

## MEMORANDUM

**TO:** Paulette Enders, City of Wauwatosa

**FROM:** *SB Friedman Development Advisors*  
Ranadip Bose, AICP, Senior Project Manager  
Lance Dorn, Project Manager

**DATE:** September 2, 2016

**RE:** **Market Assessment for the City Hall Site: 7635-7735 West North Avenue**

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*SB Friedman Development Advisors (“SB Friedman”)* was engaged by the City of Wauwatosa (the “City”) to evaluate the real estate market potential of an approximately 8.5-acre City-owned site located at 7635-7735 West North Avenue (the “Site”). The Site contains the approximately 140,000-square-foot City Hall and Public Library building, which the City has indicated exceeds its current operating needs and is in need of substantial ongoing maintenance. The City is currently evaluating whether to continue to invest in the facilities or to pursue redevelopment of the Site as a combination of public and private uses. The latter would require the construction of more modern and efficient space for the City Hall and Public Library.

In this memorandum, we evaluate the suitability of the Site for redevelopment and summarize key supply and demand factors for a number of market-driven uses, including residential, commercial and medical office. We also summarize input received from local developers, key stakeholders and community residents regarding the market potential of the Site and redevelopment efforts. For the purpose of this market assessment, we assume that 71,600 square feet of Public Library space, including 20,000 square feet of civic center meeting space, will be reconstructed on-site, while City Hall functions move off-site to another location in the City. If the civic center meeting space was not relocated with City Hall and remained on the Site, it could result in 20,000 square feet less of dedicated Public Library space.

This study is preliminary in nature and intended to: synthesize a range of market-feasible redevelopment options for the Site; obtain stakeholder and community feedback regarding redevelopment; and identify potential next steps as the City continues to evaluate redevelopment of the Site.

### Suitability of the Site for Redevelopment

The Site, presented in **Figure 1** on the following page, consists of approximately 8.5 acres of land at the southwest corner of North Avenue and Wauwatosa Avenue (State Highway 181). In addition to the City Hall and Public Library facilities, the Site also includes approximately 342 surface parking spaces.

## ACCESS AND VISIBILITY

Access to the Site is via North Avenue and Wauwatosa Avenue. Direct access is limited to the neighborhoods to the south and west due to a change in topography. There is currently pedestrian access to Jackson Park Boulevard via a stairway on the western edge of the Site, adjacent to the surface parking.

**Figure 1. Site Area**



Source: Esri, SB Friedman

The Site is located at a busy intersection, with traffic counts exceeding 34,000 vehicles per day (Wisconsin Department of Transportation). There is also significant pedestrian activity at the intersection, primarily due to the middle school on the northwest corner and the bus stops located at the eastern edge of the Site and across Wauwatosa Avenue. The current intersection configuration includes multiple “slip lanes” that allow for right turns, but make pedestrian crossing difficult. The Site is within walking distance of an emerging retail and restaurant cluster located to the east along North Avenue. The commercial heart of the City (“the Village”) in downtown Wauwatosa is located less than 1 mile directly south of the Site.

## SITE CONTEXT

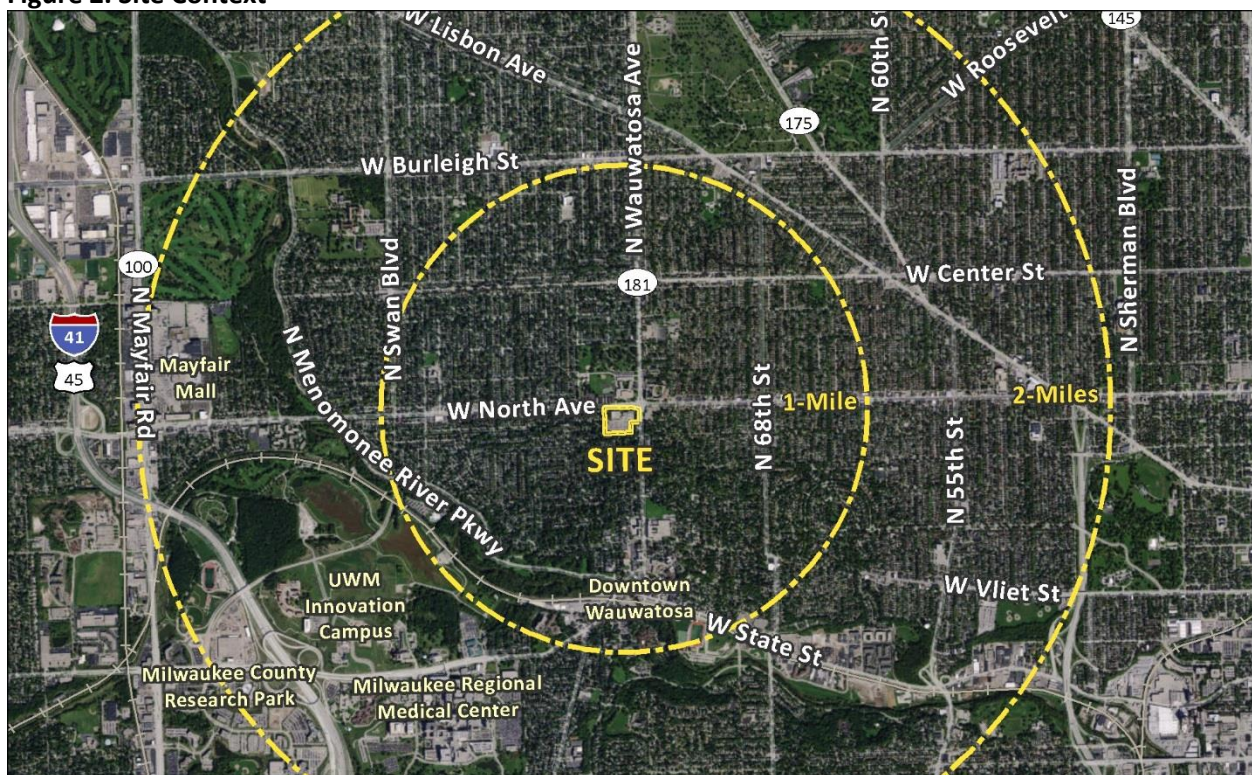
As presented in **Figure 2** on the following page, the Site is located at the intersection of two main thoroughfares in Wauwatosa, which provide direct access to the Village area of downtown Wauwatosa, the Mayfair Road Corridor, and commercial areas along North Avenue to the east and west. The Milwaukee Regional Medical Center (MRMC), Milwaukee County Research Park (MCRP), University of

Wisconsin-Milwaukee (UWM) Innovation Campus, and Mayfair Mall are all within 2 miles of the Site. Adjacent land uses include:

- **Longfellow Middle School**, an 860-student public middle school located to the north;
- **The Lutheran Home**, a 277-unit assisted living, nursing care and rehabilitation facility located to the northeast of the Site; and
- **BMO Harris Bank**, a 31,000-square-foot bank branch located directly to the east of the Site across Wauwatosa Avenue.

The Site is primarily surrounded by single-family homes to the south and west. There are some rental duplexes on North Avenue to the west of the Site. Several churches, schools and other community institutions are located within walking distance of the Site.

**Figure 2. Site Context**



Source: Bing Maps, SB Friedman

## MARKET DEMOGRAPHICS

As presented in **Table 1** on the following page, the Site is adjacent to affluent neighborhoods, with a median household income over \$80,000 within 1/2-mile of the Site. This portion of the City is both more affluent and younger than the City as a whole.

**Table 1. Current Area Demographics**

	1/2-Mile Radius of the Site	3/4-Mile Radius of the Site	1-Mile Radius of the Site	City of Wauwatosa
Population	5,562	13,448	22,309	46,652
Number of Households	2,261	5,761	9,612	20,486
Median Household Income	\$82,804	\$78,013	\$70,094	\$67,062
Median Age	38.8	38.4	37.9	40.7

Source: Esri, *SB Friedman*

## Residential Market Potential

The Site is attractive for residential uses due to its walkability, central location within Wauwatosa, easy access to the freeway system, and proximity to churches, schools, parks and other community institutions and amenities. The Site is one of the few redevelopment sites in Wauwatosa located within a traditional neighborhood, which could be appealing to prospective residents and offer a competitive advantage over other recent developments that tend to be in more commercial areas of the City or along busy traffic corridors. Regional developers have expressed significant interest in redeveloping the Site, largely envisioning a mix of residential uses.

The nature of the Site itself also serves as a potential benefit to redevelopment as there is a 25-foot change in topography as you move south and west from the intersection of North Avenue and Wauwatosa Avenue. This could potentially allow for more economical construction of structured parking due to the slope of the Site. Furthermore, the Site is among the highest points in the City, thus offering attractive views for a midrise structure.

### MULTIFAMILY APARTMENTS

Wauwatosa is currently second only to Milwaukee as the most active apartment market in the region. Developers continue to express confidence in the Wauwatosa rental market, despite the high level of recently completed and proposed multifamily apartment development. Developers have also indicated that newly delivered units are experiencing steady absorption, largely with residents moving from outside of Wauwatosa. Competitive residential markets and key multifamily statistics are presented in **Table 2** below. For new product, rents in Wauwatosa, on average, provide a 5-15% discount on rent per square foot over downtown Milwaukee, the Eastside, Third Ward and Walkers Point, and a slight premium over eastern Waukesha County and the North Shore.

**Table 2. Residential Market Statistics – Units Built Since 2010** <sup>[1]</sup>

Residential Submarket	Number of Units Built Since 2013, Under Construction or Proposed	Average Asking Rent PSF
Wauwatosa	1,265	\$1.63
Milwaukee: Downtown / Eastside	5,699	\$1.85
Milwaukee: Third Ward and Walkers Point	1,006	\$1.71
North Shore	460	\$1.56
Eastern Waukesha Co. [2]	841	\$1.62

[1] Data exported from CoStar on July 10, 2016.

[2] Includes Menomonee Falls, Brookfield and New Berlin.

Source: CoStar, *SB Friedman*

Multifamily apartments on this Site would likely compete with new Class A development in the Village area and proposed development along the Mayfair Road Corridor; however, it is likely that younger tenants would gravitate towards the more urban development in the Village and a slightly older demographic would be attracted to development on the Site, given its location in an established neighborhood. Likely competing residential developments are presented in **Figure 3** and **Tables 3-4**.

**Table 3. Competitive Multifamily Apartment Developments in Wauwatosa**

Development Name and Address	Program	Vacancy	Average Unit SF	Parking Spaces per Unit
<b>The Enclave and The Annex</b> 1200 N 62 <sup>nd</sup> Street Completed in 2012 by HSI Properties	192 units <i>1-beds: 114; 2-beds: 60; 3-beds: 18</i>	1.0%	936	1.28
<b>The Reef</b> 1215 N 62 <sup>nd</sup> Street Completed in 2016 by Wangard Partners	109 units <i>Studios: 15; 1-beds: 61 2-beds: 30; 3-beds: 3</i>	Still in Lease-up	835	1.56
<b>Echelon</b> 9810 Echelon Lane Completed in 2016 by Mandel Group	188 units <i>Studios: 2; 1-beds: 72 2-beds: 114</i>	12.0% Still in Lease-up	909	1.19, plus street parking

Source: CoStar, Reis, *SB Friedman*

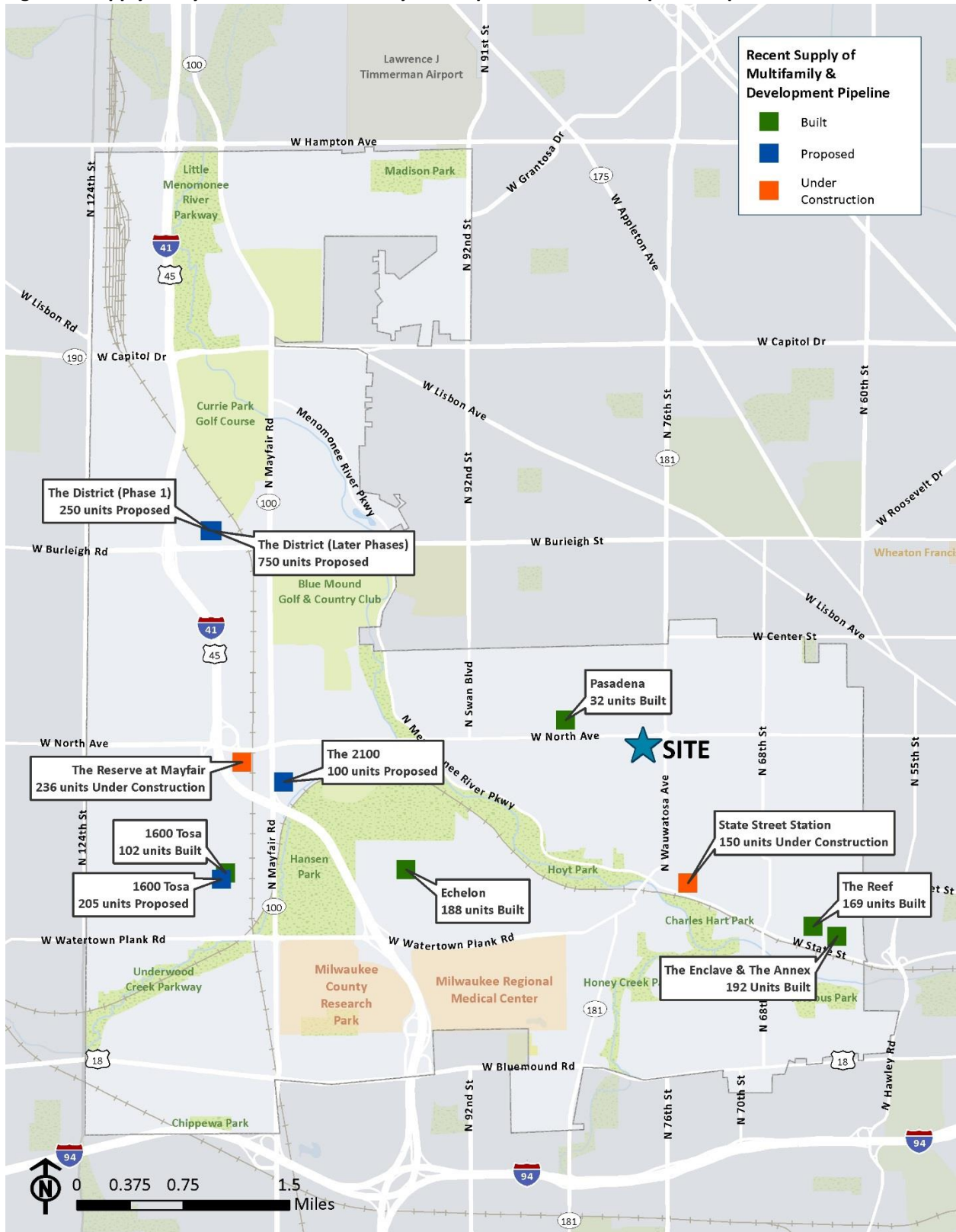
**Table 4: Multifamily Apartment Development Pipeline**

Development Name and Address	Status	Developer	Program	Parking Spaces per Unit
<b>State Street Station</b> 7400 W State Street	Under Construction; Completion in 2017	HSI Properties	150 units	1.74
<b>The 2100</b> 2100 N Mayfair Road	Under Construction; Completion in 2017	The 2100, LLC	100 units	1.45
<b>The Reserve at Mayfair</b> 11011 W North Avenue	Under Construction; Completion in 2017	Atlantic Realty Partners, LLC	236 units	2.00
<b>The District – Phase 1</b> 11100-11300 W Burleigh Street	Proposed; Completion in 2017-2018	Fiduciary Real Estate Development	250 units	Not available
<b>The District – Future Phases</b> 11100-11300 W Burleigh Street	Proposed	Fiduciary Real Estate Development	750 units	Not available

Source: CoStar, Reis, *SB Friedman*

To determine the market potential for residential uses on the Site, *SB Friedman* modified residential demand projections that we prepared during an earlier engagement with the City, the 2016 City of Wauwatosa Comprehensive Housing Study and Needs Analysis (the “Housing Study”). The demand projections derived during this study are presented in **Table 5**.

Figure 3. Supply Analysis - Recent Multifamily Developments and Development Pipeline



Source: CoStar, SB Friedman

**Table 5. City of Wauwatosa Projected Demand for New Housing Units Based on Historic Growth Trends [1]**

	2013-2020	2021-2025	2026-2030	TOTAL	Percent of Total
Projected Growth in Population	639	674	745	2,058	N/A
Required Units for Housing Balance [1]	1,084	759	384	2,227	100.0%
Single-Family Units	100	190	87	377	16.9%
Townhome Units	101	70	36	206	9.3%
Multifamily Units	883	499	261	1,644	73.8%

[1] Includes both rental and condominium units.

Source: *SB Friedman*

The demand projections outlined above have been modified to account for increased in-migration to recently completed multifamily apartment units in the City. Developers we have spoken with indicated that a large percentage of new residents are moving from outside of the City, and therefore may not be following historic migration trends, which are based on a time period prior to the recent wave of new multifamily development. The modified projections are presented in **Table 6** below and indicate near-term market potential for between 160 and 210 new multifamily apartment units on the Site, when using a conservative estimate that in-migration to Wauwatosa has increased by 20-30% due to development of new multifamily projects.

Additional units are likely market-feasible in the long term given market conditions and the desirability of the area; however, with the high number of under construction and proposed projects, a phased approach would be recommended. As such, the long-term buildout of the Site would be a function of site capacity due to the strength of the residential real estate market in Wauwatosa. With multifamily units alone, and assuming wood-frame construction, the site could likely accommodate approximately 420 units, as discussed further on Page 20.

**Table 6. Multifamily Residential Demand Analysis**

Projected Demand for Multifamily Units through 2025 Based on Historic Migration Patterns (through 2013)	1,382	1,382	1,382	1,382	1,382
x Increased In-Migration Trends [1]	20%	30%	40%	50%	60%
= Revised Demand for Multifamily Housing through 2025	1,658	1,797	1,935	2,073	2,211
- Units Completed since 2013 or Currently Under Construction [2]	679	679	679	679	679
- Proposed Units Anticipated to Be Delivered in the Next 5 Years [3]	586	586	586	586	586
= Remaining Market Demand	393	532	670	808	946
x Potential Capture Rate of Site	40%	40%	40%	40%	40%
<b>= Projected Market Potential of Site (Rounded)</b>	<b>160</b>	<b>210</b>	<b>270</b>	<b>320</b>	<b>380</b>

[1] Accounts for increased in-migration trends, as developers of recently completed projects indicate that the majority of new residents are moving from outside of Wauwatosa.

[2] Includes: Echelon, The Pasadena, State Street Station, The Reef, and The Reserve at Mayfair.

[3] Includes: The District (Phase 1), The 2100, 1600 Tosa (Phase 2).

Source: *SB Friedman*

Other key information derived from our market research is outlined below:

- **Recommended Unit Mix, Size and Parking Ratio.** We would recommend a unit-mix comparable to other recent developments in Wauwatosa and the North Shore, which average: 55% 1-bedrooms and 40% 2-bedrooms, with the remaining units (5%) broken down evenly between studios and 3-bedrooms. Based on comparable new development, average unit size should be

approximately 900 square feet with a parking ratio of at least 1.5 spaces per unit. Parking would likely need to be accommodated in a structured parking garage to achieve the highest and best use of the Site.

- **Market Rents.** Based on comparable product in the Wauwatosa area, rental product on the Site would likely achieve the highest rental rates in the market ranging from \$1.80 per square foot to \$1.85 (in 2016 dollars), depending on the level of finish and amenity package. Other recent developments in Wauwatosa fall within or near this per-square-foot range, including The Reef (\$1.72), and Echelon (\$1.85).
- **Unit Absorption.** We project an average absorption of 12-18 units per month, based on discussions with developers, other recent development in Wauwatosa, and market demand.
- **Target Demographic.** The target demographic for multifamily apartments on the Site would likely be a mix of existing Wauwatosa residents and newcomers to the metropolitan area. Existing residents looking to downsize from single-family homes, but retain connections to nearby community institutions/amenities (churches, schools, parks, etc.) would likely find the Site attractive. The development could attract householders aged 55 years and older, but restricting the development to active adult households may not be a successful near-term strategy. Developers have indicated that the empty-nester rental market has yet to be fully realized in Wauwatosa, with the majority of empty-nesters looking to continue homeownership. Additionally, imposing an age restriction could potentially slow absorption. Another potential target demographic could be professionals working at Milwaukee Regional Medical Center (MRMC), Milwaukee County Research Park (MCRP), and the UWM Innovation Campus, given the Site's location and ease of access. Likewise, newcomers to Wauwatosa that may otherwise choose walkable environments in downtown Milwaukee, the Eastside, Third Ward or the North Shore might be drawn to this location.
- **Density and Location of Multifamily Apartments on the Site.** The recommended number of units (160-210) is within range of other recent development and is at a scale that would allow efficient management of the development. The highest density of the development should be focused on the intersection of North Avenue and Wauwatosa Avenue, given adjacent mid-rise buildings on opposite corners of the intersection.

## TOWNHOMES

Interviewed developers agree that any residential development would have to be sensitive to the surrounding single-family neighborhood. With this in mind, there could be a mix of structures on the Site, stepping down in density towards the south and west. Lower-density units could provide a buffer between high-density development and the single-family homes within the surrounding neighborhoods. Therefore, in addition to market-rate multifamily apartments, the Site could also accommodate townhomes.

As presented in **Table 5** above, the Housing Study identified demand for approximately 171 attached townhome units by 2025. Real estate developers and stakeholders interviewed during the Housing Study also indicated that there was significant latent demand for attached housing, particularly for those who no longer want to own single-family homes. Currently, many of these people move outside of Wauwatosa due to a very limited supply of new townhome product.



However, developers have indicated that the for-sale townhome market remains challenging in this area as construction costs per unit are greater than achievable sale prices. Recent trends indicate this market is beginning to improve; therefore, townhomes could be initially marketed as rentals, but designed with the intent to convert to for-sale product when the market improves. To plan for this potential conversion, units should be designed with a high level of finish and with larger unit sizes.

As presented in **Table 7**, the southern portion of the Site, which is currently occupied by surface parking, could accommodate between 48 and 60 townhome units.

**Table 7. Rental Townhomes Site Capacity Analysis**

	Lower Density	Higher Density
Site Currently Occupied by Surface Parking (Acres)	2.4	2.4
x Number of Townhomes per Acre, based on Comparable Projects	20	25
= Site Capacity for Rental Townhomes	48	60

Source: *SB Friedman*

### SINGLE-FAMILY HOMES

While demand for single-family home development exists in Wauwatosa, this is not viewed as being the highest and best use of the Site due to the limited number of other large redevelopment sites in the City. Higher-density product, such as multifamily apartments and townhomes, would also generate greater land sale revenues for the City and higher property taxes after completion.

### SUBSIDIZED OR INCLUSIONARY HOUSING

The redevelopment of a City-owned parcel presents the opportunity to advance other housing-related City goals, particularly subsidized or inclusionary housing. The Housing Study identified a significant need for subsidized and workforce housing, as well as housing for people with special needs. Median qualified income for subsidized housing in this area would likely align with that of teachers and public service workers, such as police and firefighters. This product type would be appropriate for this Site due to its transit connections and walkability. If this product type is a City priority, the Phase 1 development program could be upsized to provide subsidized/inclusionary housing totaling approximately 5-10% of total units.

### SUMMARY OF RESIDENTIAL DEVELOPMENT PROGRAM

**Table 8** below presents the total projected market-feasible residential development program for the Site. In order to achieve this level of density on the Site, develop to its highest and best use, and accommodate a new Public Library, structured parking would likely be necessary.

**Table 8. Near-Term Market-Feasible Residential Development Program**

Market-Rate Rental Apartments [1]	160-210 units
Rental Townhomes	48-60 units
Subsidized or Inclusionary Housing	10-30 units

[1] Up to 210 additional units may be market-feasible in the long-term, under a phased approach to development

Source: *SB Friedman*

## Commercial Market Potential

In addition to residential uses, the Site is also attractive for commercial uses due to desirable market demographics, accessibility and visibility. The Site is located within a dense, affluent market with a median household income of approximately \$80,000. Furthermore, approximately 34,000 vehicles per day enter the intersection of North Avenue and Wauwatosa Avenue, making the Site highly visible and easily accessible. In addition to the existing traffic flow, the Public Library remaining on the Site could serve as an attractive co-tenant to many commercial uses, due to the over 400,000 people that visit the Public Library annually. Furthermore, a mixed-use development program on the Site could generate additional demand for commercial uses from on-site residents.

The Site is located within 0.75 miles of three neighborhood/community commercial nodes including:

- **The Village**, which is a mix of small destination retailers and restaurants, with larger community retailers located to the east along State Street, including grocery stores and pharmacies.
- **North Avenue, east of Wauwatosa Avenue**, which includes a mix of neighborhood retailers, a restaurant cluster and some entertainment options.
- **North Avenue, between 86th Street and 90th Street**, which is a combination of neighborhood retailers and professional office tenants.

Additionally, the **Mayfair Road Corridor**, a major regional retail destination, is located to the west of the Site along Interstate 41/U.S. Highway 45. The Mayfair Road Corridor is home to the 180-store Mayfair Mall, as well as the Mayfair Collection shopping center and many national retailers.

### RETAIL

*SB Friedman* has evaluated the existing supply of retail space, which is presented in **Figure 4** on the following page. As seen in **Figure 4**, large-scale retail development is located along the Mayfair Road Corridor, where tenants benefit from easy access to the interstate system and strong co-tenancies. In contrast to the Mayfair Road Corridor, other primary retail clusters, including the Village and nodes along North Avenue, are primarily neighborhood or community retail-focused.

As presented in **Table 9**, these existing retail corridors have very low vacancy rates, which demonstrates a healthy retail market. The vacancy rate in the Village, as well as in the retail nodes along North Avenue immediately to the east and west of the Site, are all below 4%.

**Table 9. Retail Market Statistics**

Wauwatosa Retail Subarea	Number of Buildings	Rentable Building Area	Available SF	Percent Vacant
The Village / State Street	52	432,560	12,804	3.0%
North Avenue, East of Wauwatosa Avenue	43	216,046	8,500	3.9%
North Avenue, Between 86 <sup>th</sup> and 90 <sup>th</sup> Streets	13	101,869	1,000	1.0%
North Avenue, West of Interstate 41	9	108,054	6,806	6.3%
Mayfair Road Corridor (North of Walnut Road) and Burleigh Street Corridor	53	2,774,669	146,408	5.3%
Mayfair Road Corridor (South of Walnut Road) and Watertown Plank Road Corridor	24	137,776	7,085	5.1%

Source: CoStar, *SB Friedman*

The Site is likely not competitive for destination and big-box retail, which gravitates closer to Interstate 41/U.S. Highway 45 where there is enhanced access, visibility and co-tenancy. Additionally, a large-format grocery store and/or big-box retail would be incompatible with the surrounding neighborhood and an underutilization of the Site due to the low density, high parking ratios and required loading space for these retailers. Therefore, the Site appears to be suitable for small- to mid-sized retail tenants that typically locate in community or neighborhood shopping centers and fit within a mixed-use development.

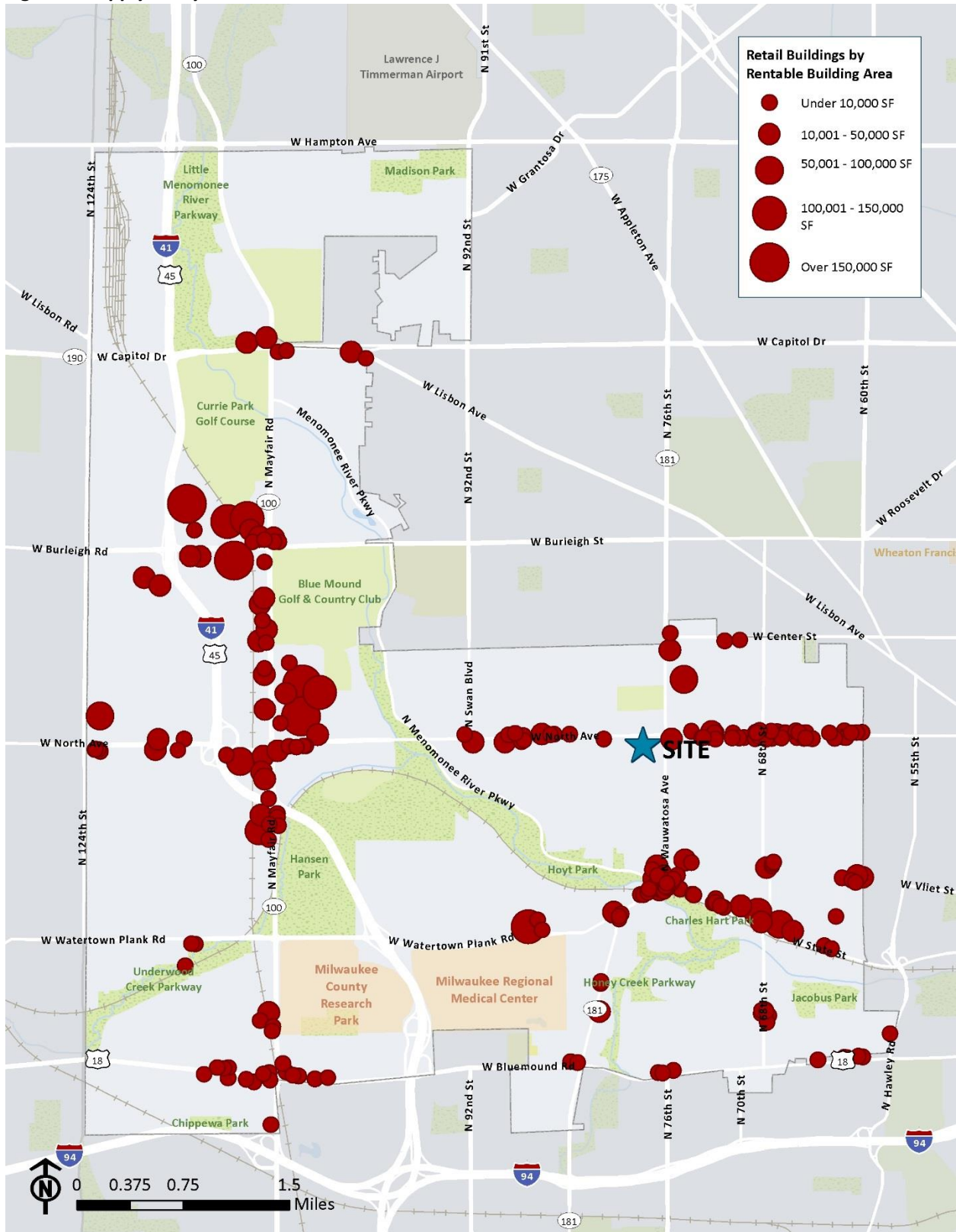
To determine market potential for retail space, *SB Friedman* has identified the likely retail market area, which is estimated to be a 3/4-mile radius of the Site. This market area is presented in **Figure 5**, with key statistics outlined in **Table 10**. Approximately 13,500 people live within this market area, with a median household income of nearly \$80,000. Longfellow Middle School to the north and The Lutheran Home to the northeast also would generate demand for retail uses.

**Table 10. Market Area Demographics**

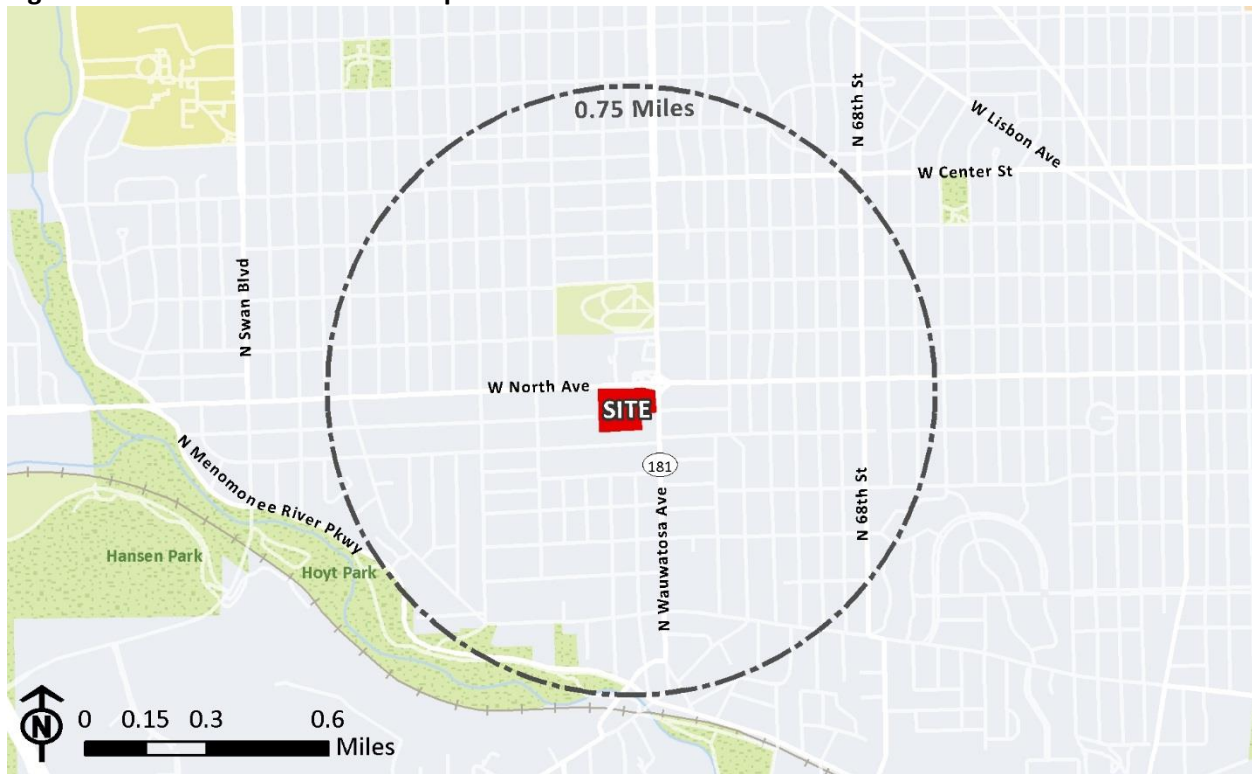
	Primary Market Area
Population	13,448
Number of Households	5,761
Median Household Income	\$78,013
Median Age	38.4

Source: Esri, *SB Friedman*

Figure 4. Supply Analysis - Retail



**Figure 5. Identified Market Area Map**



Source: CoStar, Esri, SB Friedman

A leakage analysis was conducted to evaluate retail categories for which household demand within the market area was not sufficiently satisfied by existing retailers. This analysis, presented in **Table 11** below, focuses only on retail sectors that would be present in neighborhood and/or community shopping centers. The analysis identified several existing gaps in the retail market, including: health and personal care stores (pharmacies) and full- and limited-service restaurants, including coffee shops.

**Table 11. Market Area Leakage Analysis**

Retail Sector	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap
Food and Beverage Stores	\$40,594,586	\$25,902,349	\$14,692,237
Health and Personal Care Stores	\$17,124,202	\$7,759,988	\$9,364,214
Sporting Goods, Hobby, Book and Music Stores	\$6,464,545	\$471,229	\$5,993,316
Full-Service Restaurants	\$13,929,026	\$4,802,031	\$9,126,989
Limited-Service Eating Places	\$10,103,779	\$5,641,720	\$4,461,059

Source: Esri, SB Friedman

Based on the leakage and supply analysis, the Site could be attractive to various neighborhood-focused retailers including those outlined below:

- Coffee Shop.** Due to co-tenancy with the Public Library, market potential exists for a coffee shop on the Site. This co-tenancy has been a successful model elsewhere, with several libraries opening coffee shops within their footprint. The existing supply of coffee shops is presented in

**Figure 6** on the following page. The nearest competing coffee shops are located in the Village area (Starbucks) and over 0.75 miles to the west of the Site (Colectivo Coffee).

- Full-Service or Limited-Service Restaurants.** Our leakage and supply analysis indicated the need for additional restaurant offerings in the market area. Typically, restaurants prefer to cluster with one another, therefore multiple restaurants would be needed on the Site to create critical mass, or physical connections would need to be made between the Site and the restaurant node to the east. If the Site were developed as mixed-use with residential programming, this could potentially provide additional market demand for restaurant tenants. The existing supply of restaurants is presented in **Figure 6**. Strong restaurant clusters are located in the Village area and along North Avenue east of the Site.
- Pharmacy.** Due to the accessibility and visibility of the intersection location, as well as existing retail leakage within the Study Area, the Site could be appropriate for a pharmacy tenant. It may be possible to attract an alternative concept pharmacy store that has a focus on fresh foods and cosmetics, etc. The Lutheran Home located across the intersection could potentially serve as additional demand for this product type. The existing supply of pharmacies is presented in **Figure 7**. One pharmacy is located within the market area, to the north of the Site along Wauwatosa Avenue.

*SB Friedman* applied a capture rate to the retail leakage estimates and applied sales per square foot assumptions to determine a market-feasible retail development program. The results of this analysis, outlined in **Table 12** below, indicate market potential for approximately 21,000 square feet of retail space.

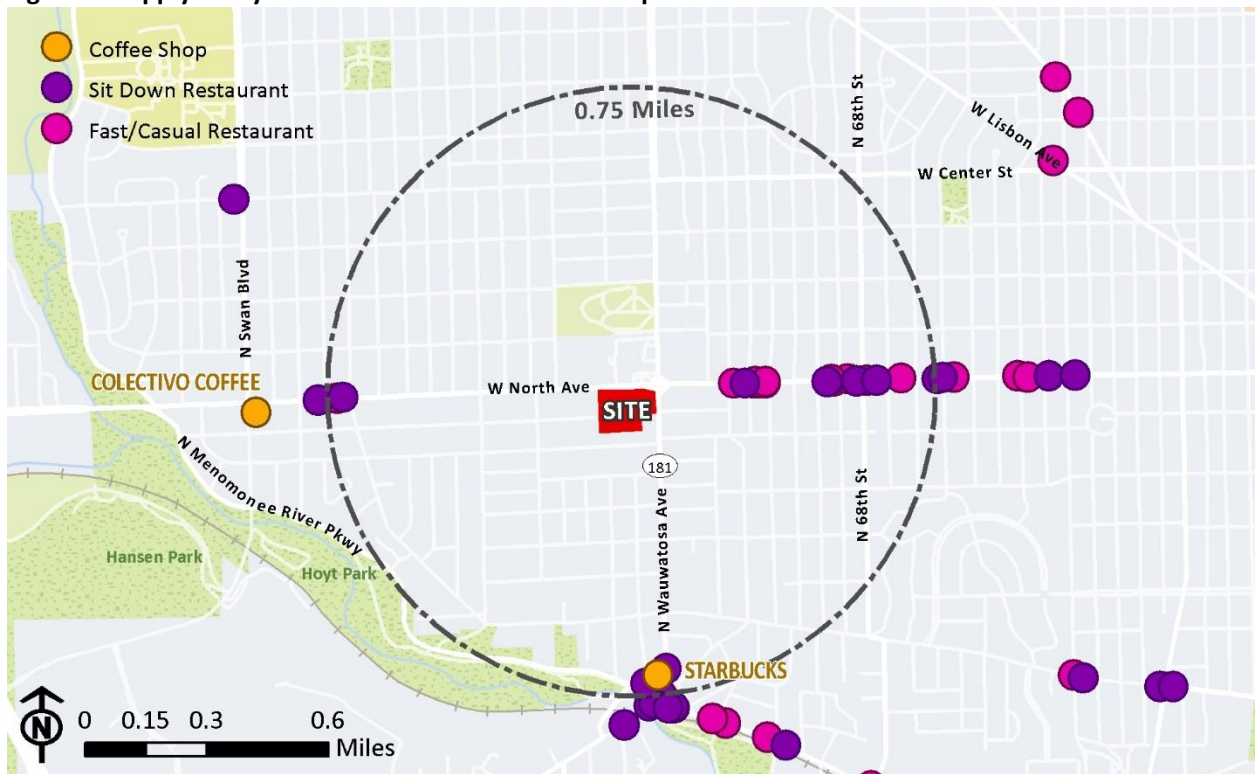
**Table 12. Market-Feasible Retail Development Program and Potential Tenancies**

Retail Sector	3/4-Mile Radius of the Site	Estimated Capture	Sales per SF	Market-Supportable SF
Health and Personal Care Stores	\$9,300,000	75%	\$500	13,950
Full-Service Restaurants	\$9,100,000	25%	\$550	4,136
Limited-Service Eating Places	\$4,400,000	25%	\$400	2,750
<b>TOTAL</b>				<b>20,836</b>

Source: Esri, *SB Friedman*

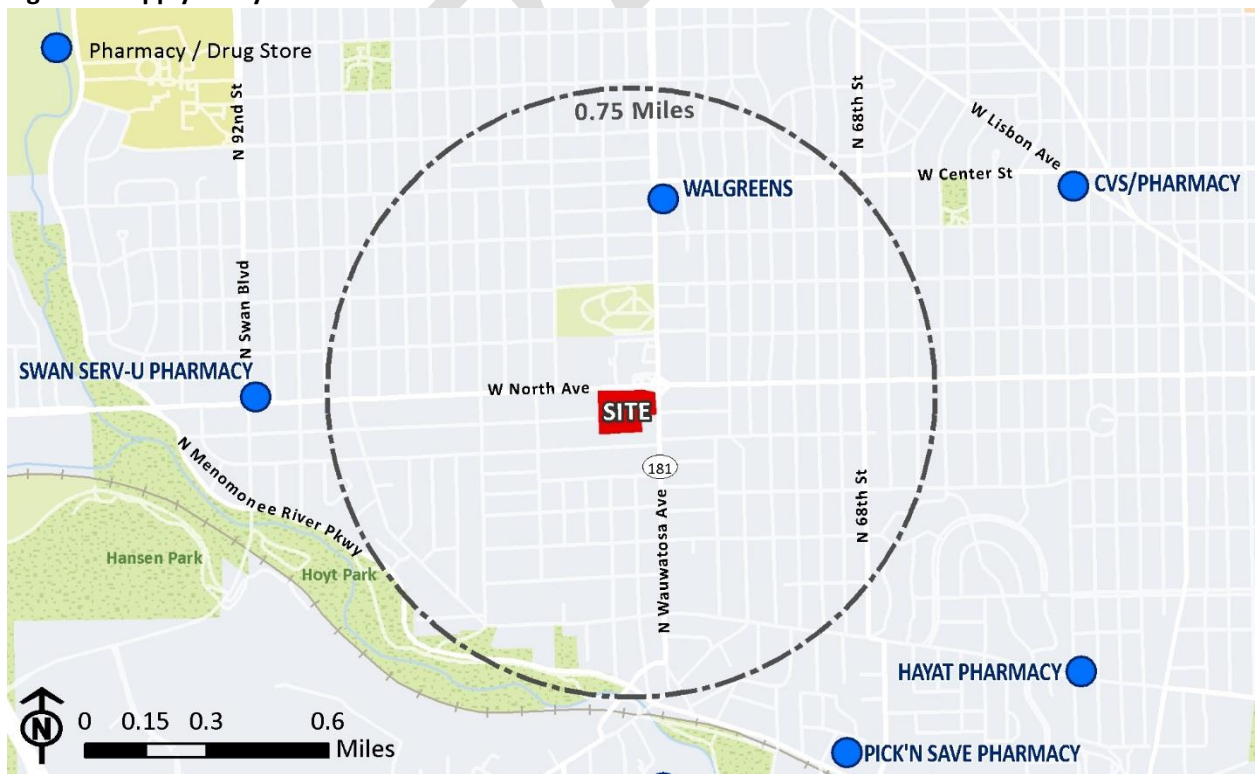
The development would likely attract national credit tenants that are able to pay competitive rents, therefore amortizing the cost of new construction. Non-chain retailers would be unlikely to pay the required rents to support new construction on the Site. However, development on the Site could potentially provide relocation opportunities for established businesses in the area, allowing their existing spaces to be backfilled with tenants more sensitive to rent. At-grade parking, at a ratio of 4 spaces per 1,000 square feet of development, would likely be required to attract retail tenants.

Figure 6. Supply Analysis – Restaurants and Coffee Shops



Source: InfoUSA, CoStar, SB Friedman

Figure 7. Supply Analysis – Pharmacies



Source: InfoUSA, CoStar, SB Friedman

## PROFESSIONAL OFFICE

In addition to retail, the Site could also be attractive to professional office tenants that typically locate in mixed-use environments, such as independent accountants, small general practice law firms, bank branches, etc. Small-scale professional office is located throughout the City, as presented in **Figure 8** on the next page, with concentrations along the Mayfair Road Corridor, in the Village, and along North Avenue. **Table 13** presents an analysis of the existing supply of professional office buildings, with square footages below 75,000. The analysis revealed an overall vacancy rate of 21.0% throughout the City. However, these vacancies are largely in either newer buildings in the Milwaukee County Research Park or in Class B or C office buildings built prior to 1985.

Since 2000, all new office development has occurred within the Milwaukee County Research Park or has been built specifically for medical offices. This limited amount of new office product may indicate latent demand for some professional office users, however existing market conditions and the location of the Site likely do not warrant large-scale professional office development on the Site. Rather, commercial space should be developed in a manner to accommodate small-scale professional office mixed with retail and restaurant uses.

**Table 13. Professional Office Market Statistics**

Wauwatosa Office Subarea	Number of Buildings	Rentable Building Area	Available SF	Percent Vacant
The Village / State Street	13	127,025	0	0%
North Avenue, East of Wauwatosa Avenue	9	39,187	9,046	23.1%
North Avenue, Between 86 <sup>th</sup> and 90 <sup>th</sup> Streets	0	0	0	0%
North Avenue, West of Interstate 41	6	49,791	2,625	5.3%
Mayfair Road Corridor (North of Walnut Road) and Burleigh Street Corridor	22	506,917	193,169	38.1%
Mayfair Road Corridor (South of Walnut Road), MCRP and Watertown Plank Road Corridor	38	896,248	134,762	15.0%

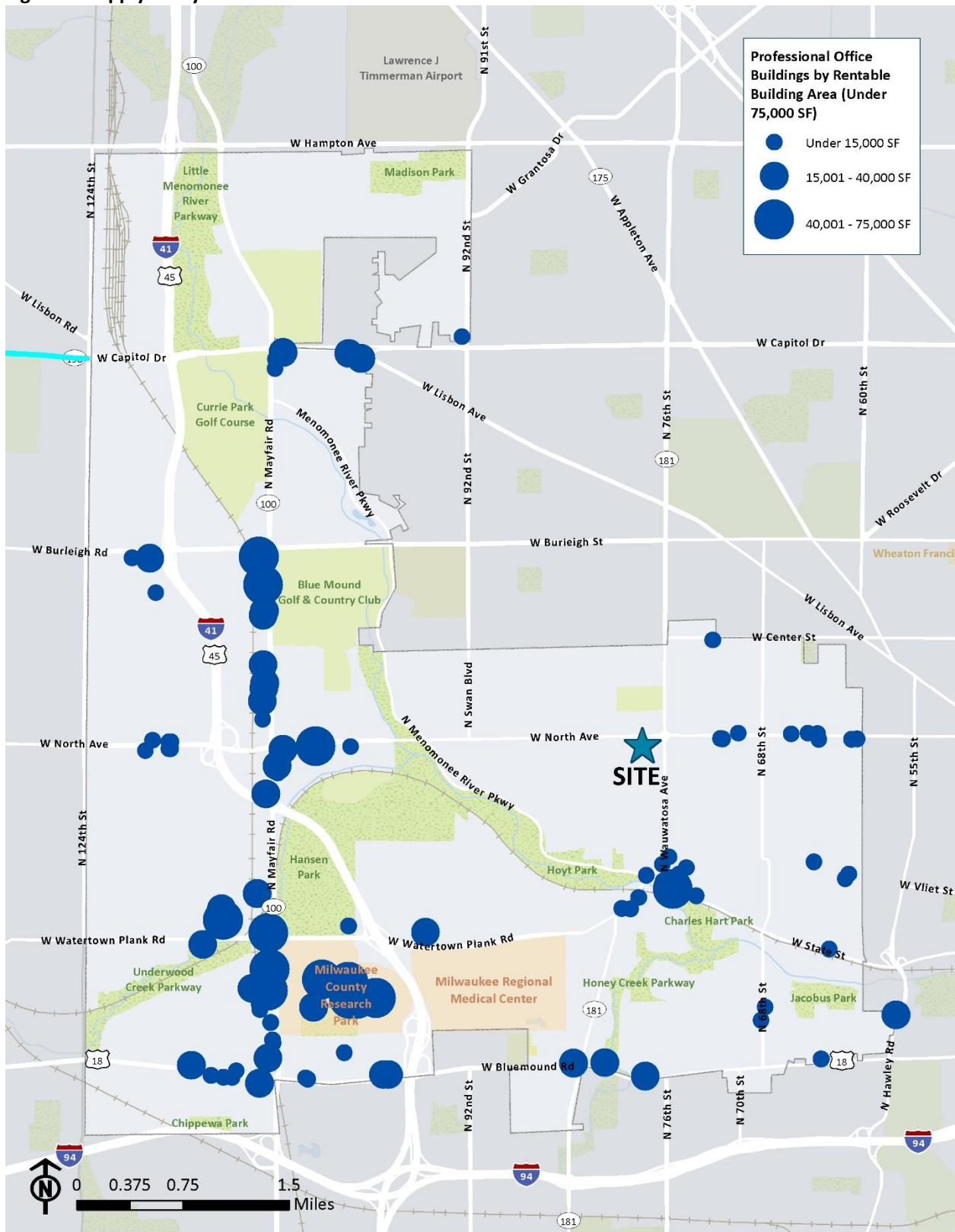
Source: CoStar, SB Friedman

## MEDICAL OFFICE

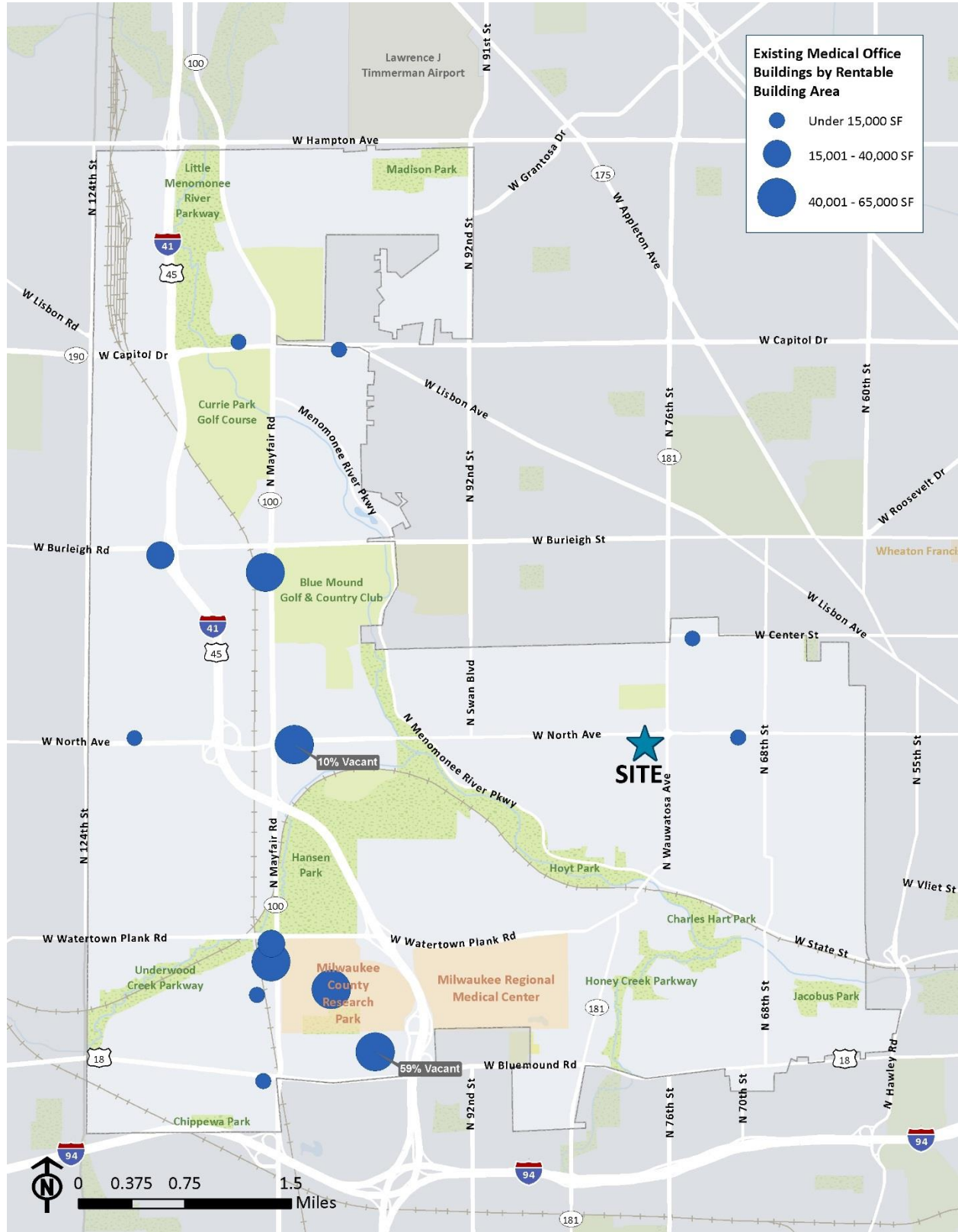
In addition to professional office, the Site could be conducive to medical office as well. Recent trends indicate that non-emergency medical care is decentralizing from medical center campuses, with providers focusing on outpatient services closer to where patients live. This has led to a growth in medical office development. As presented in **Figure 9**, Wauwatosa's supply of medical office is primarily clustered in two areas: along Mayfair Road and near MRMC. Unlike the existing developments, the Site provides an opportunity for neighborhood-based medical offices, and the Site's proximity to schools could be attractive to pediatrics, family medicine, dentists, etc. A supply-side market analysis revealed that medical office in Wauwatosa is currently very well occupied, with the exception of the building that formerly housed the Wisconsin Heart Hospital. As presented in **Table 14**, vacancy for this product is less than 10% in the City. The high occupancy of comparable developments demonstrates the strength of this product type and the potential to achieve high market rents.



Figure 8. Supply Analysis – Professional Office



**Figure 9. Supply Analysis – Medical Office**



**Table 14. Medical Office Market Statistics**

Submarket	Number of Buildings	Rentable Building Area	Available SF	Percent Vacant	Average Rent PSF
Wauwatosa	14	350,306	33,373	9.5%	N/A

Source: CoStar, SB Friedman

One developer expressed interest in developing a medical office building similar to the Medical College/Froedtert Tosa Center located at the intersection of Mayfair Road and Watertown Plank Road. That facility is roughly 100,000 square feet and is located on a 5-acre site. The developer indicated that the medical office building could be accompanied by ground-floor retail or professional office space.

### SUMMARY OF COMMERCIAL DEVELOPMENT PROGRAM

The Site is in a competitive location and is likely to support a commercial development program of approximately 20,000 square feet. However, during stakeholder interviews, several people expressed concerns over the level of traffic through the North Avenue and Wauwatosa Avenue intersection and safety issues, given the close proximity of the Site to several schools. Discussions with developers revealed that a commercial development program closer to 10,000 square feet would have less of an impact on traffic conditions. This reduced development program could be a mix of retail, restaurant and professional office uses. A larger-scale medical office building could also be feasible on the Site as an anchor use.

### Market-Supportable Development Program and Site Capacity Analysis

SB Friedman concludes that several uses are market-feasible on the Site, including multifamily apartments, townhomes, subsidized or inclusionary housing, retail, professional office, and/or medical office. Given the size of the Site, there is unlikely to be site capacity for each of these uses, therefore, SB Friedman has prepared three potential development scenarios, each with different anchor uses, as outlined in **Table 15** below.

Anchor uses, either the multifamily apartments or the medical office building, would be most marketable if concentrated on the 6.1-acre northern portion of the Site, with the 10,000 square feet of retail and professional office space located on the ground floor near the intersection of North Avenue and Wauwatosa Avenue. The structured parking garage and Public Library space would also be best positioned on the north end of the parcel, with either additional apartments or low-density townhomes located on the roughly 2.4-acre southern portion of the Site that is now functioning as surface parking.

**Table 15. Market-Feasible Total Development Program**

	Scenario A	Scenario B	Scenario C
Multifamily Apartments <sup>[1]</sup>	320-420 units	160-210 units	None
Townhomes	0 units	48-60 units	48-60 units
Subsidized or Inclusionary Housing	20-60 units	10-30 units	3-6 units
Retail and Professional Office	10,000 square feet	10,000 square feet	10,000 square feet
Medical Office	None	None	100,000 square feet
Public Library <sup>[2]</sup>	71,600 square feet	71,600 square feet	71,600 square feet
Structured Parking	750-930 parking spaces	510-615 parking spaces	700-750 parking spaces

<sup>[1]</sup> Assumes wood frame construction, which limits height of structure.

Source: SB Friedman

*SB Friedman* has estimated the amount of land area that would be required to accommodate the development programs outlined above. As presented in **Tables 16 and 17** below, a total of 6.5 to 7.0 acres would be needed to accommodate the development, including the Public Library, with the remaining 1.5 to 2.0 acres available for open space and internal circulation within the Site.

**Table 16. Site Capacity Analysis – Scenario A**

<b>Full Buildout with Multifamily Apartments</b> <sup>[1]</sup>	5 to 5.5 acres
<b>Public Library with Parking</b>	1.5 acres
<b>TOTAL</b>	6.5 to 7.0 acres
<i>Remaining Land Area for Open Space and Internal Circulation</i>	<i>1.5 to 2.0 acres</i>

<sup>[1]</sup> Assumes wood frame construction, which limits height of structure.

Source: *SB Friedman*

**Table 17. Site Capacity Analysis – Scenarios B or C**

<b>Mixed-Use Building with Parking</b> Scenario B: Apartments with Ground Floor Retail <sup>[1]</sup> or Professional Office Scenario C: Medical Office with Ground Floor Retail or Professional Office	2.5 to 3 acres
<b>Townhomes</b>	2.5 acres
<b>Public Library with Parking</b>	1.5 acres
<b>TOTAL</b>	6.5 to 7.0 acres
<i>Remaining Land Area for Open Space and Internal Circulation</i>	<i>1.5 to 2.0 acres</i>

<sup>[1]</sup> Assumes wood frame construction, which limits height of structure.

Source: *SB Friedman*

## Community Input

Community input is important to any real estate development project, particularly when the redevelopment site is publicly-owned land and/or public funds will be invested in the project. *SB Friedman* conducted public outreach through stakeholder interviews and an online survey to gauge public support for redevelopment efforts.

The results of the survey and information obtained from stakeholder interviews revealed a strong preference of respondents for the City to not pursue redevelopment of the Site. However, survey responses were quite limited (86 total responses) and stakeholder interviews focused on neighborhood associations immediately adjacent to the Site, therefore this subset of responses may not be representative of the City as a whole. Specific concerns of community members included: increased traffic, the effect of development on property values, concern over the location of new City Hall facilities, and the impact of new development on neighborhood character. Traffic was a universal concern of all parties interviewed and it was suggested that a traffic impact study should be presented to the community alongside any potential development program.

Of potential redevelopment scenarios, the community was most in support of for-sale townhomes, for-sale condos or age-restricted housing due to lack of perceived impact on neighborhood character (low density) as well as the potential to fill a need for aging retirees within the City. A coffee shop or small-scale retail use was also more broadly supported over other retail uses as it was viewed as non-threatening to existing retail along North Avenue, and a complementary use to the school and on-site Public Library. Additionally, it was thought to generate less in-out traffic than restaurants or retail.

## Conclusions and Next Steps

The results of this assessment reveal market demand and redevelopment opportunity for several potential uses on the Site, including multifamily apartments, townhomes, subsidized or inclusionary housing, retail, professional office, and/or medical office. Furthermore, the Developers we interviewed all expressed interest in pursuing redevelopment of the Site in partnership with the City, which would result in the construction of more modern and efficient space for both the City Hall (at an offsite location) and the Public Library (onsite). The summarized results of the market assessment are presented in **Table 18** below.

**Table 18. Market-Feasible Total Development Program**

	Scenario A	Scenario B	Scenario C
Multifamily Apartments <sup>[1]</sup>	320-420 units	160-210 units	None
Townhomes	0 units	48-60 units	48-60 units
Subsidized or Inclusionary Housing	20-60 units	10-30 units	3-6 units
Retail and Professional Office	10,000 square feet	10,000 square feet	10,000 square feet
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<sup>[1]</sup> Assumes wood frame construction, which limits height of structure.

Source: *SB Friedman*

Of the three scenarios, Scenario A represents most intensive use of the Site and would likely generate the highest land sale price and tax revenue generation. However, the higher density apartment development would most likely not be perceived as compatible with the adjacent single-family neighborhoods to the south and west. Scenario B considers these adjacencies and includes a lower density townhome product on the southern portion of the Site, which is anticipated to generate a lower land sale price and tax revenue generation, but may be more acceptable to nearby property owners, given the community input outlined above. Townhomes are also included within Scenario C as a means to transition between office uses and the adjacent residential area.

In light of these opportunities, the City has several available paths forward as it considers its options for the Site, including:

- Maintaining Existing City Facilities.** The existing City Hall and Public Library facilities would be maintained and no new private development would be pursued on this Site. This would require continued investment in current facilities that are in need of substantial ongoing maintenance and exceed current space needs. In this option, the City would miss out on new revenue streams from land sales and property tax generation that could have been invested in more modern facilities with lower operating costs.
- Pursuing a Two-Stage Developer Solicitation Process.** The City could choose to move forward with redevelopment immediately by pursuing a two-stage developer solicitation. The two-stage developer solicitation process allows the City to narrow down prospective developers to those with financial capacity and experience prior to requesting detailed development proposals. This process is typically more attractive to the development community as only a shortlisted subset is requested to invest time and money into a detailed development proposal.

However, the City has not yet analyzed and made a determination of whether it is financially advantageous to pursue redevelopment and construct new City Hall and Public Library facilities. If the City evaluates developer proposals and ultimately decides not to pursue redevelopment, the City risks its reputation in the development community as developers would have invested time and effort into responding to the solicitation.

- **Analyze Financial Implications of Redevelopment prior to Pursuing Developer Solicitation.** This analysis would help the City understand the amount of revenues that could be generated by sale of the property and property tax generation from new development, as well as the extent to which these revenues could support the cost of construction for new City Hall and Public Library facilities. It would allow the City to determine whether to maintain existing facilities versus pursuing redevelopment and constructing new City facilities. If the City chooses to pursue development it could then conduct a two-stage developer solicitation as outlined above.

DRAFT

## LIMITATIONS OF OUR ENGAGEMENT

Our deliverables are based on estimates, assumptions and other information developed from research of the market, knowledge of the industry, and meetings during which we obtained certain information. The sources of information and bases of the estimates and assumptions are stated in the deliverables. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will necessarily vary from those described in our deliverables, and the variations may be material.

The terms of this engagement are such that we have no obligation to revise the deliverables or to reflect events or conditions which occur subsequent to the date of the report. These events or conditions include, without limitation, economic growth trends, governmental actions, additional competitive developments, interest rates and other market factors. However, we are available to discuss the necessity for revision in view of changes in the economic or market factors affecting the proposed project.

Our study did not ascertain the legal and regulatory requirements applicable to this project, including zoning, other state and local government regulations, permits and licenses. No effort was made to determine the possible effect on this project of present or future federal, state or local legislation, including any environmental or ecological matters.

Furthermore, we neither evaluated management's effectiveness, nor are we responsible for future marketing efforts and other management actions upon which actual results will depend.

Our report is intended solely for your information and for submission to governmental entities, economic development organizations, financial institutions and developers, and should not be relied upon by any other person, firm or corporation, or for any other purposes. Neither the deliverables nor their contents, nor any reference to our Firm, may be included or quoted in any offering circular or registration statement, appraisal, sales brochure, prospectus, loan or other agreement, or any document intended for use in obtaining funds from individual investors.

Should a developer or financial institution wish to indicate in an offering memorandum, prospectus or similar document that our firm prepared market and/or financial feasibility analyses regarding this project, the following statement may be used:

“In preparing its development plans and projections, the developer (or sponsor) conducted research and analysis, consulted various sources, and obtained studies from third parties including *S. B. Friedman & Company*. The information, estimates and projections contained in this prospectus are the conclusions of the developer (or sponsor) after consideration of the various sources noted. The developer (or sponsor) alone is responsible for these conclusions.”

To obtain our permission to include this statement in a prospectus, we must be permitted to review the offering materials including, without limitation, the identity and backgrounds of all principals, the description of the project, the market and financial projections utilized, and the text of the materials. We will be compensated at our current hourly rates for the time required to conduct such reviews and to provide our consent.

In no case does this permission include or imply the right to specifically cite the conclusions or recommendations of our report in such a document.