

2013

Market Analysis

Retail

Housing

Office



**[CITY OF BERLIN MARKET
ANALYSIS]**

City of Berlin, Wisconsin

Executive Summary

Berlin is a community of roughly 5,500 residents, located along the Fox River in central Wisconsin. The community serves as a regional hub of economic activity, and the City has been proactive in providing suitable commercial and industrial land for development, managing targeted programs to promote private investment, and undertaking initiatives to revitalize its riverfront and downtown area. As a result of these efforts, the City has experienced sustained private investment and witnessed nearly \$6 million in net new construction during 2011, despite a national real estate slowdown. This growth is equivalent to 2.33 percent of the City's total value, and represents more than three times the growth of the state as a whole. This document provides an overview of the current and emerging real estate and demographic trends associated with Berlin's retail, housing and commercial markets. Opportunities for growth within each of these markets are also identified to help focus future initiatives to align with anticipated market demand.

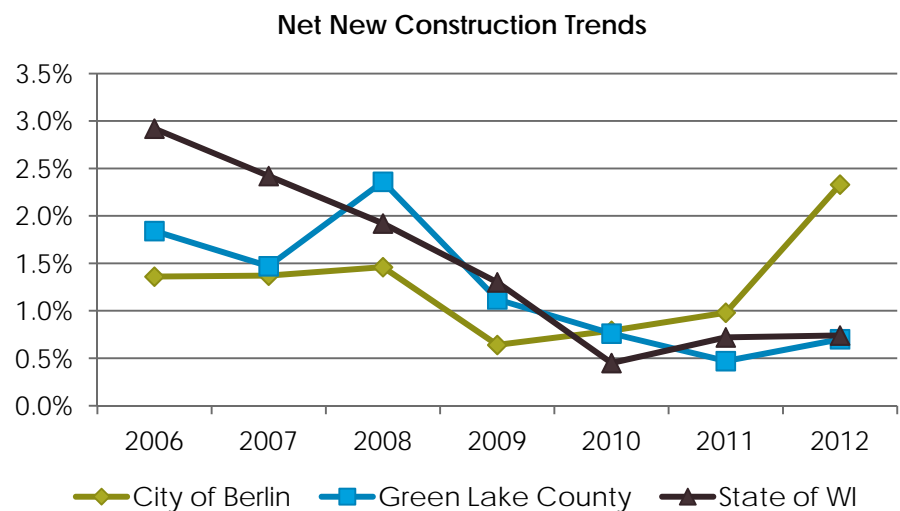
Project Overview

This 2013 Market Analysis is intended to provide an update to the City's 2008 Market Analysis in order to better reflect the current economic realities and incorporate changes in local demographics and overall business climate stemming from the recent recession. Additional changes to the local business mix have also influenced traffic and consumer patterns within the community, including the opening of a Super Wal-Mart on the west side of the community, new commercial development on the east side, and small business activity throughout the City.

Economic Position

The past five years have brought significant new activity to Berlin, despite an overall sluggish economy. This investment has included new retail and commercial development, as well as hiring by local manufacturers.

The \$6 million in 2012 net new construction represents a four year expansion trend, and is double the average annual investment in pre-recession years. Employment has also returned to pre-recession levels as of 2012, with only a net loss of three jobs from the peak 2008 employment figures.



Source: City of Berlin, Wisconsin Department of Revenue

Additional

anticipated 2013 development activity includes new development in the North and Southeast Business Parks, a 24-unit Senior Apartment complex, an additional phase of an existing apartment complex, expansion of several existing businesses and occupancy of and improvements to currently vacant properties.

Taken as a whole, the effects of the recent recession and corresponding decline in household discretionary income have been offset by the continued trade area expansion which attracts new customers to the community. The changing market has also created opportunities to cater to the growing local workforce and older adult population through targeted development of rental and senior housing opportunities. Berlin is committed to growing its local economy and is committed to providing suitable land and spaces to meet the needs of existing businesses and customers, including retail, residential or commercial sector uses.

Summary of Opportunities

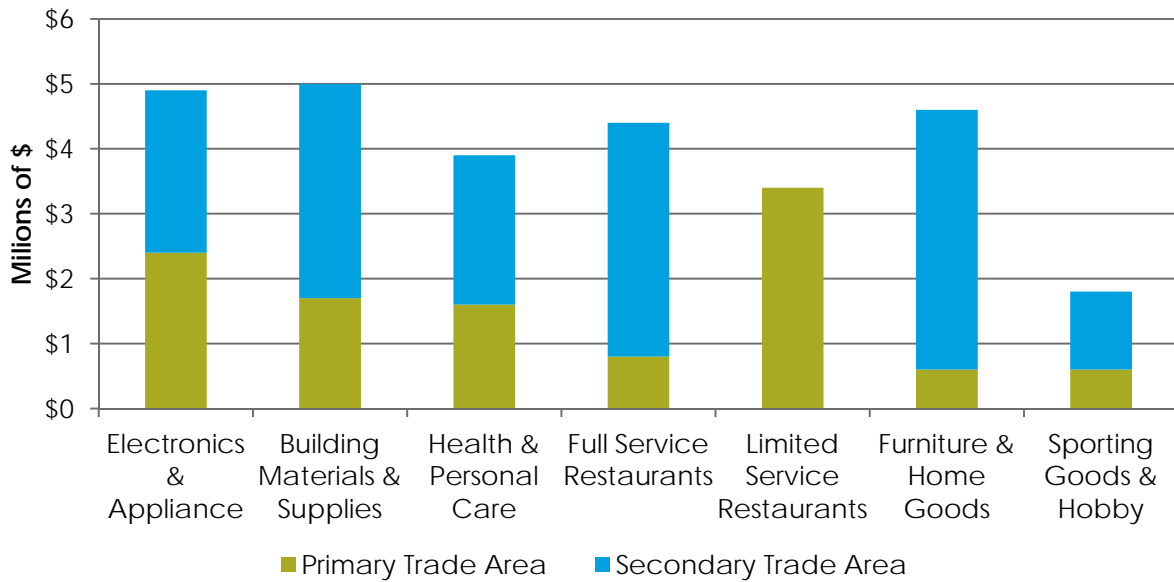
The market analysis identified market opportunities associated with the retail, residential and commercial market sectors. These opportunities represent business recruitment, business expansion and new development potential, and also include marketing and programming opportunities which can help existing businesses and property owners capitalize on Berlin's regional draw. Specific opportunities within each sector are highlighted in the following section.

Retail

Berlin benefits from being the largest community in the tri-county region, and residents from a wide radius are likely to choose Berlin as their shopping destination, especially for larger purchases or specialty items. The presence of both well-known regional draws, such as Wal-Mart, and established niche retail providers, such as Russell Moccasin Company, Eskimo Comfort or Mike's Bike Shop, regularly draw customers from an area larger than the primary convenience trade area. Although the recession has produced diminished household spending growth compared to previous forecasts. **However, Berlin's position as a regional hub has created opportunities for retailers to tap into a broader customer pool and grow overall sales** despite reduced spending at the household level. This regional capture is also reflected by the 6.2 percent increase in sales taxes collected at the County level in 2011.

Growth in consumer spending has not been evenly distributed among retail sectors, and there are several retail types which demonstrate sufficient surplus demand to support additional businesses. These sectors are indicated in the following chart, and include restaurants, household furnishings and home goods, and health and personal care. In addition to their ability to capitalize on existing trade area demand, these sectors represent areas of growth given regional demographic and consumer trends. Restaurant and home good spending has increased, and the increased population of older adults creates a built in market for health and personal care items. Smaller opportunities for retail expansion exist within the sporting goods and clothing and accessories sectors. There is significant potential for increased consumer spending capture by the City's existing retailers as well based on the volume of regional traffic already attracted to Berlin, including operational and marketing tactics. Examples might include a joint ad buy, shared radio purchase with wraparound tagline, or joint billboard purchase.

Surplus Consumer Demand by Trade Area



Source: ESRI, Inc.

Residential

Population growth, the primary driver of housing demand, is also expected to grow at a slower rate than previously projected. However, this slowdown in population growth has occurred simultaneously with a shift in housing preferences within the local population, resulting in a steady increase in net new housing formation. Additionally, changing demographics have shifted demand, creating increased demand for rental and senior housing. Berlin currently has one senior living and one apartment development underway, but **additional demand in these sectors indicates a need for 282 additional housing units by 2020.**

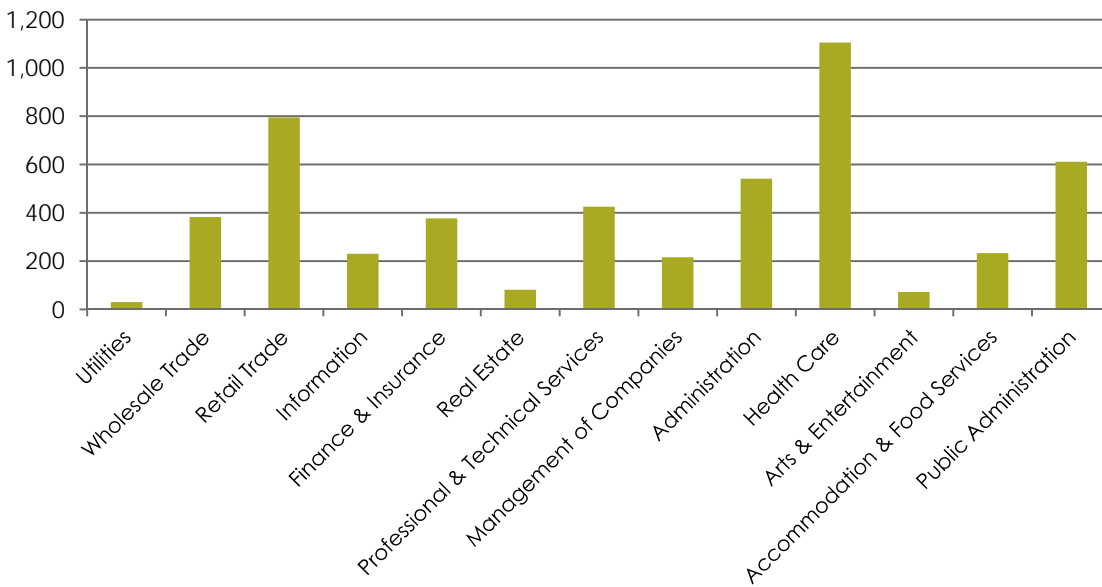
Demand is especially acute for mid-range (monthly rents between \$650 and \$950) multi-family properties to support the nearly 200 households headed by individuals under age 34 who currently struggle to find suitable housing in the City. Development of in-demand housing types would also provide existing workers with the choice to live in the community rather than commuting, as one-third of workers travel more than 10 miles to jobs in the City. Similarly, the over 75 population has unique housing needs, including independent living and short and long-term care facilities. In Berlin’s trade area, significant growth in older households will result in a nearly 10 percent increase in households headed by individuals over age 75 through 2020, and as many as 200 additional households by 2040. Many of these households will require some form of assisted living and/or long term care in closer proximity to medical facilities, and many more would prefer the convenience of low-maintenance rental or owned multi-family units with minimal upkeep. Each of these trends represents an opportunity to create targeted development opportunities within the City.

Commercial

Berlin’s regional draw is evident in the size and nature of the local workforce, which demonstrate the ability of local companies to recruit employees from a 30-mile labor shed. Additionally, there are multiple occupational categories with skilled workers in the labor shed where no corresponding jobs are available, requiring these individuals to travel to larger metropolitan areas for employment. While some of the industries represented by these occupational categories

require proximity to suppliers, vendors or customers not available in Berlin, **there is a significant labor pool available in many sectors which could benefit from Berlin’s central location and qualified employee base**. The chart below indicates sectors where a significant number of locally-residing workers commute outside the trade area for employment (largely to Oshkosh/Appleton). While some workers may prefer to commute for higher wages or more employment options, in the majority of instances, there are more skilled workers in these sectors than there are local jobs, forcing a significant percentage of workers to commute elsewhere to find suitable employment. Industry sectors represented by particularly large segments of the local workforce commuting elsewhere include: information, legal, insurance and back office uses. Health care and professional services are also industries which employ a greater share of younger workers, which are underrepresented in the City’s workforce.

Employees Currently Commuting Outside Trade Area by Sector



Source: ESRI, Inc.

Methodology

In order to appropriately define local market opportunities, projections of key economic and demographic variables are included in this analysis. These projections form the basis for decision with respect to future demand and supply within each of the analysis areas. Specific variables which utilize projected data include population, households and median family income. These projections are developed based on 2010 census data, historic trend data, 2012 data and projections provided by ESRI, one of the leading demographic information firms. These projections are based on nationwide demographic trends for similar environments, and calculations made by Vierbicher and informed by local observations. These assumptions and calculations are used to project demand for the City and for the larger Trade Area, which is defined in the following chapter. Projections associated with downtown sales are based on the existing commercial mix and trade area capture, and can be significantly influenced by the addition of new retail or consumers to the downtown core, as well as by the departure of existing merchants.

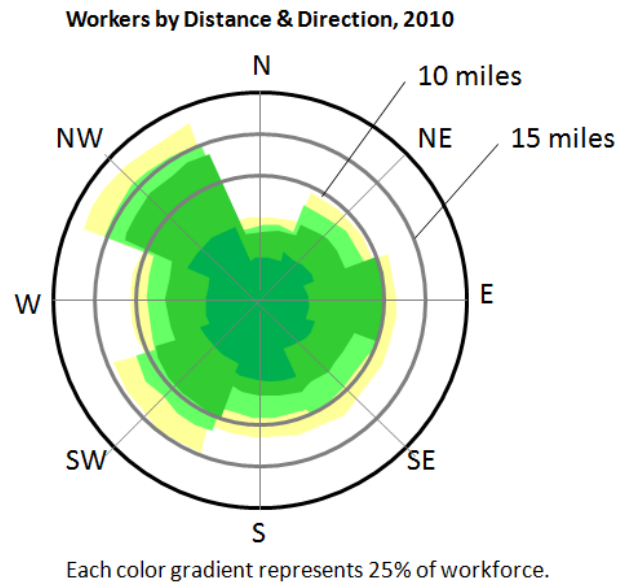
Labor Shed

A second relevant regional boundary referenced in this document is the distance from which Berlin companies draw employees. Commonly referred to as the labor shed, the size, demographics, education and occupation of individuals within this area are important factors in company decisions to locate or expand in a region based on the perceived ability to recruit qualified workers at competitive wages. Information from the 2010 Economic Census is used to determine worker flows within the region.

Employees working at jobs within the City come from a comparable region as its consumer population, with a stronger draw from areas north and west of the community. However,

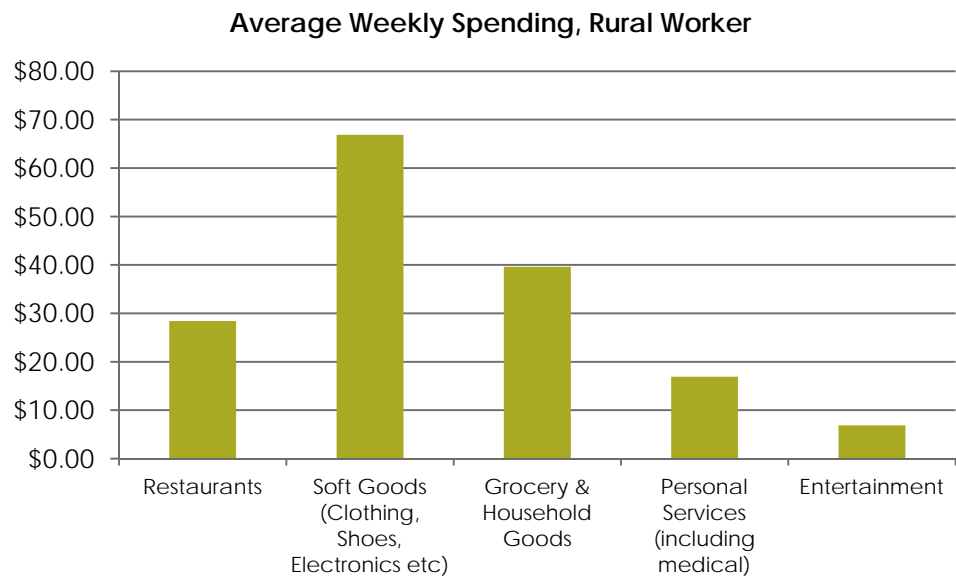
Berlin employers are able to attract a larger

number of employees from Green Lake, Ripon, Omro and even Oshkosh. According to the economic census, 45 percent of employees commute into the City from a distance of less than 10 miles, with an additional third of workers traveling up to 24 miles. This data is validated by a 2012 City survey of business park employers, which identified 40 percent of workers as being from Berlin or commuting from surrounding towns, one quarter of workers each traveling from within ten miles and 10-20 mile distances, with the remaining 11 percent of workers traveling 20 miles or more to work in Berlin. The graphic above and map on page 9 illustrate the geographic reach of this labor shed.



Source: Community & Economic Census

The size and composition of an area's labor shed significantly influences the type of employers which may be attracted to Berlin based on a need for skilled labor. These implications are discussed in Chapter 3. However, these daily commuters also represent a significant pool of potential customers for local retailers. On average,



Source: International Council of Shopping Centers, 2012

workers in rural communities spend \$118.83 per week on trips associated with the work day (excluding online purchases and gas), including commuting, lunch hour dining and shopping and

errands run en route to their place of employment. The graph shows the nature of this spending. Of course, the availability of retail significantly influences these habits, with employees in downtowns or business parks with nearby retail spending 20 percent more than employees with less access to retail amenities. Especially impacted is spending on dining, which drops significantly if restaurant options are not available as workers substitute lunch from home. In contrast, restaurants in areas with daytime populations typically depend on this daytime (breakfast and lunch) spending for as much as 40 percent of total sales. The type of employment also changes the nature of spending, with shift workers less able to take advantage of lunch hour for spending, but with greater pre- or post-work timeframes to complete purchases.