

MARKET ANALYSIS

CARL KOCH. 1882.



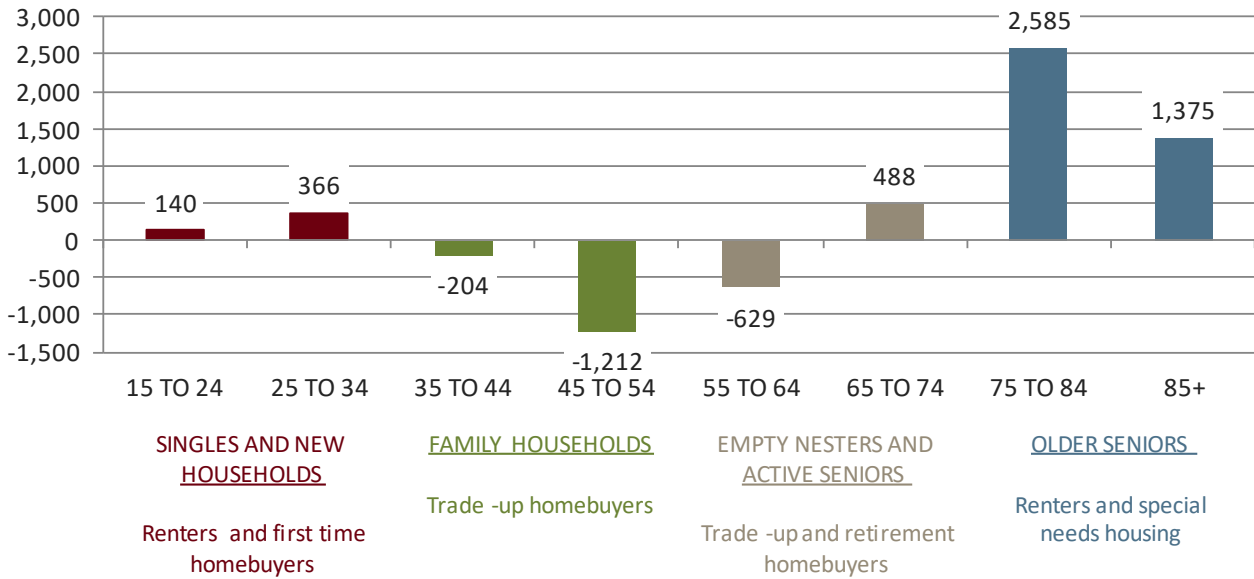
MARKET ANALYSIS

Menasha has a clear opportunity to add quality housing on redevelopment sites in the downtown area. The ability to front development on the river or canal, the proximity of existing or planned recreational amenities, and access to a walkable commercial district with desirable shops and dining will support owner occupied housing and high end apartments. With the strength of the existing specialty commercial district on Main Street, and as additional housing units are added through redevelopment, more specialty and neighborhood-serving commercial uses can be added at the west end of Main Street and along Washington Avenue. Only the office market currently lags, as the region deals with an oversupply of large office spaces. Regional growth has been among small office-based businesses, and these can be attracted to existing vacant office buildings in the district.



Downtown Menasha's commercial businesses are drawing about two-thirds of their customers from Neenah, Menasha, and southern parts of Appleton along with the western part of the Town of Harrison. It is a trade area estimated to have 113,100 residents in 2017. Over the course of the next decade that will grow to 121,600 residents, an increase of 7.5 percent.

PROJECTED CHANGE IN HOUSEHOLDS BY STAGE



Housing Demand

Demand for housing will be strong across all property types and at all price points. That demand will include condominiums and rowhouses - property types that are not well represented in the regional market. Menasha can look to examples in the Milwaukee area, where urban condominiums, in new and renovated buildings, have comprised a substantial part of the housing market. These are units desired by both younger and older buyers, and are usually singles and couples without children living at home. They are attracted to locations where there are nearby amenities such as the Menasha’s vibrant Main Street, the river, and recreational assets. Desirable amenities often include views such as of the canal or river, private outdoor space like a patio or balcony, high-quality interior finishes, and unique features such as the character that may be furnished in a renovated industrial building.

ESTIMATED ANNUAL HOME BUYERS BY AGE

AGE	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
15 TO 24	66	65	65	64	64	64	63	63	63	63	63
25 TO 34	460	457	454	451	448	446	443	441	440	439	438
35 TO 44	219	217	216	215	213	212	211	210	209	209	208
45 TO 54	175	174	173	172	171	170	169	168	168	167	167
55 TO 64	109	109	108	107	107	106	106	105	105	104	104
65 TO 74	66	65	65	64	64	64	63	63	63	63	63
75+	22	22	22	21	21	21	21	21	21	21	21
TOTAL	1,116	1,109	1,102	1,095	1,088	1,082	1,077	1,072	1,068	1,065	1,063

ESTIMATED ANNUAL HOME BUYERS BY PROPERTY TYPE

TYPE	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
DETACHED	859	854	848	843	838	833	829	825	822	820	819
ROWHOUSE	89	89	88	88	87	87	86	86	85	85	85
CONDO (5+)	78	78	77	77	76	76	75	75	75	75	74
CONDO (2-4)	22	22	22	22	22	22	22	21	21	21	21
OTHER	78	78	77	77	76	76	75	75	75	75	74

The tables above project demand for home purchases in the trade area. At the lower end of the pricing scale, buyers will primarily be interested in existing housing in neighborhoods near the city center. Aside from homes on the water, most single family houses in the area are selling in a range from \$60,000 to \$175,000.

There will be demand for over 400 units priced at \$300,000 or above. These are buyers that urban parts of the Fox Cities seem to have neglected. A large number of these buyers would consider purchasing a rowhouse or condominium that targeted upper income buyers with high-end features and a desirable location.

The waterfront is the unique asset that will appeal to these buyers. It will enable Menasha to attract buyers from elsewhere in the region. Many other communities in the region have missed their opportunity to build waterfront condominiums, leaving Menasha with a somewhat unique opportunity to capture this market niche. These units will have a high assessed value while having fewer demands for city services than would a single family home, so can be expected to have a positive impact on the municipal budget.

ESTIMATED ANNUAL HOME BUYERS BY PURCHASE PRICE

PRICE RANGE: LOW/HIGH	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
UNDER \$100,000	182	181	180	179	177	176	176	175	174	174	173
\$100,000 TO \$149,999	148	147	146	145	144	143	142	142	141	141	141
\$150,000 TO \$199,999	117	116	116	115	114	113	113	112	112	112	111
\$200,000 TO \$249,000	110	110	109	108	108	107	107	106	106	105	105
\$250,000 TO \$299,999	127	126	125	124	124	123	122	122	121	121	121
\$300,000 TO \$349,000	94	93	93	92	92	91	91	90	90	90	89
\$350,000 TO \$399,999	85	84	84	83	83	82	82	81	81	81	81
\$400,000 TO \$449,999	58	58	58	57	57	57	56	56	56	56	56
\$450,000 TO \$499,999	30	30	29	29	29	29	29	29	29	28	28
\$500,000 OR MORE	165	164	163	162	161	160	159	159	158	158	157

The same considerations are true for rental housing. The second-largest group of renters, by monthly rent, are those who can afford to spend over \$2,000 per month. Included in this are many of the area's young professionals, empty-nesters, and retirees splitting their time between the Fox Valley and a retirement home elsewhere. Upper-end rentals also play an important role for those transferring to the area and renting while they search for a home to purchase. As with potential owners, these buyers will expect high-end interior finishes and amenities like balconies and enclosed garages.

ESTIMATED ANNUAL RENTERS BY AGE

AGE	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
15 TO 24	723	725	729	733	738	743	750	757	765	775	785
25 TO 34	1,915	1,924	1,933	1,942	1,951	1,960	1,970	1,980	1,990	2,001	2,013
35 TO 44	1,284	1,278	1,271	1,266	1,261	1,258	1,255	1,253	1,252	1,253	1,254
45 TO 54	855	839	824	812	800	790	781	773	765	759	753
55 TO 64	812	810	807	801	794	786	777	768	758	749	739
65 TO 74	475	484	491	497	502	506	508	510	510	509	507
75 TO 84	362	377	392	407	422	437	451	464	476	487	497
85+	329	357	385	413	441	469	498	527	556	586	615
TOTAL	6,754	6,793	6,832	6,870	6,909	6,949	6,989	7,031	7,073	7,117	7,163

Menasha is not seeing its elderly population growing at the same high rates common in other places. Over the next decade the number of households headed by a person 65 or older is expected to increase by about 40 percent, or roughly 450 households. The pace of growth will slow as the smaller Generation X enters their retirement years. Meanwhile, each successive generation is less likely to want to live in age restricted housing. While some housing for seniors can be built in Menasha, it is not likely to be a big part of the mix.

Demand for low-cost rentals will also increase modestly over the decade. A good part of the existing inventory is comprised of single family homes in neighborhoods around the downtown. While subsidized apartments (ex., section 42 Low Income Housing Tax Credit) could be developed in the study area, it is not the highest and best use, particularly on waterfront sites. Low income housing could be incorporated into mixed use buildings or make up a minority percentage of multifamily projects.

ESTIMATED ANNUAL RENTERS BY MONTHLY LEASE COST

MONTHLY RENT	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
UNDER \$600	1,525	1,534	1,543	1,551	1,560	1,569	1,578	1,588	1,597	1,607	1,617
\$600 TO \$699	548	551	554	557	560	564	567	570	574	577	581
\$700 TO \$799	400	402	405	407	409	412	414	416	419	422	424
\$800 TO \$899	352	354	356	358	360	362	365	367	369	371	374
\$900 TO \$999	486	489	492	495	497	500	503	506	509	512	516
\$1,000 TO \$1,099	243	244	245	247	248	250	251	253	254	256	257
\$1,100 TO \$1,199	179	180	181	182	183	184	185	186	187	188	189
\$1,200 TO \$1,299	282	283	285	286	288	290	291	293	295	297	299
\$1,300 TO \$1,399	385	387	389	391	393	396	398	400	403	405	408
\$1,400 TO \$1,499	310	312	314	315	317	319	321	323	325	327	329
\$1,500 TO \$1,749	515	518	521	524	527	530	533	536	539	543	546
\$1,750 TO \$1,999	569	573	576	579	582	586	589	593	596	600	604
\$2,000 OR MORE	961	966	972	977	983	989	994	1,000	1,006	1,013	1,019



Residential neighborhood adjacent to downtown Menasha.

Retail Demand

Menasha has a small but vibrant Main Street district with several good independent shops and eating and drinking establishments. The district would likely be larger except for the fact that adjacent sites have been redeveloped with large office buildings that do not continue the pattern of closely-spaced small storefronts. The office buildings do bring in workers, however, who are an important source of customers for restaurants.

Retail Potential

Residents of the trade area, downtown workers, and visitors to Menasha combine to generate \$1.38 million in demand for retail goods and services. Of this, only a portion is spent in the kinds of stores that could locate in the study area. These could be classified as two main types - neighborhood and destination retailers.

Neighborhood Retail

Neighborhood-serving retailers are uses that meet the needs of people living in the area. Examples might include a pharmacy, dry cleaner, or hardware store. These kinds of uses are scattered outside of the downtown area, and it is unusual in that there are no significant clusters in the built-up areas of Neenah or Menasha. Redevelopment areas in the downtown could



One of downtown Menasha's unique shops.

present an opportunity for these uses. Examples of neighborhood-serving uses that may be supported in the downtown area include the following, some of which may also support destination traffic:

- Auto parts, tires, and accessories
- Electronics stores (ex., cellular phone providers)
- Specialty food stores
- Beer, wine, and liquor stores
- Health and personal care stores
- Gas stations with convenience stores
- Hobby, toy, and game stores
- Pet supply stores
- Personal services (barbers, salons, pet grooming, dry cleaning, etc.)
- Health care services (doctors, dentists, other medical services)
- Financial services (banking, tax preparation, etc.)

Destination Retail

The second retail type consists of destination businesses selling specialty products. These businesses attract customers from a greater distance, in search of unique products and an enjoyable shopping experience. The setting is an important part of that experience, and Menasha's historic buildings and reclaimed waterfront contribute to an attractive environment for these uses. As additional areas along the canal and river redevelop, it may be possible to support complementary retail and dining clusters in other parts of the downtown.

Examples of the kinds of specialty retail uses that may locate in the downtown include:

- Furniture and home furnishings stores (ex., home decor)
- Clothing and accessories stores
- Jewelry stores
- Sporting goods stores
- Gift, novelty, and souvenir stores
- Art galleries

Dining Potential

Demand for eating meals away from home continues to grow among nearly all segments of the population. In many parts of the country, spending at restaurants exceeds spending at grocery stores. Downtown Menasha is an ideal environment for eating and drinking places in that it is central to a large population, is walkable to many residents and employees, and has qualities that make dining entertaining; namely, its historic buildings, waterfront settings, and the ability to have outdoor seating.

Residents of the trade area are estimated to spend \$129.9 million at eating and drinking establishments in 2017. This is split between \$66.2 million at full-service restaurants and \$57.2 million at limited service restaurants. Another \$6.5 million is spent at other types of venues.



Inside Your Daily Grind, a popular coffee shop and eatery in downtown Menasha.

Dining is a critical element in making destination districts a success. Good restaurants will often be among the first business to draw people to a district. Additionally, they play an essential role in lengthening visitors' stays. They are an amenity sought out by home buyers, and are increasingly factored into the decision of where to locate offices, as a means to help attract employees.

Downtown Menasha can support several eating and drinking formats including full service restaurants, limited service restaurants, snack and beverage shops, and bars or taverns. To compete with chains and other independents in the market, they should take advantage of the downtown's unique assets. Chief among these is the waterfront. Redevelopment sites along the canal or river should be designed with restaurants in mind, providing river views and outdoor seating.

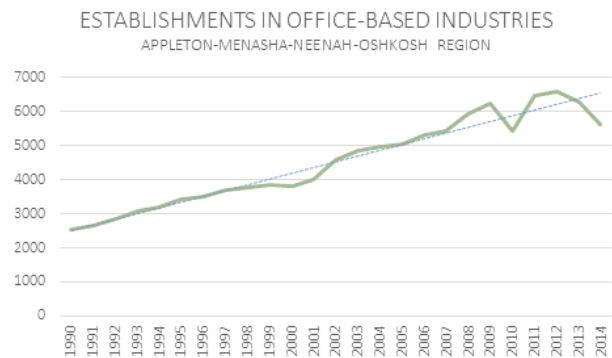
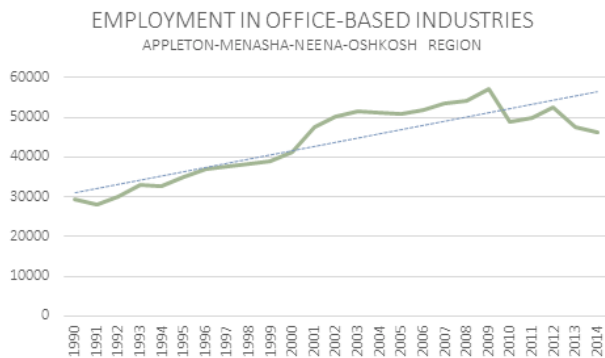
Areas of downtown that develop with a more suburban character will be attractive to quick service restaurant chains, including the growing fast casual brands like Bruegger's, Panera Bread, Noodles and Company, Chipotle, and Starbucks. These are likely to be sited on Commercial Street / Washington Street, which has significant passing traffic.

Although not specifically addressed in the market analysis, the downtown may be able to support a banquet hall, perhaps developed in connection with public park space, where events can be held. Several Wisconsin communities (ex., Oconomowoc, Lake Mills, Whitewater) have developed similar lakefront facilities that are equipped with a catering kitchen, and can be rented for personal or organizational activities. These assets can produce a revenue stream to defray the cost of maintaining adjacent park and public spaces.

Office Demand

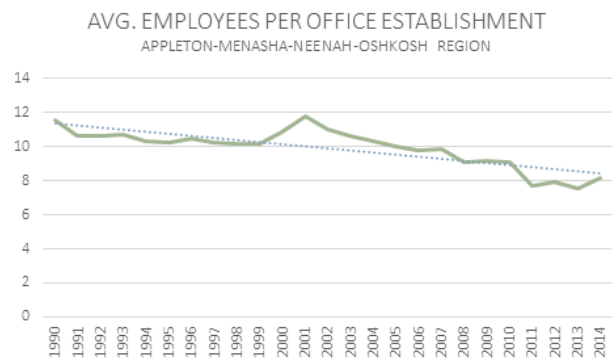
Over the past couple decades there have been a significant number of large office buildings constructed on redevelopment sites in the downtowns of both Neenah and Menasha. Most have been build-to-suit projects for a specific tenant. Some of the older office buildings in Menasha now are vacant. The City and School

District moved into one of these buildings, in the process leaving the former city offices vacant. Filling the vacant space will present some challenges, and the excess space will suppress demand for new office construction for a considerable time.



Regional demand for office space has grown since the 1990's. Employment within industries that are predominantly office-based grew from 1990 to 2009, when it declined during the Great Recession. Those losses were sustained through at least 2014. The number of establishments also declined in the recession, before increasing briefly, and then declining again. This is consistent with state and national observations that many people who became unemployed started businesses as a means to find work, and then quit them as the economy improved and they were able to locate paid jobs.

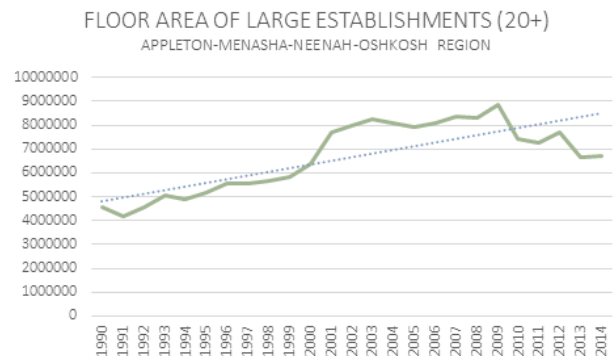
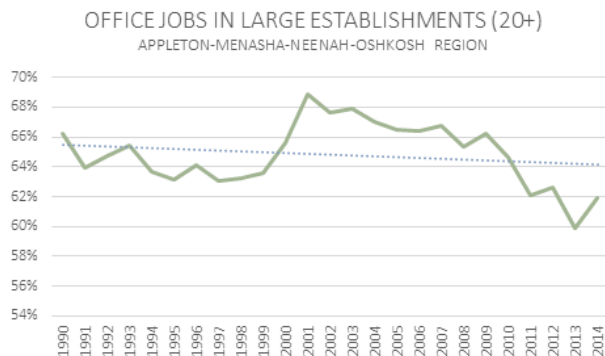
Although the number of office jobs and establishments has grown, the average number of jobs per establishment steadily decreased, from 11.5 employees in 1990 to 8.2 employees in 2014. This is also a trend seen throughout the economy, and it has implications for the total floor area, type of office space, and amenities desired by companies in the market for office space. Single offices, small office suites, shared workspaces, and shared resources will be more in demand.



Menasha and Neenah have several large office buildings with a typical floor area of about 5,000 square feet or larger. While varying by industry, an establishment will usually need to have at least 20 employees to occupy a 5,000 square foot space. Since peaking in 2001, the share of office jobs among these larger employers has been declining. As a result, the total floor area required by these larger businesses declined from 8.87 million square feet in 2009 to 6.70 million square feet in 2014. Landlords are often faced with the need to subdivide larger spaces to fill vacancies. At the same time, the soft retail market is causing the owners of strip centers and small commercial buildings to market to office users, creating more competition.

and 2016, to \$11.95 per square foot. This is below the state average of \$13.52 per square foot. The asking price for offices on the market has not changed over the year, remaining at \$63.26 per square foot. Co-Star estimates a 5.0 percent vacancy rate with 307,187 square feet of vacant space. Current office real estate listings, however, greatly exceed that figure, and REIS reports the vacancy rate at 23.8 percent in the first

quarter of 2017. Normally, a vacancy rate of about five percent is thought to reflect a balanced market. Listings are priced from about \$6 to \$20 per square foot, with most falling around \$10 to \$15 per square foot. REIS reports a \$14.80 per square foot average rent.



The locational patterns of office-based industry employment have shifted over time, to become less concentrated, even as overall employment increased. In 1994, a few locations stood out as having significant concentrations of office jobs. Twenty years later the only area to grow in significance was Appleton's downtown. Office employment has become more evenly distributed across the region, reducing the significance of several nodes. New concentrations have also emerged.

Downtown Menasha was once more significant as an area of office employment than it is today. More rapid growth in other areas is the primary reason for this decrease in office employment concentration, with the loss of some office jobs contributing.

There are three types of areas competing for the office uses that might locate in Downtown Menasha: other similar downtown districts, suburban office parks, and offices distributed in commercial corridors. The fact that downtown Appleton has developed an even stronger concentration of office employment over the past 20 years attests to the desire for many companies to locate in city centers, where they are central to their employees and where there are amenities within walking distance. Appleton and Neenah present the strongest competition of this type. Both communities have significant office space available, and have a healthy small business community of retail, dining, and service businesses.

Office parks are mostly found in suburban settings along Interstate 41 and Highway 441. They tend to offer larger footprints on a single level, ample parking, and access to the interstate. Buildings in office parks may be newer than those in central business



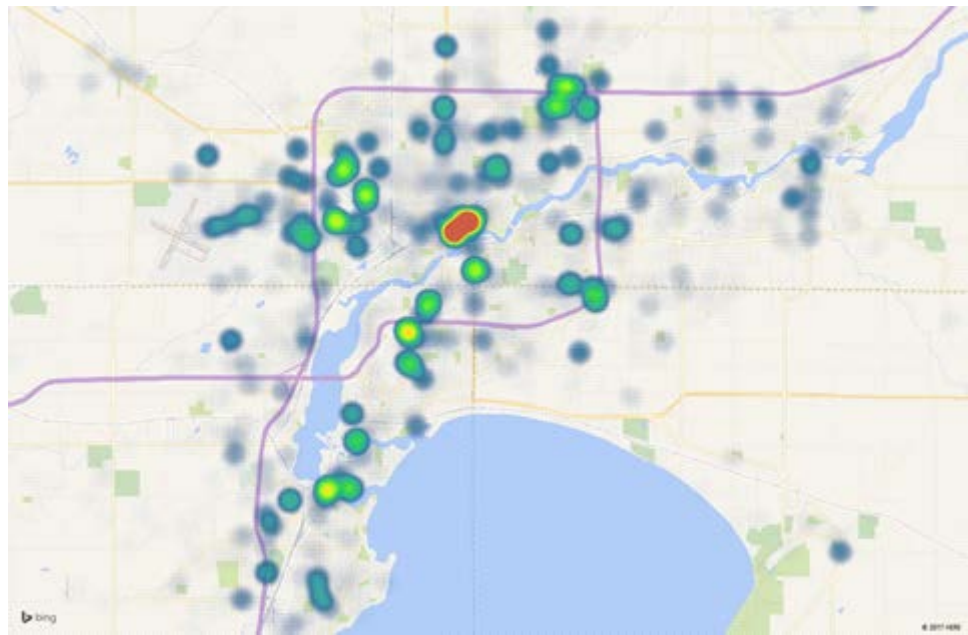
Downtown Menasha has attracted significant office investment.

districts, and may have a lower rent. Scattered sites have an appeal for small businesses and for those that may have more frequent contact with individuals. These can include stand-alone buildings and strip centers in commercial districts. In recent years, the percentage of office uses in strip centers has doubled, as center owners turn to offices to fill space vacated by retail stores. Health care is a large segment of the total.

Prospects for new large office development in the downtown are not very good for the foreseeable future, as the regional market has a very large inventory of space that will need to be absorbed. This does not preclude the possibility of a build-to-suit project, but the majority of potential tenants are going to be small companies.

Menasha's chief advantages are the downtown's amenities. The most important of these are a healthy and diverse mix of small retail, eating, and drinking establishments, walkable environment, and proximity to the river and its views. Challenges include the difficulty in providing parking for workers, and the expanse of "dead space" between different parts of the downtown.

Several long blocks without active street-level uses discourage walking. This needs to be considered in plans for all new office construction, and in re-tenanting strategies for existing buildings. Maintaining and continuing the pattern of regularly-spaced, close-set storefronts is essential to growing a vibrant destination for retail, dining, and services.



Concentrations of office employment in 1994 (above) and 2014 (below).

