

AN ANALYSIS OF THE RESIDENTIAL & COMMERCIAL SECTORS IN WASHBURN, WISCONSIN



Prepared by: The Windward Group, LLC

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PURPOSE & METHODOLOGY

At the request of The City of Washburn, Wisconsin, The Windward Group was commissioned to examine the potential for the development of both commercial/retail and residential alternatives focusing upon an 8.4-acre parcel located in the downtown area.

More specifically, this analysis includes the following:

- An assessment of the growth and demand potential for both residential and commercial/retail development in Washburn, Wisconsin over the next five to ten years, based upon economic and demographic trends in the City of Washburn as well as the larger Ashland/Bayfield Primary Market Area (PMA).
- Suggestions regarding the mixes of product (residential and/or commercial) which will achieve maximum consumer acceptance. These recommendations will include factors such as unit types, square footage allocations, bed/bath mixes, and general building design criteria for both residential and commercial alternatives.
- Based upon economic, demographic and construction trends in the City of Washburn and the Ashland/Bayfield PMA, socio-economic profiles of the local population, and the presence of competitive developments both existing and planned, specific rental/sales rate guidelines on a per unit-type basis, as well as an absorption rate forecast for each of these components.

To reach the conclusions in this report, several analytical steps were taken. These include:

- A thorough examination and analysis of the subject site taking into consideration location, accessibility, visibility, proximity to major employment, retail concentrations and other ancillary support facilities, as well as the general character of the neighborhood.
- A thorough economic and demographic analysis of the City of Washburn and the Ashland/Bayfield PMA, focusing upon employment, construction, population/household and other demographic trends as they affect future potentials in Washburn and at the subject site.
- An analysis and assessment of the future demand, for both residential and commercial/retail alternatives in the City of Washburn and the Ashland/Bayfield PMA over the next five to ten years.
- A detailed audit of all comparable residential and commercial developments in the defined market area viewed to hold either direct or indirect competitive influence over potentials within the City of Washburn, with a focus upon the subject site. This audit will detail absorption rate histories, price/rent positioning, unit size factors and included features or amenities on a project by project basis.
- An assessment of the future competitive positioning of comparable residential and commercial/retail developments in the planning pipeline.

EXECUTIVE SUMMARY

In this section of the analysis, we provide a summary of the relevant findings that are presented in greater detail later in this report.

The Omaha Street Property

The Omaha Street Property consists of 8.4 acres located between Bayfield Avenue and the Washburn Marina. In this location, the site benefits from proximity to many nearby retail, recreational and public support facilities, and enjoys views of Lake Superior's Chequamegon Bay.

This parcel is currently served by all utilities, and is located with a city-established Tax Increment Financing or TIF District, as well. As such, future development at the property may be eligible for financial subsidies or grants.

Further, with its location in Washburn, the Omaha Street Property finds itself within the largest municipality in Bayfield County, as well as its county seat.

Economic and Demographic Factors

The City of Washburn and the Omaha Street Property are part of the larger Ashland/Bayfield Primary Market Area or PMA, defined as Ashland and Bayfield counties in northwest Wisconsin.

Over the past seven years, employment growth in the PMA has been largely stagnant, with a net increase of only 187 new jobs recorded from 2010 through 2016. Further, while the unemployment rate has declined significantly to a current level of 6.3%, this decrease is almost completely attributable to a corresponding shrinking of the labor force, rather than due to an increase in employment.

Within the Ashland/Bayfield PMA, we find a largely service based economy, with 45.7% of all current jobs found within that sector. Other sectors with representation levels of over 10.0% include Construction, Manufacturing and Retail Trade.

Given the lack of employment growth in the PMA, it is not surprising that population count and household totals in both the City of Washburn and the Ashland/Bayfield PMA have remained constant over the past seven years. Estimates provided by the U.S. Census Bureau indicate that over the next ten years, population and household totals are expected to remain largely unchanged.

Incomes in both the City of Washburn and the PMA are relatively high. The median annual income for a Washburn resident is \$55,934, while for the larger PMA, the median income is \$46,738 per year. In both areas, we find that 33.8% of the population earns between \$35,000 and \$74,999 annually. Further, it is interesting to note that in both areas, the average income significantly exceeds the median. This is likely the result of the presence of a number of very high-income households which skew the averages upward.

While demand for new housing *based upon economic growth* in the City of Washburn will remain negligible over the next five to ten years, we estimate that there is significant pent-up demand in the form of current homeowners and renters who would readily accept newer housing options if they were available.

The Residential Environment

Over the past eight years, new housing construction activity in the Ashland/Bayfield has been very modest, with an average of only 62 permits per year noted over the past eight years.

Within both the City of Washburn and the Ashland/Bayfield PMA, the existing housing inventory is composed largely of single family homes, with representation levels of 73.0% and 80.7%, respectively. Additionally, the current housing stock is generally older with a median year built of 1965 noted for Washburn, and a median year built of 1973 for the larger PMA. In the City of Washburn, 35.3% of all existing homes were constructed prior to 1939, with only 4.5% built in the year 2000 or later.

According to the U.S Census Bureau, the current median value of a home in the City of Washburn stands at \$161,628, while in the Ashland/Bayfield PMA, the median is \$152,050. As was the case for annual household income, there is a significant discrepancy when the median is compared to the average. Specifically, we find that the average home value in Washburn is \$196,711 while in the PMA the figure stands at \$193,202, with these differences likely due to the presence of many high-end, waterfront homes found in the area.

Among the existing rental apartment inventory, the median rent in the City of Washburn is \$481 per month, while the median in the PMA stands at \$462 monthly. Further, the number of households paying \$500 per month or less is 54.6% in Washburn and 54.7% in the PMA. These relatively low rent levels are not necessarily the result of affordability issues, rather than the lack of newer apartments at higher rent levels. For example, multiplying Washburn's current median rent by twelve yields an annual rent expense of \$5,772. Given the median income of \$55,934 noted earlier, we find that on average, Washburn residents are paying only 10.3% of their income on rent, a figure well below the "typical" figure of 25%-30%.

According to the Multiple Listing Service, a total of 19 non-waterfront, single family homes were sold in the City of Washburn within the past twelve months. Among all sales, we note an average price of \$131,087 for a home with 1,657 square feet. This equates to a value ratio of \$79.11 per square foot. Further, over the past year, only one non-waterfront home in the City of Washburn sold for more than \$200,000, while six sales were recorded at prices under \$100,000.

The townhome/condominium market in the City is negligible, with no such units sold over the past twelve months, and only one unit presently offered for sale.

The Commercial/Retail Sector

A retail supply & demand analysis based upon figures provided by the U.S. Census Bureau indicates that several sectors in the City of Washburn are currently over-supplied. These include Grocery Stores, Books & Music outlets and Used Merchandise stores. However, all other retail sectors are currently under-supplied, with the most significant deficits found in the Electronics, Health & Personal Care, and Clothing sectors. It should be noted that for many of the under-supplied sectors, the demand (in dollars) is not particularly deep.

The average household in the City of Washburn devotes \$41,286 yearly to outside expenditures. By component, we note that 33.7% is spent on housing, 14.1% is spent on healthcare and 11.8% is spent on groceries.

Conclusions

Based upon factors detailed in the body of this report and summarized above, it is our contention that the Omaha Street Property well suited for the development of a mix of commercial/retail and residential uses. This conclusion is based upon the following:

- The subject property itself benefits from a strong location with easy accessibility, proximity to ancillary support facilities, and enhanced by offering direct views of Chequamegon Bay. Potentials are further strengthened by the fact that all required utilities are currently present on-site, as well as the parcel's location within a city-designated TIF District.
- Although employment, housing construction and population growth in both the City of Washburn and the larger Ashland/Bayfield PMA has been largely stagnant over the past seven years, the area supports relatively high incomes, a well-diversified economic base, and a high quality of life, good schools and minimal criminal activity.
- In both the PMA and the City of Washburn, median housing values are relatively high and sales activity over the past ten years has remained consistent.
- Based upon interviews with local realtors, there is a clear desire for the development of new housing in the downtown area.
- As new construction activity (commercial or residential) has been very modest over the past seven years, any new development will benefit from entering a market without any true source of direct competition.
- In the City of Washburn, many retail sectors are currently undersupplied, offering the potential for new entries into the local market.

While the above factors are positive, there are obstacles that future development at the Omaha Street Property will have to overcome in order to be successful. Of primary importance is the fact that employment growth, and thereby population growth and housing construction is expected to remain negligible over the next five to ten years. As such, any residential development upon the Omaha Street Property will have to pull buyers or renters from the existing population in the Ashland/Bayfield PMA to be successful. It is our belief that there is enough pent-up demand to justify this future development.

Another restrictive factor is construction costs. Among residential alternatives, current construction costs for "standard" housing are failing in the \$115 to \$130 per square foot range. Given that, any future residential development at the subject site will have to support rents or purchase prices high enough to justify development. Commercial construction costs are slightly lower, coming in at between \$105 and \$120 per square foot. Again, rents for this type of development will have to be high enough to warrant future development.

Of final concern is that any new commercial development at the Omaha Street Property will likely draw tenants from the existing Bayfield Street commercial corridor, and this may have a potentially significant detrimental effect on that area.

Recommendations

Given the above, it is our recommendation that the Omaha Street Property be developed as a mixed-use residential community, with only a minimal commercial/retail component. Specifically, we suggest an approximately 50-unit rental apartment complex, and approximately 18 to 24 maintenance free, small lot single-family homes.

Given the cost to develop discussed earlier coupled with achievable rent levels, it is believed that “standard” market rate apartments are not financially viable from a developer perspective. As such, we believe that the strongest option is the development of apartments using Low Income Housing Tax Credits (LIHTC) allocated by the Wisconsin Housing and Economic Development Authority or WHEDA, through their Section 42 Tax Credit program. When paired with potential economic incentives provided the City of Washburn under their TIF program, the financial viability of this alternative becomes likely.

Under the Section 42 program, apartment owners must abide by household income limits set by WHEDA for any units designated as income-restricted. These limits are based upon a percentage of the median household income in Bayfield County, and are detailed in the table which follows. Developers are offered flexibility concerning which income levels to abide by, as well as the number of units in any development which are income restricted.

2017 WHEDA Income Limits Section 42 Tax Credit Program							
	Persons in Household						
	One	Two	Three	Four	Five	Six	Seven
80% Income	\$35,100	\$40,100	\$45,100	\$50,100	\$54,150	\$58,150	\$62,150
60% Income	\$26,340	\$30,060	\$33,840	\$37,560	\$40,620	\$43,620	\$46,620
50% Income	\$21,950	\$25,050	\$28,200	\$31,300	\$33,850	\$36,350	\$38,850
40% Income	\$17,560	\$20,040	\$22,560	\$25,040	\$27,080	\$29,080	\$31,080
30% Income	\$13,170	\$15,030	\$16,920	\$18,780	\$20,310	\$21,810	\$23,320

Source: WHEDA

In addition to income restrictions, developers utilizing the Section 42 program must abide by maximum rent levels set by WHEDA with these levels again based upon median incomes in Bayfield County. However, as seen in the following tables, maximum rents allowable, especially at the 80% level, are quite high and it is likely that these rents are higher than the local market will support.

2017 WHEDA Rent Limits Section 42 Tax Credit Program							
	Maximum Rent						
	Efficiency	1 BR	2 BR	3 BR	4 BR	5 BR	6 BR
80% Income	\$877	\$940	\$1,127	\$1,303	\$1,453	\$1,603	\$1,753
60% Income	\$658	\$705	\$846	\$977	\$1,090	\$1,203	\$1,315
50% Income	\$548	\$587	\$705	\$814	\$908	\$1,002	\$1,096
40% Income	\$439	\$470	\$564	\$651	\$727	\$802	\$877
30% Income	\$329	\$352	\$423	\$488	\$545	\$601	\$657

Source: WHEDA

Given the above we recommend the development of an approximately 50-unit apartment complex which adheres to the following schedule.

Omaha Street Property Proposed Apartment Development Matrix						
Unit Type	Unit Count	Percent	Monthly Rent	Unit Size (Sq. Feet)	Rent/ Sq. Foot	
One Bedroom/One Bath	10	20.0%	\$695	675	\$1.03	
Two Bedroom/One Bath	10	20.0%	\$825	900	\$0.92	
Two Bedroom/Two Bath	25	50.0%	\$845	950	\$0.89	
Three Bedroom/Two Bath	5	10.0%	\$975	1,100	\$0.89	
Total/Average	50	100.0%	\$835	906	\$0.92	

Based upon income and rents set at the 60% level, the development will attract a mix of young singles, young couples with or without children as well as the empty-nester segment with incomes concentrated in the \$25,000 to \$40,000 range.

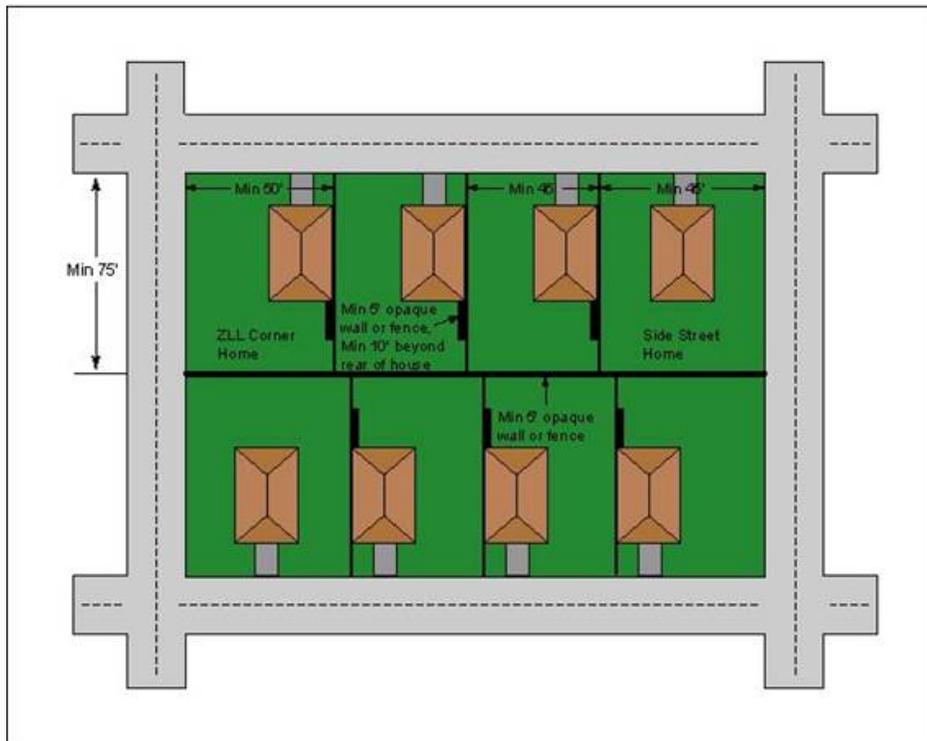
In terms of construction we suggest two-story buildings containing six to eight units each with one enclosed garage (attached or detached) space per unit. Additionally, the site layout should be designed to maximize the number of apartments with views of the water.

To keep costs reasonable, the buildings themselves should not be “over-designed”, nor should they include expensive interior or exterior finishes. Rather they should be designed to appeal to as broad a consumer segment as possible with quality finishes and fixtures. The following photos provide a conceptual idea.



Under this scenario, we estimate that the apartment development would reach stabilized occupancy in eight to twelve months.

For the single-family component we recommend the development of 18 to 24 maintenance-free, one and two-story homes in a zero-lot line configuration. A zero-lot line layout is one in which most or all of the homes are constructed with one wall on or very near the property line, as seen in the accompanying image. The advantage of this configuration is that it allows for a maximization of yard space on relatively small lots. Further, to appeal to the broadest consumer segment including empty-nesters, we suggest that most of the homes be designed with main-floor master bedrooms.



Like the recommended apartments, these homes should be relatively simple, without extraneous architectural elements, as seen in the images below.



Individual homes should include three or four bedrooms with two to two-and-one-half baths. Unit sizes should extend from approximately 1,500 to 2,200 square feet, with prices from \$175,000 to \$225,000. At these price levels, the new single-family homes will be positioned approximately \$50,000 over the Washburn “market” for homes of comparable square footage. We believe these prices are highly attainable given current household incomes in the Ashland/Bayfield PMA coupled with the age of the existing housing inventory.

All units should include a two-car attached garage, and if financially feasible, an un-finished full basement. These homes will attract younger families with children as well as empty-nesters with annual incomes generally in the \$55,000 to \$95,000 range.

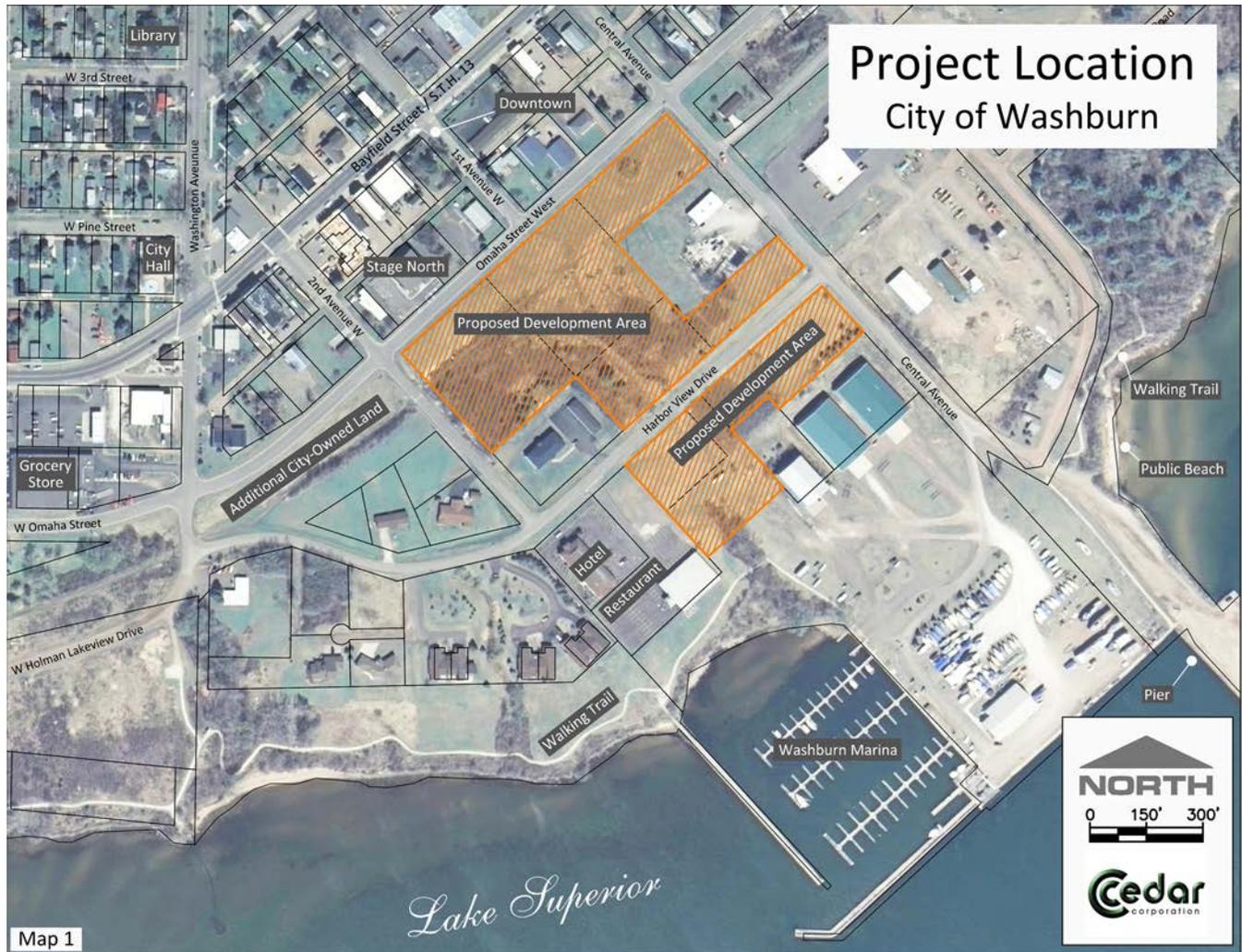
It is expected that all homes would be sold within nine to fourteen months.

As noted earlier, there is a real concern that new commercial/retail development at the Omaha Street property will draw tenants from Bayfield Street, having a negative impact on that corridor. Therefore, it is suggested that any commercial development at the subject site be delayed until residential development is complete. There is a likelihood that the entire property can be developed, over time, as residential with no commercial component required.

THE OMAHA STREET PROPERTY

While the overall focus of this analysis is the City of Washburn, particular attention is required for an 8.4-acre site, owned by the City, and located in between the downtown core and the Washburn Marina.

Known as the “Omaha Street Property”, the site is bounded by Central Avenue, 2nd Avenue West, Omaha Street East and Harbor View Drive, as indicated in the graphic below.



Source: Cedar Corporation

The property is composed of six parcels, including; #43, #44, #45, #46, #47 and #48. Except for #48, all parcels are located north of and aligning Harbor View Drive. In the following photo, the site can be seen in the center.



Primary access to the Omaha Street Property is provided by State Highway 13, a major north-south thoroughfare located one block to the north. This highway is the major arterial serving Bayfield County, and extends from State Highway 2 in Ashland Junction to the south, through Bayfield to the north, continuing north and then west into the Superior, Wisconsin area. Highway 13 has been designated a State of Wisconsin Scenic Byway, one of only four in Wisconsin, and is also part of the 1,300-mile Lake Superior Circle Tour Route.

Based upon 2009 WisDOT data, traffic counts at the intersection of Highway 13 and Central Avenue averaged 10,800 vehicles per day.

Washburn is the largest city in Bayfield County and also serves as the county seat. It's location within north central Wisconsin places it 78 miles from Duluth, 227 miles from Minneapolis-St. Paul, 364 miles from Milwaukee and 432 miles north of Chicago. In addition to airports in the above cities, Washburn is served by two local airports including JFK Memorial in Ashland, 12 miles to the southeast, and Gogebic/Iron County Airport 54 miles to the east.

The site itself is relatively flat, with a modest slope from north to south. At present, the site is unimproved, however, future residential development at the property will allow for many units to offer views of the Washburn Marina, and of Lake Superior's Chequamegon Bay.

The Omaha Street Property is served by all utilities, including; electricity, water, telephone, sewer and natural gas. An Excel Energy power line also bisects the property from east to west. The current in-place zoning is Mixed-Use Waterfront District, and the Washburn Comprehensive Plan designates the parcel as Planned Waterfront Special Development District. From the Comprehensive Plan, “Land in this district is intended to provide a mixture of commercial and high density residential development.” Further, this district is “intended to provide appropriate, high quality development that recognizes the close proximity to the downtown core and Lake Superior.”

The property is also located within a city-designated Tax Increment Finance District, and as such, future development may be eligible for various financial incentives or grants.

Omaha Street Property-Washburn, Wisconsin Distance to Nearest Support Facilities		
Facility Type	Facility	Distance from Subject Site
Hospital	Bayfield County Memorial Hospital	1 Mile (N)
Elementary School	Washburn Elementary School	0.6 Miles (NW)
Middle School	Washburn Middle School	5 Blocks (NW)
High School	Washburn High School	5 Blocks (NW)
College	Northland College-Ashland	13 Miles (S)
Shopping District	Bayfield Street	1 Block (NW)
Gas Station	Holiday Stationstore	0.6 Miles
Grocery Store	Washburn IGA	2 Blocks (S)
Public Library	Washburn Public Library	2 Blocks (NW)
Public Park	Athletic Fields Park	1 Block (N)
Bank	Bremer Bank	1 Block (NW)
Golf Course	Lake Superior View Golf Club	1 Mile (WNW)
Hotel	Washburn Inn	1 Block (S)
Airport	JFK Memorial-Ashland	12 Miles (S)

The neighborhood within which the subject parcel sits includes a mix of residential, commercial and recreational uses. As detailed to the left, the Omaha Street Property benefits from proximity to many ancillary support facilities, including schools, shopping corridors, gas stations, grocery stores, a public library, banks and public parks. The property is also located just one block from the recently constructed Stage North performing arts theater.

Additionally, the subject site is located just one block from two public beaches and the Washburn Walking Trail, which runs along the shore of Chequamegon Bay.

As noted earlier, the property is located just two blocks north of the Washburn Marina (photo below). This city-owned, full service facility includes 138 boat slips, maintenance and storage facilities and a ship store that offers boating equipment and parts as well as fuel. The Washburn Marina also owns a 150-ton travel lift, the largest such device on Lake Superior.



Washburn Marina

In addition to the existing support facilities discussed earlier, the City of Washburn also hosts many events and activities, including; “Bike Across the Bay” in February, “Superior Vistas Bike Tour” in June, “Board Across the Bay” and “Brownstone Summerfest”, both in July, the “Chequamegon Bay Turkey Trot” in November, and a public farmers market from June through October.

Moving outside of Washburn, we find the Bayfield/Ashland County area supports numerous recreational facilities, snowmobile and ATV trails, many boating/kayaking/fishing/hiking options, public beaches and parks, as well as the Chequamegon Nicolet National Forest, the Mt. Ashwabay ski and recreation area, Madeleine Island, the St. Croix National Scenic Riverway, the Whittlesey Creek National Wildlife Refuge, the North Country National Scenic Trail, the Iron River National Fish Hatchery and the Apostle Islands National Lakeshore. In 2015, the Apostle Island National Lakeshore generated \$36 million in revenue, welcomed 232,662 visitors and supported 571 jobs, making it one of the primary economic drivers in Bayfield County.

ECONOMIC, DEMOGRAPHIC & DEMAND FACTORS

Washburn, Wisconsin-A Brief History

Before getting into a discussion of the economic, demographic and demand factors which will impact future development potential with the City of Washburn, a brief historical outline of the city is warranted.

"Named after Cadwallader C. Washburn (photo below), Civil War general, congressman, founder of the Washburn Crosby Milling Company (forerunner to General Mills) and governor of Wisconsin from 1873-1874, the largest community in Bayfield County lies on a hillside overlooking Lake Superior's Chequamegon Bay. Founded in 1883 because of its protected harbor, abundant forests and availability of sandstone building materials known as Brownstone, the community became a prosperous commercial and industrial center.

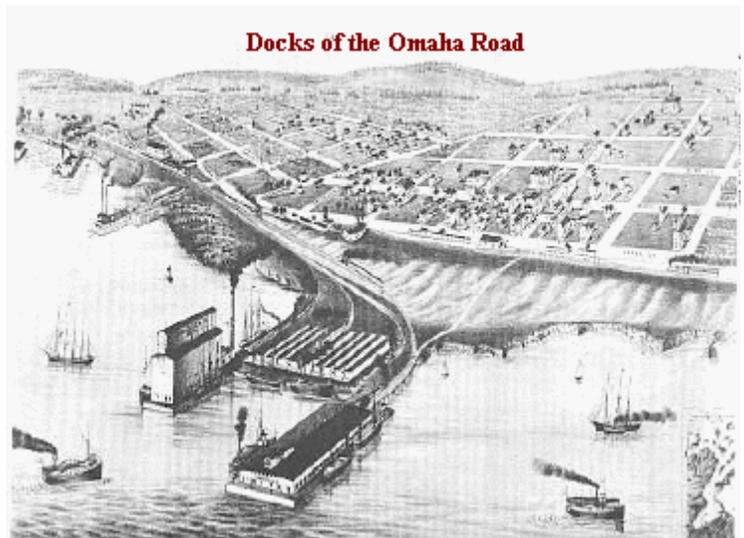


As reported in the 1983 Centennial Celebration publication of the Washburn's Women's Civic Club, *Washburn Memories*, "There is no romance of Indian lore in the history of the foundation of Washburn - no poetical inspirations can be derived from its early history. When founded in 1883, it was strictly a business consideration and has remained so ever since."

Present day Washburn owes its existence to the need of the Chicago, St. Paul, Minneapolis and Omaha Railroad for a lake port. In the spring of 1883, the Bay Land Improvement Company, the land investment arm of the railroad, staked out the town site and began selling lots. The town site was named in honor of Washburn, who incidentally was also a stockholder of the railroad. Having died in 1882, Washburn never set foot in the City. The Company named the town site as a memorial to Washburn. The original plat of the city was completed in August of that year and was comprised of 1,230 lots over 366 acres. Over 150 lots sold in 1883. The price for a business lot at the time of platting ranged from \$150 to \$250. On October 1st of that year, the community's post office opened.

In April 1885, the first of the three major mills opened at the foot of 8th Avenue West along the lakefront by the Northern Pine Land Company. Under various operators, the 8th Avenue mill operated for 39 years until 1924. The following year Rood & Maxwell opened a mill on the lakefront at the foot of 10th Avenue West. Sawing operations ended at this site in 1917. The last major mill was alleged to have been the 2nd largest mill in Wisconsin by Anson A. Bigelow. Whether or not the mill was the second largest in Wisconsin may be debatable, but it was the largest sawmill in Washburn. The Bigelow mill was also opened in 1886 and was on the lakefront at the foot of 6th Avenue West just east of the Northern Pine Land Company property. The mill closed in 1905 and burned shortly thereafter. The City also contained auxiliary industries to the lumber mills including lath and shingle mills, an excelsior company, and a box factory. Finished lumber products were shipped from Washburn via the Omaha and the community's growing maritime industry.

Eventually, logging railroads radiated from the community bringing raw materials from the hinterlands to the community's saw mills. One such line, the home-grown Washburn, Bayfield and Iron River Railroad was purchased by the Northern Pacific Railroad to gain access to the City's lucrative traffic base. The City's source of raw materials was augmented by the rafting of logs across the bay from surrounding lands as well.



The quarrying of brownstone became an important local industry in the late 1800's with several quarries operating between Washburn and Bayfield along the sandstone outcrops. At the height of the industry, seven quarries were operating in Bayfield County. The first brownstone was quarried on Basswood Island in 1869. By 1871 brownstone was being shipped down the lakes to Chicago to rebuild that city after its devastating fire. The first of quarry in Bayfield County reportedly was opened by R.D. Pike between the Salmon and Onion Rivers in 1883. In 1892 the famous brownstone monolith, a 115' obelisk was cut at Houghton Point quarry operated by Frederick Prentice for the Chicago World's Fair. The industry all but died by 1903, having been replaced by concrete and other building materials

The railroad constructed yards, water tower, roundhouse, and a depot in 1883 that reportedly remained until 1967. The depot was the site of the first trial in Washburn in 1884. The depot was unfinished at the time of the trial having a roof and walls but lacking windows and doors. The present county courthouse was erected in 1894.

The current City Hall (photo below) was constructed on the corner of Bayfield St. and Washington Ave. East.



By 1896, the community boasted a population of 6,000, contained 3 weekly newspapers, 9 churches, 15 saloons, 3 banks, 21 boarding houses, an opera house, brewery, four blacksmith shops, two liverys, and a veterinarian.

The city's waterworks was constructed in 1889 and the Walker High School, a Lake Superior Brownstone castle was constructed in 1893 for a cost of \$62,000. Named after an official of the A. A. Bigelow Lumber Company, the new structure was dedicated on May 28, 1894.



In 1904 the community was incorporated as a City, a creamery began business, its residents were provided with electric lights, and a Carnegie Library was constructed. Despite the ongoing decline of the City's foundation industry, forest products, the Dupont Company purchased some 2,000 acres of land outside the community and established the largest dynamite plant in the northwest. The Barksdale Works manufactured a complete line of dynamite and gelatin dynamites for mining, forestry, agricultural applications. Washburn became a boom town by World War I with more than 9,000 residents. The Barksdale plant alone employed 6,000 area

residents during the World War.

In 1910, the first automobile entered the City having traveled from Redwood Falls, Minnesota. The two day trip was hampered by the lack of travelable roads between Drummond and Washburn.

Boom times returned to the community during World War I. The Barksdale Works of the Dupont Company employed upwards of 6,000 men and women in support of the war effort. Washburn's population allegedly peaked at 10,000 during the war and the community was hard pressed to provide housing and educational opportunities for the influx of new families. Dupont arranged for the construction of a significant amount housing in the community to alleviate the shortage of housing endured by its employees. While many remain on the City's East 3rd Street in what is called "Dupont Row" today, many were sold to the expanding Marshall -Wells Hardware Company and moved to Duluth, Minnesota after the war.

The City added to its industrial base in 1921 when Anchor Shipbuilding opened a ship yard in Washburn. Unfortunately, the company only constructed one vessel during its existence, a steel double ended ferry that transported traffic across the Hudson river in New York state. The vessel, the Hudson-Athens, was launched on June 25, 1921.



The City became the home of the district headquarters of the Chequamegon National Forest in the 1930's and remains so today. Thousands of acres of national and county forest lands surround the community providing endless recreational opportunities and a managed timber source for Wisconsin's forest products industry.

The City's water system was purchased in the 1930's and updated forty years later with the conversion from lake water to artesian water and the construction of a storage reservoir. A primary sewage treatment plant was constructed in 1958, upgraded in 1973 and replaced in 1998. Portions of both the water and sanitary sewer saw major reconstruction in 2004. The sewage treatment plant was upgraded again in 2016.



Washburn High School

The Walker School was razed by fire on February 5, 1947. Ground was broken on the new Washburn High School in 1949 (photo at left).

The Barksdale Works of the Dupont Company closed in 1971.

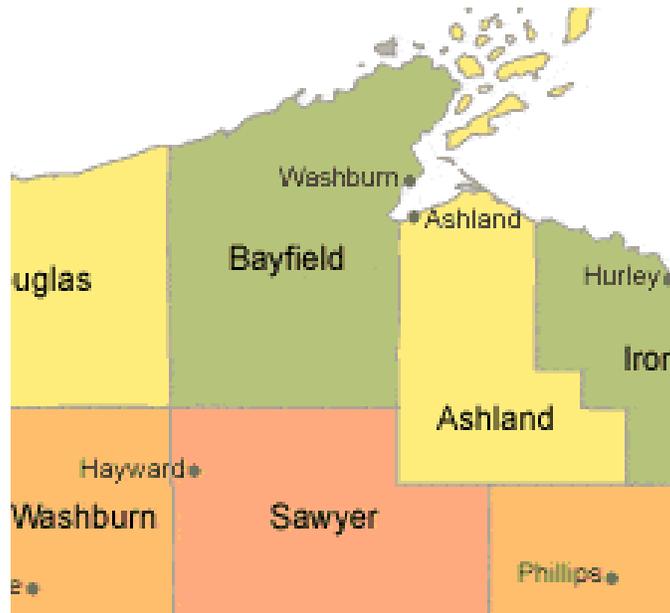
With the decline of the areas industrial base, rail service, the reason for the founding of the community, was discontinued between Washburn and Bayfield in 1977 and abandoned into the community several years later.”

Market Area Definitions

While the focus of this analysis is the City of Washburn, future potentials within the city will be significantly impacted by a larger geographic area. As such, to evaluate the potential demand for residential and commercial development within the City of Washburn, it is first necessary to establish that market area from which most future demand will emanate. With that in mind, we have determined that the

Ashland/Bayfield Primary Market Area, or PMA, will be that area. The Ashland/Bayfield PMA is defined as the entirety of Ashland and Bayfield Counties in northwest Wisconsin.

Geographically, the City of Washburn sits roughly at the north-center of this two-county area, as indicated in the map which follows.



The Ashland/Bayfield PMA

Typically, demand for new development, whether residential or commercial, is almost exclusively dependent upon employment growth. However, in areas such as Washburn, WI which experienced little to no employment growth over the past few decades.

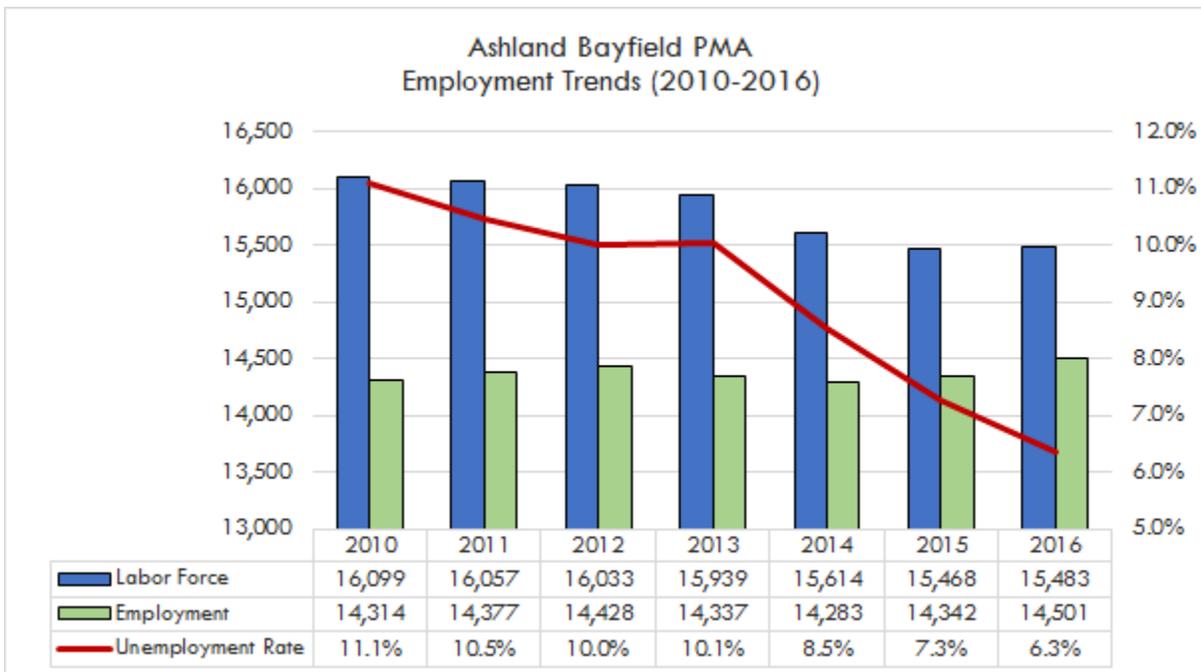
Employment & Industry

As detailed in the table and chart which follow, over the past seven years, the number of employed persons in the PMA has been largely stagnant, with a net increase of only 187 persons recorded over the 2010-2016 period.

Over this same seven-year time-frame, we see that the unemployment rate has declined significantly and consistently from a high of 11.1% in 2010 to 6.3% in 2016. While a reduction in unemployment is certainly viewed as a positive trend, it should be noted that almost all the decrease can be contributed to a decline in the number of persons in the labor force, rather than a significant increase in employment.

Ashland/Bayfield PMA Employment Statistics 2010-2016					
	Labor Force	Employed	Net Change	Unemployed	Rate
2010	16,099	14,314	NA	1,785	11.1%
2011	16,057	14,377	63	1,680	10.5%
2012	16,033	14,428	51	1,605	10.0%
2013	15,939	14,337	-91	1,602	10.1%
2014	15,614	14,283	-54	1,331	8.5%
2015	15,468	14,342	59	1,126	7.3%
2016	15,483	14,501	159	982	6.3%

Source: Wis. Dept. of Workforce Development

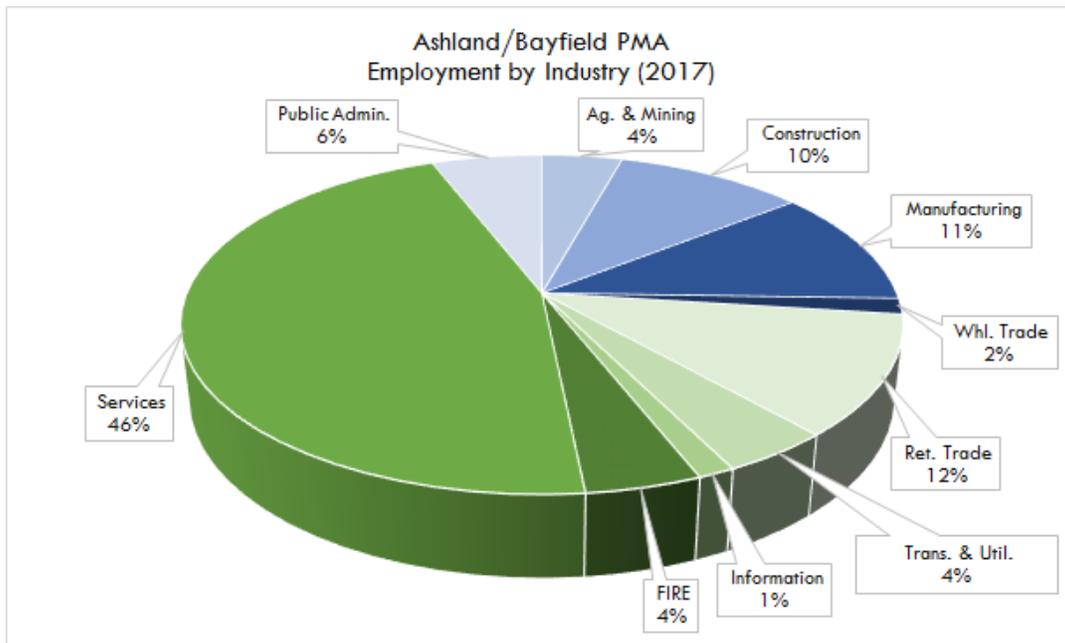


As outlined in the table and chart which follow, the current employed population within the Ashland/Bayfield PMA is 15,347 persons. Nearly half of all workers in the PMA are found within the Services sector, with many of those found within the hospitality sub-sector. Within the City of Washburn, we find similar segmentation to the PMA.

Other industry sectors showing significant PMA representation include Retail Trade (11.4%), Manufacturing (10.1%), and Construction (10.1%).

Washburn, WI & Ashland/Bayfield PMA 2017 Employed Population by Industry				
	Washburn, WI		Ashland/Bayfield PMA	
Industry				
Agriculture & Mining	55	4.9%	660	4.3%
Construction	88	7.9%	1,550	10.1%
Manufacturing	112	10.0%	1,704	11.1%
Wholesale trade	2	0.2%	230	1.5%
Retail trade	134	12.0%	1,750	11.4%
Transportation & Utilities	58	5.2%	645	4.2%
Information	15	1.3%	215	1.4%
Finance and insurance, and real estate.	88	7.9%	675	4.4%
Services	482	43.1%	7,014	45.7%
Public administration	84	7.5%	905	5.9%
Total	1,119	100.0%	15,347	100.0%

Source: U.S. Census Bureau

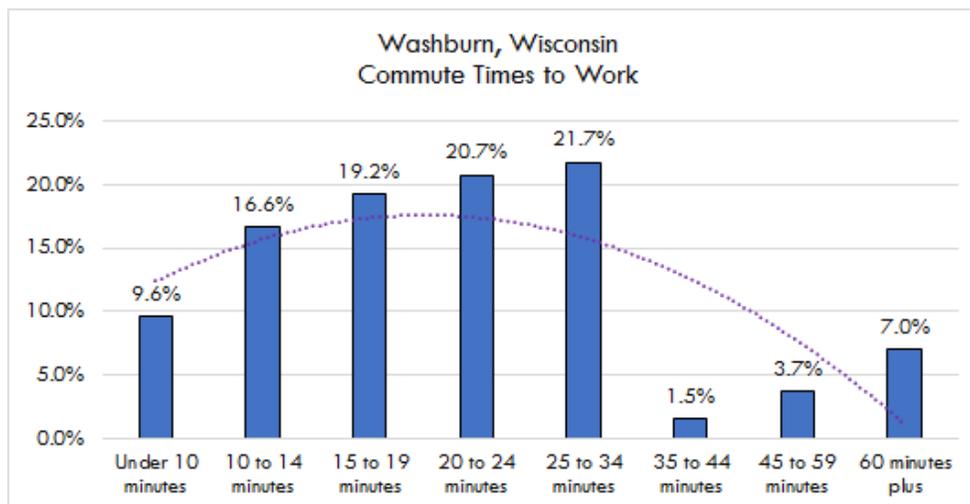


Focusing now upon income by industry, we find that within the Ashland/Bayfield PMA the average worker salary stands at \$34,393. The highest incomes are being generated within the Construction sector, in which the average worker salary stands at \$63,887. Other higher income industries include Manufacturing at \$44,705, Wholesale Trade at \$44,323, and Finance & Insurance at \$43,524. The table which follows provides average salary details for all industry sectors within the PMA.

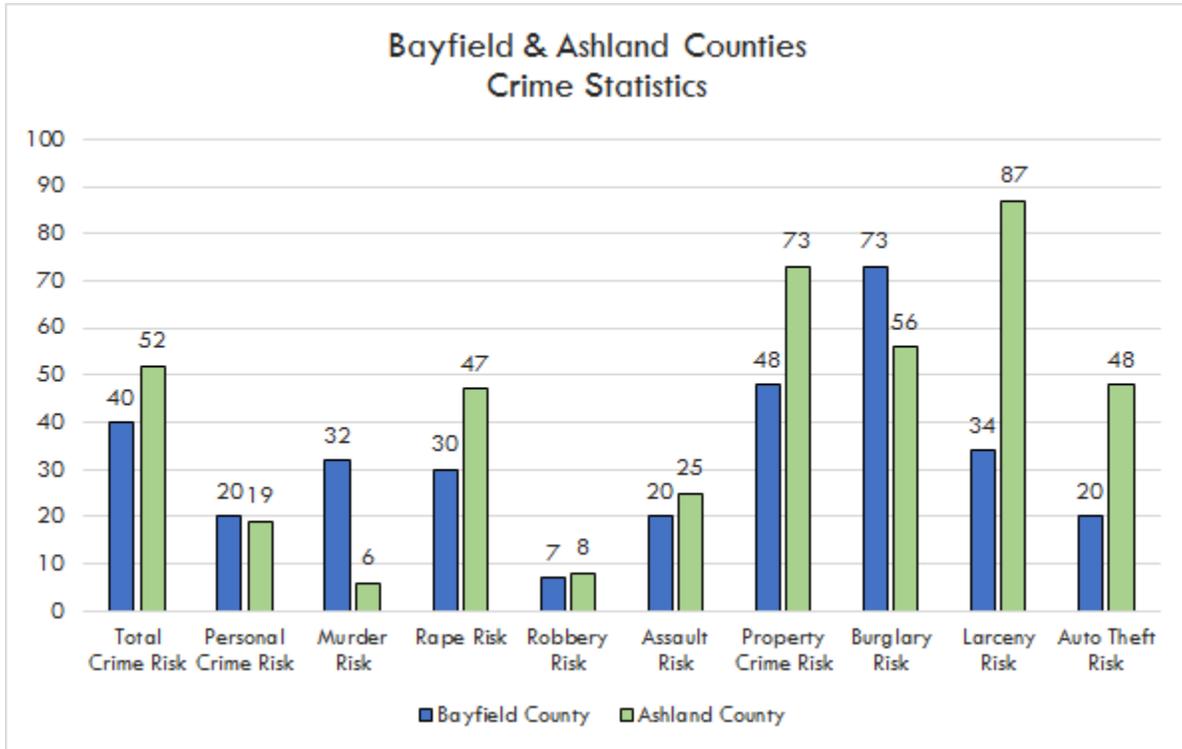
Within the City of Washburn, we find a median commute time of 20.9 minutes, indicating that many Washburn residents are travelling outside of the city limits for their employment. In fact, we note that Washburn residents with commute times of less than 10 minutes (Likely those remaining within the city limits), account for only 9.6% of all commuters as indicated in the chart below.

Ashland/Bayfield PMA Income by Industry (2015)			
	Places	Employees	Average Salary
Industry			
Agriculture & Forestry	26	53	\$42,075
Construction	121	716	\$63,887
Manufacturing	46	1,306	\$44,705
Wholesale trade	19	164	\$44,323
Retail trade	152	1,363	\$23,342
Transportation	116	232	\$35,732
Information	12	109	\$30,211
Finance & Insurance	49	282	\$43,524
Real Estate	21	37	\$31,432
Professional Svcs.	43	176	\$33,648
Administration	31	145	\$29,697
Health Care	89	1,692	\$38,663
Arts & Entertainment	21	89	\$35,797
Food Services	156	1,208	\$15,804
Other Services	86	303	\$18,875
Total/Average	988	7,875	\$34,393

Source: U.S. Census Bureau/County Business Patterns



As would be expected, crime within the Bayfield and Ashland Counties is quite low. For the point of comparison, we note that in the following chart, 100 represents the average for the United States. For all crime categories across both areas, we see that criminal activity will be below the national average, and for most violent crimes, it is significantly so.



Demographic Factors

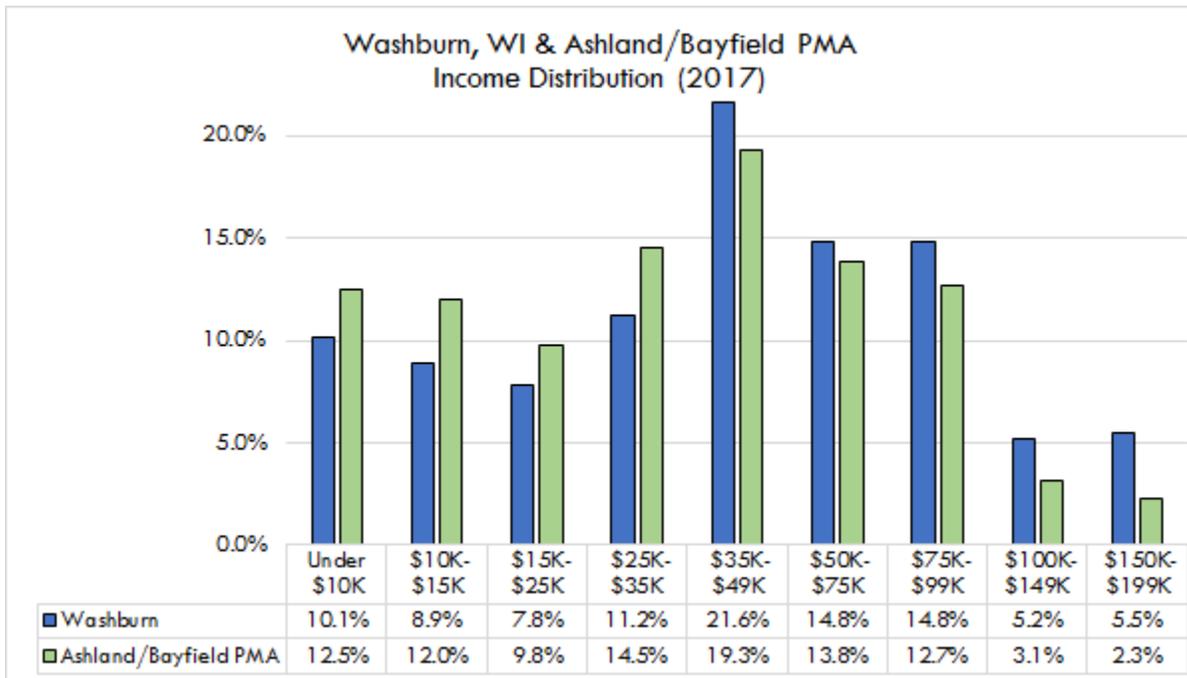
Within the Ashland/Bayfield PMA, census figures placed the total household count at 13,422 units in 2010. Current (2017) figures show a total of 13,348 households, a decrease of 74 households over the past seven years. The household count is expected to decline further to 13,199 by 2021, and to 13,158 in 2027.

In the City of Washburn, the household count has remained steady, with only modest increases recorded since 2010, and minimal organic growth expected over the next ten years as detailed in the table on the following page.

Washburn, WI & Ashland/Bayfield PMA Population & Household Trends					
	2000	2010	2017	2022	2027
	Households	Households	Households	Households	Households
Washburn, WI	921	934	941	942	945
Net Change	NA	13	7	1	3
Average HH Size	2.39	2.15	2.18	2.19	2.19
Ashland/Bayfield PMA	12,925	13,422	13,348	13,199	13,158
Net Change	NA	497	-74	-149	-41
Average HH Size	2.40	2.27	2.27	2.27	2.27
	2000	2010	2017	2022	2027
	Population	Population	Population	Population	Population
Washburn, WI	2,258	2,117	2,107	2,114	2,122
Net Change	NA	-141	-10	7	8
Ashland/Bayfield PMA	31,879	31,171	30,986	30,661	30,451
Net Change	NA	-708	-185	-325	-210
Source: US Census Bureau					

The median household income within the Ashland/Bayfield PMA is currently \$46,738. By component income category, the bulk of households are earning between \$35,000 and \$74,999 annually, with 4,461 households in this range, accounting for 33.8% of the total. Interestingly, average incomes within the PMA are notably higher, with a current figure of \$68,310. This is likely due to the presence of a number of very high income residents who are skewing the figures upward.

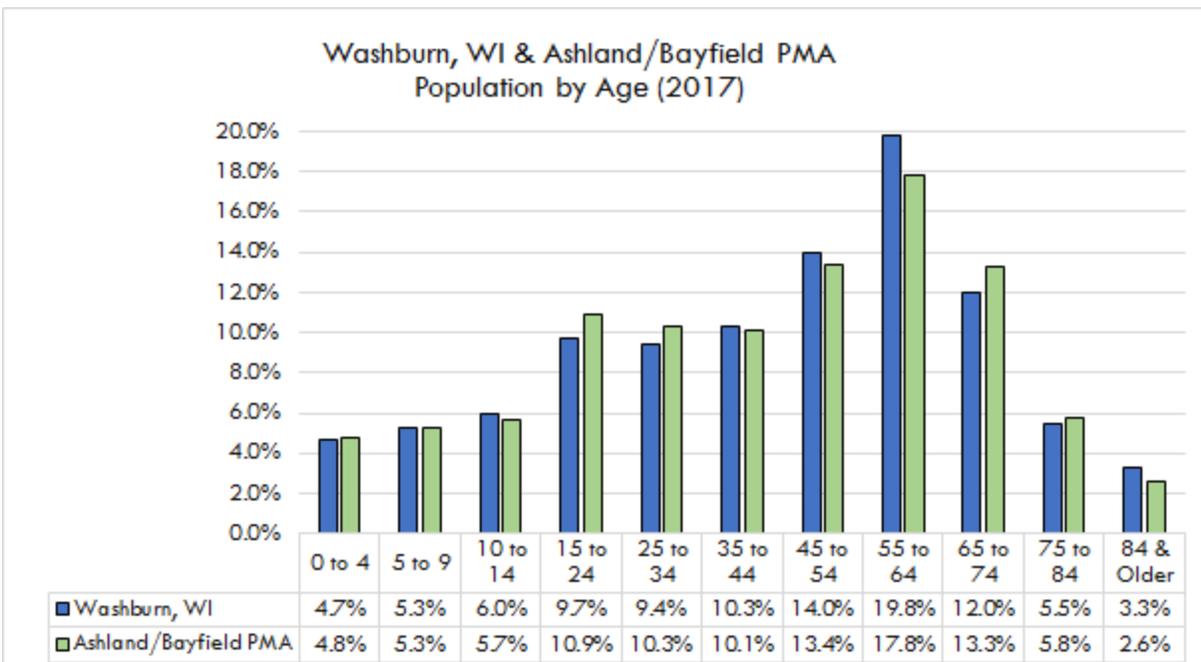
In the City of Washburn the 2017 median annual income for a resident household is \$55,934, a figure 16.4% higher than that noted for the PMA. Within the \$35,000-\$74,999 income range, we note that the City of Washburn contains 310 households, representing an identical 33.8% of the total, when compared to the PMA. Additionally, like the Ashland/Bayfield PMA, average incomes significantly exceed the median, with a current figure of \$85,165 being realized as presented in the following chart.



Source: US Census Bureau

Within the Ashland/Bayfield PMA, current census figures place the median age at a relatively high 47.4 years. This can be traced to two factors, including a relatively high number of persons aged between 55 and 74 years, and a relatively low number of persons aged nine and under.

By and large, age statistics for the City of Washburn align closely with the larger PMA as detailed below.



We find that within the City of Washburn, the average size of a household is 2.18 persons, while in the Ashland/Bayfield PMA, the average stands at 2.27 persons per household. As presented in the table which follows, in both areas there is a high concentration of households with three persons or fewer.

Washburn, WI & Ashland/Bayfield PMA Households by Size				
	Washburn, WI		PMA	
One Person	362	38.3%	4,065	30.8%
Two Person	313	33.2%	5,240	39.7%
Three Person	124	13.1%	1,742	13.2%
Four Person	83	8.8%	1,241	9.4%
Five Person	42	4.5%	594	4.5%
Six Person	16	1.7%	172	1.3%
Seven Person	4	0.4%	290	2.2%
Total households	944		13,199	
Average Household Size	2.18		2.27	
Source: US Census Bureau				

Localized Demand Forecast

Outside of the occurrence of a catalytic event, such as the relocation of a significant employer into the area, it is likely that employment growth, and by extension, demand for new housing that would be required to accommodate an influx of new residents will remain minimal over the next five to ten years.

However, given the current age and condition of the existing housing inventory, it is

quite likely that new residential development within the City of Washburn can meet with satisfactory levels of consumer acceptance by drawing, from existing housing stock, residents who desire new housing alternatives.

Capture Rate-Rental Alternatives

Another analytical tool that is useful for estimating demand for a specific development is the capture rate. The capture rate can be defined as the percentage of age, and income qualified renter or buyer households in a PMA that a property must capture to achieve a stabilized level of occupancy. The capture rate is calculated by dividing the total number of units at the property by the total number of age, and income qualified renter or buyer households in the PMA.

For the purposes of this analysis, we expect that almost all future demand for rental housing alternatives will emanate from households headed by persons aged from 25 to 64, with annual incomes between \$25,000 and \$49,999. At incomes above \$50,000, it is more likely that households will lean towards home ownership, while at incomes below \$25,000, affordability issues will likely prevent them from renting at a newer development with associated higher costs.

As displayed in the following table, within the Ashland/Bayfield PMA, there are 2,309 households headed by someone between the ages of 25 and 64, with annual incomes between \$25,000 and \$49,999. However, as only 23.4% of households in the PMA are currently renters, this must be factored into the final calculation.

Ashland/Bayfield PMA 2015 Households by Age & Income			
Income Range	25-64	Percent	Project
Under \$15,000	969	10.5%	-
\$15,000-\$24,999	1,154	12.5%	-
\$25,000-\$34,999	933	10.1%	933
\$35,000-\$49,999	1,376	14.9%	1,376
\$50,000-\$74,999	1,847	20.0%	-
\$75,000-\$99,999	1,311	14.2%	-
\$100,000-\$149,999	1,200	13.0%	-
\$150,000-\$199,999	295	3.2%	-
\$200,000 & Over	148	1.6%	-
Total	9,233	100.0%	2,308
Assumed Renter Percent			23.4%
Income Qualified HH's			540
Potential Rental Units			54
Capture Rate			10.0%
Source: U.S. Census Bureau			

As revealed above, we find 540 income and age eligible households in the Ashland/Bayfield PMA assuming a 23.4% renter likelihood. By applying a capture rate of 10.0%, we can extrapolate that the maximum number of rental units (within one development) that can be absorbed by the market is approximately 54.

Capture Rate-For Sale Alternatives

In order evaluate the number of income and age qualified households in the Ashland/Bayfield PMA we focused households headed by persons between 25 and 64 years of age, with incomes between \$50,000 and \$149,999 per year. It is believed that this group will compose the majority of potential purchasers at the Omaha Street Property.

As presented in the table to the right, we find that within the Ashland/Bayfield PMA there are 4,358 households headed by a person between 25 and 64 years of age with yearly incomes between \$50,000 and \$149,999. Given an assumed home ownership rate of 76.6%, there are currently 3,338 age and income qualified households in the PMA.

Ashland/Bayfield PMA 2015 Households by Age & Income			
Income Range	25-64	Percent	Project
Under \$15,000	969	10.5%	-
\$15,000-\$24,999	1,154	12.5%	-
\$25,000-\$34,999	933	10.1%	-
\$35,000-\$49,999	1,376	14.9%	-
\$50,000-\$74,999	1,847	20.0%	1,847
\$75,000-\$99,999	1,311	14.2%	1,311
\$100,000-\$149,999	1,200	13.0%	1,200
\$150,000-\$199,999	295	3.2%	-
\$200,000 & Over	148	1.6%	-
Total	9,233	100.0%	4,358
Assumed Homeowner Percent			76.6%
Income Qualified HH's			3,338
Potential For-Sale Units			33
Capture Rate			1.0%
Source: U.S. Census Bureau			

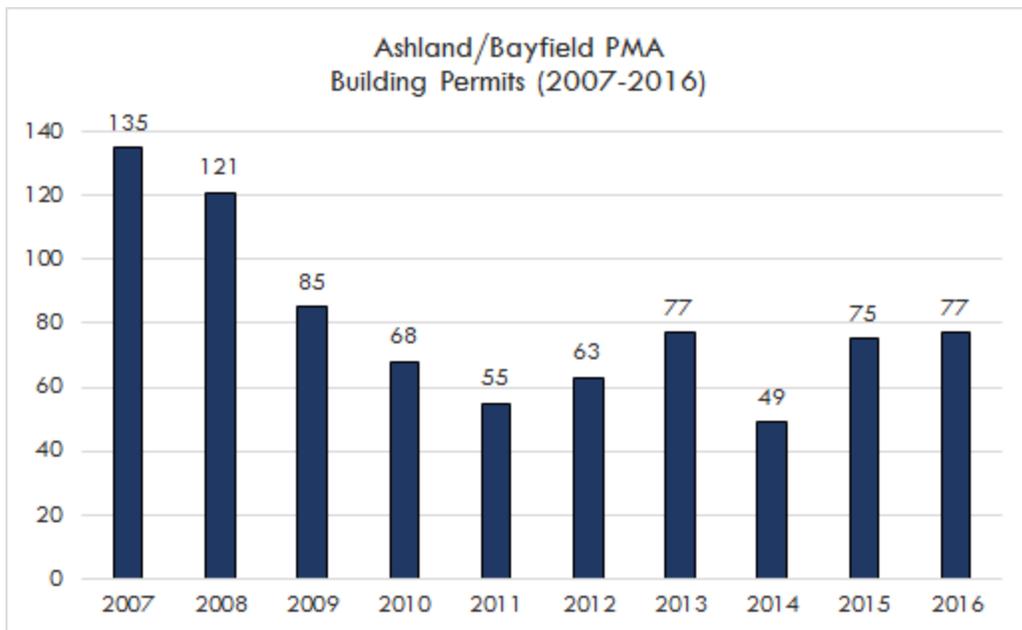
THE RESIDENTIAL ENVIRONMENT

Introduction

To assess the potential for new residential development in the City of Washburn, and specifically at the 8.4-acre Omaha Street Property, we examined a number of relevant housing market statistics, and have detailed them in this section of the analysis.

General Housing Statistics

After witnessing the issuance of 135 residential building permits in 2007 and 121 in 2008, we note that in the Ashland/Bayfield PMA, residential authorizations have remained moderate and consistent over the past eight years. Specifically, since 2009 we find annual permit authorizations having averaged 62 per year, extending from a low of 49 in 2014, to a high of 85 in 2009. As detailed below, in 2016, 77 permits were issued, a figure 23.6% above the average recorded over the past eight years.



Source: Wisconsin Builders Association

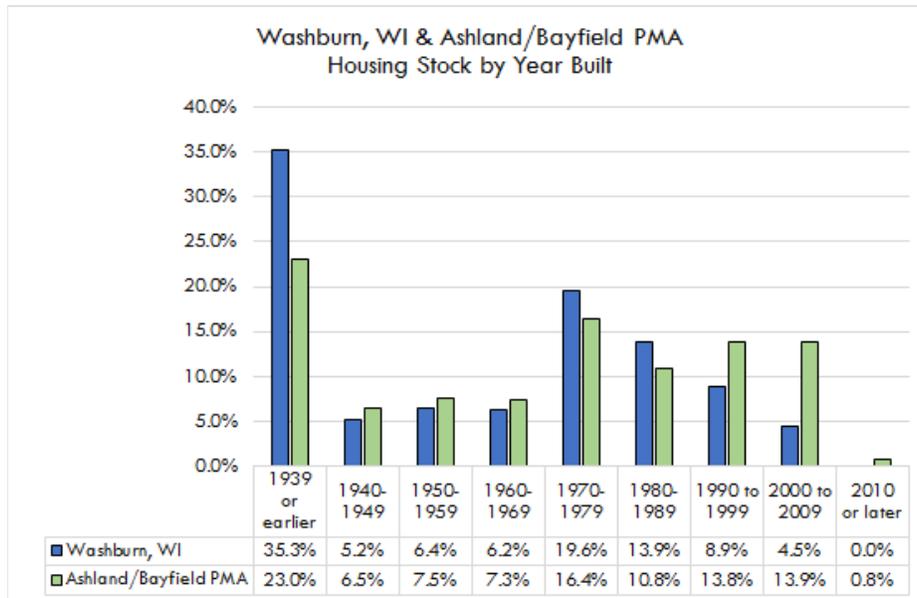
Within the City of Washburn, among the 1,041 housing units identified in 2014, we note that 760 units, or 73.0% of the housing stock is single family homes, and another 81 units (7.8%) are found within two-unit, duplex structures. Conversely, we see that only 23 units, or 2.2% of the total, are found in structures 20 units or more.

In the larger Ashland/Bayfield PMA, single family representation is even higher, with 18,352 (80.7%) of the 22,727 housing units found within this segment. Like the City of Washburn, the PMA supports very little high-density development, with only 1.4% of the housing stock in structures containing 20 units or more. The following table provides details for both the City of Washburn and the Ashland/Bayfield PMA.

Washburn, WI & Ashland/Bayfield PMA 2014 Housing by Units in Structure				
	Washburn, WI		Ashland/Bayfield PMA	
Single Family	760	73.0%	18,352	80.7%
Duplex (2 units)	81	7.8%	701	3.1%
3 or 4 Units	28	2.7%	442	1.9%
5 to 9 Units	50	4.8%	495	2.2%
10 to 19 Units	60	5.8%	436	1.9%
20 to 49 Units	23	2.2%	246	1.1%
50 or more	0	0.0%	76	0.3%
Mobile Home	39	3.7%	1,970	8.7%
Boat, RV, etc.	0	0.0%	9	0.0%
Total	1,041	100.0%	22,727	100.0%
Source: U.S. Census Bureau				

As it relates to age of the existing housing stock, we find an aging inventory with little new construction activity in either the City of Washburn or the Ashland/Bayfield PMA. Specifically, the median year built in the City of Washburn is 1965, with no new construction activity noted after 2010. We also find that 35.3% of all housing units within the city were constructed prior to 1939.

Within the Ashland/Bayfield PMA, the median year built for residential units is 1973, with only 0.8% of the inventory constructed in 2010 or later. Conversely, 23.0% of the housing stock was built in 1939 or earlier, as detailed in the following table.



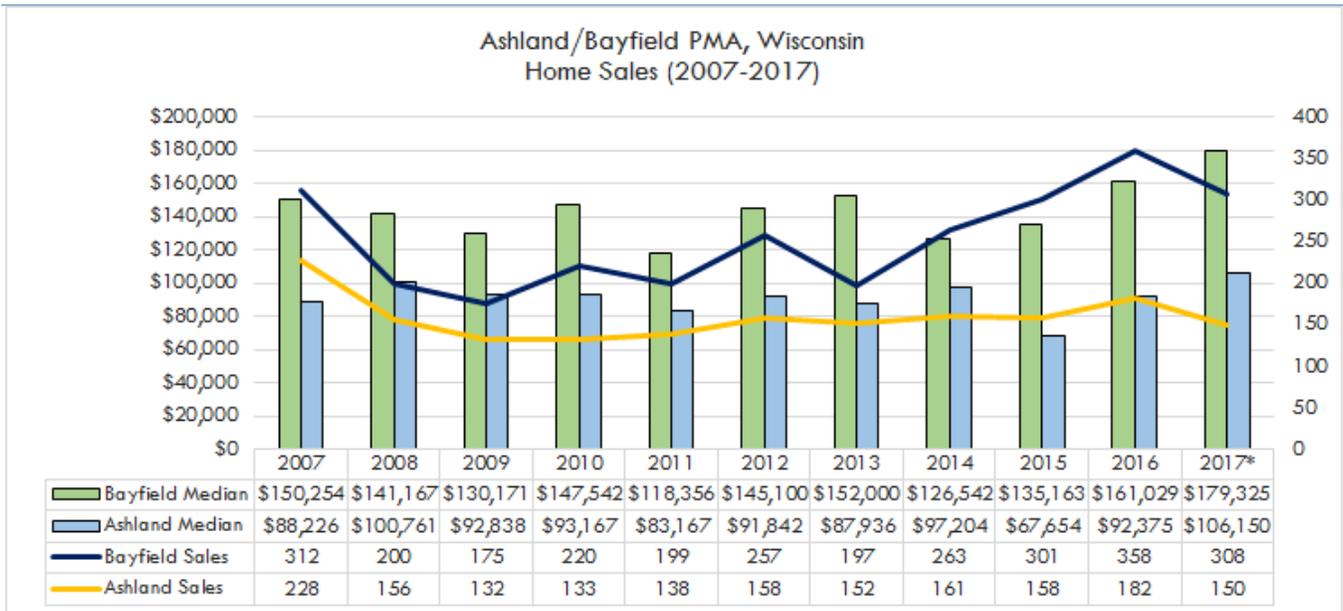
Based upon 2015 US Census figures, the median value of a home within the City of Washburn stands at a relatively high \$161,628, with 85.9% of homes valued between \$50,000 and \$299,999. In the Ashland/Bayfield PMA, the median home value is \$153,050, with 77.7% of residences valued between \$50,000 and \$299,999 as detailed below.

City of Washburn, WI & Ashland/Bayfield PMA 2015 Housing Values				
Value	Washburn, WI		Ashland/Bayfield PMA	
	Total	Percent	Total	Percent
Less than \$50,000	19	2.9%	792	8.1%
\$50,000 to \$99,999	138	21.4%	2,230	22.8%
\$100,000 to \$149,999	136	21.1%	1,800	18.4%
\$150,000 to \$199,999	129	20.0%	1,731	17.7%
\$200,000 to \$299,999	151	23.4%	1,878	19.2%
\$300,000 to \$399,999	19	2.9%	567	5.8%
\$400,000 to \$499,999	18	2.8%	303	3.1%
\$500,000 to \$749,999	30	4.6%	254	2.6%
\$750,000 to \$999,999	2	0.3%	157	1.6%
\$1,000,000 or more	4	0.6%	68	0.7%
Owner-Occupied Units	646	100%	9,782	100%
Average Home Value	\$196,711		\$193,202	
Median Home Value	\$161,628		\$152,050	
Source: US Census Bureau				

As noted in the preceding table, in both the City of Washburn and the Ashland/Bayfield PMA, there is a significant discrepancy between median and average home values. The likely cause of this difference is the presence of a number of higher-end, waterfront properties (specifically those in the \$300,000 to \$750,000 range) that have skewed average values upward.

According to the Wisconsin Board of Realtors, home sales in Bayfield County have averaged 254 per year over the 2007 to 2017 time period, while in Ashland County, sales have averaged 159 per year. In

Bayfield County, the median price of a home sold in 2017 stands at \$179,325, a figure significantly higher than the median sales price of \$106,150 noted for Ashland County. The following table provides residential sales and pricing statistics for both counties over the 2007-2011 time frame.



Source: Wisconsin Board of Realtors

Within the City of Washburn, we note that in 2017, 57.9% of all homes were owner-occupied, 29.4% were renter-occupied and 15.4% were vacant. However, within areas like Washburn, and more so in the Ashland/Bayfield PMA, a large percentage of the homes are seasonal. As such, vacancy rates are often quite distorted.

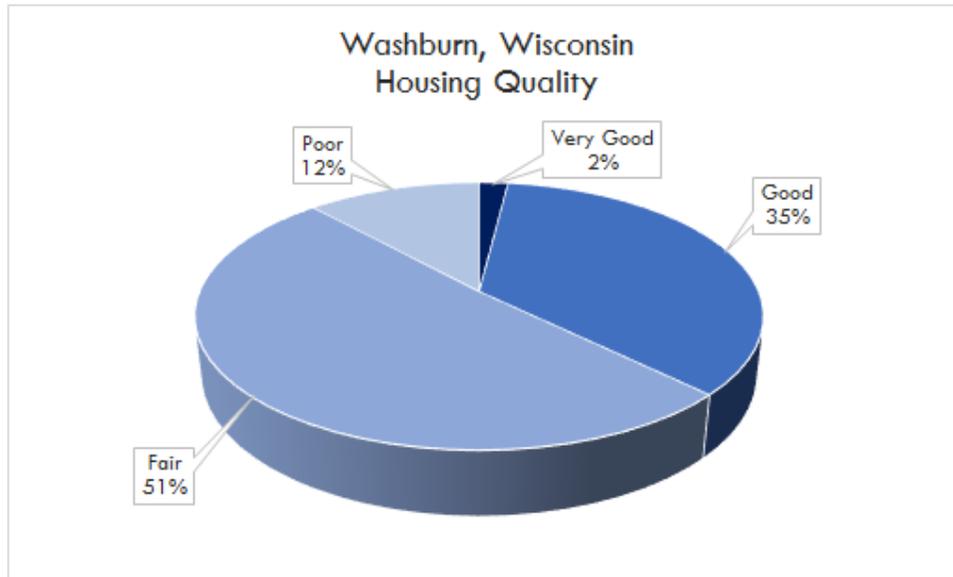
Within the larger PMA, we see that currently 42.3% of homes are occupied, only 15.4% are renter-occupied, and 42.2% are vacant. Over the next five to ten years, we do not anticipate significant changes to these levels, as detailed in the following table.

Washburn, WI & Ashland/Bayfield PMA Housing Tenure Statistics										
	2000		2010		2017		2022		2027	
	Washburn	PMA								
Owner Occupied	69.7%	48.1%	57.9%	44.9%	58.1%	42.3%	55.3%	41.1%	53.9%	40.4%
Renter Occupied	23.2%	14.8%	29.4%	14.4%	26.6%	15.4%	25.3%	14.9%	24.1%	15.2%
Vacant	7.1%	37.0%	12.7%	40.8%	15.4%	42.2%	19.5%	43.9%	22.0%	45.6%

Source: US Census Bureau

The Northland College Center for Rural Communities recently completed an Assets and Amenities Survey for the City of Washburn. As indicated in the following graphic, 63% of local residents felt that the quality of the current housing stock in Washburn was either “Fair” or “Poor”, with only 2% believing that it was

“Very Good”. Further, 96% of respondents felt that the City needed to assist with the creation of additional housing options to meet the current needs of the population.



In a report conducted in June of 2016 by the Cedar Corporation titled Development Plan for City Owned Properties, a number of local realtors were asked a series of questions to get their perspective on local demand for housing, the types and prices of homes that are in demand, as well as the general health of the Washburn residential market.

Question 1: “What types of homes are people looking for in the area?”

- Affordable starter homes priced under \$200,000.
- Quality built new homes.
- Move-in ready existing homes.
- Maintenance free homes with main floor living, at least two baths and an attached garage.

Question 2: “What age are your clients? Is there a certain age group that is seeking housing now or moving into the area?”

- Generally early 20’s or early 60’s, with each requiring specific amenities.
- Retired persons appear to be settling outside of town.
- Young families with children with one-third returning “home” to Washburn, one-third already in the region and moving here for the quality of local schools, and one-third moving to the area from outside of the region.
- The Washburn Marina does not seem to be a draw for buyers.

Question 3: “Are the people in Question 2 finding the housing they are seeking?”

- No. The existing housing stock is generally comprised of older, outdated homes.
- Eventually some do, they often they are settling for homes that do not meet their needs.
- Currently, it costs more to build a new home than most buyers can afford.

Question 4: “Are there types of housing (styles, price, square footage) that buyers are having a difficult time finding?”

- Quality-built single-family homes that are well maintained, maintenance free at prices between \$175,000 and \$200,000.
- Artist “live/work” space.
- Homes affordable to first-time buyers.
- Newer homes.

Question 5: “What is your opinion of the rental market? Are there enough rental units or is there a lack of quality apartments?”

- People are looking for quality rentals in the \$700 per month range.
- There is a lack of rental in the area, and those that do exist are of lower quality.
- Artists are struggling to find live/work space that is decent and affordable.

The Single-Family Home Market

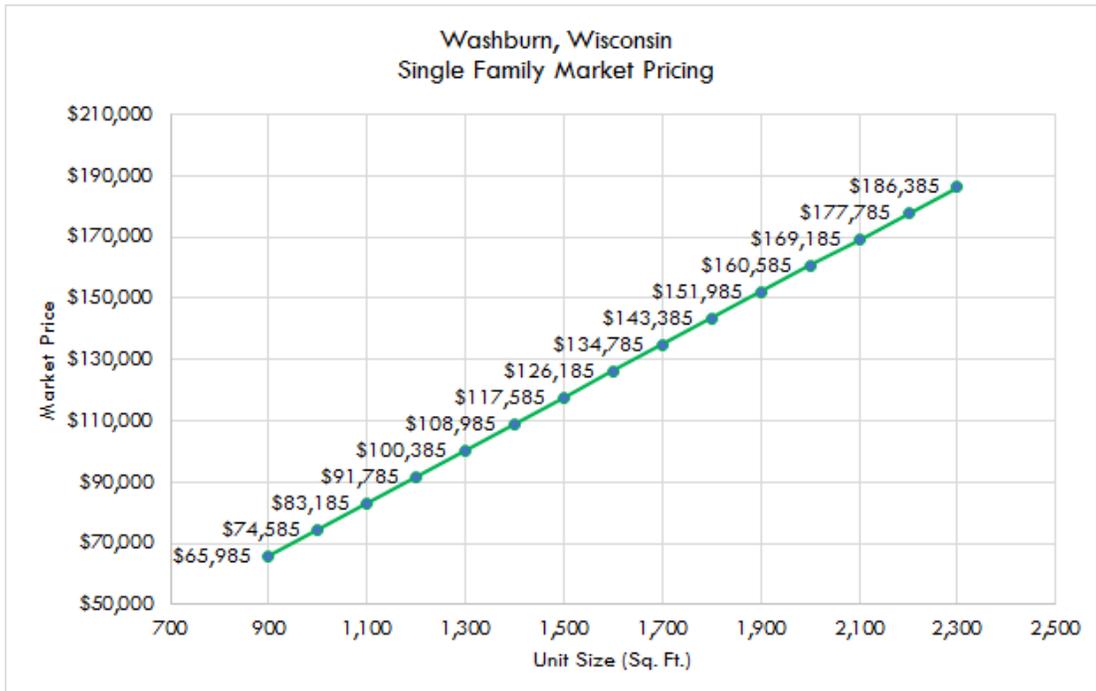
As outlined in the table which follows, a total of 19 (non-waterfront) single family homes have been sold in the City of Washburn over the past twelve months. The average sales price among these sales was \$131,087, and the average home included 1,657 square feet of living area. This yields a value ratio of \$79.11 per square foot.

Washburn, Wisconsin Single Family Home Sales Past Twelve Months						
Property/Address	Sale Date	Bedrooms	Baths	Home Size (Sq. Ft.)	Sales Price	Price/Sq. Ft.
508 W. 4th Street	6/29/2017	2	2	1,595	\$40,000	\$25.08
329 W. 6th Street	6/26/2017	3	1	1,600	\$129,250	\$80.78
908 W. Bigelow Avenue	6/23/2017	3	2	1,806	\$145,000	\$80.29
26835 N. Maple Hill Rd.	6/20/2017	3	1	1,200	\$120,000	\$100.00
402 E. 3rd Street	6/8/2017	3	2	1,512	\$147,500	\$97.55
78415 State Highway 13	4/7/2017	3	2	2,211	\$185,000	\$83.67
827 W. Bayfield St.	3/13/2017	3	1	1,430	\$77,500	\$54.20
818 W. 3rd Street	3/1/2017	3	2	1,596	\$70,000	\$43.86
710 E. Bayfield St.	2/27/2017	3	2	1,941	\$155,000	\$79.86
76830 Hove Lane	2/20/2017	3	1	1,801	\$188,000	\$104.39
29395 County Highway C	2/8/2017	3	1	1,170	\$163,000	\$139.32
625 W. 5th Street	1/6/2017	2	2	1,629	\$124,900	\$76.67
1020 W. Bayfield St.	11/29/2016	3	2	1,404	\$98,000	\$69.80
315 W. Pine St.	11/21/2016	2	1	1,289	\$65,000	\$50.43
316 N. 6th Street	11/3/2016	2	1	955	\$89,000	\$93.19
21 Grove Blvd.	9/1/2016	4	2	2,272	\$240,000	\$105.63
30275 Hillside Dr.	8/17/2016	5	3	2,200	\$160,000	\$72.73
630 E. 3rd Street	8/4/2016	4	2.5	2,107	\$155,000	\$73.56
622 E. 3rd Street	7/12/2016	3	2	1,764	\$138,500	\$78.51
Average				1,657	\$131,087	\$79.11

The chart below provides a graphic delineation of all 19 single family sales recorded in the City of Washburn over the past twelve months.



Straight-line regression analysis reveals that “market” or average, non-waterfront, single family home prices in the City of Washburn extend from \$65,985 for a 900 square foot home to \$186,385 for a home with 2,300 square feet, as outlined in the following chart.



The Townhome/Condominium Market

Within the City of Washburn, the market for townhome/condominiums is modest, at best. Over the past twelve months, we find that no sales activity has occurred in this sector.

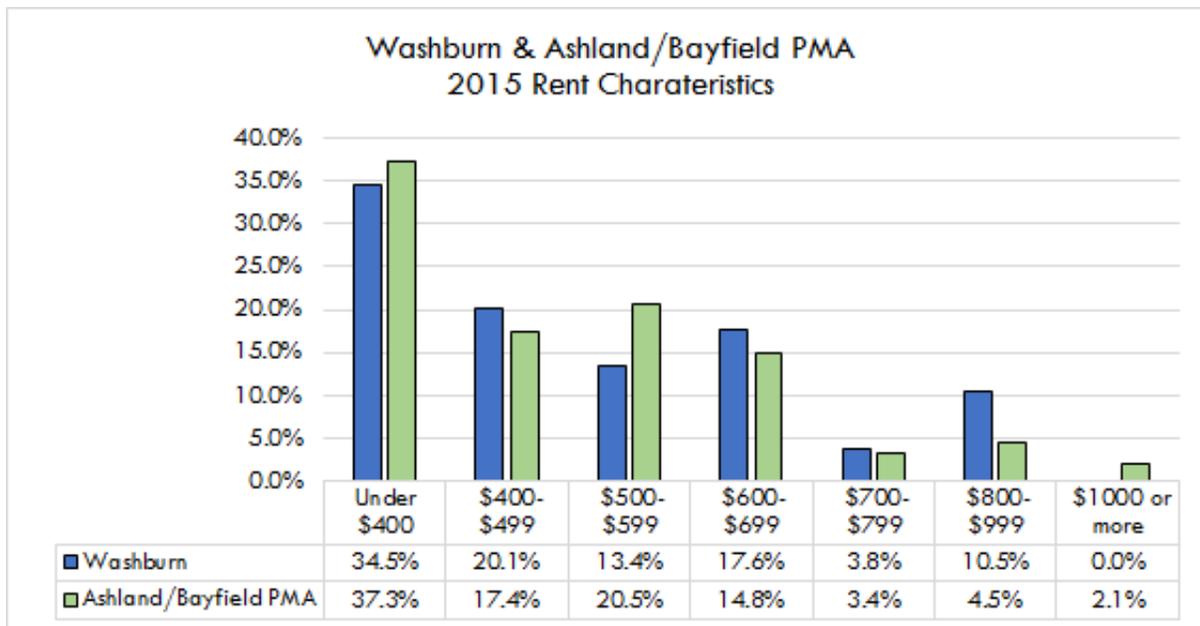
However, there is currently one condominium unit for sale in the City. This home, located at 126 W. Bayfield Street, offers two bedrooms and two baths and is priced at \$129,900. The unit includes 1,500 square feet of living space yielding a value ratio of \$86.60 per square foot. The condominium does offer some views of Lake Superior, and it has been on the market for 49 days.

The Rental Market

Based upon US Census figures from 2015, the average rent for an apartment in the City of Washburn is \$481 per month, while the median rent stands at a nearly identical \$483. Of note is the fact that in the city, 54.6% of all renters currently pay less than \$500 monthly in rent. Within the Ashland/Bayfield PMA, the 2015 average rent is \$462 per month and the median is \$474. Like the City of Washburn, we see a heavy concentration of PMA renters paying less than \$500 monthly, with 54.7% representation noted. Please refer to the following table and chart for details regarding monthly rents in the City of Washburn and the Ashland/Bayfield PMA.

City of Washburn, WI & Ashland/Bayfield PMA 2015 Rent Characteristics				
	Washburn, WI		PMA Total	
Gross Monthly Rent				
Less than \$400	108	34.5%	1,095	37.3%
\$400-\$499	63	20.1%	510	17.4%
\$500-\$599	42	13.4%	602	20.5%
\$600-\$699	55	17.6%	435	14.8%
\$700-\$799	12	3.8%	99	3.4%
\$800-\$999	33	10.5%	131	4.5%
\$1,000 or more	0	0.0%	61	2.1%
Total	313	100.0%	2,933	100.0%
Average Rent	\$481		\$462	
Median Rent	\$483		\$474	

Source: U.S. Census Bureau



As discussed earlier, much of the housing stock in the Ashland/Bayfield PMA is older, with no significant residential development over the past seven years. As such, the current inventory will only exert an indirect competitive influence over future offerings at the Omaha Street site.

Within the City of Washburn, we were able to identify two larger market-rate rental properties, including a 17-unit property located at 12 E. 3rd Street, and an eight-unit property located at 620 E. 4th Street.

The 3rd Street property was originally developed as condominiums, however, there are currently three units for rent including a 2 Bedroom/1 Bath unit for \$685 per month, a 1 Bedroom/1 Bath for \$620 and a Studio unit for \$375 per month. All units at the 4th Street property include 2 Bedrooms and 2 Baths, and this property is currently fully occupied. When available, these apartments rent for approximately \$575 per month.

There is also a four-unit apartment building located at the southwest corner of the Omaha Street property. Information for this property was not available, however, given its small size age it is unlikely that it will have any competitive influence at the subject site.

Within Bayfield County, the Wisconsin Housing and Economic Development Authority (WHEDA) has financed eight projects with 432 units over the past fifteen years. Most of the housing is scattered site, with many units under Section 8 guidelines. However, according to WHEDA the vacancy rate among the 432 units stood at a very tight 1.2% in 2016.

THE RETAIL/COMMERCIAL ENVIRONMENT

Of all real estate product types, retail is the most locationally sensitive in terms of attainable rents. More specifically, a locational difference of only a block or two between properties can have a significant effect upon rental rates that can be generated. This is especially true in areas like Washburn, Wisconsin, which have a relatively small downtown core.

However, before examining the existing commercial market, a general retail supply and demand analysis for Washburn is warranted.

Supply & Demand Analysis

In order to best assess opportunities at the downtown Washburn site, we focused only on those retail sectors that could be reasonably expected to lease space (i.e, specialty food stores, jewelry stores, shoes stores, etc.) and disregarded those retailers, like gasoline stations and building materials stores that would likely not be interested in such a location.

Washburn, Wisconsin Retail Supply & Demand Analysis					
Retail Sector	Demand	Supply	Retail Gap	Leakage/ Surplus	Outlets
Auto Parts & Accessories	\$559,464	\$228,121	\$331,343	42.1	1
Home Furnishings	\$388,285	\$0	\$388,285	100.0	0
Electronics & Appliances	\$993,145	\$0	\$993,145	100.0	0
Grocery Stores	\$4,279,277	\$5,116,331	-\$837,054	-8.9	1
Specialty Food	\$350,506	\$0	\$350,506	100.0	0
Wine, Beer & Liquor Stores	\$265,648	\$182,844	\$82,804	18.5	1
Health & Personal Care	\$2,112,412	\$707,380	\$1,405,032	49.8	1
Clothing	\$1,212,440	\$0	\$1,212,440	100.0	0
Shoes	\$174,642	\$0	\$174,642	100.0	0
Jewelry & Luggage	\$244,849	\$0	\$244,849	100.0	0
Hobby & Musical Inst.	\$653,284	\$235,249	\$418,035	47.0	1
Books & Music	\$116,478	\$384,342	-\$267,864	-53.5	1
Other General Merchandise	\$1,342,292	\$306,272	\$1,036,020	62.8	1
Florists	\$58,736	\$0	\$58,736	100.0	0
Stationery & Gifts	\$272,441	\$0	\$272,441	100.0	0
Used Merchandise Stores	\$256,154	\$592,288	-\$336,134	-39.6	1
Special Food Services	\$77,475	\$117,616	-\$40,141	-20.6	1
Drinking Places	\$211,385	\$260,865	-\$49,480	-10.5	3
Restaurants	\$2,811,188	\$2,612,192	\$198,996	3.7	7

Source: U.S. Census Bureau

As detailed in the chart above, a number of retail sectors like Grocery Stores and Book & Music are currently oversupplied. However, there are a number of sectors which are currently undersupplied and

several, like Home Furnishings, Electronics, Specialty Foods, Clothing among others, are significantly so. However, it must be noted that for many of the “undersupplied” categories, like Florists, the depth of demand is only \$58,736. As such, there may not be enough potential revenue to support the opening of a facility in that retail sector.

Within the City of Washburn, annual household spending totals \$38,851,920, or an average of \$41,286 per household. By consumer segment, Housing accounts for 33.7% of all household spending, followed by 11.8% on Groceries, and 7.3% on Entertainment and Recreation, as detailed below.

Washburn, Wisconsin Annual Spending by Consumer Segment			
Consumer Segment	Total Spending	Average HH Spending	Percent
Apparel & Services	\$1,736,644	\$1,846	4.5%
Education	\$1,021,774	\$1,086	2.6%
Entertainment & Recreation	\$2,847,114	\$3,026	7.3%
Groceries	\$4,586,975	\$4,875	11.8%
Dining Out	\$2,792,291	\$2,967	7.2%
Healthcare	\$5,488,553	\$5,832	14.1%
Household Furnishings	\$1,727,554	\$1,836	4.4%
Personal Care Products	\$677,904	\$720	1.7%
Housing	\$13,088,235	\$13,908	33.7%
Support Payments & Gifts	\$2,122,809	\$2,255	5.5%
Travel	\$1,757,529	\$1,867	4.5%
Vehicle	\$1,004,538	\$1,068	2.6%
Total	\$38,851,920	\$41,286	100.0%
Source: US Census Bureau			

As outlined in the table which follows, we note that the City of Washburn currently supports 141 businesses, with a total of 1,194 employees. Of the total, 46 businesses or 32.7% are found in the Services sector, followed by Public Administration with 35 businesses (24.8%), and Retail Trade with 29 businesses, representing 20.6% of the total.

A focus upon employee count shows an ever greater representation within the Services sector. In this sector we find 541 employees accounting for 45.3% of city-wide totals. Employee representation rates for Public Administration and Retail Trade are 25.1% and 18.3% respectively.

City of Washburn, Wisconsin Business Summary				
	Businesses		Employees	
Industry				
Agriculture & Mining	4	2.8%	21	1.8%
Construction	7	5.0%	16	1.3%
Manufacturing	1	0.7%	35	2.9%
Transportation & Utilities	4	2.8%	30	2.5%
Communication	1	0.7%	1	0.1%
Retail Trade	29	20.6%	219	18.3%
Finance, Insurance and Real Estate	10	7.1%	32	2.7%
Services	46	32.7%	541	45.3%
Public Administration	35	24.8%	300	25.1%
Unclassified	4	2.8%	0	0.0%
Total	141	100.0%	1,194	100.0%
Source: U.S. Census Bureau				

Existing retail/commercial facilities in Washburn are concentrated along Bayfield Street, and include outlets “typical” to a city of Washburn’s size and include such facilities as a hardware store, grocery store, gas station, several restaurants, etc. We were unable to identify any retail/commercial space that is currently available for rent. In fact, we were only able to identify one significant available retail space in the entire Ashland/Bayfield PMA. Located in Ashland, we found 7,000 square feet available within a strip-center with asking rents of \$8.00 to \$12.00 per square foot, triple-net.

DISCLAIMER

This report may have forward-looking projections about the future growth of various markets. These projections are subject to risk and uncertainty. Actual results may differ due to a variety of factors including, but not limited to; competition, regulatory changes, and general economic conditions. All other factors should be considered carefully and the Client shall not place undue reliance on these forward-looking projections.

LIMITATION OF LIABILITY

All information collected by The Windward Group for this report has been collected by analyzing the pricing and availability trends for rental apartment and commercial/retail projects. This analysis relies on information from a variety of secondary sources and while the information contained herein is believed to be accurate, The Windward Group cannot guarantee the complete accuracy of the information in this study that has been obtained from secondary sources. The liability of The Windward Group, and its employees, to the Client, for the

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