



Executive Summary of Workforce Housing Needs In Duluth, Minnesota

Prepared for:

Duluth Economic Development Authority
Duluth Housing and Redevelopment Authority
Duluth, Minnesota

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1221 Nicollet Avenue South
Suite 218
Minneapolis, MN 55403
612.338.0012
www.maxfieldresearch.com

Introduction

Maxfield Research Inc. was engaged by the Duluth Economic Development Authority (DEDA) and the Housing and Redevelopment Authority of Duluth (HRA) to assess current housing market conditions and potential demand for workforce housing in the City of Duluth. Duluth has recently experienced employment growth in several industry sectors, most notably, the Health Services sector, Manufacturing sector, Professional and Business Services and Leisure and Hospitality. Several businesses in these sectors have increased their employment quite rapidly over the past two years and are intending to continue to increase employment as demand for these products and services increases.

The Recession caused a substantial downturn in housing production and development. With the rapid increase in employment, housing production has not kept pace with household and employment growth. Housing prices are increasing as are rent levels. Housing inventory on the market and available rentals have decreased. Buyers and renters have expressed difficulty in finding housing products available to suit their needs.

Housing production is intrinsic to our national economy and to our regional and local economies. This was very apparent during the housing downturn as market activity decreased, foreclosures increased and housing prices experienced deflation. Although owner-occupied housing became more affordable during this period, many prospective buyers sat on the shelf uncertain of market trends and concerned about the long-term value of owning a home.

A number of these prospective buyers decided to remain in the rental market either temporarily or for a longer period of time. As construction was non-existent, rental vacancy rates decreased more than two percentage points from only a few years ago.

The workforce analysis includes a review of demographic characteristics of the Duluth Housing Market Area, employment growth trends and average wage rates, an analysis of the housing stock, owned and rental, pricing for owned and rented housing products, an analysis of demand for various housing products, and information on the ability of the private market to satisfy the demand.

Conclusion

Based on the analysis completed herein, Maxfield Research Inc. determined that the City of Duluth over the next six years (2014-2020) could support a total of 4,470 units incorporating a variety of price points, product types and including owned and rental housing. Demand by segment follows

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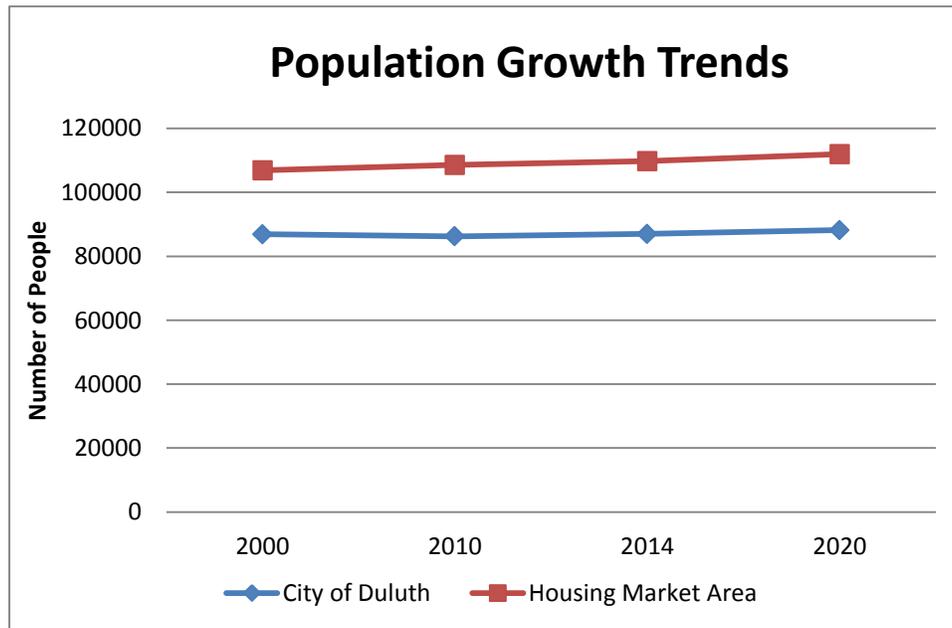
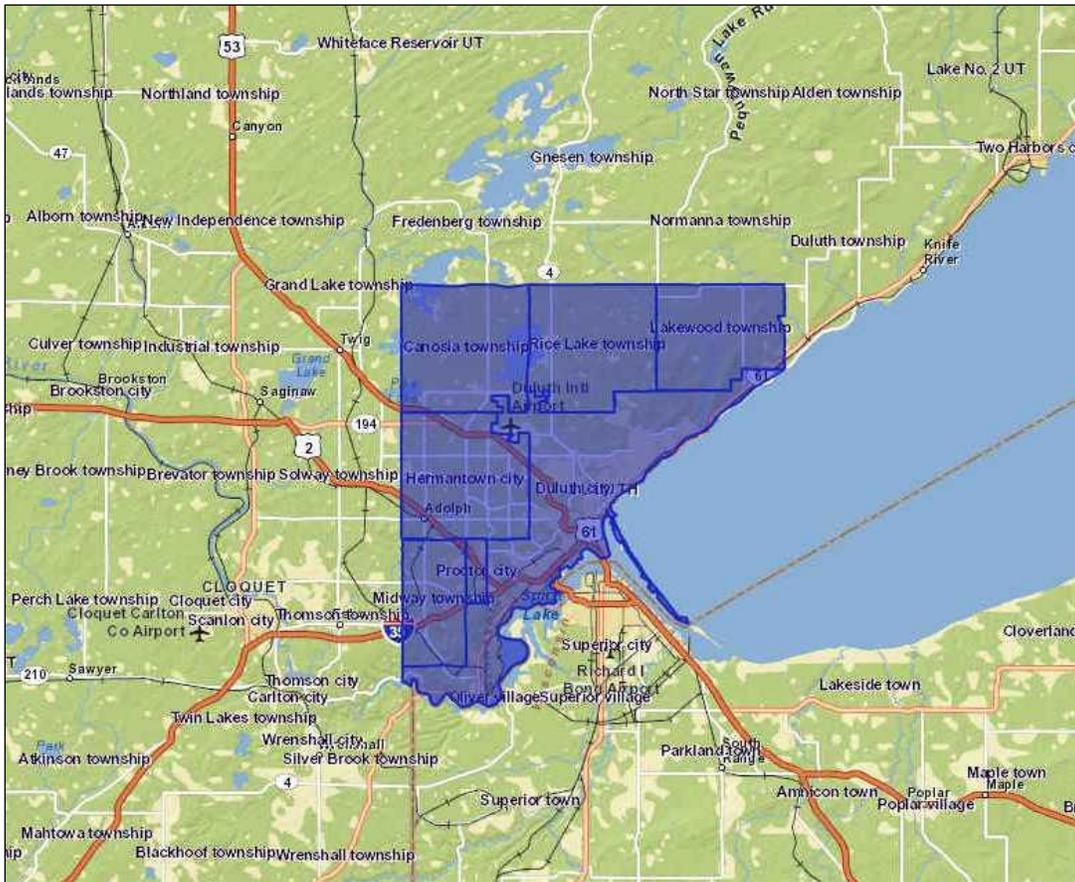
- For-sale new construction – Single-Family 150 homes per year
- Market rate rental (80% of Area Median Income or higher) – 180 units per year
- Workforce rentals (50% to 80% of Area Median Income or higher) – 200 units per year
- Deep subsidy rentals (less than 50% of Area Median Income) – 212 units per year

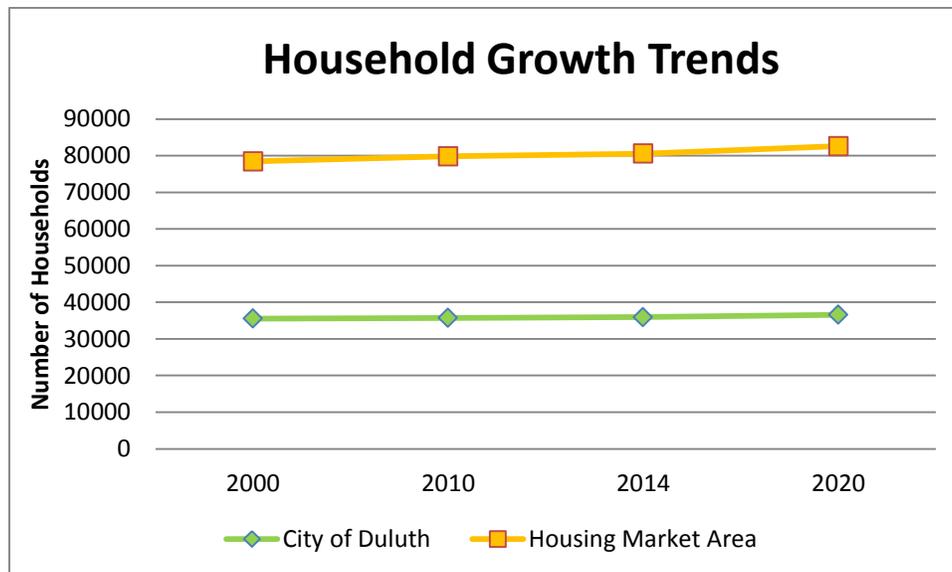
These demand calculations assume that household growth projected for the Duluth Housing Market Area is achieved and that employment growth continues at its current pace. Significant variations in either the projected household or employment growth rates could affect the amount of demand for housing moving forward.

Housing Market Area Definition/Demographic Review

- Several criteria were used to determine the Housing Market Area for the City of Duluth. These criteria were population and employment densities, man-made and natural geographic boundaries, major transportation routes, local and regional commuting patterns, community orientation and retail and employment draw areas. Household mobility patterns suggest that the City of Duluth gains and loses households primarily from this geographic area. A map on the following page outlines the Duluth Housing Market Area.
- The Housing Market Area is comprised of the Cities of Duluth, Proctor, Hermantown and the Townships of Canosia, Lakewood, Midway and Rice Lake. An estimated 80% of the potential demand for housing would be drawn from this area with the remaining 20% drawn from outside of this area including other communities within the Region and outside of the Region.
- A review of population and household growth trends revealed that Duluth lost population between 2000 and 2010, but gained households (occupied housing units). This is typical of older, more fully-developed communities which have higher proportions of people over the age of 55. By 2020, Duluth and the Housing Market Area are projected to increase in both population and households.
- Duluth has an opportunity to capture additional households if it develops strategies to redevelop a portion of its aging housing stock and develop new housing products to meet the needs of younger and older households. Conversion of existing single-family dwellings to rental housing units may have resulted in an increase in the population, but not a corresponding proportional increase in the number of households, which represents an occupied dwelling unit by definition. A number of rented single-family homes are currently occupied by more than four individuals due to housing students attending post-secondary educational institutions in the community.

Duluth Primary Market Area





- An analysis of the projected age distribution shows that the majority of households in the Primary and Secondary Trade Areas are in the 45 to 64 and 65+ age cohorts. The 45 to 64 age group is that in which households typically have the highest incomes during the span of their working years. The aging of the population into this age group suggests that the household base as a whole is transitioning from net spenders to net savers. A growing proportion of households age 65+ with generally higher net worth indicates a growing group of households that are prime candidates for trust services.

Household Incomes

- The age 25 to 34 cohort is expected to increase by 194 households overall. Between 2014 and 2019, the number of households with incomes of \$50,000 or higher is expected to increase. The number of households with incomes of between \$25,000 and \$49,999 is expected to decrease modestly. According to the Department of Housing and Urban Development’s benchmark for affordability (30% of a household’s income allocated to housing costs), households with incomes of \$50,000 or more should be able to afford monthly housing costs of \$1,250. Households with incomes between \$25,000 and \$49,999 should be able to afford monthly housing costs of \$625 to \$1,250. These amounts may be allocated toward rental or for-sale housing. The average monthly rent in the City of Duluth according to the 2012 Housing Indicators Report was \$713.
- Decreases are anticipated among the middle-age cohorts, households ages 35 through 54. This is primarily a result of the smaller size of these age groups due to a period of lower births in the United States between 1965 and 1974, known as the “baby bust.”
- Households ages 55 or older are expected to increase over the next five years. Increases are anticipated in each age group, 55 to 64, 65 to 74, and 75 and older. This group often looks for more convenient living arrangement that will reduce their burden of upkeep and

home maintenance. Many of the households in these age groups are married or living with a spouse or partner. Those that have higher incomes look for larger size units (i.e. townhome or two-bedroom unit) while those that are single may consider a one-bedroom unit. Income and homeownership are two important factors in the desire and ability of these age cohorts to select a rental housing arrangement and/or purchase a smaller size home.

Household Tenure and Size

- Households under age 35 are among the most likely to rent their housing. In 2000, 85.3% of households age 15 to 24 and 45.8% of households age 25 to 34 rented their housing. By 2010, 87.9% of households age under 24 and 50.3% of households age 25 to 34 rented their housing. Households over age 75 also are likely to rent; however, a number of older renter households often live in age-restricted senior apartments that may have services and do not necessarily compete with market rate general occupancy rental housing.
- The middle age cohorts tend to own in much higher proportions than the youngest and oldest age cohorts. In 2000, householders age 35 to 64 owned their housing at a rate of approximately 75% to 80%. A similar situation occurred in 2010 as the homeownership rate of households in these age categories changed little over the decade. Households age 35 to 54 are primarily entry-level and move-up homebuyers.

Household Type

- The largest household type in the Duluth Housing Market Area as of 2012 was people living alone. This group accounted for 32% of all households in the Housing Market Area. Of these households, 36% of those living alone were over the age of 65, while 64% were under the age of 65. The second largest household group was married couples without children (28% of all households). This group includes households whose children have grown and those who have not yet or may never have children.

Household Size

- The smaller size of households among both owner and renter cohorts indicates that most people are living alone or with one other person. The number and proportion of households comprised of three people or more are substantially lower than those for one- or two-person households.

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HOUSEHOLD SIZE DULUTH PRIMARY MARKET AREA 2014								
Age	2010				2014			
	Owners	Pct.	Renters	Pct.	Owners	Pct.	Renters	Pct.
1PP Household	6,857	47.4	7,609	52.6	6,844	45.7	8,118	54.3
2PP Household	11,251	73.7	4,010	26.3	10,947	71.5	4,373	28.5
3PP Household	4,400	70.1	1,876	29.9	4,647	73.1	1,712	26.9
4PP Household	3,716	74.8	1,252	25.2	3,957	80.8	938	19.2
5PP Household	1,493	70.9	612	29.1	1,477	71.6	587	28.4
6PP Household	458	65.4	242	34.6	453	65.9	234	34.1
7PP+ Household	226	70.2	96	29.8	223	69.7	97	30.3
Total	28,401	64.4	15,697	35.6	28,548	64.0	16,059	36.0

Sources: U.S. Census; Ribbon Demographics; Maxfield Research Inc.

Employment Trends

From 2nd Quarter 2012 through 3rd Quarter 2013, employment in Duluth increased by 1,356 jobs or 2.4%. Wages dropped between 2011 and 2012, but then climbed again in 2013 to an average weekly wage of \$839. This indicates there are likely a higher proportion of employees retiring and being replaced with younger workers whose wages are less. The average weekly wage among all industry sectors as of 3rd Quarter 2013 was \$839. This equates to an average wage of about \$3,356 per month or \$43,628. In the Arrowhead region, employment also increased substantially over the past year, growing from 137,438 jobs as of year-end in 2012 to 142,317 jobs as of the end of 3rd Quarter 2013, an increase of 4,879 jobs over a six-month period of time. Industry sectors exhibiting the greatest increases during the period were Natural Resources and Mining, Construction, Education and Health Services and Accommodation and Food Service.

Weekly wages vary significantly by sector from a low of \$283 per week for those employed in the Accommodation and Food Services industry to a high of \$1,731 per week for those employed in the Utilities sector. At these wage levels, a single individual would be able to afford housing costs of \$368 per month at the low end of the range to \$2,250 per month at the high end of the range. In order to afford a new construction market rate apartment at a monthly rent of between \$1,250 and \$1,500 per month, a household would need an annual income of between \$50,000 and \$60,000 per year. While this is achievable for many households based on income alone, other factors may impact the amount of income that is available to be spent for housing (i.e. number of people in the household, current debt load (student or consumer), price of housing alternatives (renting vs. owning) and the cost of transportation (public transit or owning a vehicle).

Maxfield Research Inc. conducted interviews with major employers in Duluth to determine current employment, rate of employment growth, types of positions that are being filled,

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geographic area from which new hires are being drawn and challenges in finding housing to meet the needs of new hires.

Interview respondents noted the following regarding hiring and finding housing for their employees:

Most of the major employers in the community have added a considerable number of new hires over the past couple of years. The energy industry, while growing in the area, has also resulted in spin-off employment primarily in the engineering field and engineering firms have also grown rapidly and continue to expect to add employees over the next three to five years.

Other industry sectors that are growing include:

- Aviation industry
- Health services
- Education
- Retail

The majority of these firms are hiring technical workers and professional positions that are middle-income or upper-middle income. They recruit locally for some types of positions (usually technical positions) and for professional positions may recruit locally, but also recruit from the Twin Cities and from other areas of the country.

All of the firms interviewed said they are continuing to hire either because of growth (adding new employees) or because of turnover (replacing workers that are retiring).

Two firms mentioned that they work very closely with specific real estate agents who assist their employees with finding housing in the Duluth area. The agents act as relocation specialist and assist the employees with identifying neighborhoods and housing products within their price range and needs. Lakeside/Lester Park, Congdon, Woodland, and Hermantown were listed as particularly popular neighborhoods/cities with buyers that are relocating to the region with major employers. Some buyers prefer to purchase homes outside of Duluth on a lake. Lakefront (non-Lake Superior) homes tend to be popular with many buyers.

Several of the respondents stated that Duluth is perceived by their recent hires as being an expensive housing market. People from out of the region are surprised by the price of homes as compared to the value received.

Some commented that their new hires are also surprised that there are not more spec homes available for purchase. Often these new hires come from larger markets where there are many builders and model homes and spec homes are more plentiful.

Income ranges for new hires vary considerably and depend on the industry sector and the type of position. Major employers are hiring for operational positions, technical positions,

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professional positions and executive positions, although executive level positions are far fewer than the others. Operational positions are usually hired from the local labor pool versus from outside of the region.

Some firms mentioned a need for market rate rental housing that would target households that are “trying” out the community and the company prior to settling down. They are generally younger people, between the ages of 22 and about 30, that are taking their first professional position. They may come into the community and prefer to rent for a time until they decide if they are going to remain in the Duluth area.

Buyer profiles seem to fall into two general categories: those that want to live in the City and those that prefer to live in a more rural or country setting. The area surrounding Duluth offers many open spaces and lakes that are attractive to potential buyers. While the City itself provides dramatic views of Lake Superior from many different locations, lakeshore properties are limited and living on Lake Superior is very different from an inland lake.

Employers try to be open and honest with new hires that are relocating to Duluth in terms of housing costs and other costs of living in addition to the recreational amenities that are available in the region. Some new hires coming from far away that are not familiar with Duluth often have the impression that Duluth is the “frozen Northland and that there is not much to do or see in the area. For those that like the out of doors, Duluth generally offers a wide variety of opportunities for recreation year-round.

Summary of Demographic Trends

Job growth has been strong in Duluth over the past 12 months (an increase of 1,130 jobs or 2.0%) and in the Arrowhead Region (an increase of 4,879 jobs over the past six months) signaling growth. Sectors that have recently experienced the largest increases in employment (past 12 months) have been Construction, Professional and Business Services, Health Services, Accommodation and Food Service. Smaller job increases have occurred in Utilities, Trade and Transportation, Education, Finance and Insurance and Real Estate and Leasing.

As of 3rd Quarter 2013, the average weekly wage for the City of Duluth was \$839. This equates to approximately \$43,600 annually. Most industry sectors experienced an increase in wages between the end of 2012 and 3rd Quarter 2013. The number of jobs continued to increase in 2013, growing by 2,424 jobs, an increase of 4.3% over year-end 2012. Industry sectors that experienced the greatest growth during this period were Professional and Business Services, Accommodation and Food Service, Health Services, Transportation and Warehousing and Construction.

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The average household income in Duluth city is estimated at \$39,878 as of 2014 and is expected to increase to \$44,901 by 2019. As of 2014, there are an estimated 38.6% of households with incomes of \$50,000 or more, those that would typically qualify to rent new market rate rental housing. This proportion is expected to remain about the same to 2019 (40.9%). For the Duluth Primary Market Area which includes Duluth city and the surrounding communities, the average household income as of 2014 was \$42,245 and is expected to increase to \$48,726 by 2019. The proportion of households with incomes of \$50,000 or more is 42.1% and is expected to rise to 48.3% by 2019.

As of 2014, 64.0% of households in the Duluth Housing Market Area are owners and 36 percent are renters. Household incomes for renters are lower than those for owners. According to the 2012 American Community Survey, the average owner income was \$41,311 in the City of Duluth and \$63,430 in the Housing Market Area as of 2012. The average renter income was \$21,880 in the City of Duluth and \$30,628 in the Housing Market Area. At these income levels, a renter household earning the average income in the City of Duluth would have been able to afford a monthly rent of \$547 per month. A renter household earning the average income as of 2012 would have been able to afford \$766 per month.

Home Resales and Active Listings

Resales of existing homes in Duluth and adjacent communities such as Proctor, Hermantown and Carlton totaled between 864 and 1,017 between 2009 and 2012. Sales dropped somewhat in 2010, but picked up again in 2011 and 2012. As of May 2013, sales were 363. Average days on market increased modestly and average pricing has also started to increase modestly, signaling a strengthening home market. The months supply of active listings has also started to decrease.

The average year built for homes that were actively listed as of June 2013 among the Duluth area neighborhoods was 1946, compared to 1966 for homes located collectively in Proctor, Hermantown and Carlton. The majority of homes that were listed for sale (65.6%) of homes in Duluth were priced at \$199,999 or less. Although this price appears to be affordable, many of these homes are older and require a significant amount of upgrading. New home buyers are often reluctant to purchase a home where a significant amount of money and/or labor would be required to upgrade the home with modern features and amenities. Many home buyers would prefer to purchase new for more money. In addition, if these homes are affordable, but require a significant amount of improvement, low interest loans or forgivable loans for home improvement may also be one option to help increase the marketability or saleability of these homes to potential owner-occupants.

Duluth also has a very strong student housing market and many older single-family homes, especially those located near to UMD and the College of St. Scholastica have been purchased and converted to rental property. Efforts to reverse this trend have experienced mixed results. Despite the conversion of older single-family homes to rentals, many of the neighborhoods

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surrounding UMD and CSS remain highly desirable to potential buyers. However, purchasing these homes once they have been converted to rentals creates a challenging situation because the price of the rental is now valued as investment property, instead of as a single-family unit.

General Occupancy Rental Housing Rates

The table below summarizes the rental rates and unit sizes for upscale rental properties in Duluth. These are properties that generally are newer and/or have the highest rental rates in the community.

RENT SUMMARY OF UPSCALE RENTAL PROPERTIES CITY OF DULUTH January 2014				
Type	Pct.	Rent	Square Feet	Rent/Sq. Ft
Eff.	4.3%	\$662	443	\$1.49
1BR	33.8%	\$854	716	\$1.19
1BR+D	0.4%	\$910	800	\$1.14
2BR	43.3%	\$1,099	1,051	\$1.05
3BR	8.5%	\$1,490	1,184	\$1.26
4BR	4.1%	\$2,391	1,421	\$1.68
5BR	5.4%	\$2,430	1,369	\$1.78
PH	0.1%	\$1,860	1,588	\$1.17
TOTAL	100.0%	\$1,156	955	\$1.21

Source: Maxfield Research Inc.

The newest rental properties are priced at the top end of the market. However, properties that are located in the East Hillside and Woodland neighborhood, despite being older, also have rents that are generally higher on average, than older properties located in other areas of the City. Some of the higher rents at properties in these neighborhoods reflect landlords that are generally catering to the student market which, although price-sensitive, may be willing to pay somewhat higher rents than would a traditional household.

Maxfield Research Inc. conducted a telephone survey of newer upscale rental properties in Duluth during December 2013 and January 2014. These properties would be considered to be most competitive with a new market rate rental development if constructed in Duluth. A total of 1,399 newer upscale rental units was surveyed. Of those, 17 were vacant for an overall vacancy rate of 1.2%. A vacancy rate of 5% is considered to represent market equilibrium to provide for sufficient consumer choice and turnover. A vacancy rate of less than 5% generally indicates some pent-up demand exists for rental units in the market.

New rental properties tend to provide a mix of units including efficiency, one-, two- and three-bedroom, although some newer properties have focused on offering only one unit type, typically two-bedroom units. Older properties often have more limited unit choices. Some buildings may have only efficiencies and one-bedroom units, some only one-bedroom units and

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some only one- and two-bedroom units. The older rental stock in the Central and East Hillside areas tends to have higher proportions of efficiency and one-bedroom units with smaller sizes.

Data from the survey reveals that the average rent for efficiency units at newer properties is \$662 per month for an average size of 443 square feet or \$1.49 per square foot. Average rent for one-bedroom units at newer properties is \$854 per month for an average size of 716 square feet or \$1.19 per square foot. Average rent for two-bedroom units is \$1,099 per month for an average size of 1,051 square feet or \$1.05 per square foot. Average rent for three-bedroom units is \$1,490 per month for an average size of 1,184 square feet or \$1.26 per square foot.

The overall average rent per square foot among the newer properties surveyed is \$1.21 per square foot.

In addition to surveying newer upscale rental properties, Maxfield Research Inc. also surveyed a selected group of larger (24+ units) rental properties built prior to 1990. These units are all professionally managed and provide a variety of unit types ranging from efficiencies to three-bedroom units. This information is intended to provide a picture of the general rental market in Duluth and the immediate area regarding average rents and unit sizes. Although properties surveyed were built prior to 1990, most of those surveyed were actually constructed from the 1950s to the 1970s. The low rent levels shown on the table reflect the older age of the majority of the properties surveyed.

LARGER RENTAL PROPERTIES (PRE-1990) 24+UNITS				
CITY OF DULUTH				
January 2014				
Type	Pct.	Rent	Size	Rent/Sq. Ft
Eff.	7.4%	\$563	432	\$1.30
1BR	37.0%	\$720	652	\$1.10
1BR+D	0.5%	\$890	800	\$1.11
2BR	45.4%	\$910	986	\$0.92
3BR	9.7%	\$1,408	1,189	\$1.18
TOTAL	100.0%	\$910	875	\$1.04
Source: Maxfield Research Inc.				

The table above shows average rents, unit sizes and per square foot rents for larger rental properties that were built prior to 1990 and have 24 units or more. A total of 1,202 units were surveyed. Among the 1,202 units, 18 units were vacant for an overall vacancy rate of 1.5%, again well below the 5% market equilibrium rate. In order to move the market to a 5% vacancy rate, at least 95 more units would need to become vacant. With current employment growth in Duluth and continued economic recovery, we believe this is unlikely to occur.

As the table shows, the average rent for efficiency units is \$563 per month for an average of 430 square feet or \$1.30 per square foot. The average rent for one-bedroom units is \$720 per month or an average of 652 square feet of \$1.10 per square foot. The average rent for two-bedroom units is \$910 per month for an average of 986 square feet or \$0.92 per square foot.

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The average for three-bedroom units is \$1,408 per month for an average of 1,189 square feet or \$1.18 per square foot.

The overall average rent among the older surveyed properties is \$1.04 per square foot. All average rents have been weighted based on the number of units. Rents were not adjusted to include or exclude utilities.

There is an average per square foot difference of \$.17 per square foot between the older properties and the newer properties. This is not unusual given the difference in the age of the properties which may be as great as 20 to 30 years apart.

Rents have increased over the past year at many properties, some by as much as 5%. Rent increases document that the apartment market is tight and that landlords are able to charge more for rent due to higher demand for apartment units.

Interview Summary

Interviews among multifamily housing developers and construction companies generally concurred that it is typically more expensive to build in Duluth than in the Twin Cities Metro Area.

The higher costs can generally be attributed to the following concerns/issues:

- More difficult to hire subcontractors (fewer available) in the Duluth market;
- If bringing own subcontractors, must pay travel expenses;
- Subcontractors in the Duluth market not always experienced in building large scale multifamily housing;
- If limited subcontractor availability, this can limit some cost efficiencies and add on to overall building time which may impact total costs.
- Union contracts identify multifamily construction as a commercial construction rate instead of a residential construction rate.
- Shortage of construction workers overall.
- Lenders in the market underwriting loans at a slightly higher cap rate for non-Metro properties which impact the ability to find investment capital.

Today's developers indicate that building new multifamily properties with enclosed parking in Duluth would likely need to charge rents of approximately \$1.80 to \$2.00 per square foot.

Using the above per square foot rents as a guide for new market rate rental units and applying them to typical average unit sizes for new apartment rentals would result in the following range of rental rates by unit type and an estimated annual income needed to afford these monthly rents:

Efficiency unit – 500 sq ft	\$900 to \$1,000 per month	\$36,000 to \$40,000
One-bedroom units – 680 sq ft	\$1,225 and \$1,360 per month	\$49,000 to \$54,400

Interviews with Major Employers

Also, there are other alternatives to renting an apartment, such as renting a single-family home, or purchasing a home. While renters are generally convenience-oriented and have a high mobility rate, those moving to Duluth are typically expecting rent levels in the community that are less than what is being charged in the Twin Cities. Although most of the rental housing stock in Duluth has rents that are lower than the Twin Cities Metro, many transplants to the Duluth area are surprised at what they perceive to be the high cost of housing in the community. This was heard several times during our interviews with major employers from new employees that have been recruited to jobs in Duluth from outside of the area.

Housing Affordability

The table below shows an assessment of housing affordability for Duluth city using data as of 2014. Figures are shown at various percentages of the Area Median Household Income which is currently listed at \$64,300 for a family of four.

Based on current market conditions in Duluth for owned and rental housing and the referenced HUD income limits for each income group, households with incomes of less than 80% of the area median income for a four-person household would have difficulty being able to afford most housing options in Duluth. Conversely, a household earning the area median household income or higher (\$64,300) would likely be able to afford several housing options.

Although a household with an income of \$32,150 may be able to afford a small two-bedroom home, other payments that would be required including taxes, insurance, and a down payment may pose a challenge for a portion of households in that income bracket.

SUMMARY AND CONCLUSIONS

HOUSING AFFORDABILITY GAP ANALYSIS CITY OF DULUTH					
2014 HUD Income Definitions	Maximum Affordable Housing Payment (30% of Income)	Average Rent Two-Bedroom	Payment Average Two-Bedroom House (\$140,000)	Payment Average Three-Bedroom House (\$170,000)	Affordability GAP*
Extremely Low 30% of Median Income \$19,300	\$483	\$910	\$676	\$821	All standard housing unaffordable
Low 50% of Median Income \$32,150	\$804	\$910	\$676	\$821	Could possibly afford two-bedroom home
Low-Moderate 80% of Median Income \$51,450	\$1,286	\$910	\$676	\$821	Could afford several housing options
Median Income \$64,300	\$1,608	\$910	\$676	\$821	Could afford several housing options
Median income listed for a four-person household; owned housing payment calculated using 30-year, fixed rate mortgage with a 90% LTV and excluding mortgage insurance, taxes, homeowner's insurance					
Source: Maxfield Research Inc.					

Housing Demand Summary

The table below shows a summary of demand for the Duluth Housing Market Area over the next six years. This information identifies the potential need for owned and rental housing. Over the next six years, total housing demand for owned and rental housing is estimated at 4,470 units.

SUMMARY OF HOUSING DEMAND Duluth Housing Market Area	
Housing Type	2014-2020
Owned	
Entry-Level (Under \$150,000)	180
Move-Up (\$150,000 to \$250,000)	470
Executive (Over \$250,000)	250
Rental	
Low-Income (<50% of AMI)	1,275
Moderate Income (50% to 80% of AMI)	1,207
Market Rate (80%+)	1,092
Source: Maxfield Research Inc.	

Existing Conditions

The current rental housing market in Duluth exhibits the following characteristics:

- New housing is needed to support new employment growth in the community, now and in the future.
- New housing is needed to support a general renewal of the existing housing stock and to encourage renovation and rehabilitation of existing units.
- Rent levels are increasing due to a tight rental market with vacancy rates currently at about 2.0% or less;
- New rental housing is needed to encourage existing renters to move-up to new rental housing, thereby freeing up lower-priced units to be filled by households that have moderate incomes.
- The average rent level for newer market rate rental properties in Duluth is about \$855 per month. This figure is approximately a \$350 difference between the current average and the \$1,200 per month level needed to support new construction.
- The proportion of households with incomes of \$50,000 or more is expected to increase by 48% by 2019, thereby increasing the pool of households with incomes that would support new market rate rentals.
- The costs to construct new market rate rental housing without any public assistance are about the same as to construct these same units in the Twin Cities Metro Area.

Challenges to Developing New Rental Housing

The existing financial tools available to create new market rate rental housing with some type of assistance generally include:

- Land write-downs
- Tax-Increment Financing
- Tax Exempt Bond Financing (with municipal guarantee)
- Historic tax credits
- Direct Grants

- Partial Direct Subsidies

Some of these funding tools create or require residents to meet a maximum income requirement. While there is usually always a minimum income requirement to afford the monthly rental payment, a maximum income limit further restricts the potential renter market.

We recommend that the City explore a variety of options to encourage the development of new rental housing. Some of these ultimate solutions may require several partners and/or may require that the City consider encouraging changes to the current financial tools that are available to create housing at the State Legislative level.