

# South Commercial Street: Market and Development Context

Prepared for:

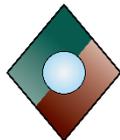
City of Neenah, WI

September, 2016

Prepared by:

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Stantec



**TANGIBLE**  
Consulting Services



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# Introduction

## Sources of Information

The market context analysis offers market and development context information relative to housing development, and neighborhood retail and office development, along South Commercial Street in Neenah, Wisconsin—as well as strategies for attracting development in these real estate sectors.

It is based on several types of information:

- ◆ Market research
- ◆ Interviews with local real estate professionals
- ◆ Direct observation

Conclusions are also informed by the experience of the analysts.

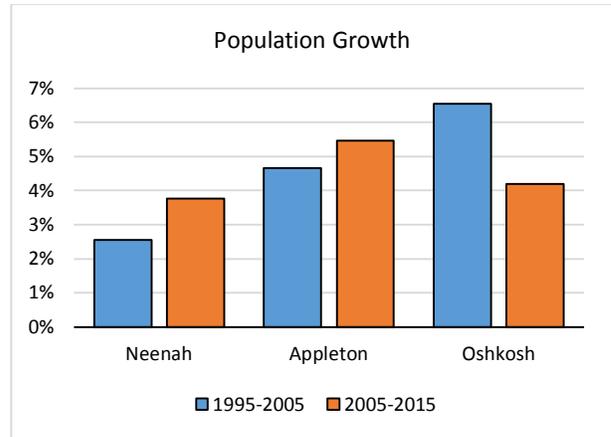
All proposed strategies are preliminary suggestions for consideration. They are to be shaped, augmented, or rejected as warranted when weighed against other information, future research, and the observations and insights of policy makers, stakeholders, and others.

## Economic Overview – Neenah, Wisconsin

The City of Neenah’s population is estimated to be around 25,700. It is in a Metropolitan Statistical Area (MSA) that includes Oshkosh and areas surrounding both cities. The Oshkosh-Neenah, metro area has a combined population of around 168,000. This MSA is adjacent to and somewhat continuous in development with the city of Appleton, and the MSA that surrounds Appleton. The two MSAs together make a three-county Combined Statistical Area (CSA) of nearly 400,000 residents. That makes the Appleton-Neenah-Oshkosh CSA the third largest population center in the state of Wisconsin, after the Milwaukee and Madison metropolitan areas.

Neenah is the third largest city in the CSA. Appleton’s population is around 73,000, and Oshkosh has around 66,000 residents.

The three cities are growing modestly.



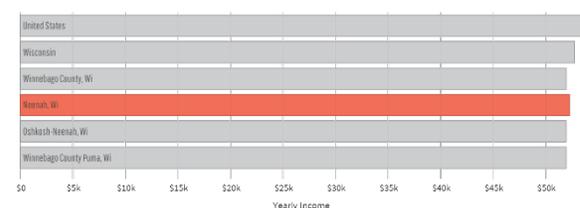
The population of the Neenah-Oshkosh MSA has grown 8% since 2000, which is at a similar pace to its three largest cities.

Macro trends in population and economic growth are important in assessing prospects for development and revitalization. The metropolitan area around Appleton, Oshkosh and Neenah is forecasted to continue to grow at a moderate pace. The “Mapping America’s Futures” project of the Urban Institute estimates that the area will experience population growth of around 10.7% between 2010 and 2030.

Continued growth in business activity in the region, and new office development in downtown Neenah, may attract additional household growth in Neenah.

The median income level in Neenah is similar to that of the surrounding area, and only slightly less than the US median income.

Median Household Income in Neenah, WI



Dataset: ACS 5-year Estimate  
Source: Census Bureau

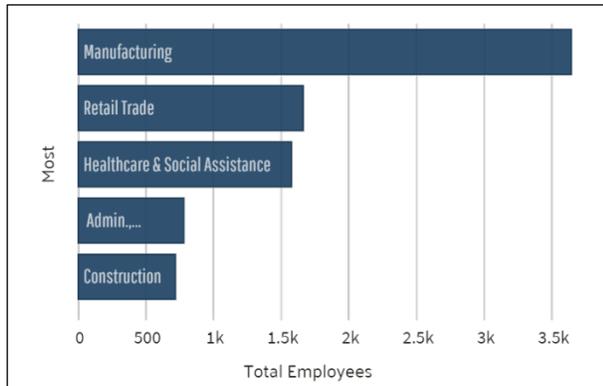
DATAUSA:

The Gini coefficient is a measure of the distribution of income. Neenah’s Gini Coefficient is 0.457, which is lower than the national Gini Coefficient of 0.485. That means wages are distributed more evenly in Neenah

than they are in the national as a whole. A lower poverty rate is one of the factors that explains this. There are fewer people in poverty in the Oshkosh Neenah MSA (12.5%) than in the United States as a whole (15.5%).

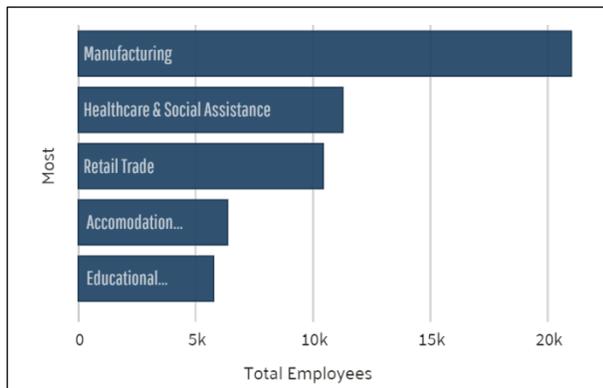
The economy of Neenah and the surrounding area have a strong manufacturing base. Retail trade and the healthcare industry are also major employers.

### Most Common Industries in City of Neenah



Source: ACS 5-year Estimate, Census Bureau

### Most Common Industries in Oshkosh-Neenah MSA



Source: ACS 5-year Estimate, Census Bureau

The City of Neenah has lower than average employment in:

- Professional, Scientific, Technical Services
- Arts, Entertainment, Recreation

## Economic Overview – Study Area

South Commercial Street serves an important role in connecting downtown Neenah to the neighborhoods in the southern part of Neenah. It is continuous to the south to the city of Oshkosh, transitioning to North Shore Drive and Bowen Street along the way.

The study area encompasses the property along South Commercial Street from State Street on the north to Alcott Drive on the south. Prominent intersections in the study area are with Cecil Street on the north, and Alcott Drive on the south. Although the neighborhoods to the east and west seem stable, many of the properties along Commercial Street itself show signs of blight and disinvestment.

Commercial Street was centrally located in an earlier era to provide commercial goods and services to the surrounding neighborhoods, and so it was largely developed as a linear strip of commercial businesses. But the development of a major commercial center along Interstate 41 at the Winneconne Avenue interchange has reduced demand for commercial space on Commercial Street—and reduced investment in the older commercial properties.

The study area is the most distressed part of the corridor. Some buildings are vacant. Many show signs of disinvestment. The development pattern along the corridor varies widely through the study area. Many have also been identified as potential brownfield sites.

Most properties are one and two story commercial buildings of different sizes, on properties that are 200 feet deep or less. A former grocery store property on the east side of Commercial Street is an exception—being a full block in depth. A few strip malls are present. The most recent commercial development may be an Auto Zone store at Commercial and Professional.

There are some residential properties in the mix. Five or ten single family homes face the street. Commercial Square Apartments is a newer apartment development that is located on the west side of the street.

Neenah Plaza Mall is just outside the study area to the south. It is a large strip mall, set back deeply from Commercial Street, on a very large property. Once anchored by a grocery store, a used goods store is now

the most prominent tenant, and vacant retail spaces are evident.

According to the developers and real estate professionals we interviewed, the blighted conditions along South Commercial Street confers a stigma to the corridor that will be challenging to overcome in attracting new development.

Commercial Street does, however, have some assets. These include:

- ◆ The importance of its role as a connecting street
- ◆ High traffic volumes
- ◆ Stable neighborhoods to the east and west, with their corresponding market potential
- ◆ Continuous sidewalks on both sides of the street
- ◆ A strong intersection at Cecil Avenue

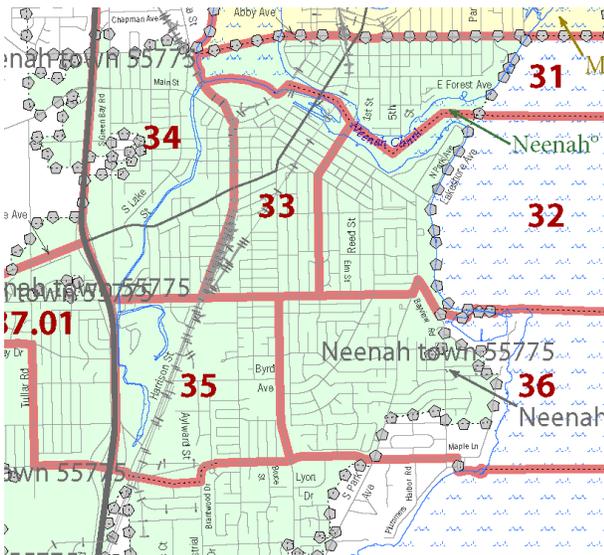
These will be explored in more detail in the sections that follow.

# Demographic Overview

The people and households who live near the study area are potential residents of new housing developments. And they are an important customer base for the current and prospective retail businesses along South Commercial Street.

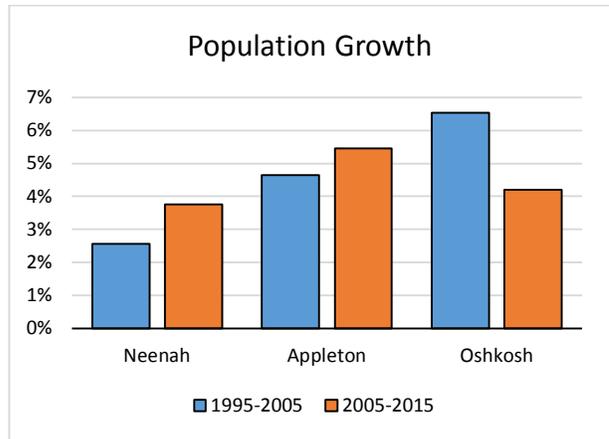
A Study Area was defined for this report’s demographic analysis that comprises two census tracts, and extends a little over a half mile from South Commercial Street to the east and west. Characteristics of this population, and the its housing, were explored, using the most recent 5-year American Community Survey (ACS) data, and these were given a frame of reference by comparing them with the entire Neenah population, and that of Appleton and Oshkosh.

Characteristics of those who live on the east and west sides of Commercial Street are dramatically different. The community on the west side of Commercial Street is in Census Tract 35. It is lower income, and has a higher concentration of minority households. The community on the east side of Commercial Street is in Census Tract 36. It is higher income, has higher owner occupancy, and the great majority of households are white and non-Hispanic.

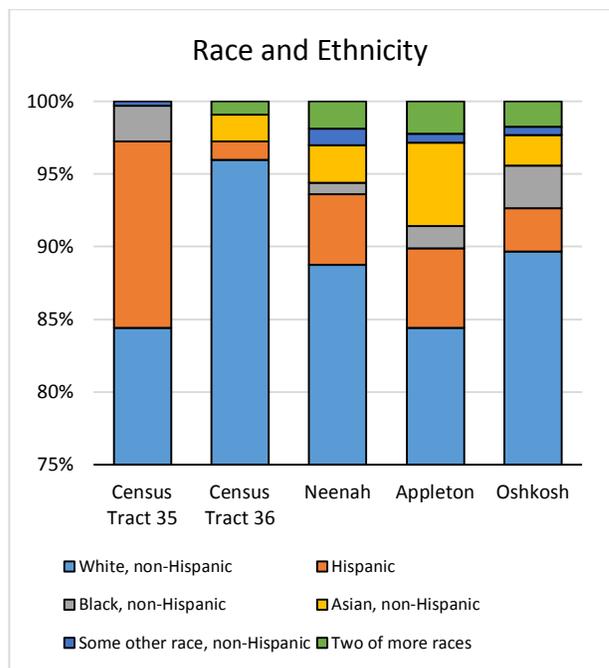


## Population Characteristics

Neenah’s population has shown slow but steady growth over two decades, although it has not grown as quickly as the population of Appleton and Oshkosh.

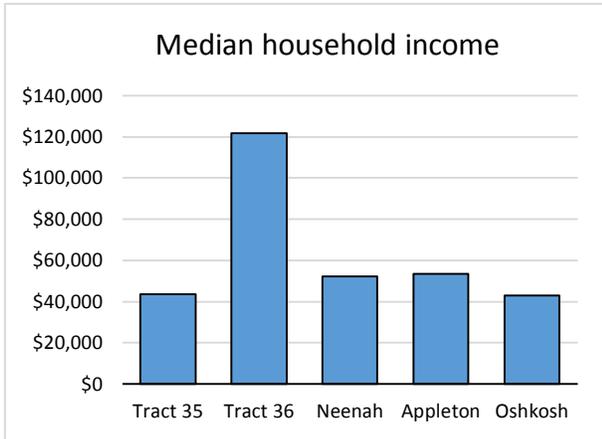


Commercial Street is situated between very different communities. The population west of Commercial has a sizable Hispanic population. On the east side of Commercial Street, the population is over 95% white, non-Hispanic.



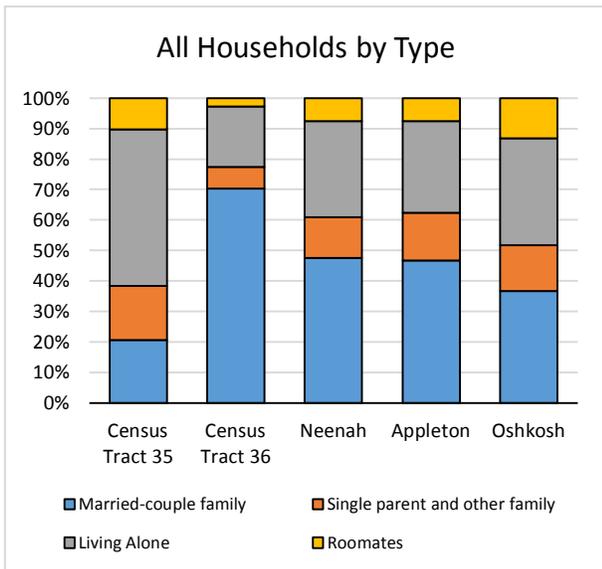
Source: 2014 ACS 5-Year Estimates

Household incomes show an even more dramatic contrast for the two communities of residents. West side residents earn a little less than the average Neenah household. But the average income for those who live east of Commercial is over \$120,000.

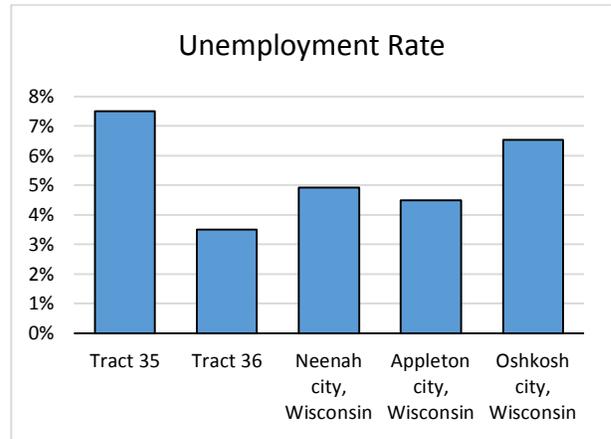


The purchasing power of households around Commercial Street would be considered an asset to retailers considering development on Commercial Street.

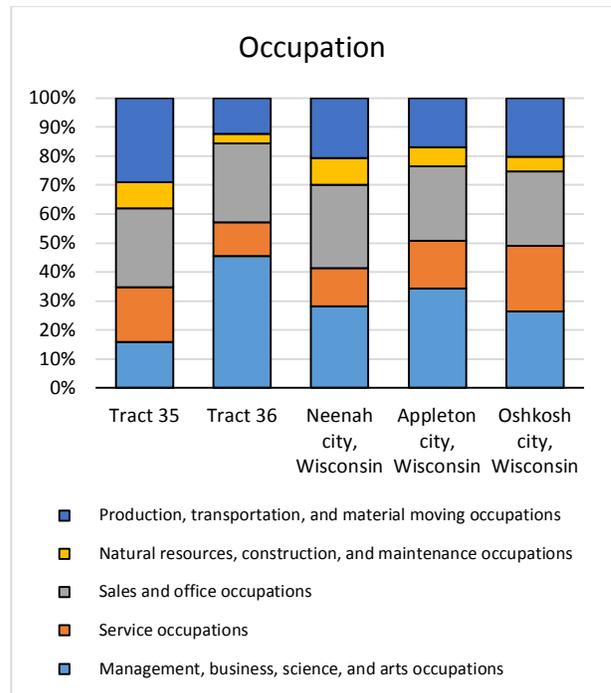
A surprising number of households west of Commercial Street are people living alone. By contract, most households east of Commercial Street are married couple families.



Unemployment rates differ between the two areas as well, but if blended together they would be similar to the unemployment rate of Neenah as a whole.

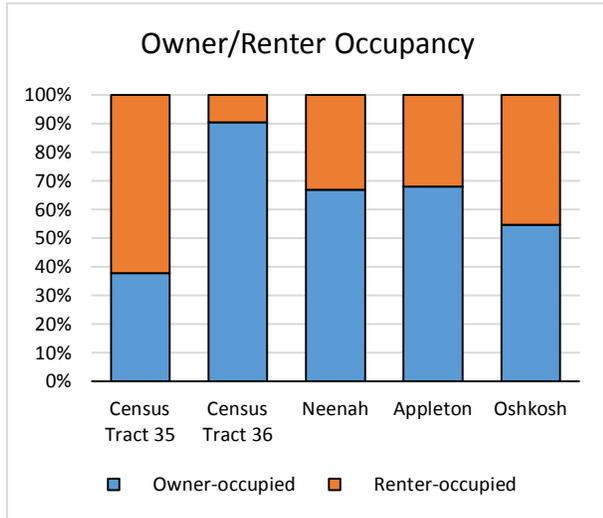


The community on the east has a higher number than average of people who work in production, transportation, and material moving occupations. The community on the west has a disproportionate number of people who work in management, business, science, or arts occupations.

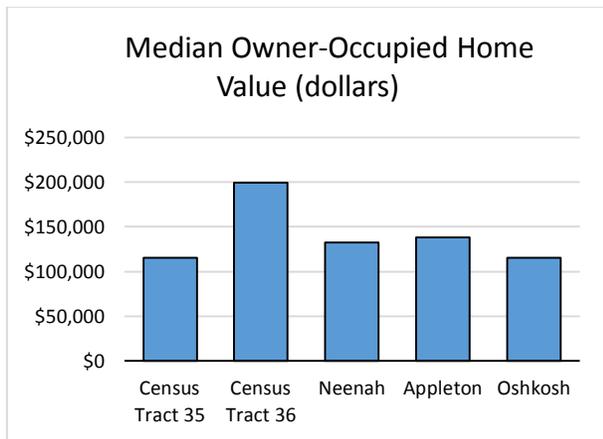


## Housing Characteristics

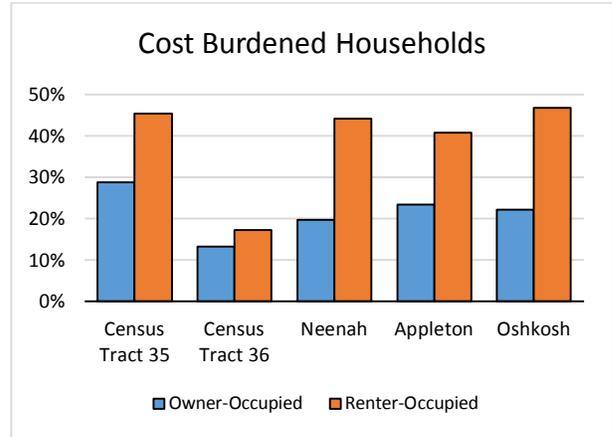
While there are a few apartment developments in the study area, single family homes predominate. Even so, a large proportion of housing west of Commercial Street is renter occupied.



The values of owner occupied homes average around \$120,000 for homes west of Commercial Street, and around \$200,000 for homes east of Commercial Street.



One measure of economic stress is the number of households that are cost-burdened by their housing. Households are considered cost-burdened when they are paying more than 30% of their income on their housing costs. Many households that live west of Commercial Street are cost-burdened—although the percentage of cost-burdened rental households is similar to the city averages.



# Residential Market Context

## Existing Conditions

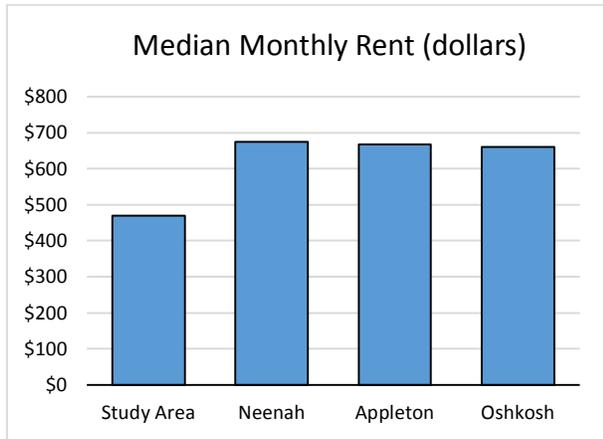
### Existing Development

The development along South Commercial Street includes a handful of single family homes, and one prominent apartment development—Commercial Square Apartments.

Development in the neighborhoods to the east and west of Commercial Street is predominantly one- and two-story single family homes, many of them quite small. Most of the houses seem to be well maintained and attractive, despite their modest size.

### Market Conditions

American Community Survey data shows that rent levels in the Study Area (Census Tracts 35 and 36) are low relative to rents in the city as a whole.

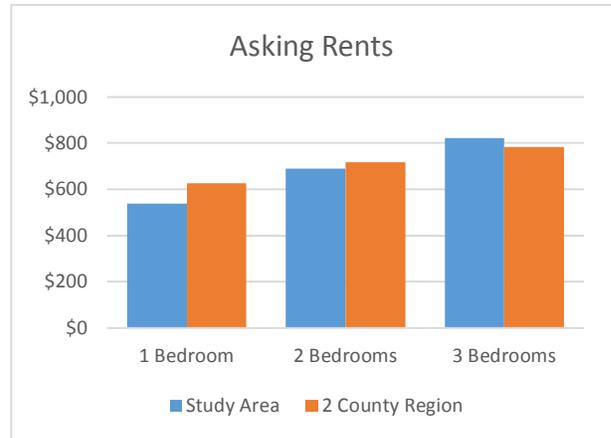


This reflects the median monthly rent as reported to the Census Bureau by households, and it includes households which are renting single family homes.

Costar tracks apartment properties in the study area with a combined 412 apartment units. Average rents in these properties are:

- 1 Bedroom. \$539/month
- 2 Bedroom. \$690/month
- 3 Bedroom. \$821/month

This is somewhat lower than average rents in the two county area (Outagamie and Winnebago Counties).



Vacancy has remained generally low in these developments. The five year average is a 2.6% vacancy rate in the study area, and 3.0% in the two county region. This is lower than the 5% vacancy level that is generally considered to indicate a market in balance. The implication of this is that rents in the study area may rise further. Rising rents can be a precursor to new apartment development, although rents in these properties won't be approaching the rents required to support new development.

New apartment development, when it occurs, could be located in a range of places, and not necessarily near Commercial Street.

## Assets and Challenges

The South Commercial Street area has important assets, and presents significant challenges, for attracting new housing development along Commercial Street. The following summary of assets and challenges is informed by direct observation and one-on-one interviews with three Neenah area real estate professionals.

### Assets

- ◆ **Downtown proximity.** Downtown Neenah is attractive and valued, and it has new energy and momentum. The Commercial Street study area is just a five-minute drive from the center of downtown—or an easy bike ride away.

- ◆ **Neighborhood stability.** The neighborhoods around Commercial Street seem stable. For the most parts homes seem well kept.
- ◆ **Transit availability.** Bus service is available on Commercial Street, which can be an important plus for some families.

### Challenges

- ◆ **Character of development on Commercial Street.** Blighted conditions and vacant buildings are common on South Commercial Street. In many locations, new development would be situated between unattractive or blighted neighboring properties.
- ◆ **Size of development sites.** In many cases, properties on Commercial Street that appear ready for sale or demolition are on small parcels that lack the size to support efficient new housing development. Acquisition of multiple properties may be needed for new development, but that adds complexity and risk to a project.

## Housing Development Assessment

Indicators are positive for continued moderate housing growth in Neenah. Apartment rents continue to rise, and vacancy rates remain low—even as the region around Neenah experiences business growth, and office development is occurring downtown. These factors are likely to attract additional development of multifamily rental properties in the short run, although the pace may slow in the medium term. Conversations with local housing developers supported the idea that housing development will continue at a measured pace.

**Evergreen Apartments (2014)**



Market rate multifamily development is occurring in a range of locations and formats. Evergreen Apartments, a market-rate luxury apartment development, four stories in height with underground parking, was built in 2014 along the riverfront in Appleton.

Lynndale Apartments is an example of a lower density market rate apartment development. The development is a “campus” of eight-unit garden-style apartment buildings. Parking is in garages and surface parking lots. New buildings are constructed as the preceding buildings are rented out.

**Lynndale Apartments**



Affordable housing developers have more flexibility in the location of developments, although they face their own constraints in the design of developments. Recent developments have included midrise apartment buildings, and townhomes. They have been designed for general and family occupancy, and for seniors. Landing at Eagle Flats is an income restricted property designed for working families and low income professionals.

**Landing at Eagle Flats**



Riverwalk Place is an affordable seniors development in Appleton.

**Riverwalk Place**



Housing development is a reasonable option for South Commercial Street, particularly over the long run, since attracting new retail development to the corridor will be difficult, except in the very strongest locations. As noted above, the corridor has some assets for residential development, including transit service and strong adjoining neighborhoods.

But attracting new development to South Commercial Street will be challenging in the short run. Developers have choices for where they can build, and they prefer to go where there are clear locational assets, and, even better, where the market has already been proven by others. Our interviews confirm that Commercial Street would be off the radar screen for area developers without taking intentional steps to draw their attention.



Housing development on Commercial Street must confront other challenges. Most potential development opportunity sites will require acquisition of multiple sites, and sometimes demolition of existing buildings, and environmental cleanup. These steps add cost to the project. They introduce uncertainties to the project timing, and make a project more risky.

### ***Housing Development Strategies***

Housing development on South Commercial Street can be pursued both assertively and opportunistically.

#### **Assertive Approach**

An assertive approach would entail exercising public sector leadership to attract development to one or more locations where the development has the strongest chance to succeed, and where it would have a positive impact on the corridor’s image—perhaps as part of a cluster of new development at the Commercial/Cecil intersection.

Attracting development will require concrete actions to set the stage for development, and demonstrate a public commitment to development in the area. Drawing on our past experience, and conversations with local developers, it seems likely that the City or other public sector entity will need to take on all or most of the site assembly and site preparation tasks, before the site will be able to compete with development locations that are less complicated and have more attractive neighbors. This may require property acquisition, building demolition, and environmental cleanup.

It may be able to pursue these actions more collaboratively with a developer if the project is taken on with an affordable housing developer. Either type of development can yield an attractive, well managed rental property that provides new living options, and sets an improved design tone for South Commercial Street.

An alternative focus for attracting housing development would be the Neenah Mall. If it were cleared and made available, that site could accommodate a considerable amount of midrise or townhome development.

### Opportunistic Actions

Tax forfeiture or further building deterioration may reduce the cost of some properties to the point where new housing development could make economic sense. In that event, property acquisition can occur, and low to medium density housing development could be considered.

Smaller, infill development along Commercial Street in other than prime locations would probably require some financial subsidy.

Consideration should be given to establishing development and design standards so that infill housing built at different times and different scales can over time contribute to an improved sense of cohesiveness along the corridor.

# Retail Market Context

## Existing Conditions

### Existing Development

Retail and office buildings dominate the landscape along both sides of Commercial Street in the study area. Most are freestanding, single tenant buildings, although there are some multitenant retail buildings, and a few two-story buildings with apartments located over ground floor commercial space.

Most of the commercial buildings along Commercial Street were developed in an earlier era. There are quite a few vacancies, and many show signs of deterioration or disrepair. The largest commercial property in the area is the Neenah Plaza mall, just outside the study area to the south. It is an older strip mall property, which seems to be nearing the end of its economic life.

### Market Conditions – Metropolitan Area

Retail market conditions have been strengthening in Neenah’s metropolitan area since the great recession. Vacancy rates have fallen to under 6%. An overall vacancy rate of under 6% is low for retail.

These data indicate that businesses are opening. Retailers are occupying formerly vacant space at a greater rate than they are closing, resulting in positive absorption of retail space every year since 2011. In 2013 – 2016 this led to new retail construction.



While this sounds good overall, something different is going on in neighborhood retail areas. Mall vacancies are only 3%, but the vacancy rate at neighborhood centers is almost 9%. This is true even though the

average asking rent at neighborhood centers is only \$9.40 per square foot per year. (Malls are asking \$18.50 per square foot per year.)

That story is certainly playing out along South Commercial Street, where the retail energy has relocated to the destination retail areas around I-41 and Winneconne Avenue.

The retail development in that location is relatively new, and so match the desires of modern retailers. It also aligns with the preferences of consumers, who spend a much larger share of their retail budget in destination retail areas than was the case when the retail businesses were developed on Commercial Street.

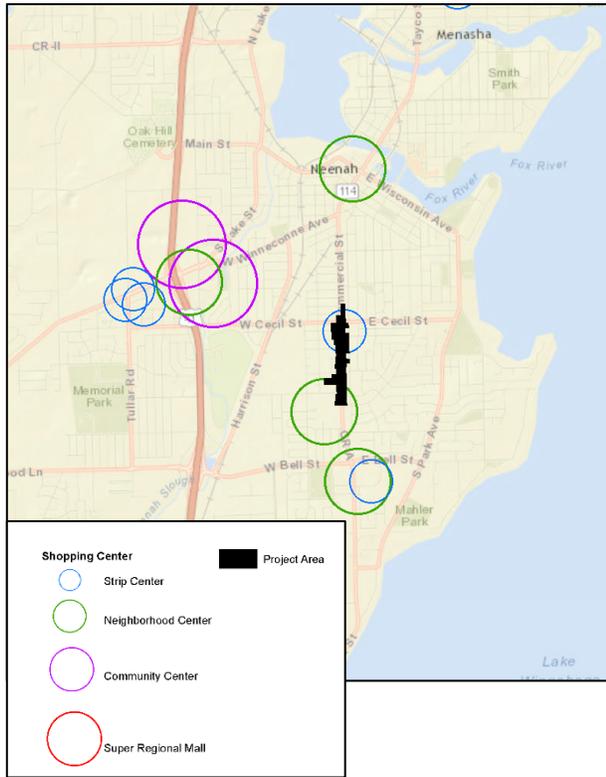
That might suggest that the retail market can’t be recaptured by new retail development on Commercial Street. However, there is also reason to believe that a modern neighborhood retail development on Commercial Avenue could find a local market—if it is in the strongest location, and doesn’t overreach in terms of size. Here’s the argument:

- ◆ High quality, modern neighborhood retail is almost completely absent in the area
- ◆ Commercial Street remains the center of a couple of neighborhoods. In some ways it is more centrally located than the destination retail area at the Interstate.
- ◆ The higher income households that reside in some parts of the neighborhoods have purchasing power to support retail stores
- ◆ Traffic volumes and visibility along Commercial Street is good, and at the Cecil Street intersection, there is significant east-west traffic as well.

## Competitive Landscape

Neighborhood retail development at Commercial and Cecil Streets would be spaced over a mile from the destination retail areas at the freeway, from downtown Neenah, and from the retail cluster at Bell Street to the south.

**Retail Context Map**



## Assets and Challenges

Commercial Avenue has important assets and challenges for prospective retail development. Assets have been noted above—traffic volumes, the neighborhood base and purchasing power, and distance from competing high quality retail areas.

Challenges to new retail development are primarily about the blighted condition of properties in the area, the lack of unifying themes or character, and the absence of a high-quality place that can serve as a center of focus along the corridor.

## Retail Development Assessment

These findings support the pursuit of neighborhood retail development on one of the quadrants of the Commercial/Cecil intersection. That location would provide the strongest possible environment from the perspectives of visibility and traffic volumes.

To provide the best chance for success, the largest possible site should be assembled on one of these corners. The site should be cleared, and then the City should engage in a developer solicitation process. Our conversations with a local commercial broker reinforces the idea that packaging a site in this way is probably necessary to attract developer interest. But on doing so, the chance of attracting developer interest is high.

# Development Opportunity Analysis

This section of the report is focused on the identification of sites in the Commercial Street study area that are most likely to attract the interest of developers for new housing or commercial development. We term such sites “Development Opportunity Sites.

It is important to be clear that the identification of a development opportunity site does not mean that it is likely to be developed. It does not mean that the City of Neenah or any other party has plans to purchase the property for redevelopment. It does not mean that property owners are interested in selling, or that the economic activity that is already happening on the site is not valued or appreciated. It simply means that, based on a number of considerations, it may be relatively attractive for new development compared with other properties along Commercial Street.

Any redevelopment of property would require the participation of current property owners. More specifically, it would require the purchase of property from current property owners at a price that they are willing to accept.

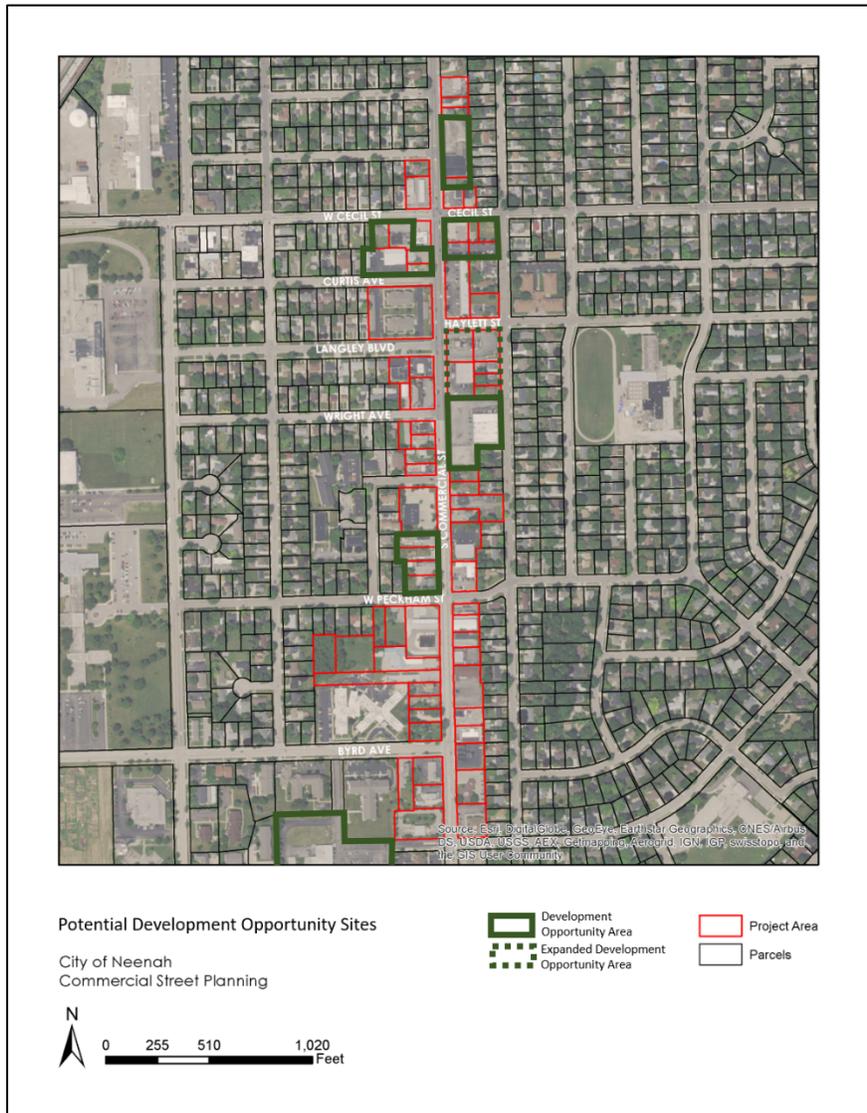
With those caveats in mind, a number of factors are considered in the identification of development opportunities. Some of these factors can be mapped. Others are based on observation, and may be more subjective.

The map at right identifies a set of development opportunity sites, based on a balance of all considerations.

The following five factors are those which have been mapped as part of this analysis, with the

analysis maps appended to this report.

- ◆ **Property value per square foot.** Property that is less valuable may be easier to purchase for new development (Appendix A1).
- ◆ **Land value to total property value.** Properties for which most of their value is the land itself, rather than the development that has been built on the land, may be easier to purchase for new development (Appendix A2).
- ◆ **Land coverage ratio.** Properties where buildings cover only a small part of the land may be easier



to purchase for new development than properties that are developed more intensively (Appendix A3).

- ◆ **Vacant Land.** Properties that are undeveloped are likely to be more attractive for new development than developed properties (Appendix A4).
- ◆ **Public Ownership.** It is often easier to attract developer interest to a development site that is already in public ownership than one that is in private ownership (Appendix A4).

Additional factors are important, including such things as:

- ◆ **Size and configuration of site.** A larger property offers more flexibility for new development. However, accommodating the size and configuration requirements of new development

means different things for different types of development.

- ◆ **Neighboring property conditions.** The development context, including the condition of neighboring properties, has a big impact on the attractiveness of a property for new development.
- ◆ **Distance from competing development.** New retail development may need to be a sufficient distance from competing retail areas.

We feel the development opportunity sites in the map above have a relatively stronger likelihood of attracting new development interest than other properties in the corridor. Some of them were discussed in more depth in the preceding sections on Residential and Retail Market Analysis.

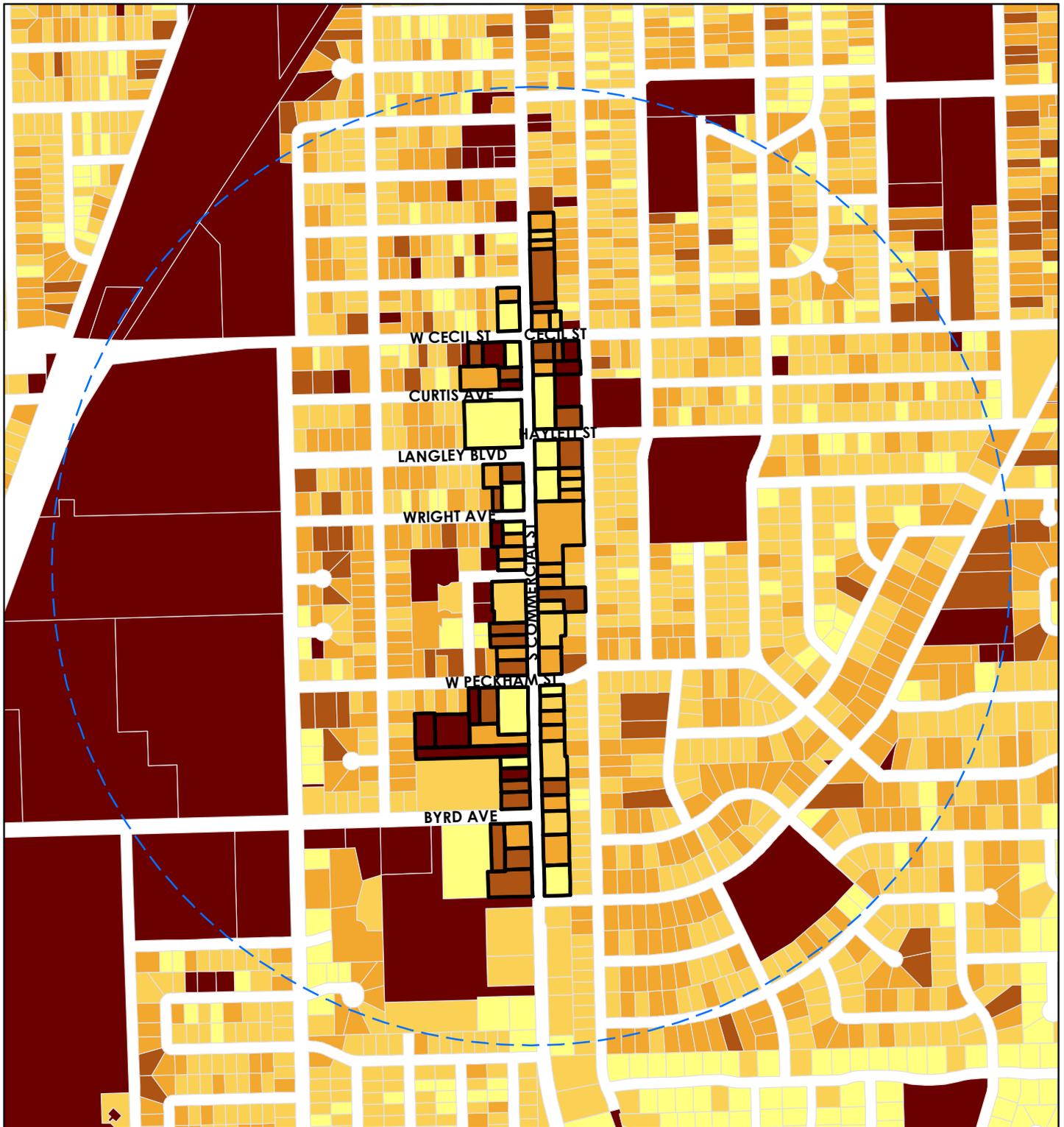
# Appendices

*A1: Property Value per Square Foot*

*A2: Land Value to Total Property Value*

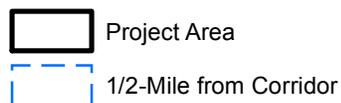
*A3: Land Coverage Ratio*

*A4: Vacant Land and Public Ownership*

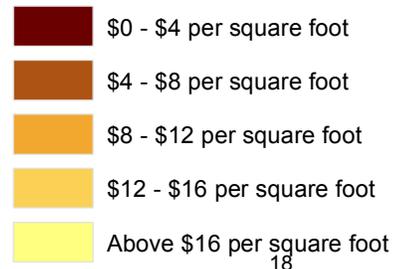


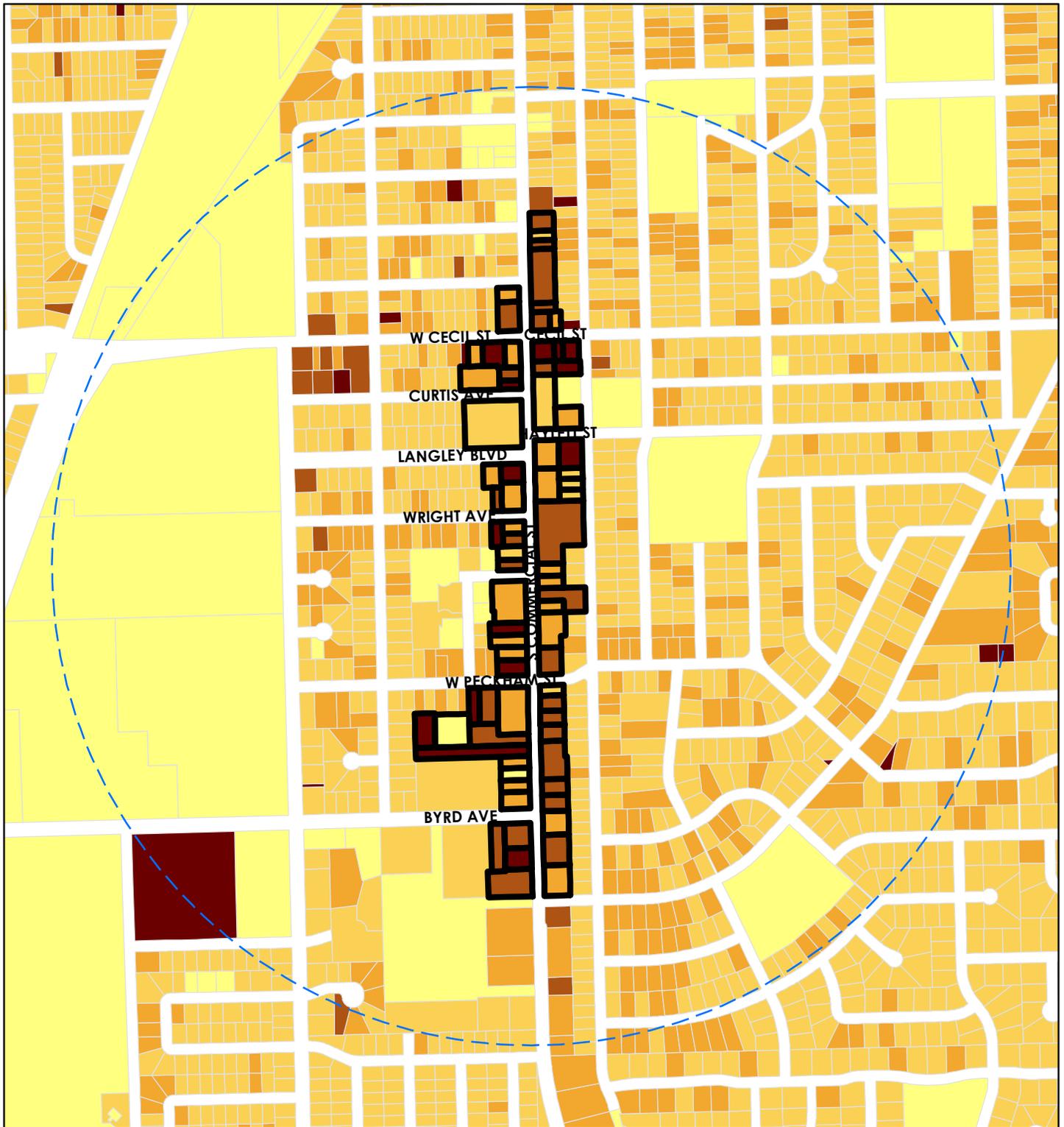
# A1: Property Value per Square Foot

City of Neenah  
Commercial Street Planning



## Price Per Square Foot

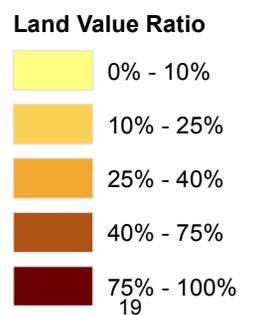


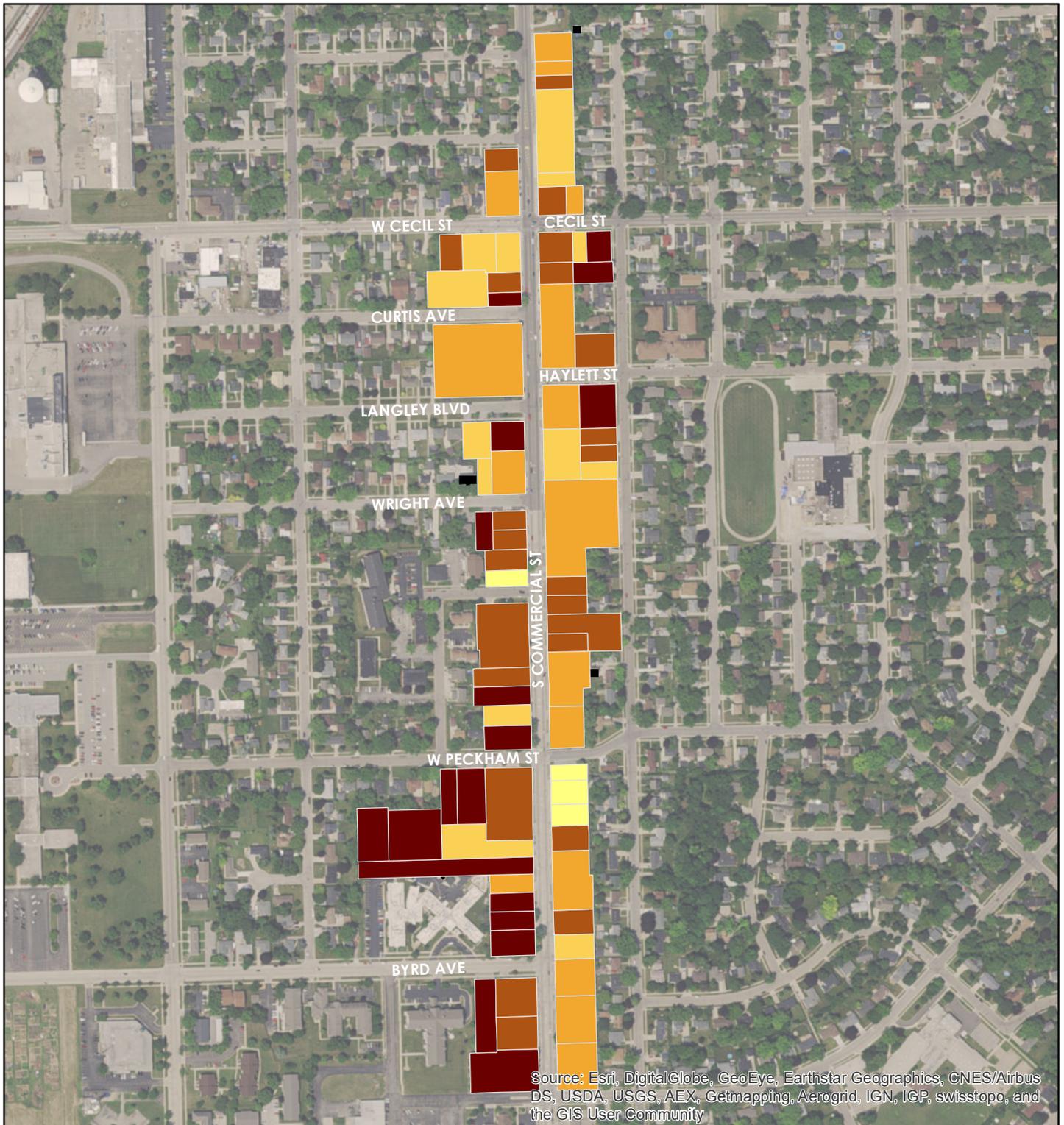


## A2: Land Value to Total Value

City of Neenah  
Commercial Street Planning

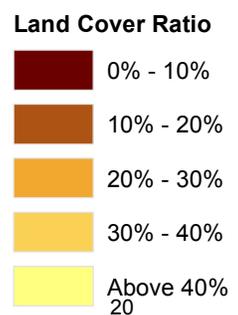
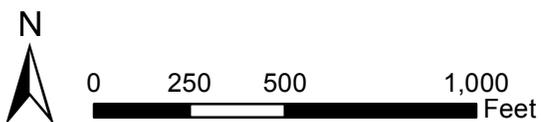
 Project Area  
 1/2-Mile from Corridor

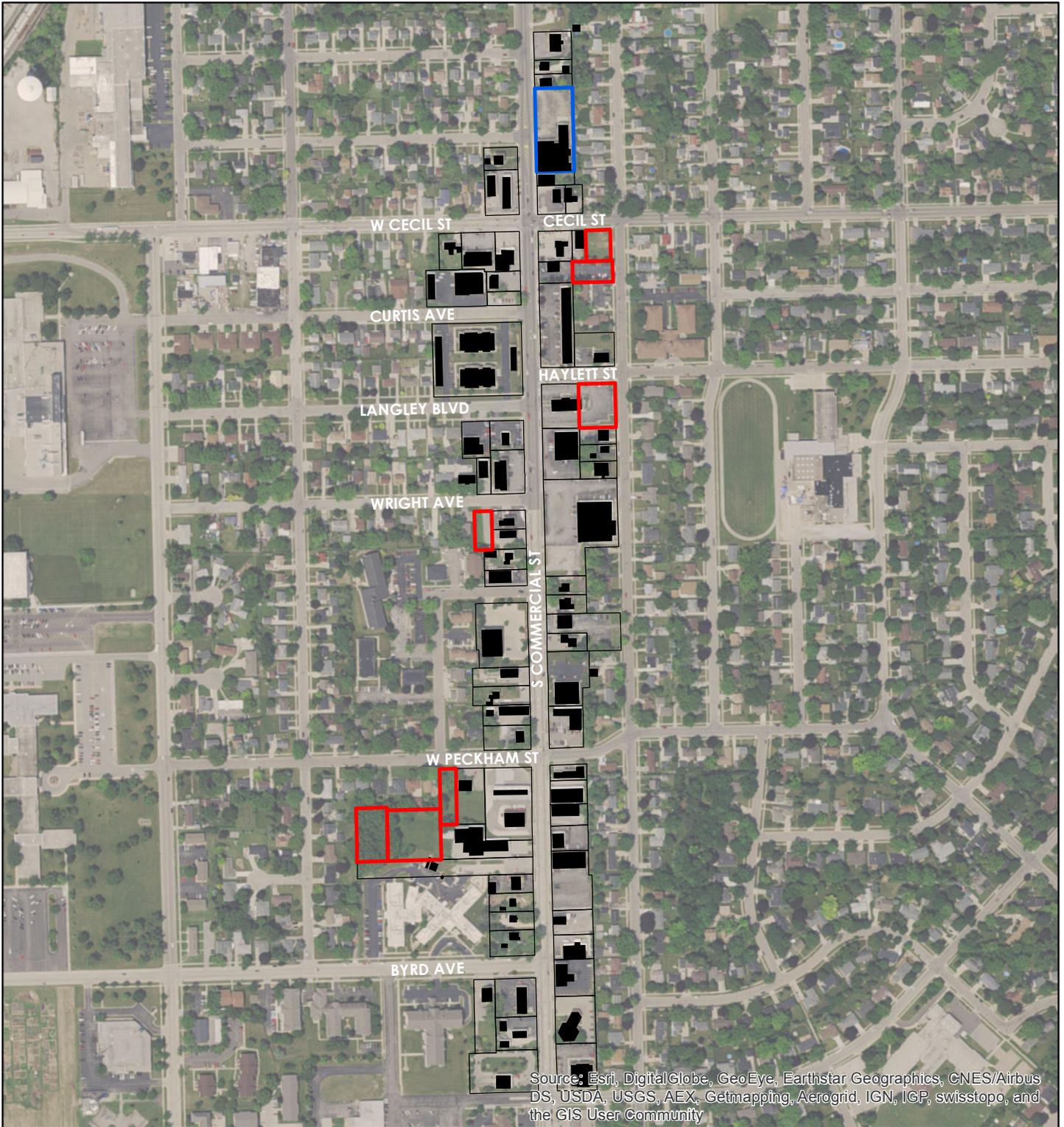




### A3: Land Coverage Ratio

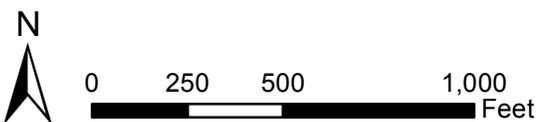
City of Neenah Commercial  
Street Planning





## A4: Vacant and Publicly Owned Parcels

City of Neenah  
Commercial Street Planning



- VacantLot
- Public Ownership
- Parcels
- Building Footprint