housing formats may be viable Downtown, and that the Downtown Specific Plan can encourage this type of housing density. Importantly, though, even as increased citywide inclusionary housing fees affect the financial feasibility of such projects, they help to balance the need for affordable housing in the area.

There has been no office development in Downtown Watsonville since 2008, but continued employment growth and fully occupied existing stock hints at future potential. Apart from the Watsonville Civic Plaza and 28 Second Street, both delivered in 2008, there has not been any notable office development Downtown. No office space has been

delivered Downtown in the current economic cycle. This is generally consistent with the paucity of office development throughout Santa Cruz County, where only about 80,000 square feet of new office has been delivered since 2009, mostly in smaller buildings. Despite the lack of new office development locally and in the region, low vacancy suggests that Downtown is a desirable office location, but lease rates likely need to increase dramatically to financially support office development. User-built office is more likely than speculative office development in the near term.

The retail industry is going through a complex evolution and “brick and mortar” retail is increasingly challenging, but Downtown retail is well occupied and additional convenience retail and restaurants likely will be market supportable as local resident and worker populations increase. Like office, new retail development has been sparse, with only about 35,000 square feet delivered in Watsonville since 2009, and an increasingly competitive environment resulting from online shopping trends. Recent investor sentiment surveys put retail real estate as one of the least attractive real estate investments.¹ However, with new households and employment Downtown, planning for a modest amount of retail targeted to provide convenience shopping needs, food, and other services is appropriate. To compete effectively with local auto-oriented retail centers, Downtown retail now and in the future likely would benefit from increased coordination among businesses to improve marketing and branding, and to leverage local cultural assets, such as the Henry J. Mello Center, Pajaro Valley Arts, and Pajaro Valley Historical Museum.

Study Approach and Background

The EPS research process involved an extensive project initiation meeting with key City staff members, a walking tour of the downtown study area, and review of a range of background materials from the City and other sources. Subsequently, EPS collected demographic, economic, and real estate data to better understand existing socio-economic conditions and property market trends. EPS also interviewed a diverse set of economic development stakeholders. The following sections detail findings from these efforts, with an eye to highlighting strategic opportunities that could be leveraged to promote community and economic development in Downtown Watsonville.

Prior studies of the Downtown, such as the City's 1995 *Downtown Marketing Study*, noted that residents are predominantly of Hispanic/Latino descent and sought to capitalize on the ethnic character of this area through the attraction of ethnically specific retail and commercial establishments.² While these historical characteristics of the Downtown remain true today, the area has evolved with the new construction of a centrally located civic center complex which includes the Public Library, City Hall, and the County Courthouse. In addition, new infill housing projects (one affordable and one market rate) in recent years have begun to illustrate the viability of mid-rise projects in the neighborhood.

¹ Urban Land Institute, *Emerging Trends in Real Estate* 2019.

² *Downtown Marketing Study*, City of Watsonville Department of Economic Development, 1995.

Demographic Trends

This section compares demographic data for the Downtown Watsonville Specific Plan area, the city of Watsonville, as well as Santa Cruz County. This demographic trend review draws on the most recently available data from ESRI Business Analyst, the US Census, and the California Department of Finance in order to provide a current analysis of trends and conditions. The demographic data include comparative population and household trends, a breakdown of household income, shares of educational attainment, as well as a breakdown of local residents' ages, races and ethnicities.

Population and Households

Since 2010 Downtown Watsonville has been growing relatively quickly compared to the city of Watsonville overall, but the strength of the downtown growth rate is largely attributable to low existing base of population there. Downtown added about 150 net new residents between 2010 and 2019, an increase of about 7 percent (0.81 percent annual growth). This rate of population growth was roughly 40 percent higher downtown than in the city as a whole, where about 2,680 net new residents increased the city population by about 5 percent (0.57 percent annual growth). While the city of Watsonville has been growing at a similar rate to Santa Cruz County, the region as a whole is a relatively slow growth area, with annual rates of growth that in recent years have been notably below statewide levels. **Figure 1** presents a comparison of population growth in Downtown Watsonville, the city of Watsonville, Santa Cruz County, and the state.

The rate of household formation (i.e., the change in the number of households in a particular area) also indicates very similar trends to that of overall population growth. Over the past decade, there was a much stronger rate of growth in the Downtown than the city overall, as shown in **Figure 2**, which compares Downtown, citywide, countywide, and statewide household growth. And again, this rate is largely attributable to the fact that only 5 percent of all Watsonville households live in Downtown. As of 2019, there were 711 households living in Downtown, a net increase of 54 since 2010, representing approximately 8 percent growth (or 0.88 percent annual growth). Meanwhile, citywide household growth averaged only 0.33 percent annually during this time, roughly in line with county growth, again affirming the slow growth in the region. By comparison, statewide household growth averaged 0.45 percent annually over the past decade.

Figure 1 Population Trends

Geography	2010	2019	2010-2019	
			Change	Annual Growth Rate
Downtown Watsonville	2,040	2,193	153	0.81%
Watsonville (City)	51,199	53,881	2,682	0.57%
Santa Cruz County	262,382	275,839	13,457	0.56%
California Statewide	37,253,956	39,927,315	2,673,359	0.77%

Sources: US Census Bureau, ESRI Business Analyst, Economic & Planning Systems, Inc.

Figure 2 Household Growth Trends*

Geography	2010	2019	2010-2019	
			Change	Annual Growth Rate
Downtown Watsonville	657	711	54	0.88%
Watsonville (City)	13,528	13,939	411	0.33%
Santa Cruz County	94,355	97,036	2,681	0.31%
California Statewide	13,670,304	14,235,093	564,789	0.45%

Sources: US Census Bureau, ESRI Business Analyst, California Department of Finance, Economic & Planning Systems, Inc.

*Note: EPS adjusts data from ESRI to reflect know residential growth in the Downtown study area.

Data reveal that household size (i.e., the average number of persons in a household) in Downtown Watsonville is notably below the citywide average. In fact, household size Downtown is more similar to countywide and statewide than the city overall. A potential explanation for the relatively low household size Downtown is the presence Single room occupancy (SRO) units, which are one-room rentals within residential hotels. Households across Watsonville average roughly 4 individuals per household. Meanwhile, there are only 3 people, on average, in households in the Downtown area, Santa Cruz County, as well as throughout California.

Interestingly, however, as shown in **Figure 3**, between 2010 and 2019, Downtown household size grew faster than the city and county, but not quite as fast as statewide. Much of this increase in household size is a reflection of broad societal patterns. Recent economic growth in Northern California has attracted high levels of in-migration since 2012, which has led to

increased housing demand and a shortage of new housing, particularly affordable options.³ As a result, many young adults have continued residing in shared living situations instead of forming new households of their own. Secondly, as housing costs have risen, many millennials have delayed moving out of their parents' homes. Both of these patterns have led to larger households.

Figure 3 Household Size Trends

Geography	2010	2019	2010-2019	
			Change	Growth Rate
Downtown Watsonville	3.02	3.09	0.07	0.25%
Watsonville (City)	3.75	3.82	0.07	0.21%
Santa Cruz County	2.66	2.70	0.04	0.17%
California Statewide	2.90	2.99	0.09	0.34%

Sources: US Census Bureau, ESRI Business Analyst, California Department of Finance, Economic & Planning Systems, Inc.

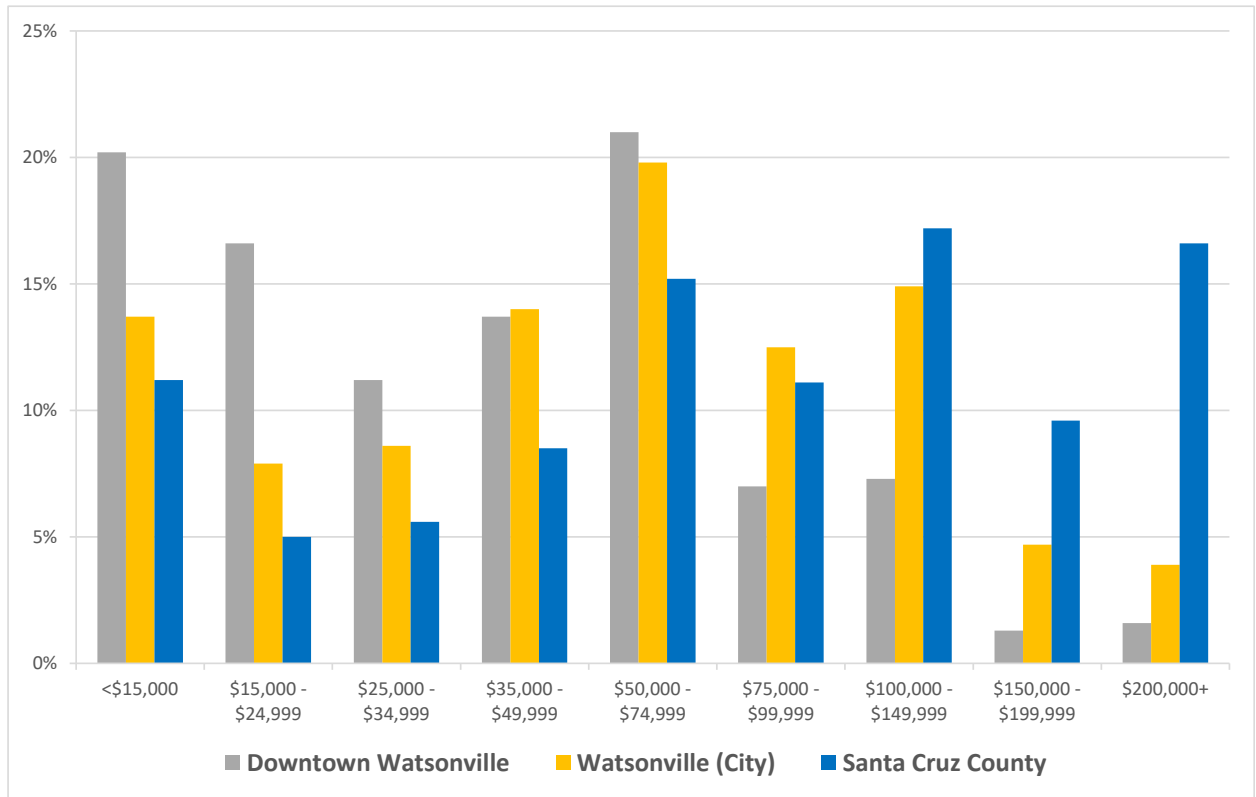
Household Income

Households Downtown as well as the city more broadly skew lower than elsewhere in the county. Slightly more than one-third (37 percent) of Downtown households make less than \$25,000 and the overwhelming majority (83 percent) make less than \$75,000, as shown in **Figure 4**. Meanwhile, roughly 22 percent of households citywide make less than \$25,000 and almost two-thirds make less than \$75,000. In comparison, across the county, fewer than half of households make less than \$75,000. The median household income in Downtown, at roughly \$36,500, is almost \$20,000 lower than that citywide, as shown in **Figure 5**. And at about \$55,300, citywide median household income is roughly \$28,000 below the countywide median.

When household income statistics are combined with the larger size of households in Downtown and citywide, it becomes evident that lower household income Downtown, in particular, is stretched to support more people. The per capita household income in Downtown is slightly more than \$12,300, as compared with \$18,700 citywide. In comparison, per capita household income across the county is significantly higher at roughly \$43,100.

³ Even as out migration from the Bay Area has increased since 2018, the large number of net new in-migrants after the 2008-9 recession has meant greater, persistent demand for housing, which has contributed to continued higher home prices and rents. ("If people are fleeing the Bay Area for cheaper housing, why is it still so costly?" Kathleen Pender. *San Francisco Chronicle*. May 5, 2018. <https://www.sfchronicle.com/business/networth/article/If-people-are-fleeing-the-Bay-Area-for-cheaper-12889909.php>)

Figure 4 Household Income Distribution 2019



Sources: US Census Bureau, ESRI Business Analyst, Economic & Planning Systems, Inc.

Figure 5 Average, Median, and Per Capita Household Income 2019

Geography	Average HH Income	Median HH Income	Per Capita HH Income
Downtown Watsonville	\$49,708	\$36,548	\$12,357
Watsonville (City)	\$72,591	\$55,375	\$18,720
Santa Cruz County	\$121,472	\$83,545	\$43,056

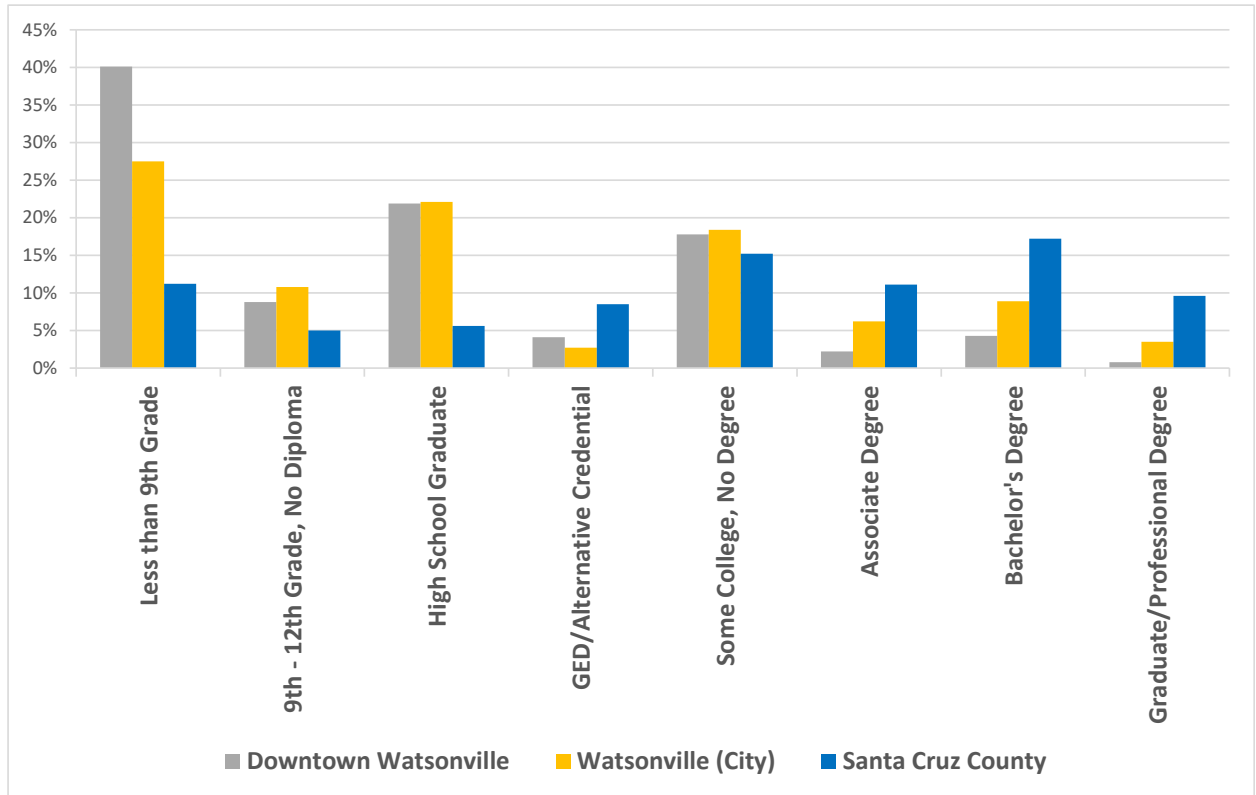
Sources: US Census Bureau, ESRI Business Analyst

Educational Attainment

Household income is closely related to educational attainment. Data reveal a high concentration of Downtown residents (40 percent) have less than a 9th grade education, as shown in **Figure 6**. By comparison, approximately 28 percent of city residents and about 11 percent of county residents have less than a 9th grade education. At the other end of the educational spectrum,

approximately 7 percent of Downtown residents and 20 percent of city residents have at least an Associate’s degree, while almost 40 percent of county residents do.

Figure 6 Educational Attainment of Adults Aged 25 Years or Older (2019)

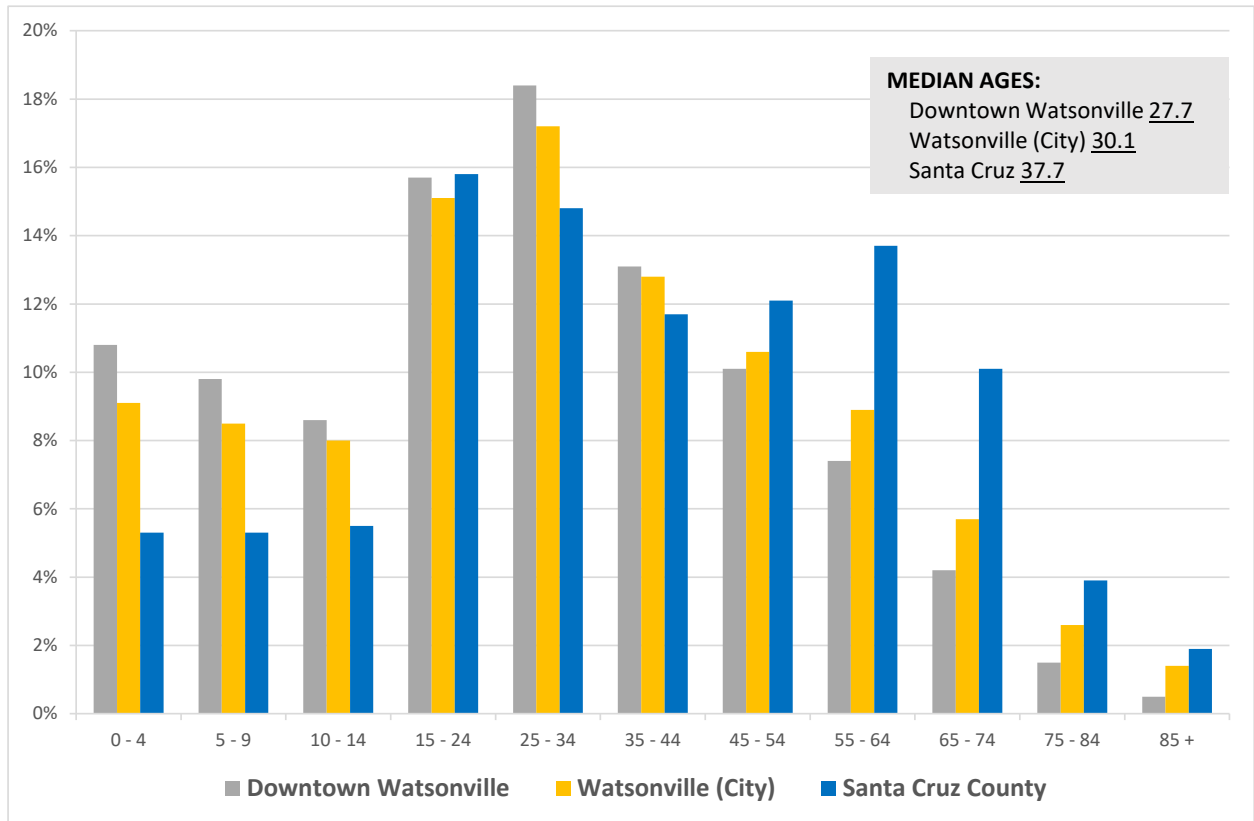


Sources: US Census Bureau, ESRI Business Analyst, Economic & Planning Systems, Inc.

Age Distribution

The Downtown comprises many young residents. **Figure 7** shows that less than one-quarter of all Downtown residents are 45 years or older. Approximately 29 percent of city residents are similarly aged. On the other hand, roughly 42 percent of county residents are at least 45 years old. Moreover, the median age of Downtown residents is 27.7, versus 30.1 among city residents and 38 among county residents. The younger ages of Downtown and city residents likely contribute to other socio-economic characteristics observed, such as household income.

Figure 7 Age Distribution 2019

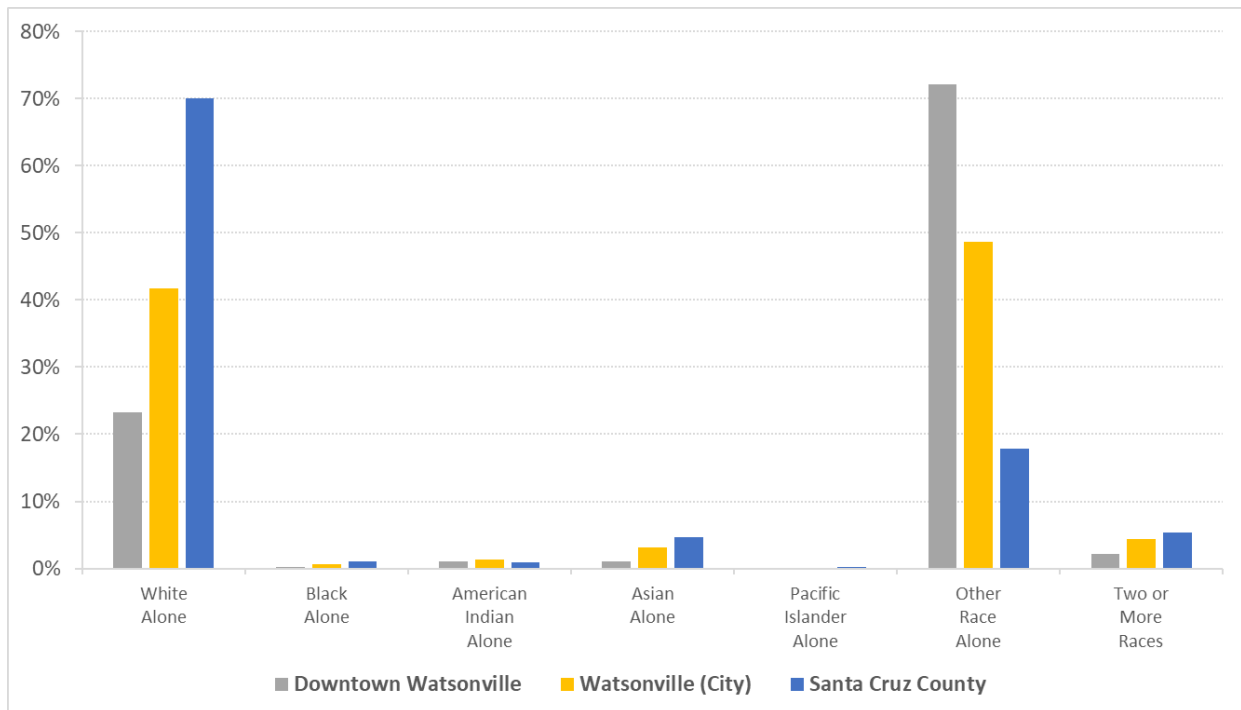


Sources: US Census Bureau, ESRI Business Analyst, Economic & Planning Systems, Inc.

Race and Ethnicity

Watsonville and the Downtown, in particular, are relatively diverse racially and culturally, as compared to Santa Cruz County. The citywide population is nearly 50 percent “other race” while countywide, roughly seven in ten residents are “white alone,” as depicted in **Figure 8**. The relatively high reporting of the “other race” category in Watsonville likely is attributable to Spanish-speaking residents who do not self-identify as white alone, and thus report other race. The key finding is that Watsonville comprises a well distributed mix of racial and ethnic residents. Available data also reveal that the nearly nine in ten Downtown Watsonville residents report “Hispanic origin,” approximately ten percentage points above the citywide population overall. Meanwhile, only 34.5 percent of county residents are of “Hispanic origin.”

Figure 8 Share of Population by Race 2019



Sources: US Census Bureau, ESRI Business Analyst, Economic & Planning Systems, Inc.

Employment

Recent job growth in Watsonville has occurred at a healthy rate, significantly outpacing population growth in recent years. The annual employment growth rate in the city over the past decade was 1.2 percent, which is slightly above the statewide growth rate, as shown in **Figure 9**. Since 2008, there are nearly 2,500 net new jobs in Watsonville, most of which were added since 2013. The statewide average blends high-growth areas such as Silicon Valley with slower-growth areas in rural California, and the fact that job growth in the city slightly exceeded the statewide average reveals that local growth is keeping pace, but not necessarily booming.

Figure 9 Overall Employment by Place of Work (2008-2018)

Geography	2008	2018	2008-2018	
			Change	Annual Growth Rate
Watsonville (City)	19,298	21,762	2,464	1.21%
Santa Cruz County	76,154	90,686	14,532	1.76%
California Statewide	15,494,915	17,355,855	1,860,940	1.14%

Sources: California EDD, Economic & Planning Systems, Inc.

Examining the city's employment sectors more closely, the five largest industries are fairly evenly divided. As shown in **Figure 10**, these five sectors represent approximately 13,500 positions, or 62 percent of all jobs. Because of the rural and agricultural nature of region, the largest industry in Watsonville comprises roughly 3,200 Agriculture, Forestry, Fishing and Hunting jobs. This is followed by nearly 2,900 Public Administration jobs and the demographically-driven sectors of Healthcare and Retail, which, combined, account for nearly 5,300 jobs. The fifth largest sector, Manufacturing, accounts for about 2,100 positions. Beyond these top five sectors, there are about 5,000 jobs in smaller clusters of employment in Administrative Waste Management, Food Service, and Wholesale Trade. The remaining 3,200 positions are found in a wide range of smaller sectors.

Four of the five largest sectors in the city are also the largest countywide. In particular sectors the city's share of countywide employment is significant. These shares of sector-specific jobs in the city are a testament to Watsonville's strong concentration of farming operations. For example, agricultural, government, and manufacturing jobs constitute a substantial portion of 41 percent, 69 percent, and 29 percent, respectively. Moreover, in line with this concentration, 59 percent of the county's Transportation and Warehousing jobs as well as 37 percent of the county's Wholesale Trade jobs are also located in Watsonville. It is likely the city benefits from attracting manufacturing, logistics, and warehouse/distribution jobs and real estate space because of its comparatively lower cost of operations in the region.

The top five industries in Watsonville have remained unchanged since 2008. The subtle change is that the city's ranking of economic industries has been slightly reordered over the past decade. As shown in **Figure 11**, even as the Agriculture industry has lost more than 500 jobs, on net, since its high point in 2009 and 2018, it remains the largest employment sector in Watsonville.

The Retail sector, which was the second-highest employment sector in 2008, has struggled to regain many of the jobs lost during the 2008-9 recession. This trend is largely in line with the broad pattern of retailing nationwide, which reflects increased competition from online shopping. As of 2018, Retail had decreased to fourth-largest.

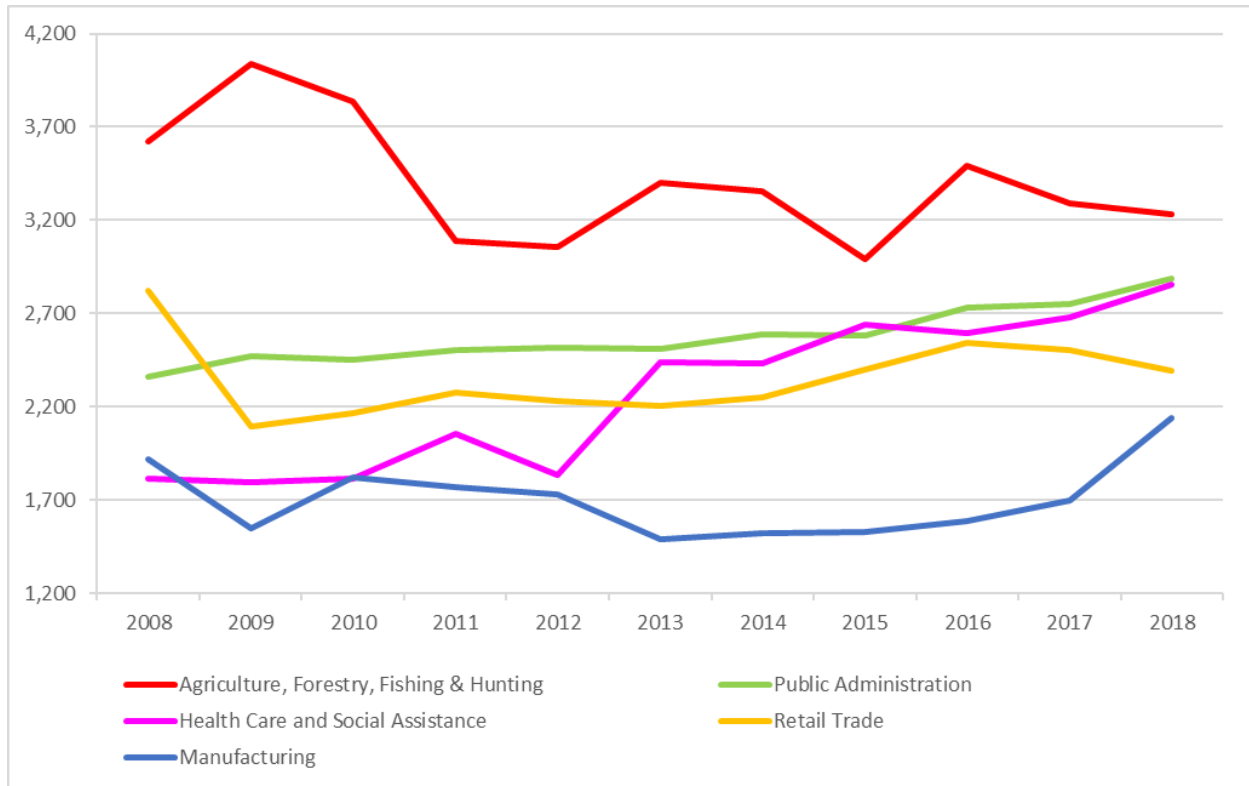
The Government sector (aka Public Administration), the only employment sector without a high degree of volatility, has grown steadily over the past decade. This trend indicates the reliable presence of Public Administration as a local employer. The Manufacturing sector also grew slightly but has experienced some larger swings in job gains and losses over the course of the decade. During this same time period, the Healthcare sector added more than 1,000 new jobs in the city, a substantial increase of nearly 58 percent. The growth of this sector also reflects larger societal trends, with job growth in this sector illustrating new demands from an aging population.

Figure 10 City and County Employment by Industry (2018)

NAICS Industry	City of Watsonville			Santa Cruz County	
	Employment	Share of Total	Share of County	Employment	Share of Total
Agriculture, Forestry, Fishing and Hunting	3,234	15%	41%	7,895	9%
Public Administration	2,888	13%	69%	4,190	5%
Health Care and Social Assistance	2,856	13%	19%	15,185	17%
Retail Trade	2,395	11%	20%	11,765	13%
Manufacturing	2,140	10%	29%	7,310	8%
Administrative/Support/Waste Management Services	1,528	7%	35%	4,383	5%
Accommodation and Food Services	1,457	7%	12%	11,976	13%
Wholesale Trade	1,260	6%	37%	3,413	4%
Not Classified Elsewhere	905	4%	61%	1,485	2%
Construction	761	3%	17%	4,423	5%
Other Services (except Public Administration)	472	2%	10%	4,641	5%
Professional, Scientific, and Technical Services	443	2%	10%	4,607	5%
Transportation and Warehousing	415	2%	59%	704	1%
Finance and Insurance	342	2%	17%	2,015	2%
Real Estate and Rental and Leasing	252	1%	16%	1,539	2%
Educational Services	199	1%	10%	2,010	2%
Arts, Entertainment, and Recreation	113	1%	5%	2,478	3%
Information	102	0.5%	15%	667	1%
Total Employment	21,762	100.0%	24%	90,686	

Sources: California Employment Development Department; Economic & Planning Systems, Inc.

Figure 11 City of Watsonville Top Five Industries Employment Trends



Sources: California Employment Development Department, Economic & Planning Systems, Inc.

Real Estate Conditions

The following section considers residential real estate, including single-family and multifamily housing, and commercial real estate, including office, industrial, flex/R&D, and retail spaces. Watsonville offers a diversity residential options throughout the city, while commercial uses are concentrated along commercial corridors, and the Downtown functions primarily as a commercial and civic center, with public open space. Increasingly, Downtown also offers a range of housing alternatives.

Residential Real Estate

The residential real estate market in Watsonville is composed of both single-family units and multifamily units. Interestingly, Watsonville has a relatively high share of the county's multifamily units (19 percent), as compared to single-family units (of which it has roughly 11 percent), as shown in **Figure 12**. There is a similar phenomenon of a higher share of citywide housing in Downtown Watsonville being multifamily (10 percent) than single-family (only 3 percent).

One of the most striking aspects of the difference between the makeup of residential real estate Downtown versus the city as a whole is that whereas citywide residential stock is overwhelmingly single-family (approximately two-thirds), housing stock Downtown is the opposite. Roughly 60 percent of the Downtown residential stock is in multifamily structures.

Figure 12 Summary of Existing Residential Units

Geography	Single-Family Units ¹	Multifamily Units ¹	Total Housing	Share of Ownership	Share of Rentership	Vacancy Rate
Downtown Watsonville <i>As a Share of Citywide Total</i>	296 3%	444 10%	740	14.4%	80.6%	5.0%
Watsonville (Citywide) <i>As a Share of County Total</i>	8,705 11%	4,385 19%	13,090	46.6%	50.2%	3.1%
Santa Cruz County	76,250	22,690	98,940	55.7%	35.6%	8.7%

Note: Latest available data for the Downtown Watsonville Specific Plan Area are as of 2017. Citywide and County units are as of 2019.

[1] Single-family units include detached and attached units. Multifamily units include units in buildings that have two or more units.

Sources: US Census Bureau, ESRI Business Analyst, California Department of Finance, Economic & Planning Systems, Inc.

The share of owned versus rented units also is markedly different in the Downtown, as compared with citywide and across the county. Whereas nearly 81 percent of Downtown residents are renters, only about half of citywide residents are and only about 36 percent of county residents are. Much of this phenomenon is due to the fact that the majority of units Downtown consist of multifamily rental units. The high prevalence of renters citywide is likely also due to the relative prevalence of multifamily units in the city. Almost one-fifth of the county’s multifamily units are in Watsonville.

Apart from the inventory of housing stock, it is important to note that with the City’s adoption of Measure U, an urban growth boundary that limits the spread of development. Since much of the city is already largely built out to the urban boundary, the potential for higher density housing on infill properties has increased, and is part of the impetus for the Downtown Watsonville Specific Plan. Recent trends in housing development Downtown illustrate the viability of higher density multifamily housing in the Downtown.

However, given that housing affordability and displacement are core concerns for current residents, the City’s Affordable Housing Ordinance requires that all new housing developments either provide a portion of units on-site that are affordable or pay in-lieu fees for the creation of affordable units elsewhere in the City.⁴ This policy measure helps to preserve and increase the number of affordable units in the City but does increase the cost of housing development and negatively affects the financial viability of new housing development marginally.

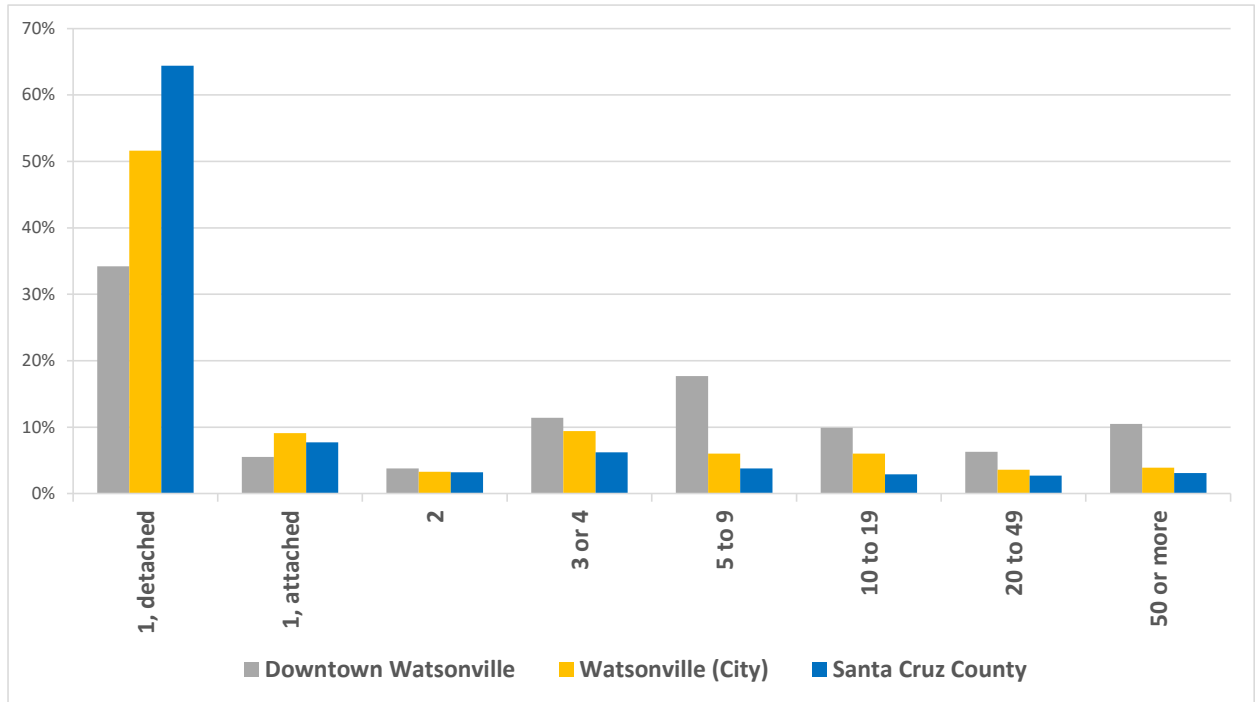
Housing Characteristics

Consistent with the prevalence of multifamily units, denser residential structures are more prevalent Downtown than citywide. The share of structures containing three or more units is greater in the Downtown, as compared to citywide and countywide. **Figure 13** compares Downtown residential structures by unit count to citywide and county data. The Downtown area contains a fairly even distribution of duplexes, garden-style apartments, as well as higher density

⁴ See [City Code 14.46](#) for details on Watsonville’s Affordable Housing Ordinance.

buildings with 10 or more units. The data reveal market acceptance of multifamily housing in a range of low- and mid-rise formats.

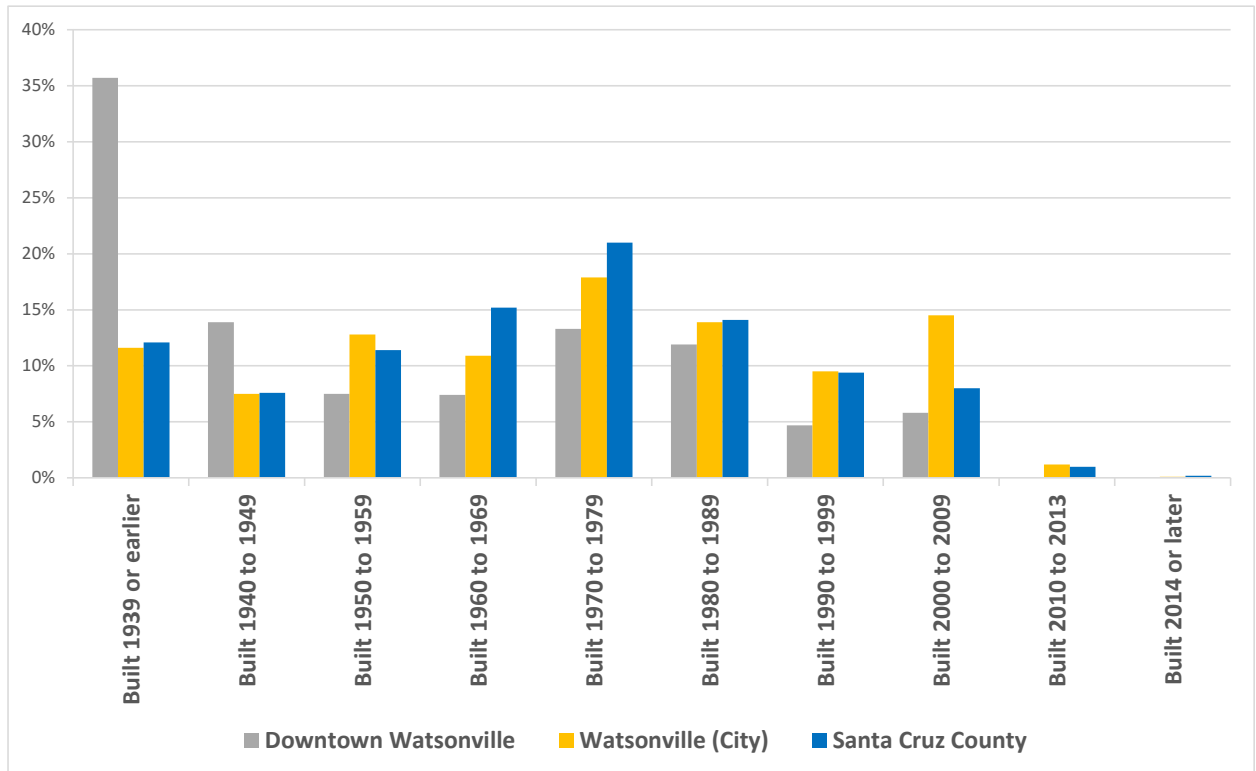
Figure 13 Share of Housing Units by Number of Units in Structure



Sources: US Census, ESRI Business Analyst, Economic & Planning Systems, Inc.

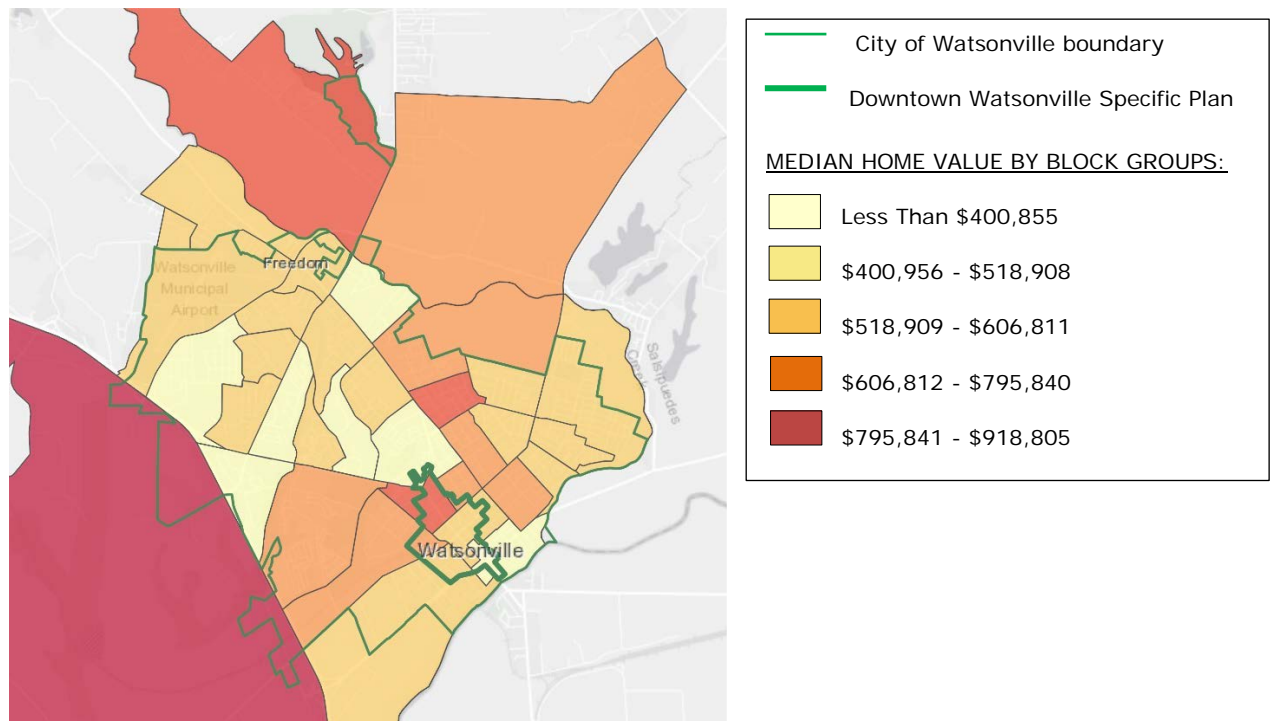
Residential buildings Downtown are relatively old compared with citywide and across the county, as shown in **Figure 14**. Given that the City was formed over 150 years ago and that Downtown is a historically significant area for this region, it is not surprising that a substantial portion of the buildings date back 80 years or more. However, the more important takeaway here is that only about 10 percent of Downtown buildings were built after 1990, meaning that most of the housing stock is at least thirty years old. By contrast, there has been a steady rate of new housing construction in other parts of the city and across the county, at least up until the 2008-9 recession. In the wake of the housing crisis, as with many areas across the country, new construction throughout Santa Cruz County, including Watsonville, has not recovered to pre-recession levels. This trend has contributed to rising home prices and rents, to unaffordable levels in some cases. Even Downtown, which offers some relatively affordable housing, has pockets of very high cost housing, as illustrated by the heat map presented in **Figure 15**.

Figure 14 Share of Housing Units by Year Structure Built



Sources: US Census, ESRI Business Analyst, Economic & Planning Systems, Inc.

Figure 15 Heat Map of Census Block Groups by 2019 Median Home Value Quantiles



Sources: US Census, ESRI Business Analyst, Economic & Planning Systems, Inc.

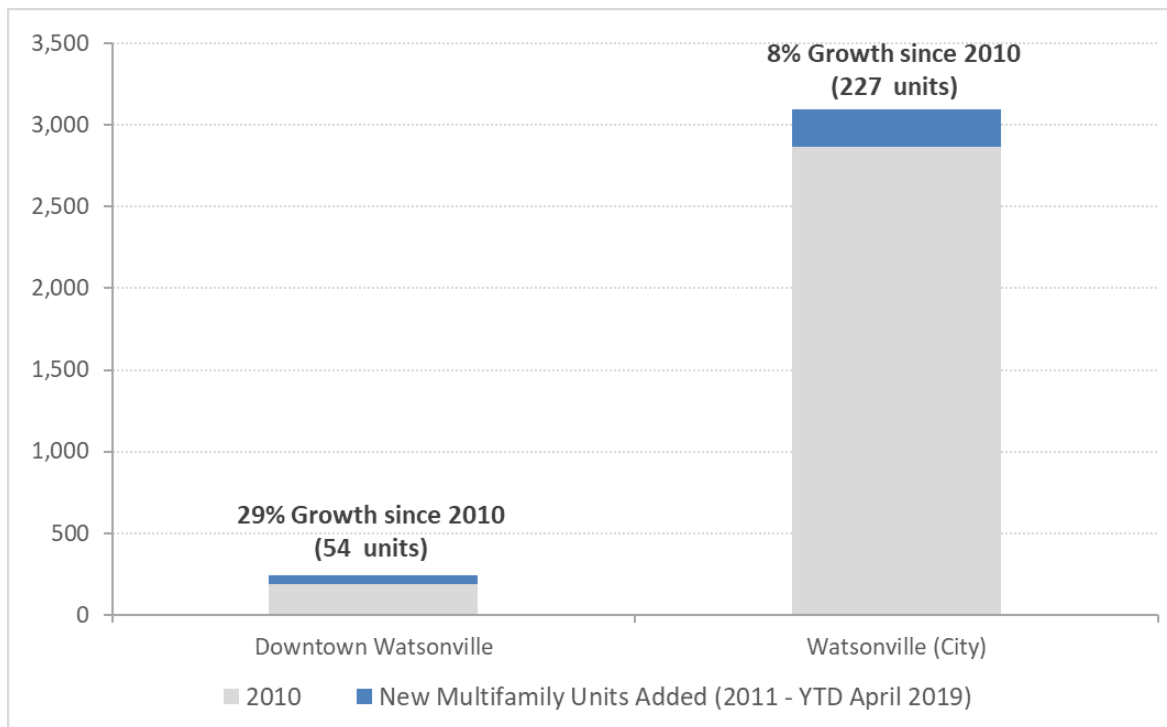
Multifamily Market Conditions

The nature of multifamily rental housing in Downtown as well as across Watsonville has historically consisted of primarily low-rise, garden style apartments in small complexes with fewer than ten units. Although there are several apartment complexes with more than ten units, almost none exceed three or four stories. This pattern could evolve toward higher densities in the future, as evidenced by a recently-developed mid-rise project of four stories Downtown.

Even though there has been very little new housing overall in the past 20 years, with the addition of the new Downtown apartment building, the number of multifamily units in the neighborhood grew by nearly 30 percent since 2010. As shown in **Figure 16**, 54 new units were added in the past decade. In the city, by comparison, some 227 units, or roughly 8 percent of the multifamily housing stock, were added since 2010.

Strong operating metrics of sustained tenant leasing and stable rent growth have characterized the Downtown multifamily market for roughly two decades. The net absorption and vacancy rate depicted in **Figure 17** show that the multifamily vacancy rate has been at or below 3 percent since the early 2000s. Meanwhile, the housing crisis and Great Recession of 2008-09 tightened lending regulations, thereby also increasing the hurdles to homeownership, especially for lower-income households, which has also led to more families continuing to rent.⁵

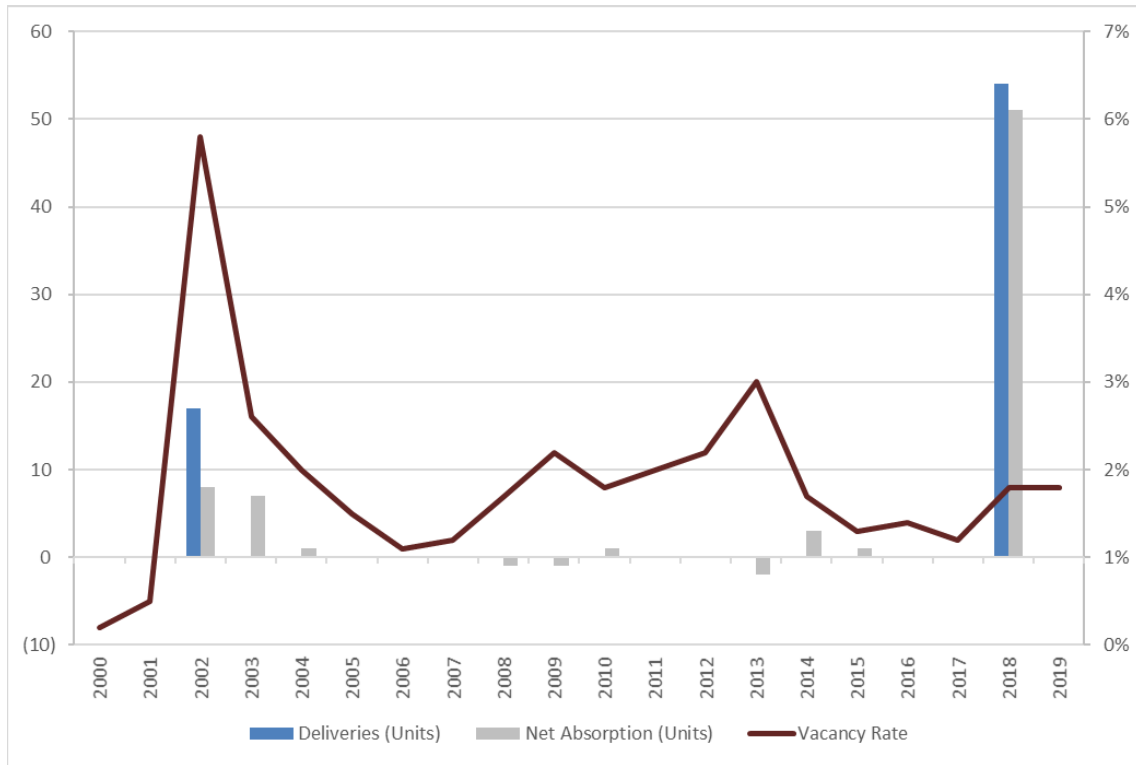
Figure 16 Growth of Multifamily Units



Sources: CoStar Group, Economic & Planning Systems, Inc.

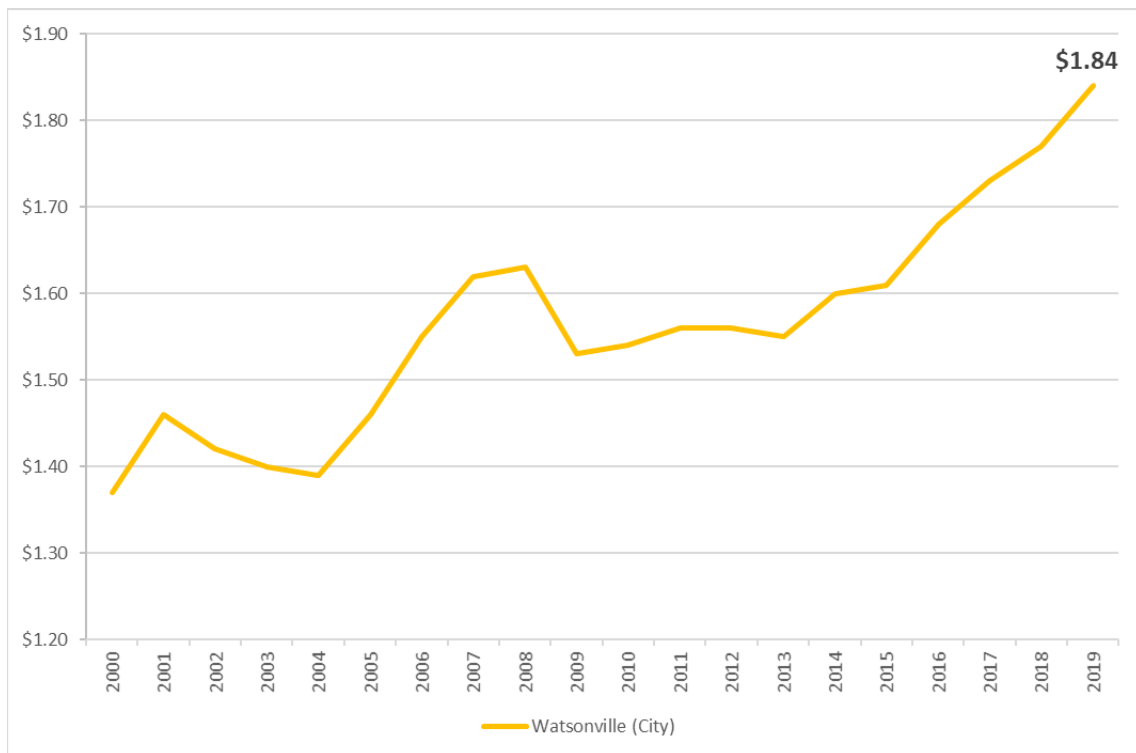
⁵ "10 years later: How the housing market has changed since the crash." Michele Lerner. *Washington Post*. Oct 4, 2018. <https://www.washingtonpost.com/news/business/wp/2018/10/04/feature/10-years-later-how-the-housing-market-has-changed-since-the-crash/>.

Figure 17 Downtown Multifamily Deliveries, Absorption, and Vacancy



Sources: CoStar Group, Economic & Planning Systems, Inc.

Figure 18 Multifamily Monthly Effective Rents per Square Foot



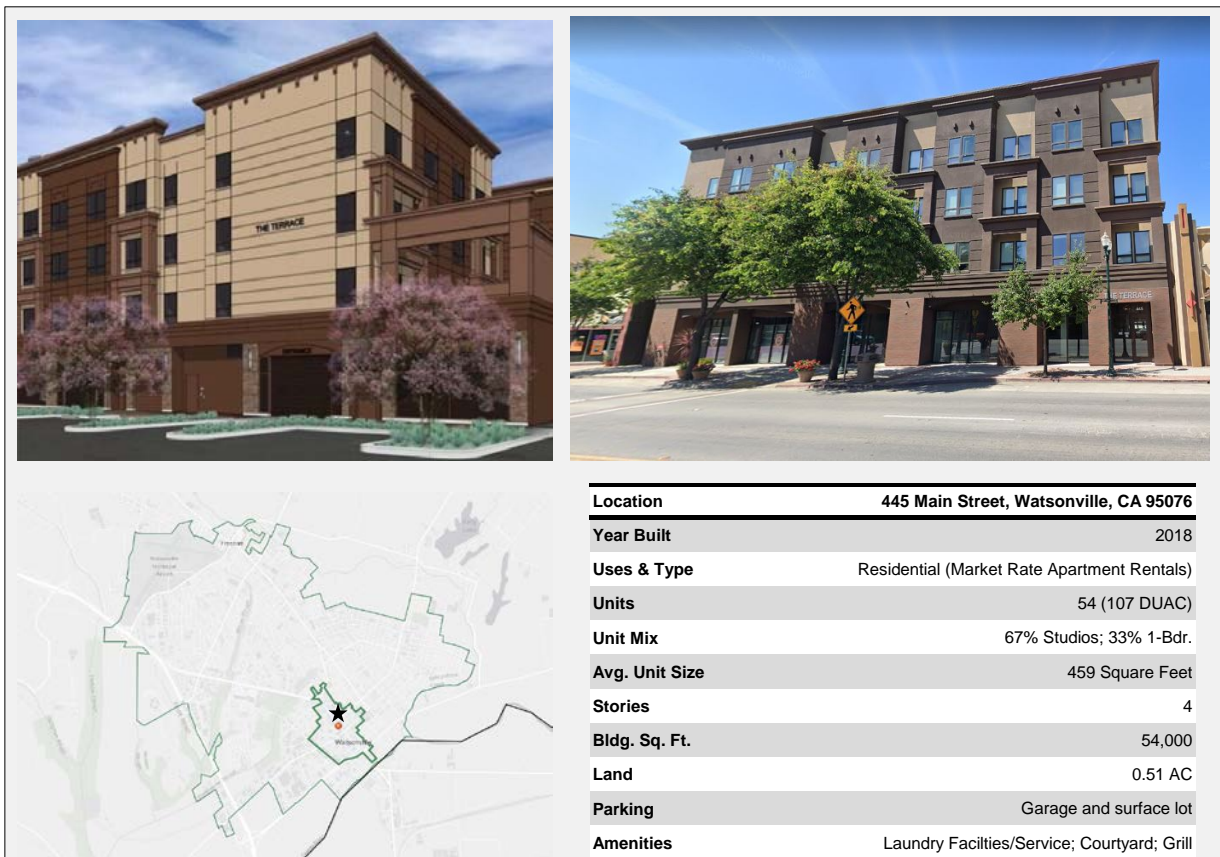
Sources: CoStar Group, Economic & Planning Systems, Inc.

New Multifamily Product Downtown

Though the multifamily housing stock in Downtown is limited and much of the built stock is dated, a new project has proven that relatively high per-square foot rental rates are achievable. The Terrace at 445 Main Street achieves rents of about \$3.89 per square foot per month. With 36 studios and 18 one-bedroom units, the project features small unit sizes. In fact, the average unit in the project is just 459 square feet. The Terrace was well received by the market. Renters leased up the project almost immediately, despite per-square-rental rates that were roughly double the local average.

The characteristics of this new project marked a break with the typical low-density, garden style apartments that have been most common in Watsonville. Instead, this mid-rise project features a compact footprint and small-format unit mix that remains unique in the region, but is more common in metropolitan areas throughout California. The project offers proof of concept for multistory, infill housing in Watsonville's Downtown. However, it is also important to note that the project paid affordable housing in-lieu fees, likely a savings compared to inclusionary (on-site) below-market-rate units that may be required in new multifamily projects downtown. Affordable housing (inclusionary and fees) helps to sustain and grow housing options for low-income community members in Watsonville.

Figure 19 Project Profile – The Terrace at 445 Main Street



Sources: CoStar Group, Economic & Planning Systems, Inc.

Commercial Real Estate

In line with the city’s economic strengths, its comparatively low cost of operations, and its large proportion of land zoned industrial, nearly 60 percent of the county’s industrial space is located in Watsonville. In addition, office, flex/R&D, and retail spaces in the city account for roughly one-fifth to nearly one-third of county commercial spaces. **Figure 20** summarizes the existing inventory of commercial real estate stock Downtown, citywide, and throughout Santa Cruz County.

In the Downtown, in particular, there is a notable concentration of the city’s office (36 percent) and retail spaces (30 percent.) In addition, only a small fraction (6 percent) of the city’s industrial stock and an almost negligible amount of the city’s flex/R&D space (0.4 percent) is located Downtown. This section focuses on office and retail, which are the commercial use categories best suited for new development in the Downtown.

Figure 20 Summary of Existing Commercial Real Estate Inventory (Square Feet)

Geography	Office	Industrial	Flex/R&D	Retail
Downtown Watsonville	543,791	297,321	11,581	894,274
<i>As a Share of Citywide Total</i>	<i>36%</i>	<i>6%</i>	<i>0.4%</i>	<i>30%</i>
Watsonville (Citywide)	1,524,969	4,970,017	851,032	2,985,053
<i>As a Share of County Total</i>	<i>21%</i>	<i>58%</i>	<i>32%</i>	<i>26%</i>
Santa Cruz County	7,419,242	8,591,143	2,636,020	11,522,734

Sources: CoStar; Economic and Planning Systems, Inc.

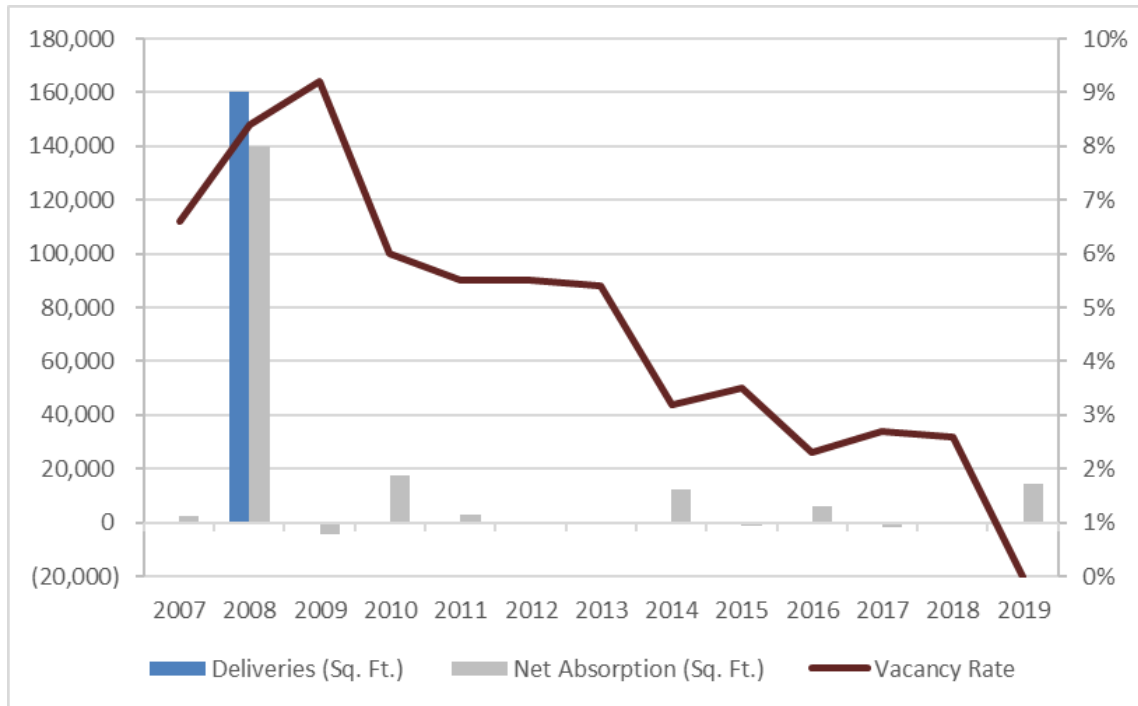
Office Market Conditions

The Downtown office market, with more than half a million square feet of space, consists primarily of small, stand-alone, one and two-story office structures. In some cases, residential structures on or near main thoroughfares have been converted into space for small business, including administrative operations, tax preparation companies, legal or insurance offices, and private medical/dental practices. Given that the overwhelming majority of these structures are several decades old and there have been no new buildings since 2008, very few now qualify as Class A office space. Nonetheless, there is a strong local office space market characterized by sustained demand, very low vacancies, and rents that are on an upswing.

The past decade of office market data reveals a healthy market in Downtown Watsonville. After an initial spike in vacancy rates during the height of the 2008-9 recession, there has been regular, positive net absorption. And with no new construction, the vacancy rate dropped steadily from a high of 9.1% in 2009 down to about zero at the end of 2019, as shown in **Figure 21**. In the past year, a number of small office leases ranging from 500 square feet to a few thousand

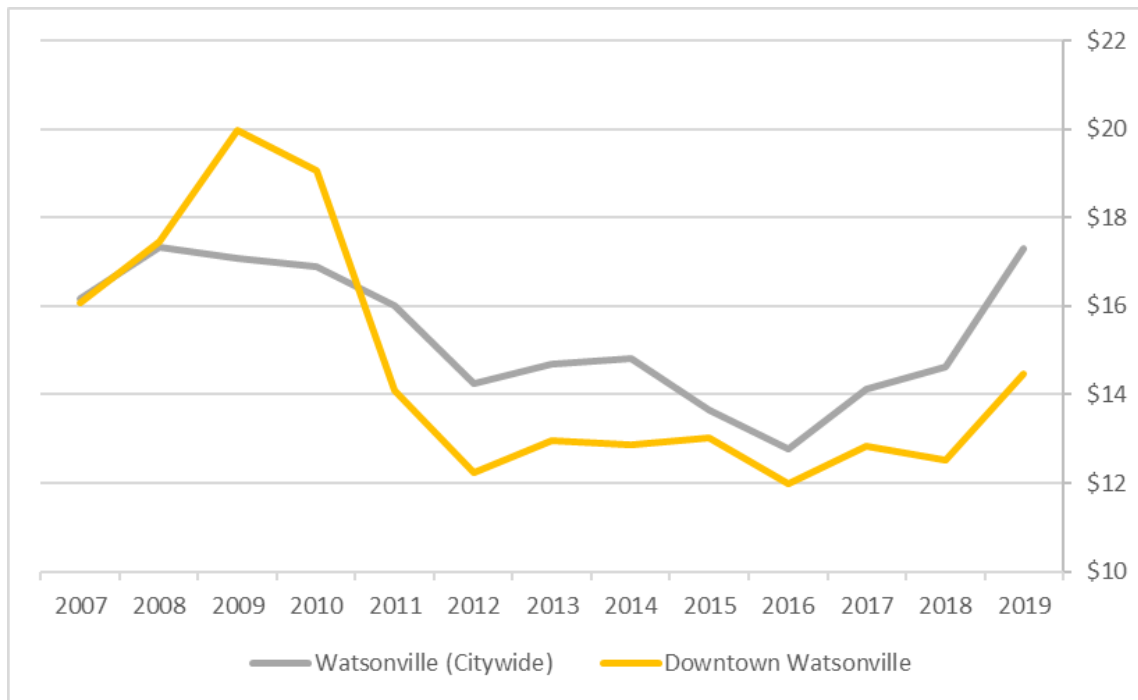
square feet in Class B and C buildings amounted to more than 14,000 square feet of net absorption. Relatedly, Downtown office rents, after stagnating for several years, have surged upward since 2018. Full service annual rents of \$14.48 per square foot per year in 2019 are up nearly \$2 (16 percent growth) since 2018.

Figure 21 Downtown Watsonville - Office Deliveries, Absorption, and Vacancy



Sources: CoStar Group, Economic & Planning Systems, Inc.

Figure 22 Downtown Watsonville - Office Full Service Rent



Sources: CoStar Group, Economic & Planning Systems, Inc.

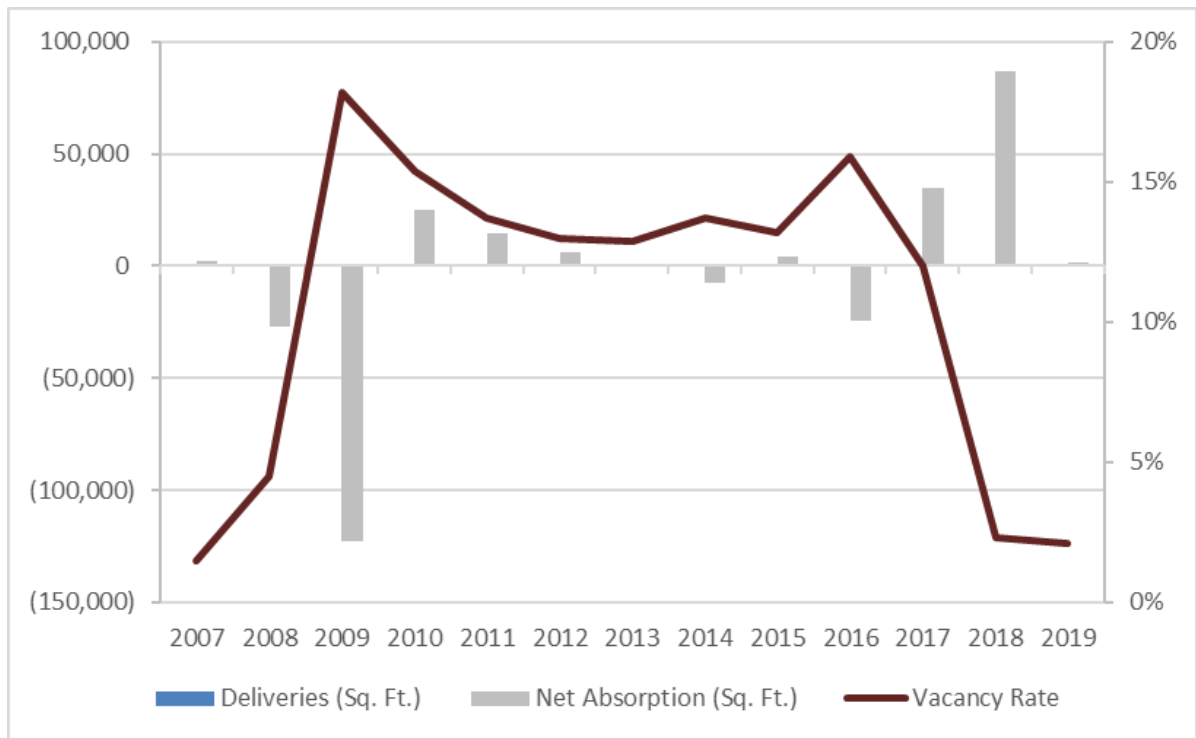
Retail Market Conditions

Despite the challenging competitive landscape for retail, Watsonville retail, especially in the Downtown area, has remained well occupied. In recent years, strong leasing activity, as illustrated in **Figure 23**, led to a sharp drop in the vacancy rate. The data reveal about 2 percent vacancy in 2018 and 2019, down roughly 14 percentage points from 16 percent only three years earlier. Despite this precipitous drop in availability, Downtown retail triple-net annual rents, shown in **Figure 24**, which had largely kept pace with citywide rent after the end of the Recession dipped in 2019 to \$15.00 per square foot. This rent decrease may reflect the quality of spaces rented recently, as opposed to an actual market fluctuation.

Watsonville's taxable sales data also indicate good retail performance. Citywide per capita retail sales were similar to or slightly above countywide levels in every quarter dating from the fourth quarter of 2015 through the fourth quarter of 2018.⁶ For the most recent quarter of available data (4Q18), the city's per capita retail sales reached approximately \$3,600 while countywide, that figure was roughly \$3,400. The strong sales data suggests that retail establishments within the city draw from surrounding areas.

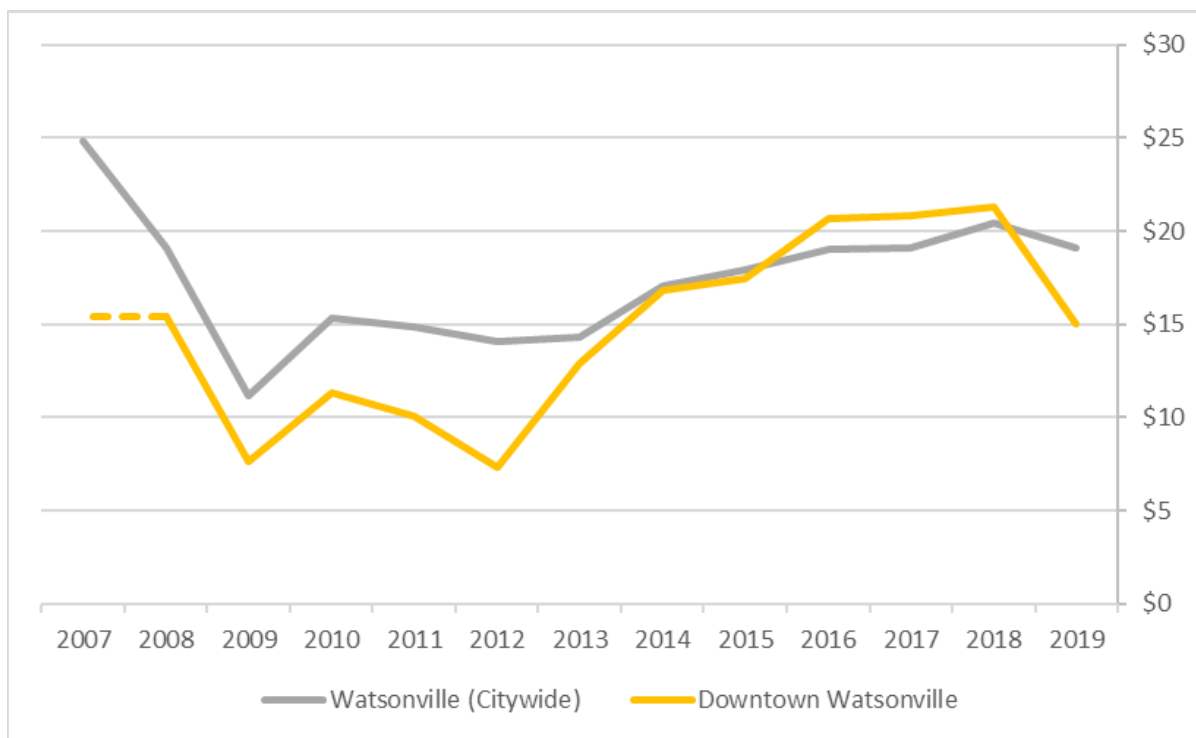
⁶ HdL Companies City of Watsonville Sales Tax Update for Q4 2018.

Figure 23 Downtown Watsonville – Retail Deliveries, Absorption, and Vacancy



Sources: CoStar Group, Economic & Planning Systems, Inc.

Figure 24 Downtown Watsonville – Retail NNN Rent



NOTE: Dashed line indicates lack of data

Sources: CoStar Group, Economic & Planning Systems, Inc.

Considerations for Planning and Economic Development

Based on the Market Assessment, and taking into account stakeholder interviews conducted by EPS, the City, and the R+A consultant team, there are a number of recommended considerations important to the development of a cohesive planning and economic development strategy for the Downtown Specific Plan. The following summarizes a Strengths-Weaknesses-Opportunities-Threats (SWOT) review based on EPS interviews, followed by recommendations for Downtown planning and economic development.

Strengths-Weaknesses-Opportunities-Threats

EPS conducted video conference interviews with eight local stakeholders, including business owners, real estate professionals, and non-profit representatives. The contributions made by interviewees are informative to the findings of this study and EPS greatly appreciates their participation, as well as interview support and participation by City Staff.

Interviewees

- Jess Brown, ED at Santa Cruz, Santa Clara and San Mateo County Farm Bureaus
- Joanna Carman, Director of Housing Development at MidPen Housing
- Mark Amott, Director of Real Estate and Workplace Services at Driscoll's
- Stella Romo, Owner of Jalisco Restaurant
- Steve Snodgrass, CFO at Graniterock
- Steven Allen, Managing Broker at Allen Property Group
- Reuben Helick, Managing Director at Cushman & Wakefield
- William Hansen, Pacific Coast Development

Summary of Community Strengths

- **Civic Pride** – a strong and proud community that believes in the City's future, and feels a loyalty to the City and community.
- **Economic Potential** – a place to start and grow business, and to make investments in new and renovated real estate.
- **Agricultural Heritage and Business** – steeped in agricultural history, with significant ongoing economic activity and culturally deep appreciation for California-grown products.
- **Historic Built Form** – a downtown that could not be built new today, with an appealing urban street grid, city square, and architectural distinction.
- **City Services** – effective governance, and Community Development, in particular, is credited for its accessible, creative, and nimble performance processing development applications.
- **Affordability** – a location within high-cost coastal California that offers relatively lower cost housing and commercial spaces.
- **Institutional Anchors** - a downtown endowed with civic and educational entities that generate vibrancy and provide essential public services to the City and region.

Summary of Community Weaknesses

- **Limited Vibrancy** - a Downtown that is somewhat busy during weekday business hours but quiets significantly on evening and weekends.
- **Minimal Business Collaboration** – a local business community struggles to coordinate on key business issues, with some disengaged business owners contributing to the lack of cohesion.
- **Inadequate Public Resources** – like many smaller cities in California, fiscal conditions limit investments in city building, and state and federal funding for affordable housing is scarce.
- **Constrained Parking** – particularly for Downtown retailers, parking remains an issue despite the presence of public parking facilities in the vicinity of the city center.
- **Imbalanced Demographics** – Downtown households are concentrated in lower income brackets, and the area lacks a critical mass of middle-class consumers to support new retail and entertainment uses.

Summary of Community Opportunities

- **Downtown Vision** – create a compelling plan for Downtown, that aligns City and stakeholder goals and establishes a common understanding of the desired future for the city center.
- **Downtown as a Destination** – with its historic urban fabric and walkable street grid, the Downtown is well positioned to evolve into a unique regional destination that invites visitors in and captures their interest.
- **Residential Development** – through code adjustments and incentives, promote new residential development that increases the local resident base and supports renewed vibrancy.
- **Land Use Flexibility** – as traditional retail becomes more challenging, fitness studios and personal services, or other unique customer-oriented businesses may be appropriate for ground-floor spaces Downtown.
- **Business Attraction** – additional daytime workers also will support the evolution of Downtown, and new businesses activity Downtown will enhance the vitality of the city core.
- **Enhanced Community Safety** – growth will require added efforts to ensure that Downtown is safe and secure for residents, workers, and visitors.

Summary of Community Threats

- **Homelessness** – the increasing societal burden of homelessness, the presence of transient hotels, and the perception of crime has increased and may be affecting Downtown's economic development potential.
- **Polarizing Politics** – vocal opposition to growth and private-sector investment may slow or deter the evolution of the Downtown.
- **Labor Force** – the relative paucity of high-skill employees living in Watsonville, has the potential to erode the desirability of the city for existing and potential new businesses.

- **Cost of Business** – while relatively affordable for coastal California, the cost of business in the City is high in comparison to national norms.
- **Retail Contraction** – the ongoing trend in retailing toward large-format stores and online shopping will continue to be an economic challenge for small-scale retail businesses, and the growth of Downtown as center of commercial activity.

Recommended Considerations for Planning and Economic Development

The cultural assets, history, and economic makeup of Watsonville present unique opportunities to strategically incentivize the evolution of Downtown. The combination of residential and commercial space in Downtown Watsonville, as in the case of many smaller community downtowns, sets the area apart from its surroundings. Downtown exhibits a distinctly different land use pattern than the city at large. Whereas the city is mainly composed of single-family, detached housing, the Downtown offers more multifamily housing, and about 80 percent of the units are rental. In addition, Downtown features mixed-use office and retail spaces not found elsewhere in the city. EPS recommends that future urban development should build on and complement existing uses and urban forms in the Downtown, with a focus on infilling vacant sites and deteriorated structure with multifamily housing and multistory office uses. The following recommendations provide suggestions concerning planning and implementation.

Establish the Downtown Vision

The Downtown features a large, well-appointed, historic town square surrounded by many civic and semi-public spaces such as government and educational facilities, which also regularly host popular, public festivals. First and foremost, Downtown Watsonville planning and economic development should leverage the uniqueness of Downtown, building on the intensity of civic and commercial activity to boost the municipal economy. Building on these assets, the Downtown Watsonville Specific Plan should take a forward-looking perspective on economic growth. The Plan could help seed a variety of investment opportunities that support increased job growth, economic development, and Downtown revitalization. The planning effort also can provide clear articulation of the City's intentions for Downtown, establishing better clarity for investors and less subjectivity in permitting and entitlement processes.

Foster Downtown as a Destination

Downtown Watsonville has the constituent elements of a great destination. Updated development codes that better support investment and improve competitiveness for state and federal housing money; improved parking and streetscapes; business attraction efforts and increased business coordination all could progress the Downtown toward this goal. A key tradeoff likely will be negative effects on Downtown circulation and vehicular throughput.

Watsonville also might seek to strategically attract new and varied entertainment options to Downtown that transform the Plan Area into a more vibrant live/work/play neighborhood, making the area even more appealing for skilled workers to locate here. Early City actions might focus on "pop-up" spaces and events. Existing cultural assets of the Downtown, such as the year-round, weekly farmers market or the popular, annual Strawberry Festival could be leveraged to increase the vibrant social life of the neighborhood by tying in new temporary or permanent experiential or unique retail offerings such as local tasting rooms, craft retail, and eateries.

From the perspective of formulating an economic development strategy for Downtown, existing and future retail could better leverage cultural assets and public events. While retail may expand to meet demand from a growing downtown, it also will benefit from an increased and regular draw of residents from outside Downtown and visitors to Downtown. While the Downtown core exudes small-town charm, more can be done to build a collective energy around this community center. For example, working with landlords to tenant a more compelling mix of stores could boost “discovery shopping” in the Downtown. A noteworthy example of this is found in the City of Napa, where the Oxbow Market brings together a well curated selection of local food businesses and retail shops.⁷ This market hall leverages the region’s agricultural assets, and promotes collaboration among local food and beverage makers. Local Watsonville non-profit examples in the vein of Oxbow Market include Pajaro Valley Loaves and Fishes and the El Pajaro CDC Commercial Kitchen Incubator. Added activation and the increased consumer activity it brings around the Downtown’s public gathering spaces could improve retail and restaurant performance, which increases the potential for new housing and commercial investments.

Promote Residential Development

Added housing across the full-spectrum of affordability will improve Downtown vibrancy and increase the potential for new businesses. Code revisions and incentives likely can help increase the pipeline of housing. Recent multifamily development in the Downtown is a good model for the future, though in some cases, more density and lower parking requirements may be beneficial. Outside of the Downtown core, garden apartments and townhomes could work well. With increased housing development momentum, a cycle of positive change may result, with the Downtown benefitting from broad social trends that favor downtown living and urban culture.

Land Use Flexibility

In general, regulatory flexibility will allow local development and land use to evolve to match market demand. Codes that allow for a range of uses and tenants are better able satisfy shift market preferences. For example, economic challenges associated with sustaining ground-floor occupancy may be at least partially addressed by loosening restrictions on ground-floor uses. For example, fitness, childcare, personal services, and professional services uses may be viable in space that are not attracting or retaining traditional sales-tax-generating retail businesses.

Business Attraction

The stable trend of continued office demand Downtown highlights a longer-term opportunity to pursue new, office space in Downtown Watsonville. New space might support local businesses as well as burgeoning new sectors or subsectors. Efforts to catalyze greater economic growth in the area could build upon the existing concentration of businesses in Watsonville. There may be opportunities to lure major local employers to downtown locations. Also, given the area’s agricultural history and the presence of national and regional farming and food producers such as Martinelli’s, Driscoll’s, and Monterey Mushrooms, the City might foster connections between business leaders and local educational institutions to stimulate development of new offices, R&D facilities, or educational spaces.

Watsonville also appears well positioned to attract private, non-profit, or public entities pursuing new technologies for food supply chain management, food safety, food transportation/ logistics,

⁷ See <https://oxbowpublicmarket.com/#merchants>.

and urban farming. For example, “ag tech” firms that are innovating new agricultural products, equipment, or processes, might be attracted. These companies might be drawn to proximity to existing local businesses, or benefit from the City’s large base of manufacturing/ warehousing spaces that could be remodeled for R&D activities.

Enhanced Community Safety

With homelessness on the rise in California and nationally, and because Downtown Watsonville supports a concentration of housing and services for marginalized populations, public and private sector actions to maximize public safety will benefit Downtown investment, growth, and implementation of the Specific Plan. Though interviews reveal that the perception of crime is more of an issue than actual crime, keeping Downtown clean and orderly will improve the potential for the area to transition toward greater economic success. Particularly to succeed as a destination, safety-related measures that improve the visitor experience will increase length of stay, sales, and word-of-mouth marketing.