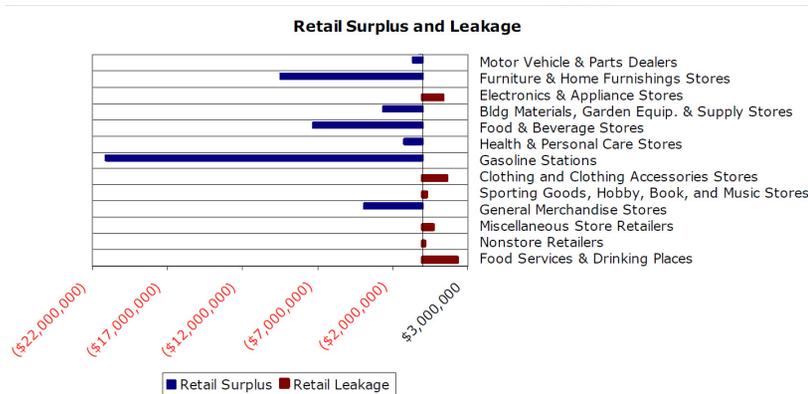


Towns. This high tax rate can be partially attributed to low rates of tax base growth. The rate of inflation from 2003-2007 was an average annual rate of 3.25% while Merrill’s equalized value grew by just 2.3% annually.

Retail

A surplus/leakage analysis of the City of Merrill indicates that the City has a surplus of \$40 million in retail sales. While the retail sector as a whole may be saturated, niche industries show signs for potential growth with an unmet need for \$8.5 million in retail sales which equates to approximately 20,000 square feet of retail space. These niche industries include electronics & appliance stores, clothing stores, miscellaneous retailers, non-store retailers and restaurants. These leakage categories are consistent with the results of a retail survey conducted in 2007 by the Merrill Chamber of Commerce and UW-Extension. When asked what products survey respondents would purchase if they were available in Merrill, shoes, clothing, sporting goods, and restaurant meals topped the list.



Source: ESRI Business Analyst Retail MarketPlace

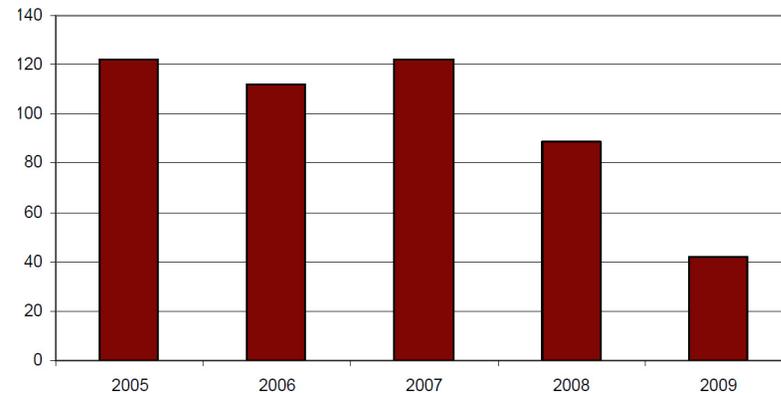
Housing

Residential construction activity within the City of Merrill has been declining since 2000 based on building permit data; however 80 market-rate family rental units were recently completed and another 80 are currently under construction or planned in the same development.

Data from the Multiple Listing Service indicates that both home sales and median sales prices have declined in Merrill since 2005. Merrill has seen a 27% drop in home sales and an 18% drop in median sales price from 2005-2008. In comparison to Lincoln County, Wausau, and Marathon County, home sales and median prices have seen a greater decline in Merrill over this period.

An analysis of housing affordability and demographic age and income data indicates that over 87% of households in Merrill and the surrounding Towns could likely afford the median home in the City (\$69,900 in 2008). Upscale housing (assumed to be priced

City of Merrill Home Sales 2005-2009
(2009 extrapolated)



Source: Multiple Listing Service

at or above \$265,000) would be affordable to approximately 24% of households in this same geographic area.

Based on an analysis of existing rental housing and demographic trends, it is unlikely that the City of Merrill will be able to absorb additional family rental development without a significant increase in potential renters beyond current projections. While the supply of market and affordable senior housing is currently sufficient for demand, there may be additional demand in coming years should the senior population continue to grow as population projections predict.

Lodging

There are currently three hotels and one bed and breakfast located in Merrill. Rates range from \$60-\$150 per night. An analysis of gross room receipts (from data collected by the City of Merrill as a part of collecting a 3.9% room tax) indicates that local demand has seasonal patterns, with the third quarter as the strongest period. This pattern suggests that seasonal tourism, rather than business travel, is the basis of demand.

A review of national averages for revenue per available room (Smith Travel Research Group) indicates that Merrill's hotel revenue growth has not kept pace with national growth, but has not fallen as sharply in the recent economic downturn. National averages increased 23% from 2004-2007 while Merrill's revenue only grew by 7.5% over this period. Nationally, revenue dropped 0.8% from 2007-2008 and just 0.4% in Merrill.

Lending Environment

In informal interviews regarding the Waterfront Initiative, Merrill lenders indicated that have not significantly changed their underwriting standards due to the current economic conditions and capital markets. The lenders interviewed acknowledged that their underwriting standards were conservative during the real estate boom of recent years and they therefore have not been required to reevaluate their practices to any significant level. In general the lenders interviewed stated that they would finance a real estate project within the study area as long as the borrower had a strong global cash flow, the project had a strong cashflow, and the borrower had at least 20-25% equity in the project.

In summary, the Eastside Waterfront Initiative will require a long-term vision, diligence and innovative thinking relative to funding uses. However, it is possible because:

- Merrill has untapped value and assets
- There are several sources of funds available to help make this a reality
- The community sees the value and to this point has been supportive

The full Baker Tilly Virchow Krause market assessment, including all tables, graphs, and references is included in the appendix.

