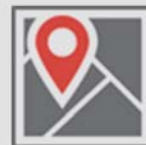


Update of Affordable and Workforce Housing Needs in Duluth, Minnesota

Prepared For:

City of Duluth
Duluth, Minnesota

October 2019



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Research & Consulting

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October 1, 2019

Mr. Adam Fulton
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Mr. Fulton:

Attached is the update market analysis for affordable and workforce housing in the City of Duluth, Minnesota. The analysis updates demographic and economic trends in Duluth and the surrounding area, identifies current housing market conditions, for-sale and rental, with a focus on existing affordable rental properties and the existing supply of housing available to low- and moderate-income households.

Demand is calculated for affordable for-sale and rental housing products including active adult affordable senior housing. We provide some suggested development concepts regarding affordable housing and new products that are being tested in other markets in Minnesota and across the country.

The Duluth housing market is currently experiencing stable growth with strong demand for affordable housing. Detailed findings are found in the body of the report.

We have enjoyed this assignment and are available if you need additional information.

Sincerely,

MAXFIELD RESEARCH & CONSULTING, LLC.

President
Attachment

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Study Purpose

Maxfield Research & Consulting, LLC. was engaged by the City of Duluth to complete an update of a previous analysis identifying the demand for affordable housing targeted to low- and moderate-income households as a support for economic development in the community. The update provides estimates of new housing demand at various income levels and identifies new construction housing products that could be developed in Duluth to meet the projected needs. The analysis does not consider the potential demand for rehabilitation opportunities. An analysis of the rehabilitation of the older housing stock could be a topic for further investigation and research.

Summary of Key Findings

The following paragraphs summarize the key findings of the affordable and workforce housing analysis to identify the amount and types of housing products that may be needed in the community to support projected demand.

The Primary Market Area (PMA) or “draw area” used in the analysis is the same as the previous study and includes the Cities of Duluth, Proctor, Hermantown and Rice Lake and the Townships of Canosia, Lakewood and Midway. Rice Lake was granted municipality status in 2015. A portion of the potential demand for various housing products in Duluth will come from outside of the PMA, from other communities in Northeastern Minnesota, Northwestern Wisconsin and from the Twin Cities Metro Area. Households coming to Duluth may do so for employment, retirement or other purposes.

Regional Setting

- Duluth’s location on the southwestern tip of Lake Superior provides a unique amenity for housing. Lake Superior, the largest of the Great Lakes, is not only an economic engine for the community, but is perhaps even better treasured for its picturesque beauty. Duluth has experienced a boom in tourism and recreation travel with the result that the community regularly attracts tourists from many different cities and locales each year. Special events bring people to Duluth throughout the season, but activity is concentrated during the late spring, summer and early fall months.
- The Duluth-Superior MSA is now considered to be a major Minnesota tourist destination and events such as Grandma’s Marathon, Duluth Blues Fest, Tall Ships Festival, Glensheen Historic Mansion and the Bentleyville Tour of Lights, have given the City national media attention. Duluth’s summer tourist business increased substantially during the 1990s as many travelers began looking for vacation areas closer to their place of residence. Duluth has continued to increase its tourist draw and now hosts an estimated 6.7 million visitors annually.

EXECUTIVE SUMMARY

- Duluth is also a regional health care and education center. Essentia Health, Duluth’s largest employer, recently broke ground on “Vision Northland,” an \$800 million investment to construct a replacement hospital bed tower, surgical suites and clinic space along with related infrastructure and financing. It will construct new facilities and renovate some existing space. Construction and renovation is scheduled to be complete by 2022.
- The more than 28,000 students that attend colleges and universities in the area include the University of Minnesota Duluth (UMD), College of St. Scholastica, Lake Superior College and University of Wisconsin Superior are all within five miles of Downtown Duluth, also a significant economic driver, bringing students, staff and jobs to the region. Students residing in Duluth constitute a significant market for rental housing with the result that many older single-family homes in neighborhoods near the colleges and universities have been converted for lease to students. The high proportion of student rentals has shifted the dynamics of the local rental housing market toward commercial investment valuations for many single-family homes along with an overall higher rent structure due to leasing bedrooms per person.
- Strong enrollment growth in the 2000s at the local colleges and universities combined with increased job growth overall in the community, but significantly reduced the availability of rental housing prior to 2010. Although overall college enrollment has decreased slightly, new rental housing targeted to students has been successful, capturing a segment of the market that was previously missed.
- New market rate rental and for-sale multifamily housing developed in the community has captured young professionals and empty-nesters looking for a specific lifestyle. Contemporary features and amenities have attracted these households even at price points at the top end of the market.
- There has been limited development of new affordable rental housing targeted to low- and moderate-income households. Since 2010, we have identified a total of 1,096 units of market rate housing either delivered or under construction and 194 units of deep-subsidy or affordable housing delivered.

Area Growth Trends and Demographic Analysis

- From 2010 to 2019, the Duluth PMA is estimated to have gained 2,784 people (2.6%) and 1,253 households (2.8%). From 2019 to 2030, the PMA is projected to gain 2,654 people (2.4%) and 2,051 households (4.5%).
- The year-end 2018 unemployment rate in Duluth was 3.3%, the lowest unemployment rate in more than 10 years. As of August 2019, the unemployment rate had dropped again to 3.1%, due to combined increase in employment along with a reduction in the labor force. Reductions in the labor force may result in continued declines in the unemployment rate,

but further reductions may result in increased labor shortages that would hamper economic growth and development.

- Growth in employment between 2010 and year-end 2018 resulted in an increase of 1,750 jobs and a consistent reduction in the unemployment rate from a peak of 7.6% in 2010 to 3.3% as of year-end 2018. Based on an analysis of employment in the area, there job shortages occurring in some industries. As of the end of August 2019, the number of people employed increased again by 121, or 0.3%.
- As of 1st Quarter 2019, nearly all industry sectors experienced job increases, up from 4th Quarter 2018, signaling a strengthening job market. Health Care and Manufacturing continue to bring new living wage jobs to Duluth. Jobs in Health Care and Manufacturing increased.
- Several industry sectors have grown rapidly in Duluth between 2012 and 2018. Employees at companies in these industries are primary target markets for new housing in the City. These include Health Care, Education and Professional and Business Services. The largest employment sectors in Duluth as of the end of 2018 were Health Services, Retail Trade, Leisure and Hospitality and Professional and Business Services. Most of the Health Services employment is concentrated in Downtown between Essentia Health and St. Luke's.
- Recent figures on covered employment (jobs by place of work) revealed that the Health Services sector continues to experience the greatest growth in the area. The average weekly wage in Duluth remained relatively stable, but some industry sectors showed substantial increases. The average weekly wage was \$891 in 2017 and \$920 as of year-end 2018, relatively flat. The 2018 average weekly wage equates to an annual gross income of \$47,840. This is a per worker income. Many households today have more than one worker.
- The 2019 median household income in the Primary Market Area is estimated at \$53,937 and is projected to increase to \$58,257 over the next five years (2024), an average annual increase of 1.55%, equal to the average annual increase in inflation nationally from 2008 to 2018, according to the Bureau of Labor Statistics. The median household income in Duluth is somewhat less, \$50,586, reflecting a higher proportion of income-restricted housing as compared to the low-density surrounding cities and townships.
- New rental housing has been developed across the spectrum, but the need remains strong for housing to serve low- and moderate-income households, particularly those taking lower wage jobs in growing employment sectors. Health care employers, St. Luke's and Essentia Health continue to discuss the need for affordable and workforce housing to support their expanding employment bases.

Housing Market Conditions

- Activity in the for-sale market has expanded and housing values have increased, but the number of housing units on the market remains modest and the number of new for-sale units in Duluth is inordinately low. This causes an overall slowdown in market activity as there is very little product for buyers to cross-shop.
- According to the Duluth Area Association of Realtors, the median resale price of homes in Duluth as of the end of September 2019 was \$197,900, an increase of 7.0% over year-end 2018 (\$185,000). Lack of inventory continues to spur increases in home prices in Duluth. Although substantial appreciation of home values in Duluth creates net worth for existing homeowners, it makes the purchase of homes less affordable, primarily to first-time and entry-level buyers.
- New market rate and affordable rental housing added in Duluth has been successful. Although absorption of new market rate product has not been as rapid over the past 12 months, new affordable housing continues to fill quickly, sometimes even before opening.
- Post-recession, strong employment growth in Duluth including a growing base of professional workers, changing lifestyles and an overall aging population (growth in the baby boom cohort) has led to increased interest in multifamily housing options and in housing that would be in the Downtown and in other high-amenity locations such as the lakefront and Harborfront. Although there have been few new market rate developments constructed, those developed have been well-received and have maintained high occupancies. Owner-occupied properties have experienced price appreciation.

Demand for New or Additional Housing

- We estimate the following affordable housing demand, excluding market rate, from 2019 to 2024:
 - Single-family 126 units
 - Owned multifamily 47 units
 - Subsidized Rental (50% or less AMI) 2,202 units
 - Affordable Rental (50% to 80% AMI) 1,010 units
 - Active Adult (55+) Senior (50% to 60% AMI) 297 units

Suggested Development Concepts

- New housing products are being considered across the country to satisfy at least a portion of the significant need for affordable housing. Ownership products include homes on small lots with less square feet, pre-manufactured components that are assembled on-site. New concepts for affordable housing also include pre-manufactured components and modules that are shipped and assembled on-site.

EXECUTIVE SUMMARY

- Other considerations include various types of reductions in development and funding costs such as housing funds, tax abatement and land write-downs to reduce the funding gaps associated with affordable housing. Other strategies include reducing unit sizes sufficiently to be able to reduce rents without income restrictions. While all these strategies have worked for various types of developments in various locations, we note that having to cluster multiple funding sources together can often increase the time and cost involved in developing affordable housing. The country however, is acutely aware of the substantial need for affordable housing and alternate financial tools and development practices are being utilized in locations in Minnesota, the Midwest and elsewhere in the US.
- Affordable housing, rental and owned, is needed throughout Duluth. The high level of services and amenities in the Downtown have attracted the development of several affordable and market rate properties and there is interest in developing more housing in the Downtown. Affordable opportunities however, should be spread across the City, not only concentrated in the Downtown or immediate vicinity. Incorporating affordable housing options in all Duluth's neighborhoods will ensure that low-and moderate-income households will have access to a diverse array of education, retail goods and services and recreation amenities. A strong public transit system enhances mobility for all households in Duluth.

Study Purpose

Maxfield Research & Consulting, LLC. was engaged by the City of Duluth to update a previous analysis regarding the projected demand for affordable and workforce housing and the types of housing products that may be developed to meet the identified needs in the City of Duluth. The study focused on the need and demand for new housing units. An analysis of rehabilitation opportunities regarding the older housing stock could be a topic for further investigation and research.

The scope of the update includes:

- An evaluation of the demographic factors impacting demand for housing in the Duluth area including overall population, household and employment trends as well as age distribution and household income trends.
- An analysis of current market conditions for for-sale and rental housing including demand for entry-level for-sale housing, affordable and workforce rental housing.
- Calculations of demand for affordable and workforce for-sale and rental housing with an assessment of the needs for various housing products to meet the demand.
- Recommendation of suggested development concepts (rental and ownership).

This report includes primary and secondary research. Primary research consists of interviews with real estate sales agents, property management firms, local economic development associations and other housing professionals as well as field work.

Secondary research is credited to the source when used, and is typically data from the U.S. Census and national, state and local government agencies. Secondary research is always used as a basis for analysis and is carefully reviewed considering other factors that may impact projections such as residential building permit data or migration trends. All the information on existing housing developments was gathered by Maxfield Research & Consulting, LLC. and is accurate to the best of our knowledge.

Introduction

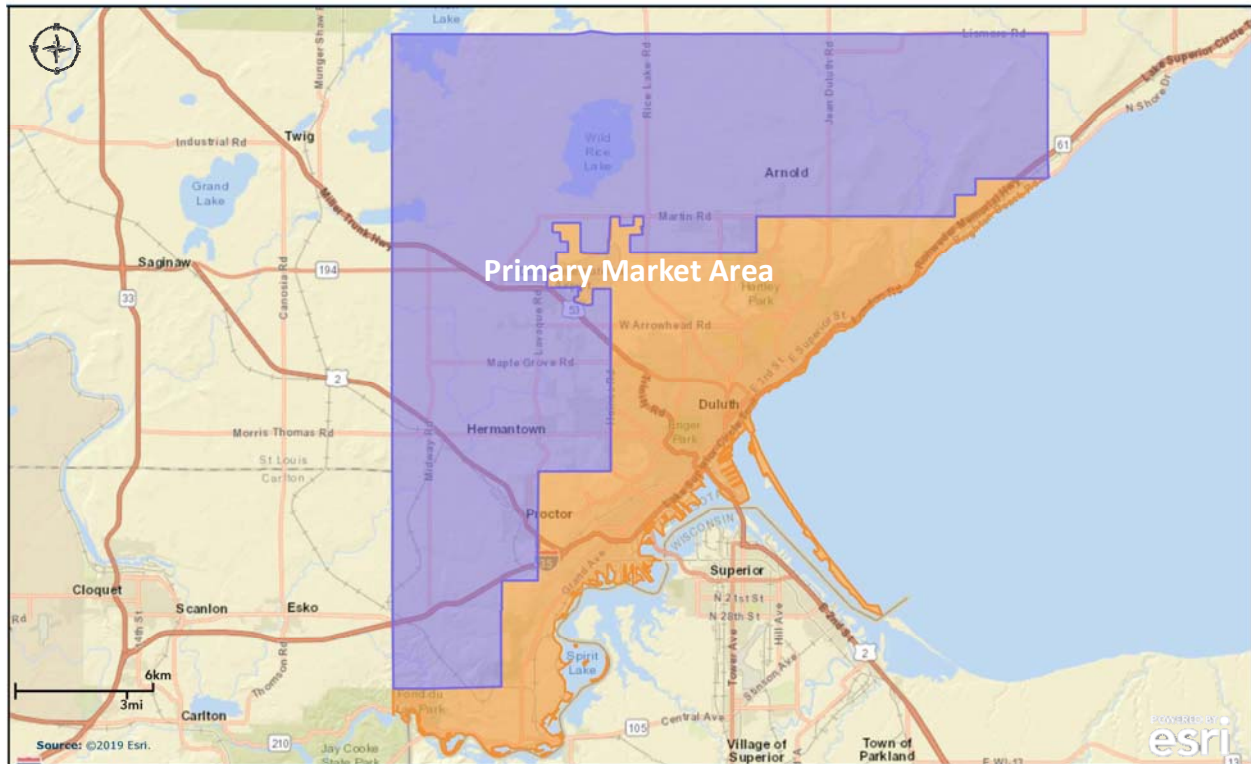
This section of the report examines growth trends and demographic and economic characteristics for the City of Duluth (city limits), the Primary Market Area and St. Louis County. This information assists in determining the need for additional ownership and rental housing products, specifically affordable and workforce housing, in Duluth, Minnesota. The section presents updated information on population and household growth trends and other demographic characteristics of the population and household bases in Duluth and the immediate surrounding area.

These figures provide information on the demand for housing that may be needed since households represent occupied dwelling units and population changes may signal a shift in the types of housing products that may be desired in the market, considering household composition, growth in various age cohorts, preferences to own or rent, among other factors.

The Primary Market Area includes the Cities of Duluth, Hermantown, Proctor and Rice Lake and the Townships of Canosia, Lakewood and Midway. Rice Lake became a municipality in 2015. The primary draw area is the geographic area that would attract most of the potential residents (i.e. 70%) for housing. Additional demand for housing in Duluth and in the remainder of the PMA (we estimate 30%) overall will come from households outside of the Primary Market Area who may be attracted to the area for various reasons. Twin Cities residents relocating to the Duluth area could account for a portion of the market for affordable and workforce housing if these individuals are moving for work or for other personal reasons.

The map below outlines Duluth proper and the Primary Market Area.

Primary Market Area



Population and Household Growth Trends

Tables D-1 and D-2 show population and household growth trends and projections for the Duluth Primary Market Area from 2000 to 2030. Figures for 2000 and 2010 are from the U.S. Census, while estimates for 2019 and forecasts for 2024 and 2030 were made by Maxfield Research using information provided by ESRI Inc., the Minnesota State Demographer and an analysis of recent residential construction trends and current economic conditions. The following are key points from Tables D-1 and D-2.

- Duluth lost 653 people between 2000 and 2010, but has since gained an estimated 1,893 people, an increase of 2.2%. The Primary Market Area (Duluth and adjacent communities) have gained an estimated 891 people or 4% over the same period.
- From 2019 to 2030, Duluth is projected to gain 1,402 people (1.6%) and the Remainder of the PMA is projected to gain 1,252 people (5.4%) over the same period. The Primary Market Area is projected to gain a total of 2,654 people, an increase of 2.4%.

DEMOGRAPHIC REVIEW

- Household growth rather than population growth is a better indicator of the potential need for housing units because households represent occupied dwelling units. As of 2019, Duluth is estimated to have 36,528 households, an increase of 823 since 2010 (2.3%). The Remainder of the Primary Market Area is estimated to have 8,823 households, an increase of 430 households (5.1%). The Primary Market Area is estimated to have a total of 45,351 households, an increase of 2.8%.
- Growth is projected to continue to 2030 with Duluth gaining 1,472 households (4.0%), the Remainder of the Primary Market Area gaining 579 households (6.6%) and the Primary Market Area (Duluth and adjacent communities) projected to gain 2,051 households (4.5%). The increase has been and will continue to be fueled primarily by employment growth in the Duluth area including manufacturing and health care jobs, along with some retirement relocations. New housing (rental and ownership) has attracted a diverse array of households ranging across the age and income spectrum. There remains however, a strong need for affordable ownership and rental housing in addition to housing to serve individuals and families with special needs. New housing has also been spread across the City geographically in the west and east ends, in the Miller Hill Mall district and in the Downtown.

Population Age Distribution

Table D-3 shows the age distribution of the Market Area in 2000 and 2010 with projections for 2019 and 2024 and 2030. The 2000 and 2010 age distributions are from the U.S. Census and the 2019 estimate and 2024 and 2030 projections were made by Maxfield Research based on information provided by ESRI Inc. and proportional growth allocations from the Minnesota State Demographer. The following are key points from the Table.

DEMOGRAPHIC REVIEW

**TABLE D-1
POPULATION GROWTH TRENDS
DULUTH STUDY AREA
2000-2030**

	U.S. Census		Estimate	Forecast		Change					
	2000	2010	2019	2024	2030	2000-2010		2010-2019		2019-2030	
						No.	Pct.	No.	Pct.	No.	Pct.
Downtown Duluth	11,025	10,934	11,170	11,533	11,800	-91	-0.8	236	2.2	630	5.6
Downtown CBD	2,189	2,787	2,893	2,964	3,020	598	27.3	106	3.8	127	4.4
Remainder of Dwntn.	8,336	8,147	8,277	8,569	8,780	-189	-2.3	130	1.6	503	6.1
Duluth City	86,918	86,265	88,158	89,560	89,920	-653	-0.8	1,893	2.2	1,402	1.6
Remainder of Study Area											
Proctor	2,852	3,057	3,111	3,131	3,180	205	7.2	54	1.8	69	2.2
Hermantown	7,448	9,414	10,021	10,400	10,815	1,966	26.4	607	6.4	794	7.9
Rice Lake	4,139	4,095	4,154	4,185	4,233	-44	-1.1	59	1.4	79	1.9
Midway Twp.	1,479	1,399	1,445	1,485	1,585	-80	-5.4	46	3.3	140	9.7
Canosia Twp.	1,998	2,158	2,213	2,245	2,293	160	8.0	55	2.5	80	3.6
Lakewood Twp.	2,013	2,190	2,260	2,300	2,350	177	8.8	70	3.2	90	4.0
Subtotal	19,929	22,313	23,204	23,746	24,456	2,384	12.0	891	4.0	1,252	5.4
Duluth Area Total	106,847	108,578	111,362	113,306	114,376	1,731	1.6	2,784	2.6	2,654	2.4
St. Louis County	200,528	200,226	200,412	201,238	201,100	-302	-0.2	186	0.1	688	0.3
Minnesota	4,919,479	5,303,925	5,705,976	5,946,300	6,200,000	384,446	7.8	402,051	7.6	494,024	8.7
Note: Downtown CBD includes block groups: 17.002, 19.001 and 19.002											
Sources: U.S. Census Bureau, MN Planning, ESRI Inc., Maxfield Research and Consulting, LLC											

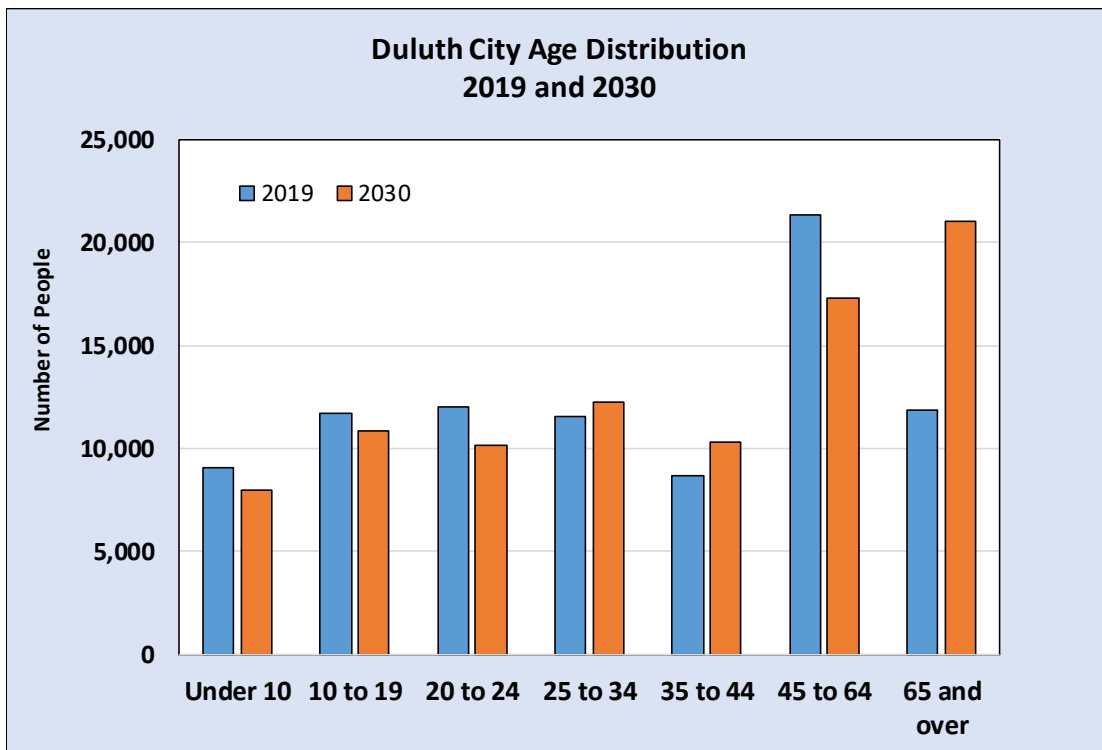
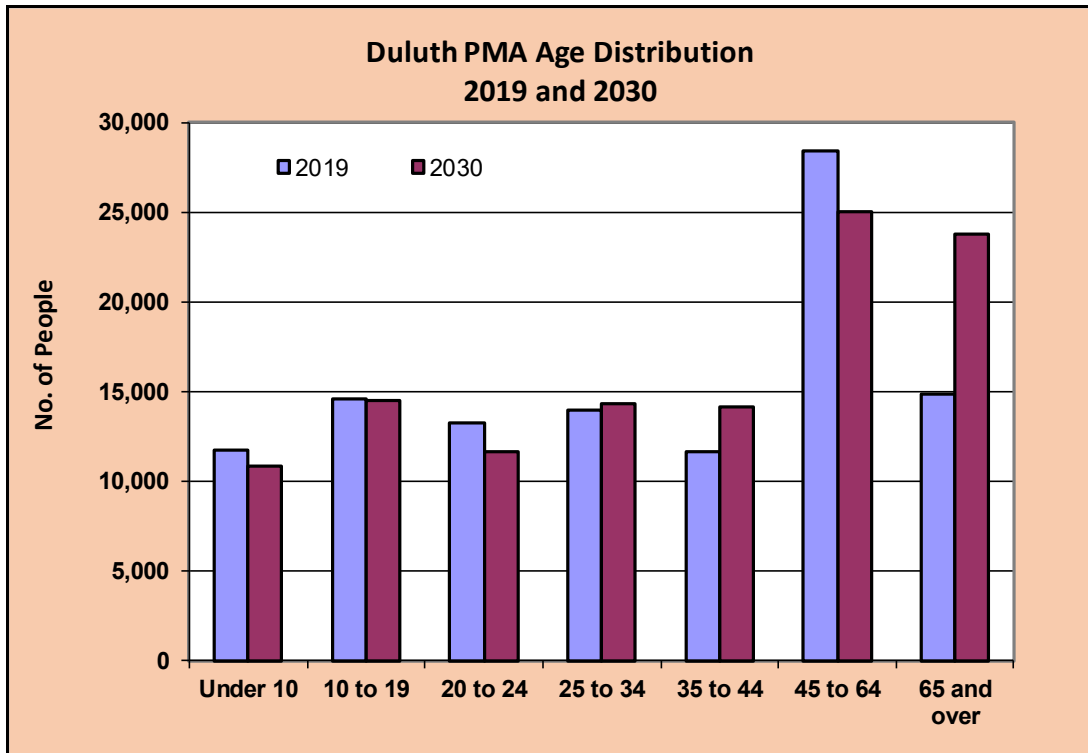
DEMOGRAPHIC REVIEW

**TABLE D-2
HOUSEHOLD GROWTH TRENDS
DULUTH STUDY AREA
2000-2030**

	U.S. Census		Estimate	Forecast		Change					
	2000	2010	2019	2024	2030	2000-2010		2010-2019		2019-2030	
						No.	Pct.	No.	Pct.	No.	Pct.
Downtown Duluth	5,823	5,711	6,020	6,115	6,365	-112	-1.9	309	5.4	345	5.7
Downtown CBD	1,942	1,866	1,954	1,985	2,203	-76	-3.9	88	4.7	249	12.7
Remainder of Dwntn.	2,981	3,845	4,066	4,130	4,162	864	29.0	221	5.7	96	2.4
Duluth City	35,500	35,705	36,528	37,128	38,000	205	0.6	823	2.3	1,472	4.0
Remainder of Study Area											
Proctor	1,196	1,268	1,306	1,345	1,360	72	6.0	38	3.0	54	4.1
Hermantown	2,726	3,355	3,642	3,840	4,040	629	23.1	287	8.6	398	10.9
Rice Lake	1,494	1,611	1,640	1,660	1,674	117	7.8	29	1.8	34	2.1
Midway Twp.	495	541	567	577	590	46	9.3	26	4.8	23	4.1
Canosia Twp.	751	820	844	858	878	69	9.2	24	2.9	34	4.0
Lakewood Twp.	710	798	824	846	860	88	12.4	26	3.3	36	4.4
Subtotal	7,372	8,393	8,823	9,126	9,402	1,021	13.8	430	5.1	579	6.6
Duluth Area Total	42,872	44,098	45,351	46,254	47,402	1,226	2.9	1,253	2.8	2,051	4.5
St. Louis County	82,619	84,783	86,191	87,100	88,000	2,164	2.6	1,408	1.7	1,809	2.1
Minnesota	1,895,127	2,087,226	2,234,112	2,324,140	2,389,722	192,099	10.1	146,886	7.0	155,610	7.0
Note: Downtown CBD includes block groups: 17.002, 19.001 and 19.002.											
Sources: U.S. Census Bureau, MN Planning, ESRI Inc., Maxfield Research and Consulting, LLC											

DEMOGRAPHIC REVIEW

- Between 2000 and 2010, the population in the Downtown District and Duluth city decreased slightly, by -91 people (-0.8%) and by -653 people (-0.8%), respectively. The age cohort 55 to 64 years experienced the greatest growth during the period, increasing by 500 people or 28.0% in the Downtown District and by 2,860 people in Duluth city (15.5%). This shift was primarily the result of the aging of the baby boom generation (persons born between 1946 and 1964), which increased the population between the ages of 55 and 64. As the baby boom generation ages, it will continue to fuel demand for owned and rented multifamily housing products. Similarly, the PMA also experienced a significant increase among people ages 55 to 64, with an increase of 4,961 or 21.1%.
- Between 2010 and 2019, Duluth is estimated to have experienced significant growth among people age 25 to 34 (1,260 or 10.9%) and those age 65 years or older (2,945 or 24.8%). Similar increases in these age groups are estimated for the Duluth PMA as a whole. Although the age group 35 to 44 had a higher proportion of married couples with children, the shift in household types experienced over the last ten to 15 years has caused an increase in the proportion of households that are delaying having children or are choosing not to have children at all. Therefore, a portion of this age group is likely to elect to rent their housing rather than own, continuing to support demand for rental, and among the younger age group, affordable housing in the Duluth area.
- The substantial size of the baby boom (1946-1964) generation and their aging into their elder years resulted in an increase among the older age cohorts between 2000 and 2010, which is expected to continue into the next period, 2010 to 2024. A portion of these people may consider alternatives to their single-family homes (i.e. townhomes or condominiums), which would free up existing homes to be purchased by younger buyers.
- The graphs on the following page, show the projected age distribution in Duluth proper and the Duluth PMA from 2019 to 2030. The graph shows that half of the age groups, (ages 25 to 34, 35 to 44 and 65 years and older) are expected to experience an increase during the period.
- Between 2010 and 2030, the most significant numerical increases are expected to occur among people 35 to 44 and 65 years or older. A growing number of older households are electing to rent after selling their single-family homes.



DEMOGRAPHIC REVIEW

<p align="center">TABLE D-3 PROJECTED AGE DISTRIBUTION DOWNTOWN DISTRICT, DULUTH CITY AND PRIMARY MARKET AREA 2000 - 2030</p>											
Age	U.S. Census		ESRI/Maxfield			Change					
	2000	2010	Estimate 2019	Forecast 2024	Forecast 2030	2000-2010		2010-2019		2019-2030	
						No.	Pct.	No.	Pct.	No.	Pct.
<i>Downtown District</i>											
Under 10	1,021	930	894	946	897	-91	-8.9	-36	-3.9	3	0.4
10 to 19	1,090	898	860	900	885	-192	-17.6	-38	-4.2	25	2.9
20 to 24	2,494	2,868	2,737	2,641	2,738	374	15.0	-131	-4.6	1	0.0
25 to 34	1,837	1,911	2,122	2,180	2,289	74	4.0	211	11.1	167	7.9
35 to 44	1,419	996	972	1,061	1,133	-423	-29.8	-24	-2.4	161	16.6
45 to 64	1,788	2,288	2,290	2,284	2,301	500	28.0	2	0.1	11	0.5
65 and over	1,376	1,043	1,296	1,522	1,558	-333	-24.2	253	24.2	262	20.2
Total	11,025	10,934	11,170	11,533	11,800	-91	-0.8	236	2.2	630	5.6
<i>Duluth City</i>											
Under 10	9,619	9,094	8,728	8,777	8,003	-525	-5.5	-366	-4.0	-725	-8.3
10 to 19	13,391	11,696	11,196	11,464	10,880	-1,695	-12.7	-500	-4.3	-316	-2.8
20 to 24	9,549	12,044	11,020	10,568	10,161	2,495	26.1	-1,024	-8.5	-859	-7.8
25 to 34	10,484	11,523	12,783	12,180	12,229	1,039	9.9	1,260	10.9	-554	-4.3
35 to 44	12,222	8,676	8,992	10,120	10,341	-3,546	-29.0	316	3.6	1,349	15.0
45 to 64	18,506	21,366	20,629	19,524	17,265	2,860	15.5	-737	-3.4	-3,364	-16.3
65 and over	13,147	11,866	14,811	17,016	21,041	-1,281	-9.7	2,945	24.8	6,231	42.1
Total	86,918	86,265	88,158	89,650	89,920	-653	-0.8	1,893	2.2	1,762	2.0
<i>Primary Market Area Total</i>											
Under 10	12,280	11,753	11,136	11,104	10,866	-527	-4.3	-617	-5.2	-270	-2.2
10 to 19	11,583	14,636	14,032	14,390	14,526	3,053	26.4	-604	-4.1	494	4.3
20 to 24	15,445	13,228	12,138	11,557	11,666	-2,217	-14.4	-1,090	-8.2	-472	-3.1
25 to 34	12,543	13,985	15,479	14,843	14,297	1,442	11.5	1,494	10.7	-1,182	-9.4
35 to 44	15,886	11,677	11,804	13,143	14,183	-4,209	-26.5	127	1.1	2,378	15.0
45 to 64	23,474	28,435	27,618	26,060	25,048	4,961	21.1	-817	-2.9	-2,569	-10.9
65 and over	15,636	14,864	19,154	22,208	23,790	-772	-4.9	4,290	28.9	4,636	29.6
Total	106,847	108,578	111,362	113,306	114,376	1,731	1.6	2,784	2.6	3,014	2.8
Sources: U.S. Census Bureau; ESRI, Inc.; MN State Demographer; Maxfield Research and Consulting											

Household Income

A generally accepted standard for housing costs that are considered affordable is 30% of gross income placed toward housing costs. Therefore, a household earning \$50,000 annually should be able to afford to rent an apartment unit at \$1,250 per month, including utilities. The newest market rate rental properties in Duluth are showing beginning rents at this level. A household with an annual income of \$50,000 could potentially afford to purchase an owned unit in the price range of \$165,000 to \$180,000 (assuming that utilities cost \$200 per month, on average, and assuming 4% fixed interest for 30 years, with a 5% down payment and no Private Mortgage Insurance). This also assumes good credit. The upper end of this range is near to the current median resale price of existing single-family homes in Duluth, which at the end of 2018 was \$185,000.

Tables D-4 and D-5 show the number of households in various income ranges in 2019 along with a forecast for 2024. Information is presented for Downtown city and the Duluth PMA. The 2019 and 2024 household projections were made by Maxfield Research based on information provided by ESRI, a national demographic forecasting firm. The following are key points from the Table.

- The median income in Duluth city is projected to increase from \$50,586 in 2019 to \$54,297 by 2024, an increase of 7.3%, an average annual increase of 1.43%. The average median household income in the Duluth PMA is projected to increase from \$53,937 in 2019 to \$58,257 by 2024, an increase of 8.0%, an average annual increase of 1.55%. The respective annual average increases indicate that the median household income in Duluth city is projected to increase somewhat below the rate of inflation while the median household income in the Duluth PMA is projected to increase at the 10-year (2008-2018) historical rate of inflation. At a rate less than the inflation rate for incomes, this suggests that the median household income growth in Duluth is not projected to keep up with the current rate of inflation.

For Duluth proper and the PMA, households in the 35 to 44, 45 to 54, and 55 to 64 age groups have the highest median incomes as households in these age categories are gaining experience in their careers and as they age tend to reach their peak earning years in the latter age category. The 2019 median incomes for these cohorts for the Duluth PMA are \$70,482, \$71,760 and \$64,583, respectively. Median incomes for these cohorts in Duluth city are \$60,955, \$66,558, and \$57,331, respectively. Households in these age groups and income levels, are more likely to be able to afford to rent or purchase housing at market price. Households with incomes below this level and in the younger age groups are likely to need housing at lower price levels. One-bedroom monthly rents for workforce housing (80% and 120% AMI) are estimated to range from \$1,087 to \$1,725 according to the income limits table (D-8). Rents at these levels however, are generally perceived in the market as being at the upper end of the range for rental housing in Duluth and are similar to rents charged at the newest market rate properties such as ENDI, District Flats, Bluestone Lofts and Capstone Lofts.

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TABLE D-4 HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER DULUTH CITY 2019 & 2024								
Households by Age of Householder								
Household Income in 2019	2019							
	Total	<25	25-34	35-44	45-54	55-64	65-74	75+
Under \$15,000	4,874	767	746	470	601	837	616	837
\$15,000-\$24,999	4,644	675	657	410	411	651	699	1,141
\$25,000-\$34,999	3,669	458	683	395	353	445	523	813
\$35,000-\$49,999	4,823	613	874	585	580	691	725	756
\$50,000-\$74,999	6,869	389	1,454	970	1,017	1,394	1,051	594
\$75,000-\$99,999	4,395	191	797	735	727	1,003	709	233
\$100,000-\$149,999	4,514	145	817	960	911	976	482	224
\$150,000-\$199,999	1,311	30	172	240	337	305	150	76
\$200,000+	1,407	33	172	235	332	332	223	81
Total Households.	36,506	3,267	6,200	4,763	4,936	6,301	4,956	4,675
Median Income - Duluth city	\$50,586	\$29,315	\$53,210	\$65,840	\$66,153	\$61,052	\$51,250	\$29,554
Household Income in 2024	2024							
	Total	<25	25-34	35-44	45-54	55-64	65-74	75+
Under \$15,000	4,231	679	585	416	490	641	567	852
\$15,000-\$24,999	4,343	628	544	372	342	530	698	1,229
\$25,000-\$34,999	3,570	434	591	383	301	382	538	941
\$35,000-\$49,999	4,753	631	780	600	526	592	750	875
\$50,000-\$74,999	7,181	421	1,389	1,077	980	1,325	1,225	764
\$75,000-\$99,999	4,554	201	774	816	720	943	807	293
\$100,000-\$149,999	5,177	165	875	1,199	970	1,023	618	327
\$150,000-\$199,999	1,788	42	207	389	413	370	229	138
\$200,000+	1,652	36	165	300	367	364	298	122
Total Households.	35,597	3,200	5,744	5,253	4,741	5,806	5,433	5,419
Median Income - Duluth city	\$54,297	\$32,128	\$56,486	\$74,176	\$73,516	\$66,664	\$55,266	\$32,125
Income	Change 2019-2024							
	Total	15-24	25-34	35-44	45-54	55-59	65-74	75+
Under \$15,000	-643	-88	-161	-53	-111	-196	-49	15
\$15,000-\$24,999	-301	-48	-113	-38	-69	-121	-1	87
\$25,000-\$34,999	-99	-24	-92	-12	-52	-63	15	128
\$35,000-\$49,999	-70	18	-94	15	-54	-99	25	118
\$50,000-\$74,999	311	32	-66	108	-37	-69	174	169
\$75,000-\$99,999	159	10	-23	82	-7	-60	98	60
\$100,000-\$149,999	663	20	58	240	58	47	137	103
\$150,000 or more	478	12	35	149	76	64	79	62
Total Households.	498	566	1,022	531	727	1,222	744	0
%	1.4%	17.3%	16.5%	11.2%	14.7%	19.4%	15.0%	0.0%
Median Income....	\$3,711	\$2,813	\$3,276	\$8,336	\$7,363	\$5,612	\$4,016	\$2,571
%	7.3%	9.6%	6.2%	12.7%	11.1%	9.2%	7.8%	8.7%

Sources: ESRI Inc.; Maxfield Research and Consulting, LLC

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TABLE D-5 HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER DULUTH PRIMARY MARKET AREA 2019 & 2024								
Households by Age of Householder								
Household Income in 2019	2019							
	Total	15-24	25-34	35-44	45-54	55-64	65-74	75+
Under \$15,000	5,339	783	782	513	664	938	704	954
\$15,000-\$24,999	5,370	692	714	457	479	757	845	1,426
\$25,000-\$34,999	4,321	479	759	438	397	516	644	1,087
\$35,000-\$49,999	5,748	657	1,007	682	699	826	898	979
\$50,000-\$74,999	8,813	427	1,766	1,195	1,315	1,876	1,448	785
\$75,000-\$99,999	5,876	210	977	983	1,027	1,411	965	302
\$100,000-\$149,999	6,060	164	1,030	1,271	1,281	1,368	650	296
\$150,000-\$199,999	1,896	42	240	351	500	439	221	103
\$200,000+	2,054	38	240	363	493	482	328	109
Total Households.	45,476	3,494	7,515	6,253	6,855	8,615	6,703	6,041
Median Income - Duluth city	\$50,586	\$29,315	\$53,210	\$65,840	\$66,153	\$61,052	\$51,250	\$29,554
Median Income - Duluth PMA	\$53,937	\$30,488	\$55,636	\$72,100	\$73,250	\$65,984	\$53,954	\$30,664
Household Income in 2024	2024							
	Total	15-24	25-34	35-44	45-54	55-64	65-74	75+
Under \$15,000	4,635	696	615	458	527	710	649	979
\$15,000-\$24,999	4,986	644	587	410	389	598	829	1,529
\$25,000-\$34,999	4,196	455	650	424	329	431	649	1,258
\$35,000-\$49,999	5,614	672	894	687	613	686	911	1,151
\$50,000-\$74,999	9,089	462	1,662	1,298	1,226	1,731	1,680	1,029
\$75,000-\$99,999	6,006	221	936	1,069	982	1,301	1,105	393
\$100,000-\$149,999	6,943	190	1,111	1,576	1,344	1,428	844	450
\$150,000-\$199,999	2,618	62	293	556	619	559	343	186
\$200,000+	2,495	41	237	472	560	543	463	179
Total Households.	46,581	3,401	6,747	6,479	6,030	7,444	7,010	6,975
Median Income - Duluth city	\$54,297	\$32,128	\$56,486	\$74,176	\$73,516	\$66,664	\$55,266	\$32,125
Median Income - Duluth PMA	\$58,257	\$33,539	\$59,387	\$80,190	\$80,700	\$72,988	\$58,798	\$33,635
Income	Change 2019-2024							
	Total	15-24	25-34	35-44	45-54	55-59	65-74	75+
Under \$15,000	-704	-87	-167	-55	-137	-228	-54	25
\$15,000-\$24,999	-384	-48	-127	-47	-91	-159	-16	104
\$25,000-\$34,999	-125	-24	-109	-15	-68	-86	6	170
\$35,000-\$49,999	-135	14	-113	5	-86	-140	13	172
\$50,000-\$74,999	276	35	-104	103	-89	-145	232	244
\$75,000-\$99,999	131	11	-41	87	-45	-111	140	91
\$100,000-\$149,999	883	25	81	306	64	60	193	154
\$150,000-\$199,999	722	20	53	205	120	120	122	83
\$200,000+	441	3	-3	109	67	61	134	70
Total Households	1,105	1,156	1,687	989	1,254	1,883	1,113	0
%	2.4%	33.1%	22.4%	15.8%	18.3%	21.9%	16.6%	0.0%
Median Income....	\$3,711	\$2,813	\$3,276	\$8,336	\$7,363	\$5,612	\$4,016	\$2,571
%	7.3%	9.6%	6.2%	12.7%	11.1%	9.2%	7.8%	8.7%

Sources: ESRI Inc.; Maxfield Research and Consulting, LLC

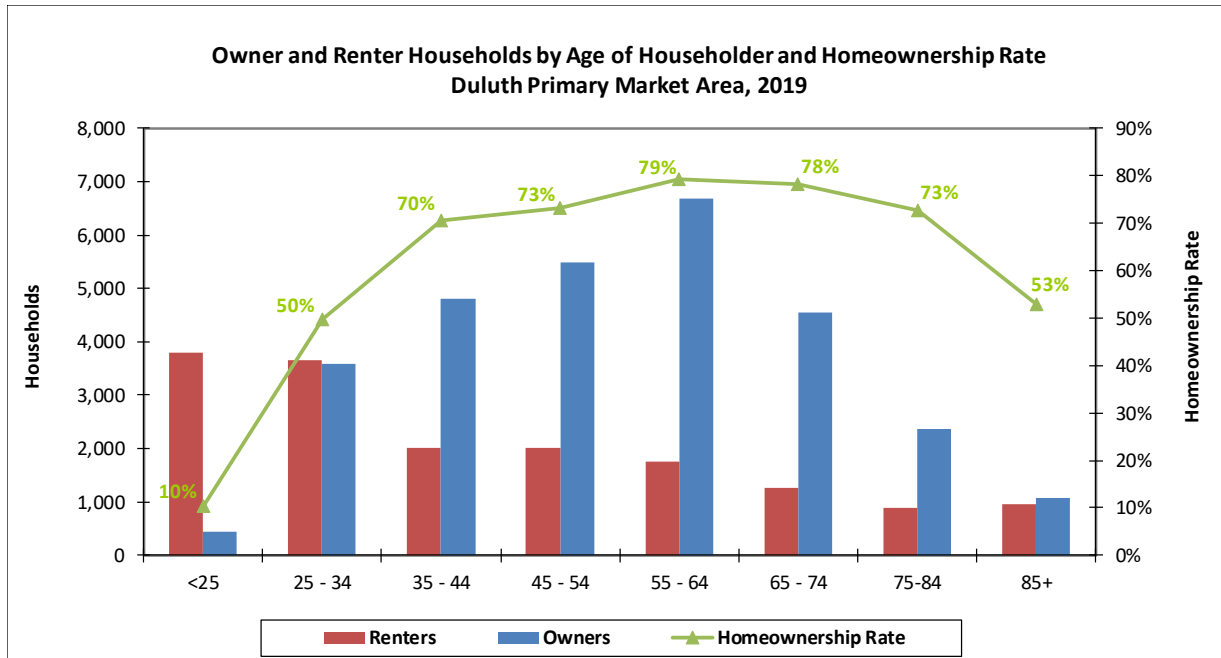
The number of PMA households with incomes at the estimated median of \$53,937 accounts for 50% of all households as of 2019 and is projected to account for 51% of all households as by 2024.

Household Tenure

Table D-6 shows the number and proportion of owner and renter households by age of householder in 2010 and 2019. Figures are shown for Duluth city and the Duluth PMA. The following are key points from the Table.

- The table reveals that the youngest cohorts in Duluth have the highest proportion of renters. This is typical as many young households choose to rent before purchasing a home. As shown, 89.4% of households under age 25 rented their housing as of 2019, up slightly from 2010, when the figure was 88.6%. Except for households age 75 years and older, all other age cohorts are estimated to have higher proportions of renter households in 2019 than in 2010. This is a national trend as an increasing number of households are either forced to rent for financial reasons or elect to rent for lifestyle reasons. Similar trends are shown for the Duluth PMA, although the proportion of renter households in each age cohort is slightly less, except for the Under 25 age category.
- The largest percentage change between 2010 and 2019 occurred in the 65 to 74 age cohort, which increased by 11.9%, followed by the 45 to 54 age cohort, which increased by 6.5% during the period. In the PMA, the largest proportional increase in renters occurred in the 45 to 54 age group (7.6%) and the 55 to 64 age group (6.7%).

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- Although the highest number of renters in Duluth continues to be among households ages 35 or younger, there is a growing group of households age 45 years and older that are electing to rent for lifestyle reasons.

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TABLE D-6 TENURE BY AGE OF HOUSEHOLDER DULUTH PRIMARY DRAW AREA 2010 and 2019									
Age		DULUTH CITY				DRAW AREA TOTAL			
		2010		2019		2010		2019	
		No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
<25	Own	450	11.4	421	10.6	505	12.1	446	10.5
	Rent	3,506	88.6	3,537	89.4	3,675	87.9	3,803	89.5
	Total	3,956	100.0	3,958	100.0	4,180	100.0	4,249	100.0
25-34	Own	2,774	47.0	2,884	46.6	3,451	49.8	3,584	49.6
	Rent	3,122	53.0	3,312	53.4	3,479	50.2	3,645	50.4
	Total	5,896	100.0	6,196	100.0	6,930	100.0	7,229	100.0
35-44	Own	3,262	67.0	3,485	66.7	4,455	71.1	4,813	70.5
	Rent	1,607	33.0	1,743	33.3	1,811	28.9	2,015	29.5
	Total	4,869	100.0	5,228	100.0	6,266	100.0	6,828	100.0
45-54	Own	4,655	70.7	4,016	68.8	6,473	75.1	5,493	73.2
	Rent	1,928	29.3	1,824	31.2	2,146	24.9	2,009	26.8
	Total	6,583	100.0	5,840	100.0	8,619	100.0	7,502	100.0
55-64	Own	4,971	77.3	5,006	76.0	6,596	80.5	6,690	79.2
	Rent	1,461	22.7	1,579	24.0	1,600	19.5	1,756	20.8
	Total	6,432	100.0	6,585	100.0	8,196	100.0	8,447	100.0
65-74	Own	2,770	77.3	3,338	74.6	3,595	79.4	4,538	78.3
	Rent	815	22.7	1,134	25.4	933	20.6	1,259	21.7
	Total	3,585	100.0	4,472	100.0	4,528	100.0	5,797	100.0
75-84	Own	1,955	70.0	1,894	71.6	2,490	70.9	2,368	72.7
	Rent	839	30.0	753	28.4	1,023	29.1	888	27.3
	Total	2,794	100.0	2,647	100.0	3,513	100.0	3,256	100.0
85+	Own	732	46.0	810	50.5	856	45.4	1,080	52.8
	Rent	858	54.0	792	49.5	1,030	54.6	964	47.2
	Total	1,590	100.0	1,602	100.0	1,886	100.0	2,043	100.0
TOTAL	Own	21,569	60.4	21,854	59.8	28,421	64.4	29,013	64.0
	Rent	14,136	39.6	14,674	40.2	15,697	35.6	16,338	36.0
	Total	35,705	100.0	36,528	100.0	44,118	100.0	45,351	100.0

Sources: U.S. Census Bureau; Maxfield Research and Consulting LLC

- There has also been growth among owner households age 25 to 44 years as a portion of households in these age groups decide to purchase. Although these age groups are typically those that decide to purchase a home, significant challenges such as student debt, stagnant wages, challenges to finding full-time employment and a lack of affordable owned housing have limited the growth in ownership among these age groups. The cost of new homes is high relative to this group’s wage levels and existing housing at affordable price points is often in need of significant rehabilitation and upgrades.

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- Given the current constraints in the overall housing market in Duluth at this time and a strong need for affordable ownership and rental housing, we anticipate that a portion of households that may have shifted over to ownership are likely to remain in the rental market unless more affordable ownership options can be developed.

Net Worth

Table D-7 shows the median net worth by age of householder for the Duluth PMA as of 2018. This data was compiled by ESRI Inc. based on data from the Survey of Consumer Finances (SCF) conducted triennially by the Federal Reserve Board. Net worth is a relevant component for considering the capacity of a household to purchase housing as owned households typically accrue wealth as they pay down their mortgages. Seniors may be able to use all or a portion of their home equity toward alternative housing, increasing their affordability capacity over an above their base income. Younger households may have greater difficulty being able to provide a downpayment due to heavy student debt, or other general indebtedness. Many younger households have negative net worth, when all debt is factored in against assets.

	Duluth City	Duluth PMA	Duluth MSA
<25			
Median	\$9,475	\$9,663	\$10,080
25-34			
Median	\$14,798	\$18,563	\$23,051
35-44			
Median	\$58,722	\$76,158	\$78,671
45-54			
Median	\$125,564	\$164,496	\$166,866
55-64			
Median	\$184,289	\$227,342	\$223,277
65-74			
Median	\$211,753	\$243,504	\$227,328
75+			
Median	\$178,608	\$192,079	\$203,224
Sources: ESRI; Maxfield Research and Consulting LLC			

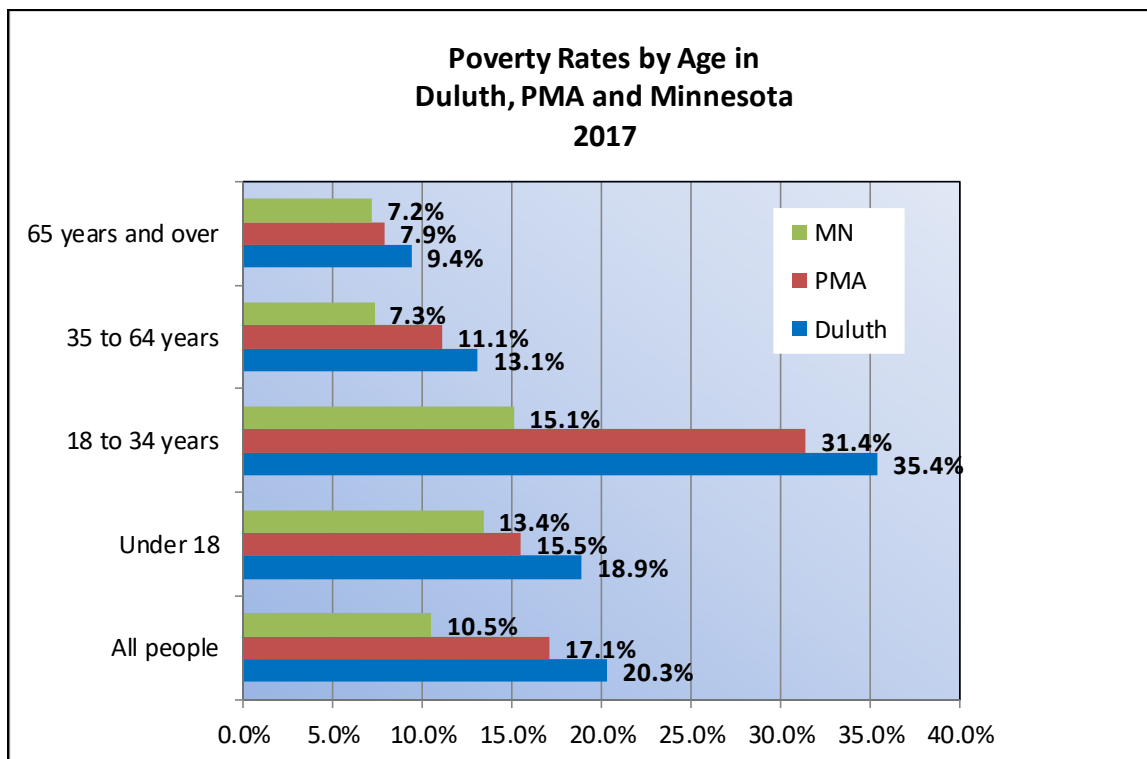
Poverty Status

Table D-8 and the following chart shows the number and proportion of people for whom poverty status has been determined for Duluth and the Primary Market Area with a percent shown for Minnesota for each age group. Data is from the American Community Survey, with most recent information as of 2017.

**TABLE D-8
POVERTY STATUS
DULUTH, PRIMARY MARKET AREA, MINNESOTA
2017**

<i>Population for Whom Poverty Status is Determined</i>	Duluth City			Duluth PMA			MN
	Total People	Estimate of Poverty	% in Poverty	Total People	Estimate of Poverty	% in Poverty	% in Poverty
AGE							
Under 5 years	4,399	946	21.5%	5,550	981	17.7%	14.8%
5 to 17 years	10,547	1,884	17.9%	14,130	2,060	14.6%	12.8%
18 to 34 years	24,505	8,604	35.1%	28,604	8,989	31.4%	10.1%
35 to 64 years	28,823	3,768	13.1%	38,434	4,309	11.2%	15.0%
65 years or older	12,737	1,151	9.0%	15,814	1,255	7.9%	7.3%

Source: American Community Survey; Maxfield Research and Consulting LLC



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The table reveals that the proportion of people estimated to be living in poverty is higher in Duluth than in the PMA and considerably higher than the proportions for Minnesota. Poverty status is highest in Duluth proper for people age 18 to 34 at 35.4%, followed by those under 18 years of age or older at 18.9%. The overall poverty rate is estimated at 20.3% for Duluth compared to 17.1% for the PMA and 10.5% for Minnesota. Duluth serves as a regional services hub for St. Louis County and for the Northeast Region as a whole.

Many people come to Duluth seeking services and some perceive that Duluth may be likely to have more housing and housing costs that are lower than other urban areas in the State. Although Duluth has a considerable amount of public housing, rents for its older housing stock have escalated dramatically, potentially driving up the proportion of those that may be severely cost-burdened, thus causing them to slip into poverty.

Income Limits

Table D-9 shows the maximum income limits by household size and maximum rents by bedroom type for properties that have been financed with local, state and/or federal assistance. The table shows levels beginning at 50% of Area Median Income (AMI) and ranging to 140% of AMI. Typically, rent levels that fall between 80% and 120% of AMI would be considered as market rate. Those falling below 80% AMI would generally be considered “affordable.”

Data was compiled through MN Housing, the State’s local finance authority and Novogradac, a national accounting firm that compiles research and provides market studies for tax credit applications.

The current estimated 2019 median household incomes of \$50,586 in Duluth and \$53,937 in the PMA generally reflects maximum incomes for households at 80% to 100% of Area Median Income. At these income levels, maximum monthly rents range from \$1,014 per month for an efficiency unit at 80% AMI to a high of \$1,797 for a three-bedroom unit at 100% AMI. Rents for new properties in Duluth have exceeded these levels with rents generally between 100% and 140% of AMI.

The Fair Market Rent is used by the US Department of Housing and Urban Development to determine how much of the rent should be covered under the Section 8 housing program and Housing Choice Voucher program to fill the gap between the rent paid by the tenant up to the Fair Market Rent.

Housing Choice Vouchers (HCV) provide rent subsidies to very low-income households (50% or less of AMI) to find safe, decent and sanitary housing. Housing units can include single-family homes, townhomes and apartments. The household receiving the voucher is responsible for finding a suitable housing unit of the family’s choice where the owner agrees to rent under the program. A housing subsidy is paid directly to the landlord by the Public Housing Authority that administers the voucher. The family pays the difference between the landlord’s subsidy and

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the actual rent charged. Recently, rental markets have experienced decreasing subsidy amounts available due to rising rents and a number of landlords that are opting out of the HCV program.

Fair Market Rents are much lower than the maximum rent levels shown on the table and largely reflect Duluth's inclusion in the greater St. Louis County area, where rent levels are much lower than in Duluth. Despite a high proportion of rental units that exist in buildings built pre-1940, rent levels overall in Duluth are much higher than in northern Minnesota. As such, Fair Market Rents are low in comparison to actual rents in Duluth. This creates challenges for households with Housing Choice Vouchers, who are required to try to find a unit that 1) meets the FMR, 2) a landlord willing to accept the voucher and 3) a unit that will pass the required inspection test. With rents escalating, many landlords are reluctant to accept vouchers because of the inspection requirement and the additional paperwork involved.

Costs to construct new housing are high with rising land costs and significant labor shortages. Although mortgage interest rates have decreased again, the higher development costs rapidly reduce the additional yield achieved through a lower interest rate. Some market rate developments have identified funding gaps, but the gaps are much deeper for affordable housing.

Households earning the average weekly wage in Duluth would have an estimated annual income of \$49,400 and should be able to afford a monthly rent of \$1,235 per month. Rents for new one-bedroom units in Duluth start at \$1,350 per month at Capstone and District Flats, \$1,365 for Cityview Flats, \$1,385 at Kenwood Village and \$1,250 per month at ENDI.

**TABLE D-9
2019 INCOME LIMITS AND MAXIMUM RENTS
ST. LOUIS COUNTY
Effective Date: 04/24/2019**

-----Income Limits by Household Size-----								
AMI	1- person	2- person	3- person	4- person	5- person	6- person	7- person	8- person
30%	15,210	17,400	19,560	21,720	23,460	25,200	26,940	28,680
40%	20,280	23,200	26,080	28,960	31,280	33,600	35,920	38,240
50%	25,350	29,000	32,600	36,200	39,100	42,000	44,900	47,800
60%	30,420	34,800	39,120	43,440	46,920	50,400	53,880	57,360
80%	40,560	46,400	52,160	57,920	62,560	67,200	71,840	76,480
100%	50,400	57,600	64,800	71,900	77,650	83,400	89,200	94,900
120%	60,400	69,000	77,640	86,280	93,240	100,080	107,040	113,880
140%	70,980	81,200	91,280	101,360	109,480	117,600	125,720	133,840
-----Maximum Gross Rents by Bedroom Size-----								
AMI	0- bedroom	1- bedroom	2- bedroom	3- bedroom	4- bedroom	5- bedroom	6- bedroom	
30%	\$380	\$407	\$489	\$564	\$630	\$695	\$760	
40%	\$507	\$543	\$652	\$753	\$840	\$927	\$1,013	
50%	\$633	\$679	\$815	\$941	\$1,050	\$1,158	\$1,267	
60%	\$760	\$815	\$978	\$1,129	\$1,260	\$1,390	\$1,520	
80%	\$1,014	\$1,087	\$1,304	\$1,506	\$1,680	\$1,854	\$2,027	
100%	\$1,257	\$1,437	\$1,617	\$1,797	\$1,942	\$2,085	\$2,230	
120%	\$1,509	\$1,725	\$1,941	\$2,157	\$2,331	\$2,502	\$2,676	
140%	\$1,774	\$2,030	\$2,282	\$2,534	\$2,737	\$2,940	\$3,143	
-----2019 Fair Market Rents-----								
	OBR	1BR	2BR	3BR	4BR	5BR		
	\$626	\$670	\$871	\$1,121	\$1,390	\$1,599		

Note: 0 Bedroom includes studio and efficiency units

Sources: MN Housing; HUD; Novogradac; Maxfield Research & Consulting, LLC

Employment Growth and Projections

Table E-1 shows employment growth trends and projections from 2000 to 2020 based on the most recent information available from the Minnesota Department of Employment and Economic Development (DEED). Data for 2000 and 2010 represent the annual average employment for that year. The 2019 estimate represents the average employment as of year-end 2018. Totals for each jurisdiction were adjusted from the covered employment to include self-employed workers.

The 2020 forecast is based on 2010 to 2020 industry projections for the Arrowhead Region published by DEED but accounting for recent growth trends for each jurisdiction and Duluth's focus as a regional employment hub. Due to Duluth's economic position as a significant employment generator in the Region, we adjusted the projected employment forecast upward to reflect the higher level of employment growth that has been experienced by Duluth and the immediate surrounding area, which is projected to continue moving forward. Therefore, we estimated a projected ten-year growth rate for Duluth of 3.0% between 2010 and 2020 and 5% between 2020 and 2030. Employment growth can fuel household and population growth as people generally desire to live near where they work. Long commute times and the redevelopment of core cities have encouraged households to move closer to major employment centers.

- In 2000, there were an estimated 60,549 jobs in Duluth. By 2010, the number of jobs had increased only slightly to 60,843. Duluth lost jobs between 2005 and 2010, a period that encompassed the Recession.
- Hermantown continued to gain employment despite the downturn in the economy. Employment in Hermantown increased from 2,561 jobs in 2000 to 3,819 jobs by 2010. Proctor also gained jobs during this period, increasing from 769 jobs in 2000 to 873 jobs in 2010.
- Job growth in the Remainder of the Primary Market Area (the immediate surrounding city and townships) has increased dramatically since 2000. As shown on the table, employment increased from 277 jobs in 2000 to 644 jobs in 2010 and has since increased to 2,518 jobs as of third quarter 2018, more than a seven-fold increase since 2010. Between 2020 and 2030, job growth in the rural areas is projected to increase by an estimated 1,200 jobs or 47.7%.
- Job growth in the Duluth Primary Market Area is projected to increase from 70,519 jobs in 2018 to 76,873 jobs by 2030, an increase of 6,354 jobs or 9.0% for the period. Duluth's employment is projected to increase 5.0% while the Remainder of the Primary Market Area (the immediate surrounding townships) is projected to increase by 48% while Hermantown is projected to increase by nearly 18%.

EMPLOYMENT REVIEW

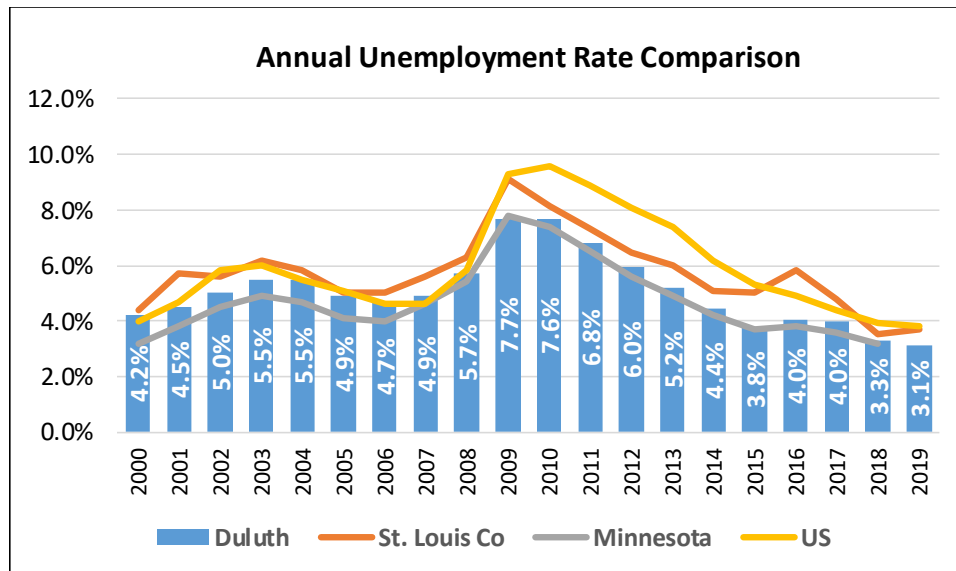
TABLE E-1 EMPLOYMENT GROWTH TRENDS AND PROJECTIONS DULUTH PRIMARY MARKET AREA 2000-2030									
	Estimate 2000	Estimate 2010	Estimate 2018	Projection 2020	Projection 2030	Change			
						2010-2020		2020-2030	
						No.	Pct.	No.	Pct.
EMPLOYMENT									
Duluth	60,549	60,843	62,060	62,479	65,603	1,636	2.7	3,124	5.0
Hermantown	2,561	3,819	5,093	5,290	6,200	1,471	57.4	910	17.9
Proctor	769	873	975	1,000	1,125	127	16.5	125	12.8
Remainder of Market Area	277	644	2,518	2,745	3,945	2,101	758.5	1,200	47.7
TOTAL	64,156	66,179	70,646	71,514	76,873	5,335	8.3	5,359	7.6
<i>St. Louis County</i>	99,821	98,077	103,700	104,100	106,000	6,023	6.0	1,900	1.8
<i>Minnesota</i>	2,778,419	2,730,011	3,039,230	3,116,530	3,407,650	386,519	13.9	291,120	9.6
<i>Note: Employment figures include adjustment for self-employed workers</i>									
<i>Sources: MN DEED; US Bureau of the Census; Maxfield Research</i>									

Resident Employment

Table E-2 shows information on the resident labor force and employment in Duluth city and St. Louis County with comparative unemployment rates listed for St. Louis County, the Arrowhead Region and Minnesota. The data is sourced from the Minnesota Department of Employment and Economic Development (DEED). The following points summarize key employment trends that will impact the potential demand for housing and specifically affordable housing, in Duluth. Data is provided from 2000 through the end of August 2019.

- Duluth observed a decrease in its unemployment rate to 3.1% as of the end of August 2019, down from 3.3% as of year-end 2018. The unemployment rate in Minnesota also decreased to 3.0%. Unemployment in St. Louis County however, rose from 3.5% to 3.7% over the same period.
- The chart on the following page illustrates how unemployment in Duluth has generally mirrored trends across the state. Between 2010 and 2018, hiring throughout the state had driven the unemployment rate down as growth in the number of employed residents outpaced labor force growth. Between 2017 and 2018, the unemployment rate rose slightly, but remains below full employment indicating pent-up demand for jobs in certain industry categories. Duluth's unemployment rate is lower than St. Louis County (3.7%) but just above that of Minnesota (3.0%).
- Duluth's labor force rose by 42 people (0.1%) while employment rose by 121 people (0.3%) as of the end of August 2019.

TABLE E-2 ANNUAL AVERAGE RESIDENT EMPLOYMENT DULUTH AND ST. LOUIS COUNTY 2000 through 2019 (August)						
Duluth City						
Year	Labor Force	Employment	Unemployment	Comparative Unemployment Rates		
				City	County	State
2000	45,600	42,527	3,073	6.7%	4.4%	3.2%
2005	44,693	42,513	2,180	4.9%	5.0%	4.1%
2010	46,607	43,044	3,563	7.6%	8.1%	7.4%
2011	46,057	42,916	3,141	6.8%	7.3%	6.5%
2012	45,905	43,173	2,732	6.0%	6.5%	5.6%
2013	45,992	43,597	2,395	5.2%	6.0%	4.9%
2014	46,022	43,983	2,039	4.4%	5.1%	4.2%
2015	45,379	43,672	1,707	3.8%	5.0%	3.7%
2016	44,966	43,154	1,812	4.0%	4.9%	3.8%
2017	46,022	44,194	1,828	4.0%	4.8%	3.6%
2018	46,308	44,794	1,514	3.3%	3.5%	3.2%
2019	46,350	44,915	1,435	3.1%	3.7%	3.0%
Change, 2010 through 2019 (August)						
No.	-257	1,871	-2,128	N/A	N/A	N/A
Pct.	-0.6%	4.3%	-59.7%	N/A	N/A	N/A
St. Louis County						
Year	Labor Force	Employment	Unemployment	Comparative Unemployment Rates		
				County	Region	State
2000	103,527	98,964	4,563	4.4%	4.7%	3.2%
2005	101,353	96,270	5,083	5.0%	5.3%	4.1%
2010	103,374	94,990	8,384	8.1%	8.5%	7.4%
2011	102,271	94,758	7,513	7.3%	7.7%	6.5%
2012	101,969	95,374	6,595	6.5%	6.8%	5.6%
2013	102,657	96,481	6,176	6.0%	6.4%	4.9%
2014	102,618	97,408	5,210	5.1%	5.5%	4.2%
2015	101,814	96,721	5,093	5.0%	5.3%	3.7%
2016	101,358	95,470	5,888	5.8%	6.3%	3.8%
2017	102,665	97,770	4,895	4.8%	5.0%	3.6%
2018	103,100	99,061	4,039	3.9%	4.5%	3.2%
2019	103,030	99,202	3,828	3.7%	4.0%	3.0%
Change, 2010 through 2019 (August)						
No.	-344	4,212	-4,556	N/A	N/A	N/A
Pct.	-0.3%	4.4%	-54.3%	N/A	N/A	N/A
Sources: MN DEED; Maxfield Research and Consulting, LLC						

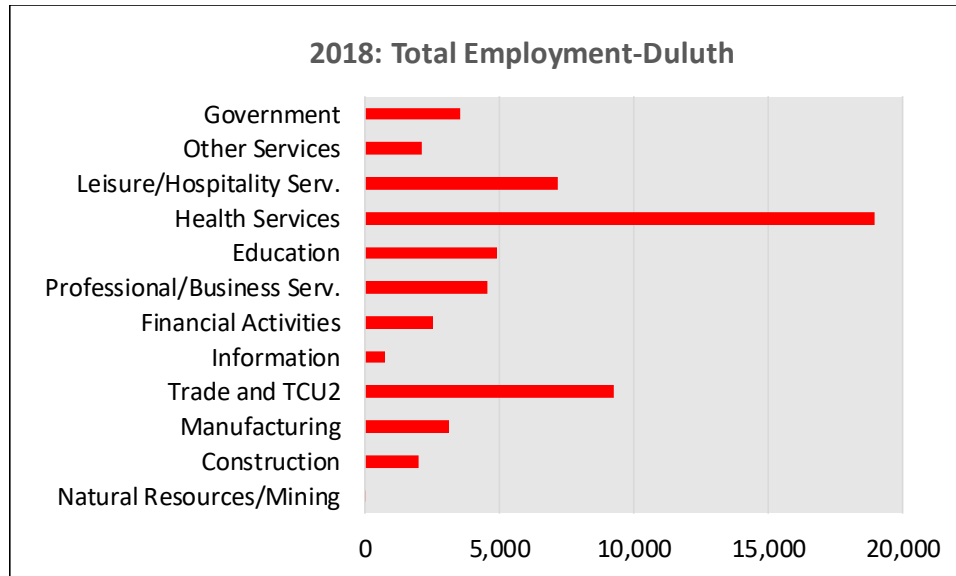


Covered Employment by Industry

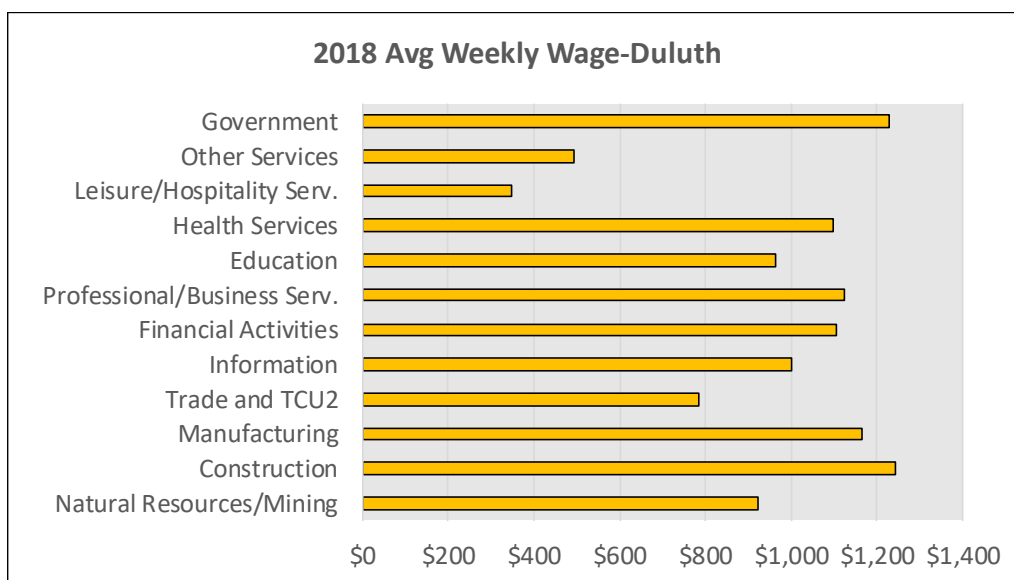
Table E-3 displays information on the employment and wage situation in Duluth city. The Quarterly Census of Employment and Wages (QCEW) data is sourced from the Minnesota DEED for the years ending 2017 and 2018 (annual averages). All establishments covered under the Unemployment Insurance (UI) Program are required to report wage and employment statistics quarterly to DEED. Federal government establishments are also covered by the QCEW program.

At times, certain industries in the table may not display all information which means that there is either no reported economic activity for that industry or the data has been suppressed to protect the confidentiality of cooperating employers. This generally occurs when there are too few employers or one employer comprises too much of the employment in that geography. Quarterly information that is available was averaged to identify yearly industry economic activity.

- Due to the large presence of several education and health service providers in Duluth, Health Services is the largest employment sector in Duluth, providing 19,000 jobs (32% of total employment). This is followed by Trade, Transportation and Utilities, with 9,267 jobs (15.7%) and Leisure and Hospitality Services (7,193 jobs, 12.2%).



- Education and Health Services is also the largest employment sector in the Twin Cities Metro Area (23% of total employment). The Professional and Business Services sector provides the second highest number of jobs in the Twin Cities Metro Area (20% of total employment).
- In Duluth, total covered employment increased by 74 jobs (1.1%) between year-end 2017 and year-end 2018. The Education and Health Services sector grew by 288 jobs (1.5%) and the Manufacturing sector grew by 224 jobs (7.7%).
- Sectors that lost jobs included Trade, Transportation and Warehousing (loss of 204 jobs or -2.2%), Professional and Business Services (loss of 142 jobs or -3.1%) and the Education sector (loss of 159 jobs or -3.0%).



**TABLE E-3
COVERED EMPLOYMENT TRENDS
CITY OF DULUTH
2017 and 2018 (Average)**

	Estimates		Avg. Weekly Wage		Change-# of Jobs	
	No. of Jobs				2017-2018	
	2017	2018	2017	2018	No.	Pct.
Natural Resources/Mining	24	25	\$1,068	\$921	1	4.2
Construction	1,936	2,028	\$1,154	\$1,244	92	4.8
Manufacturing	2,896	3,120	\$1,116	\$1,164	224	7.7
Trade and TCU ²	9,471	9,267	\$745	\$783	-204	-2.2
Information	842	771	\$990	\$1,002	-71	-8.4
Financial Activities	2,660	2,533	\$1,039	\$1,107	-127	-4.8
Services						
Professional/Business Serv.	4,705	4,563	\$1,092	\$1,125	-142	-3.0
Education	5,079	4,920	\$871	\$962	-159	-3.1
Health Services	18,685	18,973	\$1,060	\$1,096	288	1.5
Leisure/Hospitality Serv.	7,054	7,193	\$341	\$347	139	2.0
Other Services	2,098	2,141	\$474	\$493	43	2.0
Government	3,582	3,570	\$1,198	\$1,227	-12	-0.3
Total/Average	59,032	59,104	\$891	\$922	72	1.0

¹ Agriculture, Forestry, Fishing, and Mining

² Transportation, Communication, and Utilities

³ Finance, Insurance, and Real Estate

2017 and 2018 data are annual averages

Sources: MN DEED; Maxfield Research and Consulting, LLC

Commuting Patterns

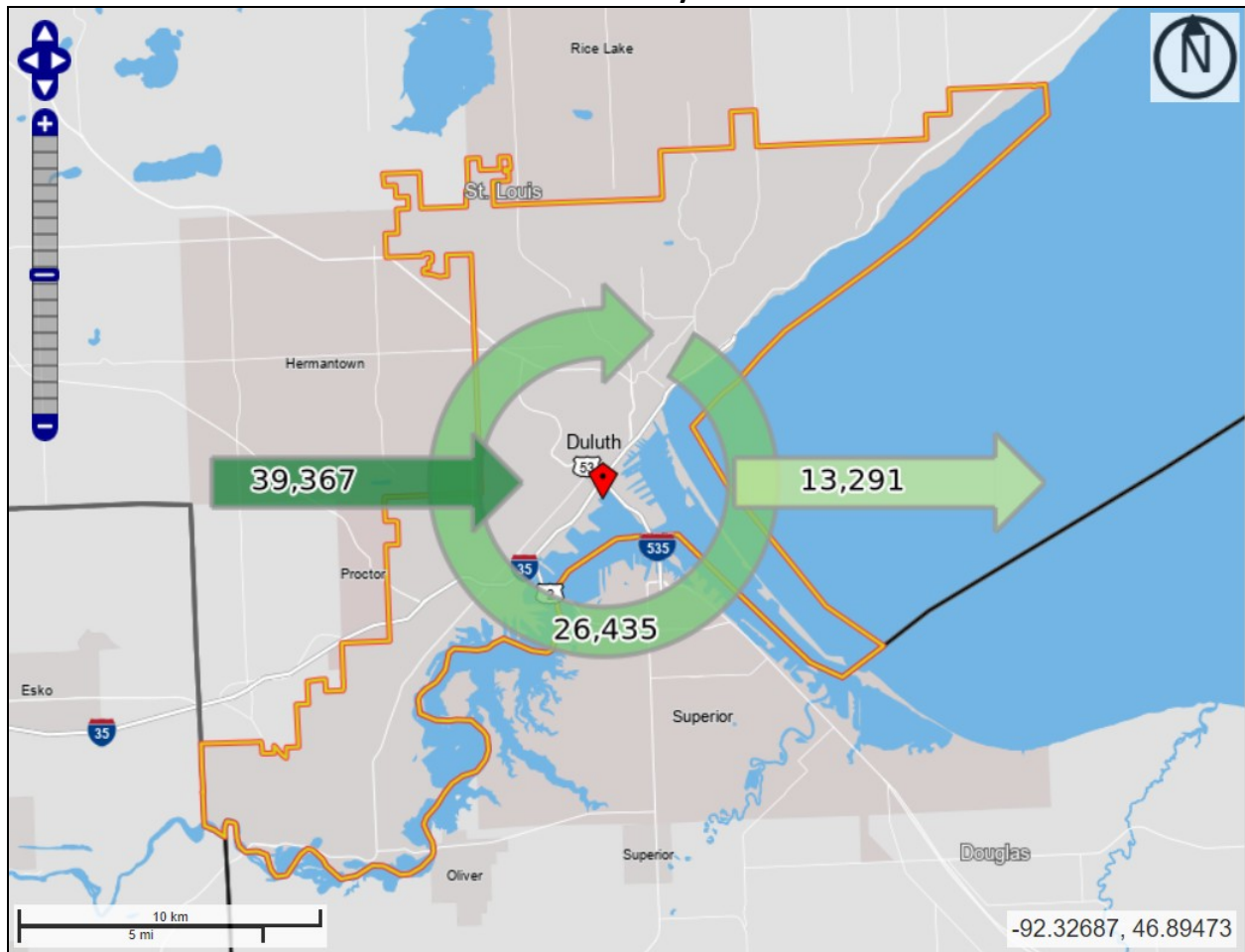
Table E-4 shows commuting patterns for the City of Duluth as of 2017, the most recent data available from the US Census Bureau’s Local Employment-Household Dynamics database (LEHD). The data compiles mobility patterns of households between where they live and where they work. This data enables us to understand where households elect to live as compared to where they are employed. Those working in Duluth may be a potential market for housing in Duluth.

- The table shows that 69.1% of workers in Duluth reside in Duluth city while 5.1% reside in Superior, Wisconsin and 4.1% reside in Hermantown, Minnesota. Much smaller proportions are allocated for the remaining cities shown on the table. An estimated 41% of workers are employed in the City of Duluth, while 6.7% are employed in Superior, Wisconsin and 4.3% are employed in Hermantown. Just over 2% are employed in Cloquet, Minnesota.

**TABLE E-4
COMMUTING PATTERNS
CITY OF DULUTH
2017**

Home Destination			Work Destination		
<u>Place of Residence</u>	<u>Count</u>	<u>Share</u>	<u>Place of Employment</u>	<u>Count</u>	<u>Share</u>
Duluth city, MN	26,435	66.5%	Duluth city, MN	26,435	40.2%
Superior city, WI	1,983	5.0%	Superior city, WI	4,274	6.5%
Hermantown city, MN	1,844	4.6%	Hermantown city, MN	2,811	4.3%
Cloquet city, MN	780	2.0%	Cloquet city, MN	1,470	2.2%
Minneapolis city, MN	477	1.2%	Rice Lake city, MN	1,365	2.1%
Proctor city, MN	396	1.0%	Minneapolis city, MN	929	1.4%
Rice Lake city, MN	322	0.8%	Proctor city, MN	908	1.4%
Hibbing city, MN	319	0.8%	St. Paul city, MN	767	1.2%
St. Paul city, MN	310	0.8%	Hibbing city, MN	507	0.8%
Minnetonka city, MN	278	0.7%	Esko CDP, MN	418	0.6%
Eden Prairie city, MN	226	0.6%	Two Harbors city, MN	354	0.5%
All Other Locations	6,356	16.0%	All Other Locations	25,564	38.8%
Total All Jobs	39,726		Total All Jobs	65,802	
Total All Jobs	39,726	100.0%	Total All Jobs	65,802	100.0%
Less than 10 miles	30,324	76.3%	Less than 10 miles	36,276	55.1%
10 to 24 miles	2,570	6.5%	10 to 24 miles	9,459	14.4%
25 to 50 miles	429	1.1%	25 to 50 miles	3,028	4.6%
More than 50 miles	6,403	16.1%	More than 50 miles	17,039	25.9%
Home Destination = Where workers are employed who live in the PMA					
Work Destination = Where workers live who are employed in the PMA					
Sources: US Census Bureau Local Employment Dynamics; Maxfield Research and Consulting LLC					

Inflow-Outflow-City of Duluth



- The map shows the inflow and outflow of commuters from the City of Duluth. The map shows that 39,367 workers come into the City for work while 13,291 workers leave. An estimated 26,435 workers live and work in the City of Duluth.
- The data shows that Downtown Duluth is a net importer of workers to the City, a portion of which may seek housing if products were available to meet their needs.

Introduction

The following section of the report analyzes current market conditions for general occupancy for-sale and rental housing in the Market Area. Topics covered include an overview of for-sale housing market conditions in the Duluth Market Area, an analysis of resales of single-family and multifamily housing products, a breakdown of active home listings, months of supply of homes in various price categories, an overview of rental housing market conditions, including market rate and affordable rentals in the Duluth area. Information on pending developments is also provided.

Residential Construction Trends

Table R-1 shows the number of units constructed from building permits issued in the City of Duluth from 2000 through 2018. This information was compiled from data published by the US Census Bureau and from the City of Duluth, Building Department.

TABLE R-1 RESIDENTIAL CONSTRUCTION CITY OF DULUTH 2000 through 2018*					
Year	Number of Units from Permits Issued				
	SF	DUPL	3-4 Units	5+ Units	Total
2000	59	2	44	0	105
2001	94	4	8	0	106
2002	126	10	4	0	140
2003	137	10	8	6	161
2004	126	26	37	173	362
2005	80	10	18	11	119
2006	81	14	23	89	207
2007	59	4	15	62	140
2008	35	4	6	35	80
2009	30	4	0	30	64
2010	31	10	3	30	74
2011	30	14	3	55	102
2012	36	14	0	85	135
2013	35	6	0	50	91
2014	44	4	12	118	178
2015	29	0	0	380	409
2016	40	2	0	116	158
2017	42	4	0	131	177
2018	40	8	0	167	215

Sources: City of Duluth, Census Bureau; Maxfield Research

The data show that residential construction was relatively robust prior to the recession when development slowed between 2008 and 2010. After 2010, development increased again, but primarily in multifamily development.

The largest number of permits issued over the period occurred in 2015, when permits were issued for 409 units, most of which were for multifamily development. Although there has been some renovation of multifamily units and additional limited development, larger projects are currently being proposed for general occupancy multifamily and senior housing. In addition, the City of Duluth is actively soliciting proposals for new multifamily development on specific redevelopment sites.

Overview of Housing Resales

Tables R-2 and R-3 display home resales information for residential properties in the Duluth area including Hermantown and Proctor and adjacent townships and small cities. Data is compiled by the Lake Superior Area Realtors. Data is presented from 2014 through 2018. Table R-2 focuses on all single-family and owned multifamily homes; R-3 includes a breakdown of single-family homes and R-4 includes owned multifamily properties (i.e. townhomes, twinhomes and condominiums). This section and the tables that follow pertain only to multifamily units that are owned.

Table R-2 shows that from year-end 2014 through 2018, the number of home resales in the Duluth PMA fluctuated, but increased by 8.1% during the period. A similar increase occurred in Duluth city (7.9%). The largest increases occurred between 2014 and 2015, when the number of sales in the PMA and the City increased by more than 100 sales over the previous year.

Similarly, the average and median sales prices also increased and have continued to increase each year through 2018. The average sales price rose by 24.8% in the PMA and by 23.1% in the City. The median sales price rose by 26.5% in the PMA and by 24.1% in the City.

R-2 HOME RESALES DULUTH AREA CITIES 2014 through 2019 (Sep)					
DULUTH, HERMANTOWN, PROCTOR					
Year	No. of Sales	Average Price	Median Price	Median Square Feet	Median CDOM
2019	1,510	\$218,011	\$189,700	1,748	15
2018	1,510	\$218,011	\$189,700	1,748	15
2017	1,491	\$205,073	\$173,000	1,943	15
2016	1,583	\$196,691	\$165,300	1,504	20
2015	1,548	\$188,099	\$158,000	1,543	25
2014	1,397	\$174,621	\$150,000	1,461	34
% Change 2014 - 2018	8.1%	24.8%	26.5%	---	-126.7%
CITY OF DULUTH					
2019	1,336	\$212,191	\$185,000	1,513	15
2018	1,336	\$212,191	\$185,000	1,513	15
2017	1,332	\$201,192	\$169,000	1,527	14
2016	1,413	\$192,172	\$161,000	1,514	20
2015	1,379	\$183,337	\$155,000	1,538	26
2014	1,238	\$172,174	\$149,000	1,472	34
% Change 2014 - 2018	7.9%	23.2%	24.2%	---	-55.9%

Sources: Lake Superior Area Realtors; Maxfield Research and Consulting LLC

Cumulative Days on Market (CDOM) is the total amount of time that a home has been on the market and reflects situations where there may have been multiple listings over time due to expirations of the listing agreement. The median time on market is very tight at only 15 days, down from 34 days in 2014 and indicates that home prices are likely being bid up through increased demand. A review of the number of months of supply for the City of Duluth was very low at 3.0 months or less (equilibrium is generally considered to be six months).

Table R-3 shows resales for single-family homes. The data includes properties in Duluth proper. The information shows that the number of single-family home sales increased by 8.9% overall during the period but rose more rapidly from 2014 through 2015 (14.9%), before dropping modestly. Average and median sales prices rose by 24.0% and 23.6%, respectively during the period. Time on market decreased by 55.9%.

Table R-4 shows resales for owned multifamily properties. Housing products included in these figures are twinhomes, townhomes, condominiums and cooperatives. The data includes properties in Duluth city. The information shows that the number of resales has fluctuated over the past several years with a substantial increase between 2014 and 2015, but then decreasing in

HOUSING MARKET ANALYSIS

2016 and 2017 and rising slightly in 2018. The average and median resale prices also fluctuated during this period, likely because of the number and type of units that were available during that year. Most of the products sold have been townhomes or twinhomes. Time on market, however, has decreased considerably over the period (74.0%), signaling increased demand for these units. Despite the decline, the median days on market for owned multifamily is more than three times that of single-family homes.

TABLE R-3 SINGLE-FAMILY RESALES DULUTH 2014 through 2019 (Sep)					
CITY OF DULUTH					
Year	No. of Sales	Average Price	Median Price	Median Square Feet	Median Days on Market
2019	1,028	\$224,507	\$197,900	1,553	9
2018	1,317	\$211,116	\$185,000	1,530	15
2017	1,292	\$199,660	\$168,800	1,529	14
2016	1,307	\$189,902	\$160,700	1,520	19
2015	1,357	\$181,971	\$154,900	1,544	25
2014	1,181	\$169,276	\$148,750	1,475	34
% Change 2014 - 2018	11.5%	24.7%	24.4%	---	-55.9%

Sources: Lake Superior Area Realtors; Maxfield Research and Consulting LLC

TABLE R-4 MULTIFAMILY OWNED SALES DULUTH 2010 through 2019 (Sep)					
CITY OF DULUTH					
Year	No. of Sales	Average Price	Median Price	Median Square Feet	Median Days on Market
2019	23	\$339,757	\$242,500	1,502	99
2018	47	\$277,066	\$265,000	1,326	58
2017	40	\$250,706	\$222,500	1,546	64
2016	56	\$247,177	\$236,450	1,492	73
2015	72	\$208,129	\$162,500	1,458	120
2014	57	\$232,215	\$210,000	1,500	223
% Change 2014 - 2018	-17.5%	19.3%	26.2%	---	-74.0%

Sources: Lake Superior Area Realtors; Maxfield Research and Consulting

Resale Price Distribution

Tables R-5 and R-6 show resale price distributions for single-family and owned multifamily homes in Duluth from the end of 2014 through the end of 2018.

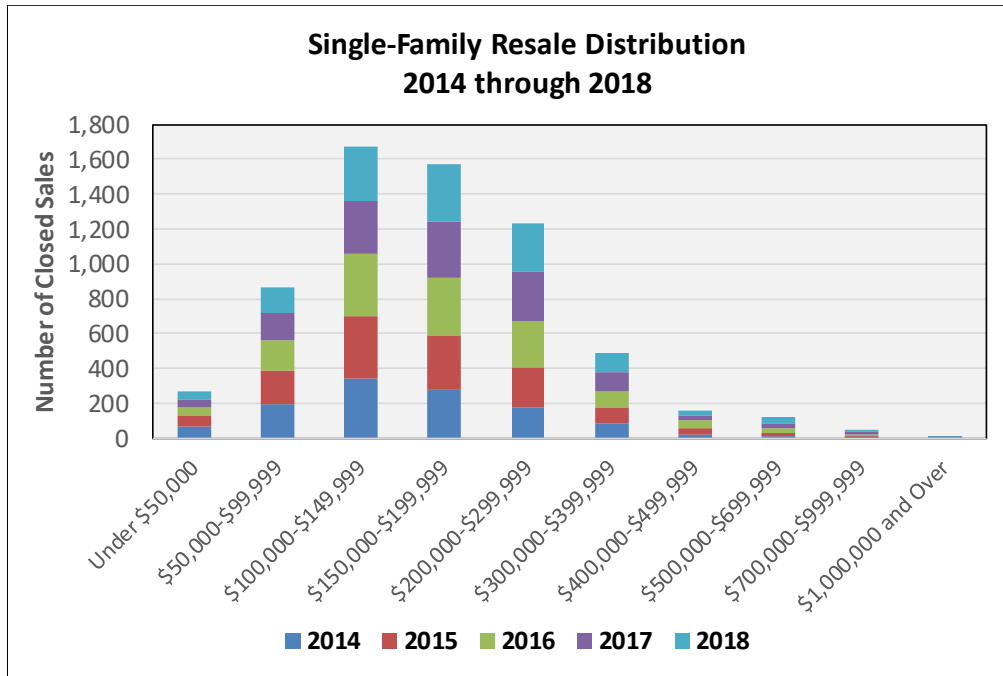
Single-Family

Table R-5 shows the number and median sales price in ten price ranges. The data shows that over the period, the overall price distribution tends to increase modestly over the period, with as the number of sales in the lower price ranges decreases and the number in the higher price ranges increases. This is consistent with the overall increase shown in the median sales price on Table R-3.

The number of resales in the \$700,000 to \$999,999 range more than doubled over the four years, increasing from six in 2014 to 14 in 2017, but dropping back to 9 in 2018. Conversely, the number of sales less than \$50,000 has decreased in each year from 70 in 2014 to 34 in 2018. The highest number of sales in 2018 occurred in the \$200,000 to \$299,999 price range (330 sales), followed by the \$150,000 to \$199,999 price range with 319 sales. As sales have dropped in the ranges less than \$150,000, sales have increased in the ranges from \$300,000 to \$699,999.

	2014		2015		2016		2017		2018	
	No.	Median Value	No.	Median Value	No.	Median Value	No.	Median Value	No.	Median Value
Under \$50,000	70	\$29,413	58	\$24,400	50	\$26,750	45	\$29,100	34	\$38,606
\$50,000-\$99,999	190	\$75,250	198	\$74,128	178	\$74,063	148	\$74,125	117	\$82,000
\$100,000-\$149,999	344	\$124,700	356	\$124,900	359	\$123,950	306	\$124,925	292	\$129,000
\$150,000-\$199,999	278	\$174,500	314	\$174,725	328	\$173,363	324	\$175,024	319	\$174,000
\$200,000-\$299,999	178	\$248,500	228	\$249,000	269	\$249,225	280	\$248,625	330	\$234,950
\$300,000-\$399,999	82	\$350,000	90	\$348,775	99	\$349,125	110	\$347,625	148	\$336,000
\$400,000-\$499,999	24	\$433,725	34	\$437,500	40	\$442,800	32	\$444,000	53	\$430,000
\$500,000-\$699,999	9	\$559,000	20	\$600,000	26	\$588,725	31	\$592,500	32	\$575,000
\$700,000-\$999,999	6	\$735,500	8	\$899,000	8	\$832,875	14	\$792,500	9	\$775,000
\$1,000,000 and Over	0	\$0	1	\$1,000,000	0	\$0	2	\$1,232,500	2	\$1,167,500
Total/Median	1,181	\$148,750	1,307	\$154,900	1,357	\$160,700	1,292	\$168,800	1,336	\$185,000

Sources: Lake Superior Area Realtors; Maxfield Research and Consulting



Owned Multifamily

Table R-6 shows the same price distribution for owned multifamily units in Duluth from year-end 2014 through 2018. There are many fewer sales of owned multifamily homes than single-family homes in Duluth. Some years show no sales in certain price categories.

Nevertheless, a similar trend occurred among the multifamily distribution as the single-family distribution, with lower price categories experiencing fewer sales and higher price categories generally increasing. With many fewer sales, the median sales price can fluctuate with only one sale in a higher price category. Although lower price categories would also be affected, the impact would be less.

As shown, the highest number of sales occurred among the \$100,000 to \$149,999 price range followed by the \$200,000 to \$299,999 price range. The number of sales dropped in the price ranges \$400,000 to \$499,999 and \$500,000 to \$699,999 as new developments in the market sold out their units.

At this time, there are very few owned multifamily units on the market and no new developments pending, which may affect the number of resales over the next two to three years.

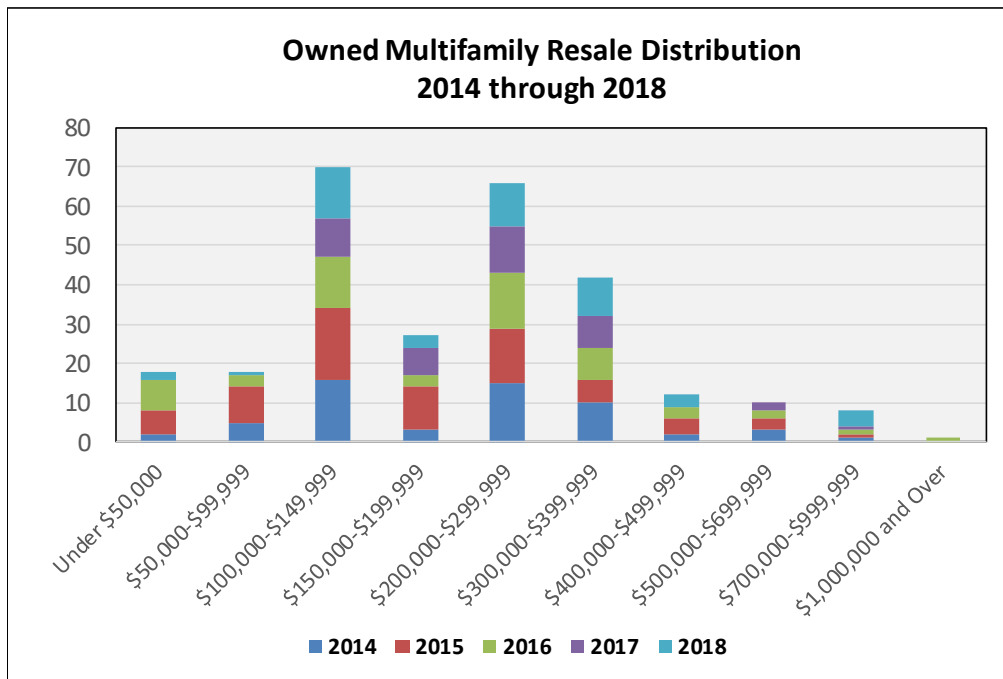
Nearly all the developments that have come on-line have been at the top of the market, especially the condominiums in the Downtown, which have ranged in price from about the mid-\$300,000s to more than \$1,000,000.

HOUSING MARKET ANALYSIS

**TABLE R-6
OWNED MULTIFAMILY RESALES DISTRIBUTION
DULUTH RESALES
2014 THROUGH 2018**

	2014		2015		2016		2017		2018	
	No.	Median Value	No.	Median Value	No.	Median Value	No.	Median Value	No.	Median Value
Under \$50,000	2	\$23,500	6	\$34,750	8	\$33,000	0	\$0	2	\$42,450
\$50,000-\$99,999	5	\$76,000	9	\$87,500	3	\$82,500	0	\$0	1	\$73,000
\$100,000-\$149,999	16	\$124,750	18	\$117,400	13	\$125,000	10	\$125,250	13	\$133,875
\$150,000-\$199,999	3	\$175,000	11	\$173,250	3	\$176,000	7	\$165,000	3	\$163,500
\$200,000-\$299,999	15	\$251,375	14	\$260,500	14	\$260,000	12	\$235,000	11	\$269,225
\$300,000-\$399,999	10	\$329,000	6	\$315,000	8	\$340,000	8	\$394,900	10	\$335,500
\$400,000-\$499,999	2	\$414,500	4	\$455,000	3	\$447,500	0	\$0	3	\$437,000
\$500,000-\$699,999	3	\$540,000	3	\$615,000	2	\$612,500	2	\$543,500	0	\$0
\$700,000-\$999,999	1	\$890,000	1	\$925,000	1	\$975,000	1	\$720,000	4	\$790,000
\$1,000,000 and Over	0	\$0	0	\$0	1	\$1,225,000	0	\$0	0	\$0
Total/Median	57	\$148,750	72	\$154,900	56	\$236,450	40	\$222,500	47	\$265,000

Sources: Lake Superior Area Realtors; Maxfield Research and Consulting



Active Listings

Maxfield Research reviewed active listings in the Duluth area for single-family homes, condominiums, twinhomes and townhomes currently listed on the market. Information was provided by Lake Superior Area Realtors. Matched with closed sales, there are few listings on the market. According to the data, only six of the listings are owned multifamily units while the remaining 285 listings are all single-family homes. Owned multifamily properties include two properties in the Downtown and the remainder in other locations around the City. Single-family listings range in price from \$35,000 to more than \$1 million. Owned multifamily listings range from \$250,000 to \$595,000.

	SINGLE-FAMILY		OWNED MULTIFAMILY	
	No.	Median Value	No.	Median Value
Under \$50,000	4	\$45,000	0	\$0
\$50,000-\$99,999	26	\$88,500	0	\$0
\$100,000-\$149,999	36	\$128,900	0	\$0
\$150,000-\$199,999	45	\$179,900	0	\$0
\$200,000-\$299,999	56	\$245,900	3	\$257,000
\$300,000-\$399,999	41	\$362,400	1	\$349,900
\$400,000-\$499,999	22	\$455,300	1	\$445,900
\$500,000-\$699,999	32	\$588,200	1	\$595,000
\$700,000-\$999,999	18	\$853,500	0	\$0
\$1,000,000 and Over	5	\$1,225,000	0	\$0
Total/Median	285	\$304,150	6	\$397,900

Sources: Remax Realty; Maxfield Research and Consulting LLC

Single-Family

Of the 285 current single-family listings, the median list price is \$304,150 with the bulk of the listings clustered from \$150,000 to \$400,000. Another 32 listings however, are found in the \$500,000 to \$699,999 range.

Owned Multifamily

There are six owned multifamily properties currently listed for sale in Duluth, Hermantown and Proctor. The median list price is \$397,900 and the distribution is spread between \$250,000 and \$595,000. Properties for sale include condominiums and townhomes/twinhomes including one unit adjacent to Lake Superior on Water Street (outside the Downtown).

New Construction Homes

There are currently a limited number of new construction homes in Duluth that are being marketed. These do not include private, custom homes that have been contracted for by private parties.

Many of the new home designs are targeted toward older mid-age adults and empty-nesters with single-level living. A few of the units on the market are single-level townhomes, but most are single-family detached residences.

The homes available range in price from a low of \$279,000 for a two-bedroom, two bath unit in Hawk Ridge up to \$640,000 for a four-bedroom, three-bath home in Hermantown. In the Chester Park Neighborhood of Duluth at 1543 E Skyline Parkway, is a proposed new construction, single-family home (three-bedroom, two bath) with an estimated 1,864 square feet priced at \$475,000.

Hawk Ridge, on the east end of Duluth, in the Lester Park neighborhood, has an estimated 21 lots remaining open and vacant. Two new single-family homes were recently built and are being marketed at \$360,000 (1,629 square feet) and \$585,000 (2,923 square feet).

Two new construction single-level townhomes are for-sale on Butternut Trail in the Maple Ridge Addition in Duluth Heights for \$415,000. These were constructed on an in-fill lot.

Bayhill Cove near Spirit Mountain is a 15-unit development of detached single-level units with an association. Two lots remain in the subdivision and the estimated home price is \$389,900 for a three-bedroom, three bath home design (1,645 square feet) is being marketed on Bayhill Trail in Duluth. The association also owns six boat docks on the St. Louis River.

None of the homes listed is less than \$250,000 and except for one listing, all the new construction homes are above \$300,000. The per square foot price range for the new construction homes being marketed is between \$182 and \$237 per square foot.

Most of those we spoke with including Realtors, real estate sales agents and local public and non-profit housing organizations believe there is a need for more ownership housing and housing that is affordable to first-time homebuyers. While there are modestly priced homes on the market in Duluth, many of these are often purchased by investors and converted to rental housing. Also, first-time homebuyers may not have an interest in investing in upgrading a

HOUSING MARKET ANALYSIS

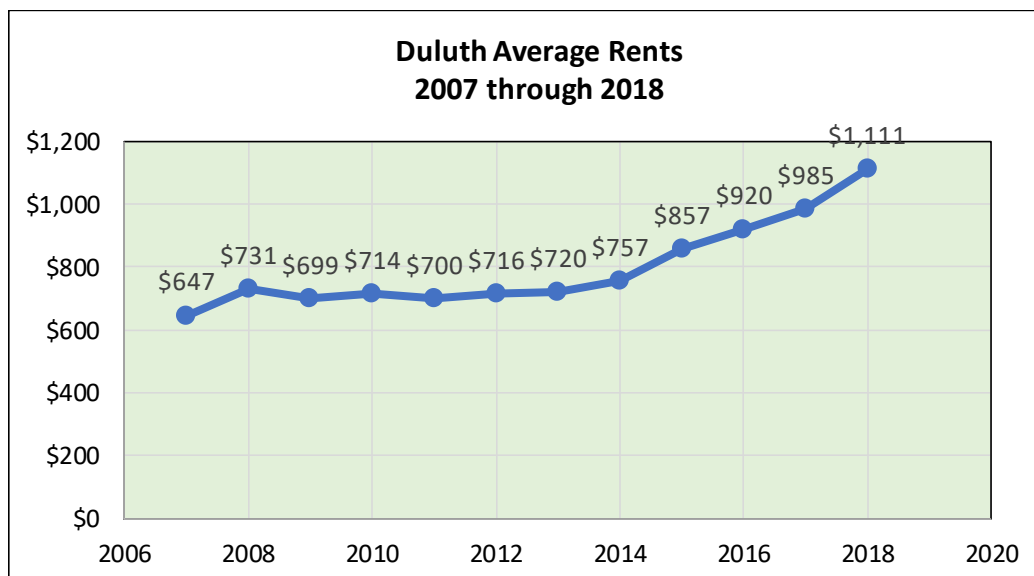
property that is experiencing a significant amount of deferred maintenance. Similarly, they may also not have sufficient funds to do so.

Potential homeowners will desire certain features and amenities if they are to purchase a unit rather than rent, particularly, at an upper-end price point. Unit size is important, but the square footage is often balanced against other desirable features and amenities such as high ceilings, large windows, plenty of natural light, hardwood floors/woodwork, unit finishes, water or scenic views, convenient location, secured parking, elevator (if multistory building) and close to goods and services and employment.

Rental Housing Market Overview

Tables R-8 through R-12 show comparison data on the rental housing stock in Duluth from the 2018 Housing Indicator Report. Data presented includes tables on average rent by bedroom type, average cost of rental housing,

The chart below shows average rents in Duluth from 2006 through 2018. Data is from an annual survey conducted by the City among market rate rental properties. The chart shows that the average rent increased from \$647 in 2006 to \$1,111 as of 2018. Rents have increased dramatically since 2014, however, when the average rent was \$757. Since 2014, the average monthly rent has increased by 52.4% or an average annual increase of 10.1%. The average annual rent increase is a combination of an increasingly tight rental market along with the additional of new market rate properties with rent levels at the top end of the market. Nevertheless, with average rent increasing by 10% per year and wages increasing an average of 3.5% annually, the increase in wages is not keeping up with the increase in rents. This situation is likely to cause a higher rate of renter cost burden (more households paying a higher proportion of their income for housing) than is considered affordable according to the standard set by the Department of Housing and Urban Development.



HOUSING MARKET ANALYSIS

Table R-8 shows the change in average rent by bedroom type from 2010 through 2018 in Duluth along with the overall average rent and the number of units surveyed. The table shows that average rents increased substantially in Duluth since 2010 but have increased even more rapidly since 2014 for most unit types, except for studio units. The average annual increase is highest for three-bedroom units at 5.02%, followed by one- and four-bedroom units at 4.81%, followed by two-bedroom units at 4.32% and studio units at 2.25%. The overall average rent is estimated to have increased by 5.7% annually over the period.

**TABLE R-8
AVERAGE RENT BY UNIT TYPE
CITY OF DULUTH
2010-2018**

Unit Type	2010	2011	2012	2013	2014	2016	2017	2018	Change 10-'18	Avg. Ann Chg 10-'18
Efficiency	\$477	\$461	\$484	\$476	\$510	\$568	\$570	\$576	20.75%	2.25%
1 Bedroom	\$660	\$651	\$675	\$690	\$749	\$776	\$856	\$961	45.61%	4.81%
2 Bedroom	\$757	\$751	\$774	\$778	\$791	\$1,001	\$1,062	\$1,176	55.35%	4.32%
3 Bedroom	\$849	\$836	\$882	\$907	\$893	\$1,103	\$1,124	\$1,256	47.94%	5.02%
4 Bedroom	\$1,097	\$1,019	\$1,003	\$1,003	\$970	\$1,334	\$1,368	\$1,598	45.67%	4.81%
Average (All)	\$714	\$700	\$716	\$720	\$757	\$920	\$985	\$1,111	55.60%	5.68%
Units in Survey	2,037	2,028	2,201	2,195	1,807	----	1,583	3,000	----	----

Source: City of Duluth Housing Indicators Reports

Table R-9 shows rental housing properties in Duluth by bedroom type and by the owner- or tenant-paid utilities. Since 2012, the balance between owner-paid utilities and tenant-paid utilities among rental properties in Duluth has shifted away from the owner and to the tenant by a ratio of more than 2:1. Although having the tenant pay most, if not all of the utilities, is a general trend across a number of submarkets and in the Twin Cities, this places an added cost burden on renters. With rents rising and the requirement of also having to pay utilities, many more renter households are likely to be cost-burdened. If costs are too high, some renters may try to substantially reduce their usage of utilities, sometimes to the detriment of their health and welfare.

TABLE R-9 AVERAGE RENT BY UNIT TYPE BY UTILITIES PAID CITY OF DULUTH 2018					
Unit Type	Utilities Paid By	Total Units	Average Rent	Vacancy Rate	Difference in Owner vs. Renter Paid Utilities
Studio/ Efficiency	Owner Paid Utilities	89	\$572	1.1%	\$7
	Renter Paid Utilities	111	\$579	0.0%	
1 Bedroom	Owner Paid Utilities	585	\$982	4.8%	\$41
	Renter Paid Utilities	579	\$941	2.6%	
2 Bedroom	Owner Paid Utilities	475	\$1,125	6.1%	\$10
	Renter Paid Utilities	591	\$1,135	2.0%	
3 Bedroom	Owner Paid Utilities	68	\$1,256	5.9%	\$1
	Renter Paid Utilities	282	\$1,478	3.2%	
4 Bedroom	Owner Paid Utilities	*	\$1,478	*	\$139
	Renter Paid Utilities	152	\$1,615	3.9%	
Other	Owner Paid Utilities	*	\$2,110	*	\$7
	Renter Paid Utilities	69	\$2,117	1.4%	
Source: City of Duluth Rental Survey, 2018					

Selected Apartment Developments

New Market Rate Properties

Maxfield Research compiled information for a select group of upscale market rate rental properties that have recently been constructed in Duluth.

Data on these competitive properties is presented in Table R-10 on a following page. The rents shown represent quoted rental rates and have not been adjusted to reflect the inclusion or exclusion of utilities. The inclusion or exclusion of utilities in the monthly rent varies across the properties. It is noted on the table what utilities are included.

Cityview Flats is the newest rental property to open in Duluth. The property is mixed income with a majority of the units as market rate and a portion as affordable with rent levels restricted to households at or less than 60% of Area Median Income (AMI).

HOUSING MARKET ANALYSIS

Capstone Apartments is one of the newest market rate property to open in Duluth. The property came on-line in 2018 and is currently leasing units. One-bedroom units are fully-occupied, but the property has several two-bedroom and three-bedroom units remaining to be absorbed. Unit sizes range from 526 square feet for studio units to 1,376 square feet for three-bedroom units. Rents range from \$1,105 for studios to a high of \$2,750 for a three-bedroom unit. Underground, heated parking is available at an additional charge of \$85 per month. Units feature stainless appliances, granite counters, double sink bathroom vanities, in-unit washer/dryers and car wash area in the parking garage. The building features a coffee bar in the lobby, a community room and fitness center. The property is currently 58% leased.

District Flats at Miller Hill Mall opened in 2018 and has reached stabilized occupancy with only two units currently available. The property has 72 units including 35 one-bedroom units, 1, one-bedroom plus den unit, 35, two-bedroom units and one, two-bedroom corner unit. The property has enclosed, heated parking which is charged in addition to the monthly rent. Project amenities include a community room, fitness facility, bike storage and repair. Two-bedroom units have 1,086 square feet and one-bedroom units will have 691 to 772 square feet, the one-bedroom plus den unit has 742 square feet and the two-bedroom corner unit has 1,249 square feet. In-unit features include 9 ft. ceilings, in-unit washer/dryer, balcony/patio.

Grand Avenue Estates opened in 2017 and has 67 apartments, a mix of one-, two- and three-bedroom units. Unit sizes range from 807 square feet for one-bedroom units to 1,300 square feet for three-bedroom units. Rents range from \$1,043 for a one-bedroom unit to \$1,695 per month for a three-bedroom unit. Detached garages are available at an additional charge of \$50 per month. Heat, water, sewer and trash are included in the monthly rent. The property includes a community room, library, fitness room and outdoor grilling station and picnic area. Unit features include high ceilings, wall unit air conditioners, balcony/patios, walk-in closets, kitchen islands, vinyl plank flooring in the kitchen area and in-unit washer/dryer. The property is fully-occupied with no units available.

Kenwood Village opened in 2017 and has 83 apartments, a mix of studio, one-, two- and three-bedroom units. The property is near to the College of St. Scholastica and the University of Minnesota Duluth campuses. Floor plans range in size from 459 square feet for a studio unit to 1,288 for a three-bedroom unit. One-bedroom units have between 693 and 892 square feet. Rents range from a low of \$1,190 per month to a high of \$2,100 per month. Features and amenities include 9 ft. ceilings, ceramic cooktop range, in-unit washer/dryer, granite counters, stainless appliances, granite kitchen islands (select units), vinyl wood plank flooring, walk-in closets (select units), community room with fireplace, outdoor patio with grilling station, fitness center and underground parking. One parking stall per unit is included with the monthly rent. The property is currently occupied with one, two-bedroom unit available.

ENDI apartments is on London Road and opened in 2017. The property has 143 units with east facing units having dramatic views of Lake Superior. The property offers a mix of one-, two- and three-bedroom units and a limited number of larger penthouse units. Unit sizes range from 550 square feet for a one-bedroom unit to 1,580 for a two-bedroom unit. Three-bedroom units are significantly larger in size ranging from 2,855 to 3,497 square feet with much higher

HOUSING MARKET ANALYSIS

TABLE R-10
SELECTED NEWER MARKET RATE RENTAL PROPERTIES
DULUTH, MINNESOTA
September 2019

Project Name	Year Built	Total Units	Unit Mix	Vacant Units	Unit Size	Monthly Rent	Avg Rent	Rent Per Sq Ft.	Amenities/Comments
Boulder Ridge	2005	183	16 - EFF	0	300 - 400	\$660 - \$840	\$750	\$2.10 - \$2.20	Geared toward students but open to any and all qualified renters. All units have in-unit W/D except studios, preferred basic cable TV included, shuttles to UMD and St. Scholastica provided, optional housekeeping, free tanning beds.
502 Boulder Dr.	2006	0	16 - 1BR	0	488 - 660	\$980 - \$1,020	\$1,000	\$1.55 - \$2.01	
<i>Duluth</i>		0.0%	74 - 2BR	0	792 - 1,169	\$1,180 - \$1,380	\$1,280	\$1.18 - \$1.49	
			77 - 3BR	0	1,109 - 1,168	\$1,680 - \$1,947	\$1,814	\$1.67 - \$1.51	
Summit Ridge	2009	250	42 - 1BR	0	488 - 660	\$864 - \$960	\$912	\$1.45 - \$1.77	Geared toward students but open to any and all qualified renters. Features a game room, library, business center, free basic internet and satellite TV. Three-bedroom townhome units constructed separately two years ago.
901 Boulder Dr.	2010	0	85 - 2BR	0	910 - 1,169	\$1,436 - \$2,472	\$1,954	\$2.11 - \$1.58	
<i>Duluth</i>	2015	0.0%	98 - 3BR	0	1,164 - 1,315	\$1,680 - \$1,785	\$1,733	\$1.44 - \$1.36	
			25 - 3BR TH	0	1,417 - 1,417	\$1,890 - \$1,890	\$1,890	\$1.33 - \$1.33	
Kenwood Village	2017	83	13 - EFF	0	459 - 540	\$1,071 - \$1,246	\$1,159	\$2.31 - \$2.33	New construction rentals in the Kenwood neighborhood; close to UMD and St. Scholastica. General occupancy rental with first floor commercial space.
1515 Kenwood Avenue		1	28 - 1BR	0	693 - 892	\$1,310 - \$1,550	\$1,430	\$1.74 - \$1.89	
<i>Duluth</i>		1.2%	21 - 2BR	1	1,001 - 1,182	\$1,580 - \$2,005	\$1,793	\$1.58 - \$1.70	
			21 - 3BR	0	1,147 - 1,288	\$2,078 - \$2,431	\$2,255	\$1.81 - \$1.89	
The Harbours	1993	38	1 - EFF	0	459 - 540	\$950 - \$985	\$968	\$1.82 - \$2.07	Five-story mid-rise concrete on top of five floors of commercial office space. Nine units have solariums; covered ramp parking is available with one stall included in the monthly rent; Free Wi-fi access is available for all residents. Heat and air-conditioning included in rent. Club room; guest suites - \$25/night.
300 West Michigan Street		2	4 - 1BR	1	693 - 892	\$1,150 - \$1,250	\$1,200	\$1.40 - \$1.66	
<i>Duluth</i>		5.3%	33 - 2BR	1	1,001 - 1,700	\$1,330 - \$1,825	\$1,578	\$1.33 - \$1.07	
Harbor Highlands	2006	29	3 - 1BR	0	870 - 904	\$895 - \$955	\$925	\$1.03 - \$1.06	Central air; in-unit washer/dryers; balcony/patio, all kitchen appliances; walk-in closets; children's play area; Bskball court; YMCA programs on-site; child care services on-site; community garden; water, sewer and trash included in rent; some off-street parking;
101 W. Harbor Highlands Drive	2008	2	14 - 2BR	2	994 - 1,193	\$1,097 - \$1,187	\$1,142	\$0.99 - \$1.10	
<i>Duluth</i>	2011	6.9%	12 - 3BR	0	1,209 - 1,398	\$1,335 - \$1,351	\$1,343	\$0.97 - \$1.10	
ENDI	2016	143	88 - 1BR	0	550 - 732	\$1,200 - \$1,425	\$1,313	\$1.95 - \$2.18	New luxury apartment building with upscale features and amenities. Enclosed heated parking, bocce ball court, granite counters, stainless appliances, in-unit washer/dryers, book nook, outdoor grilling area, dog run, pet spa, outdoor yoga and fitness platform, roller shade window treatments, storage lockers, tech bar with computers, wi-fi in common areas, tech desk in select homes; garage parking - \$85/mo. extra.
2120 London Road		3	20 - 1BR+D	0	876 - 897	\$1,670 - \$1,950	\$1,810	\$2.17 - \$1.91	
<i>Duluth</i>		2.1%	32 - 2BR	3	1,032 - 1,577	\$2,000 - \$3,450	\$2,725	\$1.94 - \$2.19	
			3 - 3BR	0	2,855 - 3,497	\$4,000 - \$4,450	\$4,225	\$1.40 - \$1.27	

HOUSING MARKET ANALYSIS

**TABLE R-10
SELECTED NEWER MARKET RATE RENTAL PROPERTIES
DULUTH, MINNESOTA
September 2019**

Project Name	Year Built	Total Units	Unit Mix	Vacant Units	Unit Size	Monthly Rent	Avg Rent	Rent Per Sq Ft.	Amenities/Comments
Bluestone Lofts	2013	99	4 - EFF	0	459 - 540	\$1,190 - \$1,210	\$1,200	\$2.24 - \$2.59	Five-story mid-rise concrete on top of five floors of commercial office space. Nine units have solariums; covered ramp parking is available with one stall included in the monthly rent; Free Wi-fi access is available for all residents. Heat and air-conditioning included in rent. Club room; guest suites - \$25/night.
101 Summit Drive		0	5 - 1BR	0	693 - 833	\$1,310 - \$1,450	\$1,380	\$1.74 - \$1.89	
<i>Duluth</i>		0.0%	38 - 2BR	0	969 - 1,101	\$1,578 - \$1,678	\$1,628	\$1.63 - \$1.52	
			52 - 4BR	0	1,430 - 1,560	\$2,916 - \$2,916	\$2,916	\$2.04 - \$1.87	
Bluestone Flats	2015	142	15 - EFF	0	515 - 515	\$1,065 - \$1,065	\$1,065	\$2.07 - \$2.07	Enclosed parking - \$120 to \$165/mo; surface parking - \$20-\$25/mo; trash removal and cable TV included; other utilities paid by resident; tile backsplash in kitchen, stainless appliances; plank flooring, rooftop lounge, business center; storage spaces, breakfast coffee; concierge, outdoor grills, pet play area and washing station; fitness center, planned social activities.
133 Summit Drive		0	75 - 1BR	0	637 - 754	\$1,310 - \$1,500	\$1,405	\$1.99 - \$2.06	
<i>Duluth</i>		0.0%	48 - 2BR	0	902 - 1,174	\$1,943 - \$2,050	\$1,997	\$2.15 - \$1.75	
			4 - 3BR	0	1,571 - 1,571	\$2,916 - \$2,916	\$2,916	\$1.86 - \$1.86	
Mount Royal Manor	1951	114	28 - EFF	0	412 - 488	\$625 - \$655	\$640	\$1.34 - \$1.52	Completely remodeled apartments; Unassigned garage parking - \$33/mo. extra; heat, water, sewer and trash included in monthly rent; high-rise concrete building; mini-blinds, ceiling fans, microwave ovens, community room, fitness area, common laundry facilities, picnic area, plank flooring in kitchen; carpeting in remainder.
100 Elizabeth Street	2017R	2	61 - 1BR	1	500 - 667	\$822 - \$1,058	\$940	\$1.59 - \$1.64	
<i>Duluth</i>		1.8%	23 - 2BR	1	667 - 798	\$1,187 - \$1,420	\$1,304	\$1.78 - \$1.78	
			2 - PH	0	1,362 - 1,831	\$2,286 - \$3,000	\$2,643	\$1.68 - \$1.64	
District Flats at Miller Hill Mall	2018	72	35 - 1BR	0	691 - 772	\$1,350 - \$1,375	\$1,363	\$1.78 - \$1.95	New construction units near Miller Hill Mall. Water, sewer and trash removal included; 50" TV mounted on living room wall; in-unit washer/dryer; central air; UG pkg - \$85/mo extra; 9'ft ceilings; SS appliances, fitness room, community room.
1306 Maple Grove Road		1	1 - 1BR+D	0	742 - 742	\$1,350 - \$1,350	\$1,350	\$1.82 - \$1.82	
<i>Duluth</i>		1.4%	35 - 2BR	1	1,086 - 1,086	\$1,695 - \$1,850	\$1,773	\$1.70 - \$1.56	
			1 - 2BR CN	0	1,249 - 1,249	\$2,150 - \$2,150	\$2,150	\$1.72 - \$1.72	
Grand Avenue Estates	2017	67	18 - 1BR	0	807 - 807	\$1,043 - \$1,043	\$1,043	\$1.29 \$1.29	New construction units in Riverside neighborhood; Detached garages - \$50/mo extra; heat, water, sewer and trash included; community rm, fitness rm, library, outdoor grilling station; children's play area; window treatments; wall unit air
9215 Zimmerly Avenue		0	38 - 2BR	0	1,054 - 1,054	\$1,375 - \$1,375	\$1,375	\$1.30 \$1.30	
<i>Duluth</i>		0.0%	11 - 3BR	0	1,300 - 1,300	\$1,695 - \$1,695	\$1,695	\$1.30 \$1.30	
Capstone Apts	2018	81	7 - Eff	1	526 - 526	\$1,105 - \$1,105	\$1,105	\$2.10 \$2.10	New construction by Miller Hill Mall; underground parking-\$85/mo; fitness ctr, community rm, coffee bar, SS appliances; granite counters, in-unit w/dryer, ceiling fans, double vanities, car wash area
4710 Matterhorn Circle		11	17 - 1BR	0	732 - 883	\$1,325 - \$1,425	\$1,375	\$1.61 \$1.81	
<i>Duluth</i>		13.6%	48 - 2BR	6	1,081 - 1,229	\$1,600 - \$2,000	\$1,800	\$1.63 \$1.48	
<i>In initial lease-up</i>			9 3BR	4	1,352 - 1,376	\$2,600 - \$2,750	\$2,675	\$2.00 \$1.92	
Totals/Average		1,301	22	1.7%	Overall Vacancy (includes properties in initial lease-up)				
		1,220	11	0.9%	Stabilized Vacancy (excludes properties in initial lease-up)				
Sources: Property Management Companies; Maxfield Research									

HOUSING MARKET ANALYSIS

rents. Rents range from \$1,200 to \$4,450 per month. Assigned garage parking is available at an additional charge of \$100 per month. Features include 9 ft. ceilings, gas range (select units), granite counters, in-unit washer/dryer, fireplace (select units), custom cabinets, stainless appliances, roller shades, soaking tub (select units), vinyl plank flooring, and walk-in showers (select units). Common area amenities include pet spa, outdoor grilling area with lounge seating, outdoor yoga and fitness platform, tech bar with computers, rock balancing area, community room, fitness center, Wi-Fi in common areas, guest suite, bocce ball, book nook, bike storage and repair and other amenities. There is commercial space on the first floor of the building facing London Road with retail goods and services. Currently, there are 11 units available for a vacancy rate of 7.7%.

New Market Rate Summary

Table R-11 and the following points summarize key observations for the selected market rate general occupancy rental developments.

- A total of 1,301 units is represented among 12 newer and/or newly renovated properties in Duluth. Capstone Apartments, which recently opened, is in its initial lease-up period.
- On average, units in the selected properties have an average of 951 square feet, with studio units being the smallest (458 square feet) and the penthouse units being the largest at 1,597 square feet.
- Monthly rental rates among the newest rental properties range from a low of \$625 for a renovated efficiency unit at Mount Royal Manor to a high of \$4,450 for a three-bedroom at ENDI.
- Monthly rents average \$886 for studio units, \$1,217 for one-bedroom units, \$1,788 for one-bedroom plus den units, \$1,723 for two-bedroom units, \$1,874 for three-bedroom units, \$2,916 for four-bedroom units and \$2,643 for the penthouse units.

TABLE R-11 RENT SUMMARY OF NEWER MARKET RATE RENTAL PROPERTIES CITY OF DULUTH September 2019					
Type	No.	Pct.	Rent	Square Feet	Rent/Sq. Ft
Eff.	84	6.4%	\$886	460	\$1.93
1BR	392	30.0%	\$1,217	671	\$1.81
1BR+D	21	1.6%	\$1,788	880	\$2.03
2BR	490	37.5%	\$1,723	1,074	\$1.60
3BR	260	19.9%	\$1,874	1,262	\$1.48
4BR	56	4.3%	\$2,916	1,500	\$1.94
PH	2	0.2%	\$2,643	1,597	\$1.66
TOTAL	1,305	100.0%	\$1,601	967	\$1.66

Source: Maxfield Research and Consulting LLC

- The following list identifies the average per square foot rent for the upscale properties along with the year built:
 - ENDI (2016) \$2.01 per square foot
 - Bluestone Flats (2016) \$1.97 per square foot
 - Bluestone Lofts (2014) \$1.83 per square foot
 - Kenwood Village (2017) \$1.82 per square foot
 - District Flats at Miller Hill (2018) \$1.73 per square foot
 - Mount Royal Manor (R-2017) \$1.62 per square foot
 - Capstone Apts (2018) \$1.61 per square foot
 - Summit Ridge (2017) \$1.56 per square foot
 - Boulder Ridge (2015) \$1.50 per square foot
 - Grand Avenue Estates (2017) \$1.30 per square foot
 - The Harbours (2014) \$1.20 per square foot
- The largest proportion of units is two-bedroom units (38%), followed by one-bedroom units (30%). Studio units make up approximately 6% of the unit mix and three-bedroom units account for 20% of units.
- On average, units in these properties have 967 square feet, with studio units being the smallest (460 square feet on average) and the penthouse units being the largest at 1,597 square feet.
- The average monthly rent across all unit types and developments was \$1,601. Monthly rents ranged from an average of \$886 for studio units to \$2,916 for four-bedroom units.
- On average, the competitive set of properties in the PMA reported an average rent of \$1.66 per square foot. One-bedroom plus den units had the highest average rent per square foot, \$2.03 and three-bedroom townhomes had the lowest average rent per square foot, \$1.33.

Selected Market Rate Properties



Bluestone Flats



Bluestone Lofts



The Harbours



Boulder Ridge



ENDI Apartments



Summit Ridge

Selected Market Rate Rental Properties



Grand Avenue Estates



Kenwood Village



Mount Royal Manor



District Flats at Miller Hill Mall

Selected Affordable Rental Properties



Village at Matterhorn



Lincoln Park Apartments



Harbor Highlands



Village Place



Irving School



Renaissance Apts

HOUSING MARKET ANALYSIS

- Excluding Capstone, which is still in its initial lease-up period, vacancy rates are lowest among studio and one-bedroom units.
- Amenities that have become standard for new properties include:
 - Stainless appliances and granite counter or quartz counter tops (kitchen and bath);
 - Laminate plank flooring or brushed concrete and high ceilings (minimum of 9 ft.);
 - Large, oversized windows (some properties have almost floor-to-ceiling windows);
 - Balcony or patio, in-unit washer/dryer (stacked and full-size), walk-in closets;
 - Tile floors in bathroom;
 - Front loading stacked or full-size washer/dryers in the unit
 - Tile backsplash in kitchen;
 - Ceramic tile tub/shower surrounds.

The following are some of the common area amenities being offered by the newest market rate properties.

- Rooftop deck with outdoor lounge seating and outdoor grill area;
- Community lounge with full serving kitchen; large screen TV and multi-media capabilities;
- Coffee bar;
- Yoga classes, outdoor pool with sundeck terrace;
- Green features such as green rooftop areas, recycling; additional features that save energy, promote sustainability and are low impact on the environment;
- Community-wide Wi-fi;
- Business center with computer access and fax;
- Electric vehicle charging;
- Bike storage with a bike maintenance area and tools;
- Dog run or play areas, pet grooming; and,
- Concierge services that include a variety of items such as drycleaning pick-up and delivery, pet sitting, pet walking, package delivery, etc.

Affordable Rental Properties

Maxfield Research compiled information for affordable rental properties (income-restricted) with rent levels at or between 50% to 60% of Area Median Income. Units developed under the Low-Income Housing Tax Credit Program are included in Table R-12 and presented on a following page.

The rents shown represent quoted rental rates and were not adjusted to reflect the inclusion or exclusion of utilities. It is noted on the table what utilities are included.

HOUSING MARKET ANALYSIS

Cityview Flats is a mixed-income property that has ten rent-restricted units and 96 market rate units. Rents for the income-restricted units are \$835 for studio, \$940 for one-bedroom units and \$1,045 for two-bedroom units at 80% of Area Median Income (AMI). While these rents are lower than rent levels for new market rate properties, they are at the upper end of the market for affordable properties. All the units however, feature new luxury in-unit and common area amenities. In order to afford to lease these units at Cityview, a household could not exceed the following maximum income by household size:

1-Person Household	\$40,560
2-Person Household	\$46,400
3-Perons Household	\$52,160
4-Person Household	\$57,920

The newest affordable property to come on-line in Duluth is **Lincoln Park Apartments**, a 2014 renovation of the former Lincoln Park School at 2427 W 4th Street. The property has 50 units, a mix of efficiency, one-, two- and three-bedroom units. At the time of the survey, two units were available, for a vacancy rate of 4.0%. Unit sizes range from 421 square feet for the efficiency units to 1,208 square feet for three-bedroom units. Rents range from \$680 per month to \$990 per month. Heat, water, sewer and trash removal are included in the monthly rent. The property features high ceilings, large oversized windows, common laundry facilities, terrazzo floors in the hallways, hardwood floors in the units, built-in cabinets and lockers, community room, outdoor play area, fitness center, media/music room, and bike racks.

Firehouse Flats opened in 2013 and has 40 units, a mix of one-, two- and three-bedroom units. The property is fully leased with a waiting list. It was converted from a former fire station. The property has a rooftop deck, community room, fitness room, outdoor play area, enclosed heated parking, in-unit washer/dryers, and ceiling fans. Additional features include hardwood accents and finishes. Units range in size from 700 square feet for a one-bedroom unit to 1,200 square feet for a three-bedroom unit. Unit rents range from \$575 to \$802 per month. Water, sewer and trash removal are included in the monthly rents.

Affordable Summary

Table R-13 and the following points summarize key observations for the selected affordable rental properties.

- A total of 445 units is represented among 12 newer and/or recently renovated affordable properties in Duluth. Lower Miller Hill Apartments is the newest property in the group, having opened in 2016.

HOUSING MARKET ANALYSIS

TABLE R-12 SELECTED AFFORDABLE GENERAL OCCUPANCY RENTAL DEVELOPMENTS DULUTH, MINNESOTA September 2019								
Project Name	Year Built	Total Units	Unit Mix	Unit Size	Monthly Rent	Avg Rent	Rent Per Sq Ft.	Amenities/Comments
MARKET RATE								
Firehouse Flats 128 E 4th Street <i>Duluth</i>	2013	40	8 - 1BR 28 - 2BR 4 - 3BR	700 960 1,200	\$575 \$689 \$802	\$575 \$689 \$802	\$0.82 \$0.72 \$0.67	Residents pay electric, cable and internet and heat. Outdoor play area, community room, fitness center, outdoor rooftop patio. In-unit washer/dryers, high ceilings and oversized windows.
Jefferson Square 916 E 3rd Street <i>Duluth</i>	1900	20	8 - 1BR 12 - 2BR	826 1,122	\$932 - \$938 \$1,266	\$935 \$1,266	\$1.13 \$1.13	Renovation of the former Jefferson School. Ten ft. vaulted ceilings; oversized windows, landscaped grounds, common laundry facilities
Village Place* 602 East 5th St. <i>Duluth</i>	2006	55	18 - 1BR 22 - 1BR+D 15 - 2BR	750 - 750 800 - 800 833 - 981	\$682 \$890 \$1,000	\$682 \$890 \$1,000	\$0.91 - \$0.00 \$1.11 - \$0.00 \$0.00 - \$1.20	Six-story building, offers views of Lake Superior. Residents pay electric. Off-street parkign included. A/C, dishwasher, disposal, play area, storage. Pets allowed.
Village at Matterhorn** 4746 Matterhorn Dr. <i>Duluth</i>	2007	38	4 - 1BR 29 - 2BR 5 - 3BR	767 - 806 976 - 1,081 1,367 - 1,458	\$596 \$696 \$927	\$596 \$696 \$927	\$0.74 - \$0.78 \$0.64 - \$0.71 \$0.64 - \$0.68	Consists of two apartment buildings and THs. Residents heat/electricity. Each building has its own parking lots. Three bedroom have own W/D, community facilities on each floor. Many tenants are non-traditional students with children.
Renaissance at East Hillside 101 Elizabeth St. <i>Duluth</i>	2006R	19	11 - 2BR 8 - 3BR	874 - 982 961 - 982	\$786 - \$792 \$918 - \$918	\$789 \$918	\$0.90 - \$0.81 \$0.93 - \$0.96	Renovation of brownstones in the Central Hillside neighborhood; high ceilings; oversized windows
Burke Apartments 720 Maple Grove Road <i>Duluth</i>	2007	21	15 - 1BR 6 - 2BR	530 - 530 759 - 795	\$588 - \$588 \$601 - \$601	\$588 \$601	\$1.11 - \$1.11 \$0.76 - \$0.79	Wall unit air; surface parking; community room; common laundry
Westgate Townhomes 6619 Westgate Blvd <i>Duluth</i>	2001	28	28 - 3BR	1,408	\$928	\$928	\$0.66	New construction townhome units w/private entry and attached garage; units are two-story
Harbor Highlands*** 231 East Superior St. <i>Duluth</i>	2005/ 2008/ 2009	63	3 - 1BR 32 - 2BR 28 - 3BR	870 - 901 994 - 1,193 1,209 - 1,346	\$721 - \$721 \$823 - \$854 \$922 - \$970	\$721 \$839 \$946	\$0.80 - \$0.83 \$0.69 - \$0.83 \$0.68 - \$0.76	Constructed in four phases. Each phase is owned by a different entity. Mixed income community with tax credit and market rate units. Table shows tax credit units.
Lower Miller Hill Apts 220-226 Pecan Avenue <i>Duluth</i>	1995	28	2 - EFF 2 - 1BR 4 - 2BR 18 - 3BR 2 - 4BR	425 - 425 425 - 425 750 - 750 850 - 850 1,150 - 1,150	\$600 - \$600 \$650 - \$650 \$900 - \$900 \$1,100 - \$1,100 \$1,300 - \$1,300	\$600 \$650 \$900 \$1,100 \$1,300	\$1.41 - \$1.41 \$1.53 - \$1.53 \$1.20 - \$1.20 \$1.29 - \$1.29 \$1.13 - \$1.13	Features off-street and garage parking. Parking included for two-bedroom units, extra for one-bedroom units.
Irving School 101 N 56th Ave W <i>Duluth</i>	1895 2004R	44	2 - EFF 4 - 1BR 27 - 2BR 11 - 3BR	535 628 886 - 1,058 1,242 - 1,368	\$728 - \$800 \$728 - \$800 \$873 - \$900 \$985 - \$1,136	\$764 \$764 \$887 \$1,061	\$1.36 \$1.16 - \$1.27 \$0.99 - \$0.83 \$0.79 - \$0.72	Renovation of the former Irving School; high ceilings; hardwood floors; common laundry facilities; wide staircases; outdoor play area; community room
Memorial Park Apts 605 N Central <i>Duluth</i>	1922 1997R	39	30 - 1BR 1 - 1BR 5 - 2BR 3 - 3BR	485 - 485 545 - 545 743 - 866 968 - 1,066	\$565 - \$565 \$685 - \$685 \$875 - \$875 \$985 - \$985	\$565 \$685 \$875 \$985	\$1.16 - \$1.16 \$1.26 - \$1.26 \$1.18 - \$1.18 \$1.02 - \$1.02	Three-story building. Units have high ceilings and oversized windows. Common laundry facilities. High-speed internet access available.
Lincoln Park Apts 2427 W 4th Street <i>Duluth</i>	2015R	50	3 - EFF 11 - 1BR 33 - 2BR 3 - 3BR	421 590 778 - 985 1,047 - 1,208	\$680 \$780 \$919 \$990	\$680 \$780 \$919 \$990	\$1.62 \$1.32 \$1.18 \$0.95	Renovation of the former Lincoln Park School; Refurbished terrazzo floors; hardwood floors in units; 24-hour fitness center; bike racks; outdoor play area; community room; built-in windows and cabinets; built-in lockers; high ceilings; oversized windows.
Total Units		445						
Vacant Units		3						
Vacancy Rate		0.7%						
* Village Place Apartments is comprised of 17 market rate units and 38 affordable units. Pricing is for the tax-credit units.								
**Village at Matterhorn has a total of 96 units, of which only 18 are market rate (4, 1BR; 10, 2BR; 4, 3BR). The remaining units include Public Housing (29 units), Tax Credit (40 units), Challenge (5 units) and HRA (4 units). Only the market rate units are shown in the table.								
*** Harbor Highlands includes public housing, tax-credit, MARIF, challenge and market rate units; only the tax credit units are shown on the table.								
Sources: Maxfield Research and Consulting, LLC								

HOUSING MARKET ANALYSIS

- The following list identifies the average per square foot rent for affordable rental properties included on Table R-12 along with the year built:
 - Lower Miller Hill Apts (2016) \$1.29 per square foot
 - Jefferson Square (2004) \$1.24 per square foot
 - Memorial Park Apts (1995) \$1.14 per square foot
 - Village Place (2006) \$1.04 per square foot
 - Lincoln Park (2015) \$0.97 per square foot
 - Irving School Apts (2004) \$0.94 per square foot
 - Renaissance Apts (2006) \$0.89 per square foot
 - Harbor Highlands (2005+) \$0.76 per square foot
 - Firehouse Flats (2013) \$0.73 per square foot
 - Village at Matterhorn (2001) \$0.68 per square foot
 - Westgate Townhomes (2017) \$0.66 per square foot
- The largest proportion of units is two-bedroom units (45%), followed by three-bedroom units (24%) and one-bedroom units (23%). Studio units comprise 1.6% and one-bedroom plus den units comprise nearly 5% of the units.

Type	No.	Pct.	Size	Rent	Rent/Sq. Ft
Eff.	7	1.6%	\$681	455	\$1.50
1BR	104	23.4%	\$657	619	\$1.06
1BR+D	22	4.9%	\$890	800	\$1.11
2BR	202	45.4%	\$847	970	\$0.87
3BR	108	24.3%	\$973	1,212	\$0.80
4BR	2	0.4%	\$1,300	1,150	\$1.13
TOTAL	445	100.0%	\$829	926	\$0.89

Source: Maxfield Research and Consulting LLC

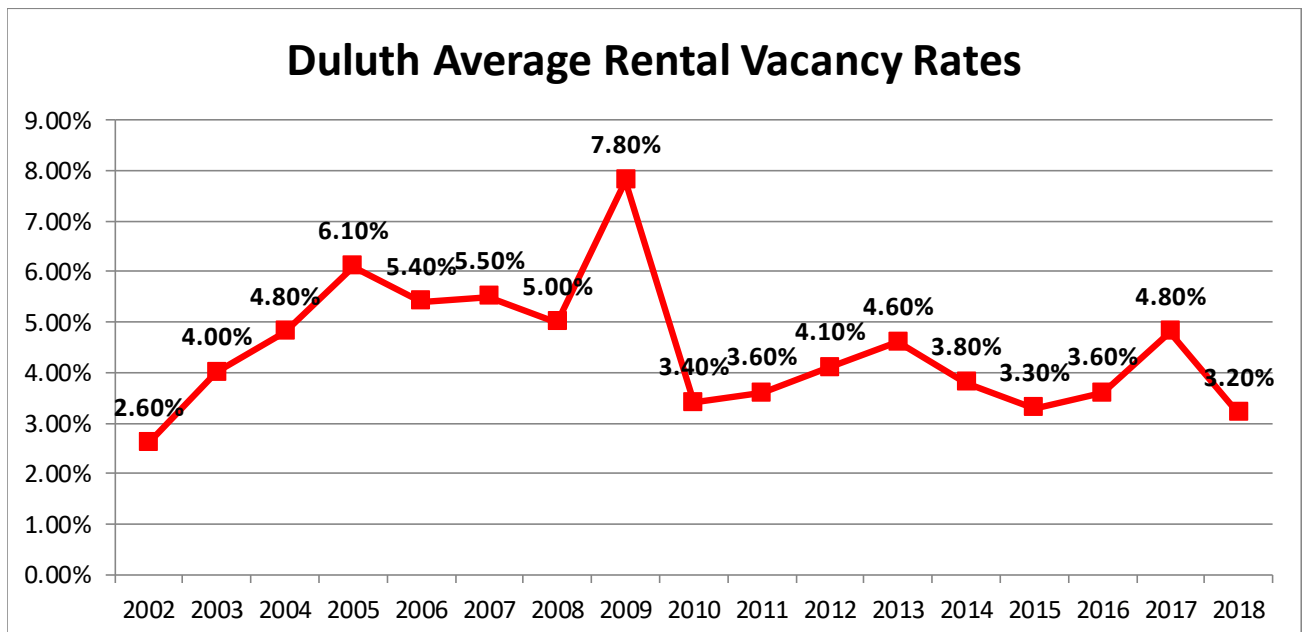
- On average, units in these properties have 926 square feet, with studio units being the smallest (455 square feet on average) and the three-bedroom units being the largest at 1,212 square feet.
- The average monthly rent across all unit types was \$829. Monthly rents ranged from an average of \$681 for studio units to \$1,300 for four-bedroom units.
- On average, the affordable set of properties in the PMA reported an average rent of \$.89 per square foot. Efficiency units had the highest average rent per square foot, \$1.50 and three-bedroom units had the lowest average rent per square foot, \$0.80.

HOUSING MARKET ANALYSIS

- The overall vacancy rate among the affordable units was 0.9%, with most properties having no vacant units. This indicates that affordable rentals are in high demand in the PMA with vacancy rates substantially below the market equilibrium rate of 5%.
- The newest affordable properties offer features and amenities such as:
 - Center kitchen islands with hard surface counters;
 - Laminate plank flooring or refurbished hardwood floors;
 - High ceilings and large over-sized windows;
 - In-unit washer/dryer (stacked and full-size), walk-in closets;
 - Community room, fitness center, and outdoor play areas;
 - Bike racks and/or bike storage areas;
 - Covered garage or enclosed parking.

Duluth Average Vacancy Rates

Except for a brief spike in vacancies in 2009 and again in 2017, the overall average vacancy rate in Duluth has remained well-below market equilibrium (5%) since 2010. As shown, the 2018 average vacancy rate dipped to 3.2% in 2018, signaling a tightening market. Despite some new construction properties offering rent concessions to lease-up vacant units, rents have been increasing at a healthy pace, creating an increasing burden for many renter households.



Housing Choice Vouchers and Public Housing

Public Housing and Housing Choice Vouchers

Table R-14 shows vacancies and waiting list for public housing units along with the proportion of unused Housing Choice Vouchers and the number of households on the wait list for HCVs. The Housing Authority administers 1,510 Housing Choice Vouchers although funding cuts, rising rents and a very tight rental market overall, have reduced the number of vouchers in use. This situation is not unique to Duluth but is occurring in many cities in Minnesota and across the country. The increase in rents and reduced vacancies have combined to decrease the number of landlords that are willing to accept Housing Choice Vouchers and the amount of gap funding that is available to support households with vouchers as rents continue to rise. HUD has continued to reduce administrative fees more than funding for the program, but reduced budgets are still constraining the number of families that can be served through the Housing Choice Voucher program. This situation exacerbates the need for housing to serve low-income and moderate-income households, those most in need. The HRA is also applying for 25 VASH (Veterans Affairs Supportive Housing) vouchers, which includes Superior, Wisconsin through the Veterans Administration. These vouchers are used exclusively to assist homeless Veterans in securing affordable housing along with case management for supportive services.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public Housing Vacancy %	1.30%	1.00%	3.00%	2.00%	2.00%	1.60%	2.20%	3.10%	4.40%	3.90%
Public Housing Average Waiting List	153	974	1,014	802	635	995	1,155	1,646	2,213	2,026
Housing Choice Voucher (Unused)	0.0%	1.0%	1.0%	2.0%	7.0%	0.0%	1.9%	2.4%	5.8%	15.0%
Housing Choice Voucher Avg. Waiting List	1,623	1,800	2,376	1,477	1,464	1,320	1,820	2,705	3,460	2,932

Source: Duluth HRA

Payment Standards

Table R-15 shows payment standards by bedroom size for the Housing Choice Voucher program in Duluth. The table presents information from 2010 through 2019. As is shown, the increase in payment standards for the Housing Choice Voucher program has not kept pace with rising rents in the Duluth area (please see Table R-8). The Fair Market Rents (FMRs) proposed for 2020 are less than the payment standards for 2019. Duluth is combined with St. Louis County and lower rents throughout the non-Metro areas of the County affect the FMRs for Duluth. The HRA will request an exception to the FMRs considering the low utilization rate for HCVs, the current rent climate in the City and the current wait list to obtain a voucher. At this time, the wait time to obtain an HCV is between 18 to 24 months and that period, which has increased over time.

HOUSING MARKET ANALYSIS

By Bedroom Size	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
0BR	\$433	\$433	\$504	\$481	\$481	\$536	\$543	\$543	\$600	\$650
1BR	\$528	\$528	\$607	\$579	\$579	\$627	\$627	\$627	\$650	\$735
2BR	\$666	\$666	\$725	\$725	\$725	\$755	\$792	\$792	\$835	\$950
3BR	\$836	\$836	\$945	\$945	\$945	\$984	\$1,020	\$1,020	\$1,065	\$1,200
4BR	\$1,064	\$1,064	\$1,099	\$1,099	\$1,099	\$1,099	\$1,180	\$1,229	\$1,325	\$1,325
5BR	\$1,224	\$1,224	\$1,264	\$1,264	\$1,264	\$1,264	\$1,356	\$1,413	\$1,525	\$1,525

Source: Housing and Redevelopment Authority of Duluth

Pending Owned and Rental Developments

Maxfield Research obtained information from planning and community development staff in the Market Area to identify new market rate and affordable developments that are proposed, planned or under construction in Duluth.

Owned Housing

Maxfield Research identified the following developments in process, under construction or proposed in Duluth.

These have been canceled due to a City of Duluth program about to roll out, called “Rebuild Duluth.”

- HRA’s Hawk Ridge development offers down-payment assistance up to 55% of the lot cost, deferred 0% interest for 30 years or until the property is sold.
- Developers have engaged the City of Hermantown in discussions about two potential residential developments in the City. The Engwalls group is seeking preliminary approval for a PUD that would include two phases. The first phase consists of 26 single family homes. The second phase may include a mix of 34 twinhomes and triplexes and a 62-unit apartment building. The second phase is considered conceptual. Sandy Hoff of F-I Salter presented the concept for the Planning Commission and it was tabled until the May Commission meeting. The Planning Commission approved Phase I for the 26, small lot single-family homes at the May meeting. As the second phase is still conceptual, and has not received any approvals to date, the 62-unit apartment development is not included in the demand calculations.

Rental Housing

- Lakeview 333 has been approved for development and is currently finalizing its financial package. The property will feature 200 units, all market rate at East Superior Street and 4th Avenue East. A winter 2020 construction start is planned.
- First Street Lofts is underway on East 1st Street at Lake Avenue. The property will have 47 units, at least five of which will be affordable to households earning no more than 80% of AMI. The property has secured City and County approvals for abatement assistance.
- A 42-unit affordable property, the Decker Dwellings, is planned for development by One Roof Community Housing. One Roof is seeking final funding to proceed with the development of apartment units on Decker Road adjacent to the existing Schneiderman's Furniture. Most of the units would have two bedrooms with some one- and three-bedroom units also included. Units would have rents affordable to households with incomes between 30% and 80% of AMI. Four of the units would be reserved for households as permanent supportive housing. Pending additional funds from the US Department of Housing and Urban Development, the project could proceed in 2020.
- Lake Superior College is planning the development of 100 units of rental housing targeted to students attending the College. The building would be located adjacent to the College on Lake Superior Drive. The project is currently proposed and would be developed by a private investor.
- The Housing and Redevelopment Authority of Duluth has issued an RFP for redevelopment of the Esmund Building on West Superior Street and 21st Avenue West for a mixed-use development with commercial space on the 1st floor and affordable housing above. An estimated 20 to 30 units are proposed for the building although these plans are in the very early stages, pending the selection of a developer to proceed with the project. The Esmund Building housed residents that will soon be relocated to the new Garfield Square Apartments, a low-income property, that also offers supportive living services to those with chemical dependency and mental health challenges.
- The Housing and Redevelopment Authority of Duluth is planning to develop some of the remaining parcels at Harbor Highlands, just below the former Central High School property. There are three vacant development parcels remaining in Harbor Highlands. The HRA is considering the development of active adult, affordable senior housing on one of the parcels. No specific timing is available.
- One Roof Community Housing is planning the development of 35 units of affordable rental housing (Brewery Creek Apartments), eight of which would be reserved for households who are homeless and/or have disabilities. The street level of the building would serve as the new home of One Roof Community Housing. Pre-development funding was allocated by Duluth LISC and additional funds have been committed by Essential Health.

Additional Proposed Developments

- Accessible Space Inc. is proposing to develop 76 units of affordable rental housing in West Duluth north of Wadena Street between 52nd and 53rd Avenues West, targeting low- and moderate-income households including homeless with a focus on serving Veterans. Most of the units would be affordable to households earning at or less than 30% of AMI, with the remaining units targeted to those earning between 30% and 50% of AMI. The property's design would be optimized to target households with individuals that are in wheelchairs or have another type of mobility or sensory limitation. Additional support services will be available to residents. The developer has applied for tax credit funding and additional gap funding.
- Capstone-Phase II, with 40 units, is being considered for future development in the Miller Hill Mall area near Matterhorn Circle.
- Summit Management, which developed Bluestone Lofts and Bluestone Flats on the site of the former Woodland Junior High School in the Kenwood area, is planning to develop its third and final rental building, Bluestone Commons, on the remaining property along with additional retail space. In addition to the two rental buildings, there is a freestanding restaurant and commercial retail shops on the property. The third building is anticipated to be slightly larger than the existing two buildings, perhaps 150 to 160 units. Although initially intended as student housing, the property holds a mix of residents including students, young professionals, empty-nesters and seniors. Rent levels would be comparable to, but slightly higher than those at Bluestone Lofts and Flats.
- The existing Board of Trade building in Downtown Duluth on 1st Street. An Illinois developer, Three D-I LLC, utilizing historic tax credits to convert the property to market rate rentals, but with rents that are below the level currently being charged by the newest market rate rentals. Some commercial office space will remain in the building. The conversion would bring approximately 84 units to the Downtown market. Preliminary floor plan layouts and development concepts have been completed, but additional details are still being completed. Timing regarding the conversion is currently uncertain.

Summary of Housing Market Conditions

The following points summarize key findings and trends that will impact the demand for affordable housing, owned and rented, in Duluth.

- At this time, there are a few new construction homes available in Duluth and Hermantown spread throughout each of the Cities. The price of these homes ranges from a low of \$275,000 to a high of \$640,000. New homes are being developed with less square footage and more efficient floor plan designs.

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- For-sale lots are being marketed at Hawk Ridge on the east end, in the Central Hillside neighborhood and in subdivisions above the hill in Piedmont Heights. Lots at Hawk Ridge and in Central Hillside are marketed by the Housing Authority.
- The equilibrium vacancy rate for rental housing is considered to be 5.0%. This allows for normal turnover and an adequate supply of alternatives for prospective renters. The Duluth average vacancy rate as of 2018 was identified at 3.2%, a decrease from 2017. As of September 2019, the overall vacancy rate among the newest market rate rental properties surveyed was 0.9% and among the affordable properties was 0.4%, well below the equilibrium rate indicating that pent-up demand exists for additional market rate and affordable rental housing in Duluth. Many affordable rental properties have lengthy waiting lists. Rent levels at affordable rental properties that are income-restricted are at and sometimes above rent levels at older market rate rental properties in Duluth. While it is difficult to provide housing for households that earn moderate-incomes, those with the lowest incomes (under \$20,000) have an exceptionally difficult time obtaining housing.
- The highest proportion of units for the market rate and affordable properties was two-bedroom units. The second highest proportions were one-bedroom units for the market rate properties and three-bedroom units for the affordable properties.
- Several pending rental developments were identified, some of which would provide affordable housing (i.e. Decker Dwellings (42 units), Brewery Creek Apartments (35 units), Accessible Space (76 units), First Street Lofts (5 units) and Harbor Highlands (affordable senior housing)). The conversion of the Board of Trade Building to rental units would bring workforce rental units to the market, targeting households earning 80% or less of AMI, but using historic tax credits to keep rents affordable. The limited number of affordable units, along with decreasing funding support for Housing Choice Vouchers will continue to limit the number of low- and moderate-income households that can be assisted with affordable housing.

Introduction

Affordable housing is a term that has various definitions according to different people and is a product of supply and demand. According to the U.S. Department of Housing and Urban Development (HUD), the definition of affordability is for a household to pay no more than 30% of its annual income on housing (including utilities). Families who pay more than 30% of their income for housing (either rent or mortgage) are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care. HUD also defines various levels of cost-burden. For example, a household that pays 35% or more of their income for housing is considered to be “moderately” cost-burdened while a household paying 50% or more of their income on housing is considered “severely” cost-burdened.

Generally, housing that is income-restricted to households earning at or below 80% of Area Median Income (AMI) is considered affordable. However, many individual properties have income restrictions set anywhere from 30% to 80% of AMI. Rent is not based on income but instead is a contract amount that is affordable to households within the specific restricted income segment. Moderate-income housing, often referred to as “workforce housing,” refers to rental and ownership housing. Therefore, the definition is broadly defined as housing that is income-restricted to households earning between 50% and 120% AMI. Figure 1 below summarizes income ranges by definition.

FIGURE 1 AREA MEDIAN INCOME (AMI) DEFINITIONS	
Definition	AMI Range
Extremely Low Income	0% - 30%
Very Low Income	31% - 50%
Low Income	51% - 80%
Moderate Income Workforce Housing	80% - 120%
Note: St. Louis County 4-person AMI = \$71,900	

Rent and Income Limits

Table HA-1 shows the maximum allowable incomes by household size to qualify for affordable housing and maximum gross rents that can be charged by bedroom size in St. Louis County. These incomes are published and revised annually by the Department of Housing and Urban Development (HUD) and published separately by Minnesota Housing (MN Housing uses different income percentages based on the housing programs that they administer) based on the date the project was placed into service. Fair market rent is the amount qualified as needed to pay the gross monthly rent for rental housing (overall market) in a given area. This table is used

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as a basis for determining the payment standard amount used to calculate the maximum monthly subsidy for families at financially assisted housing.

TABLE HA-1 2019 INCOME LIMITS AND MAXIMUM RENTS ST. LOUIS COUNTY Effective Date: 04/24/2019								
-----Income Limits by Household Size-----								
AMI	1- person	2- person	3- person	4- person	5- person	6- person	7- person	8- person
30%	15,210	17,400	19,560	21,720	23,460	25,200	26,940	28,680
40%	20,280	23,200	26,080	28,960	31,280	33,600	35,920	38,240
50%	25,350	29,000	32,600	36,200	39,100	42,000	44,900	47,800
60%	30,420	34,800	39,120	43,440	46,920	50,400	53,880	57,360
80%	40,560	46,400	52,160	57,920	62,560	67,200	71,840	76,480
100%	50,400	57,600	64,800	71,900	77,650	83,400	89,200	94,900
120%	60,400	69,000	77,640	86,280	93,240	100,080	107,040	113,880
140%	70,980	81,200	91,280	101,360	109,480	117,600	125,720	133,840
-----Maximum Gross Rents by Bedroom Size-----								
AMI	0- bedroom	1- bedroom	2- bedroom	3- bedroom	4- bedroom	5- bedroom	6- bedroom	
30%	\$380	\$407	\$489	\$564	\$630	\$695	\$760	
40%	\$507	\$543	\$652	\$753	\$840	\$927	\$1,013	
50%	\$633	\$679	\$815	\$941	\$1,050	\$1,158	\$1,267	
60%	\$760	\$815	\$978	\$1,129	\$1,260	\$1,390	\$1,520	
80%	\$1,014	\$1,087	\$1,304	\$1,506	\$1,680	\$1,854	\$2,027	
100%	\$1,257	\$1,437	\$1,617	\$1,797	\$1,942	\$2,085	\$2,230	
120%	\$1,509	\$1,725	\$1,941	\$2,157	\$2,331	\$2,502	\$2,676	
140%	\$1,774	\$2,030	\$2,282	\$2,534	\$2,737	\$2,940	\$3,143	
-----2019 Fair Market Rents-----								
	OBR	1BR	2BR	3BR	4BR	5BR		
	\$626	\$670	\$871	\$1,121	\$1,390	\$1,599		
Note: 0 Bedroom includes studio and efficiency units								
Sources: MN Housing; HUD; Novogradac; Maxfield Research & Consulting, LLC								

Table HA-2 shows the maximum rents by household size and AMI based on income limits illustrated in Table HA-1. The rents on Table HA-2 are based on HUD's allocation that monthly rents should not exceed 30% of income. The table also shows the maximum household size based on HUD guidelines of number of persons per unit. For each additional bedroom, the maximum household size increases by about two people. The Fair Market Rents (FMRs) are the final 2019 Fair Market Rents for St. Louis County as identified by HUD. Between 2017 and 2018, Fair Market Rents increased from 9.8% to 13.8% over the year for one- to five-bedroom units.

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**TABLE HA-2
MAXIMUM RENT BASED ON HOUSEHOLD SIZE AND AREA MEDIAN INCOME
ST. LOUIS COUNTY - 2019**

Unit Type ¹	HHD Size		Maximum Rent Based on Household Size (@30% of Income)											
	Min	Max	30%		50%		60%		80%		100%		120%	
			Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.
Studio	1	1	\$380 - \$380	\$633 - \$633	\$760 - \$760	\$1,014 - \$1,014	\$1,257 - \$1,257	\$1,509 - \$1,509						
1BR	1	2	\$380 - \$407	\$633 - \$679	\$760 - \$815	\$1,014 - \$1,087	\$1,257 - \$1,437	\$1,509 - \$1,725						
2BR	2	4	\$435 - \$489	\$725 - \$815	\$870 - \$978	\$1,160 - \$1,304	\$1,440 - \$1,617	\$1,725 - \$1,941						
3BR	3	6	\$489 - \$564	\$815 - \$941	\$978 - \$1,129	\$1,304 - \$1,506	\$1,620 - \$1,797	\$1,941 - \$2,157						
4BR	4	8	\$543 - \$630	\$905 - \$1,050	\$1,086 - \$1,260	\$1,448 - \$1,680	\$1,798 - \$1,942	\$2,157 - \$2,331						

¹ One-bedroom plus den and two-bedroom plus den units are classified as 1BR and 2BR units, respectively. To be classified as a bedroom, a den must have a window and closet.

Notes: 4-person St. Louis County AMI is \$71,900 (2019); Maximum rents do not always coincide with published maximums for MN Housing based on bedroom size

Sources: HUD, Novogradac, Maxfield Research and Consulting, LLC

Between 2018 and 2019, the range of increase was 1.2% to 5.7%. The proposed 2020 FMRs however, show a decrease of between 4.2% and 8.0%, despite rising rent levels in the area. According to the 2018 Duluth Housing Indicators report, the average rent in Duluth increased by 12.8% between 2017 and 2018. This is within the range of increase as shown by the Duluth rental survey. Rents however, continue to increase and new construction rents encourage the existing market to raise rents in a market with a low vacancy rate. As a result, the lower rent increase and potential decrease in Fair Market Rents only makes it more difficult for low-income households to utilize their Housing Choice Vouchers.

Housing Cost Burden

Table HA-3 shows the number and percent of owner and renter households in Minnesota, St. Louis County, Duluth and the Duluth PMA that pay 30% or more of their gross income for housing. This information was compiled from the American Community Survey 2017 estimates. This information is different than the 2000 Census which separated households that paid 35% or more in housing costs. As such, the information presented in the tables may be overstated in terms of households that may be “cost burdened.” The Federal standard for affordability is 30% of income for housing costs. Without a separate break out for households that pay 35% or more, there are likely a proportion of households that elect to pay slightly more than 30% of their gross income to select the housing that they choose. Moderately cost-burdened is defined as households paying between 35% and 49.9% of their income for housing; while severely cost-burdened is defined as households paying 50% or more of their income for housing.

Higher-income households that are cost-burdened may have the option of moving to lower priced housing, but lower-income households often do not. The figures focus on owner households with incomes of \$50,000 or less and renter households with incomes of \$35,000 or less.

Key findings from Table HA-3 follow.

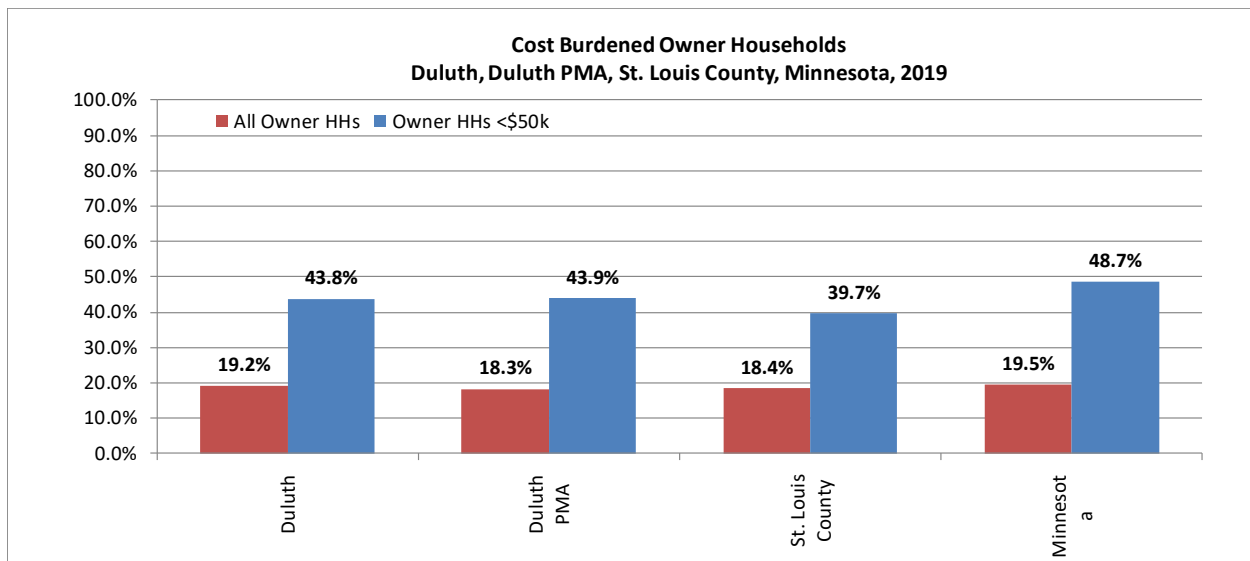
- In Duluth, 19.2% of owner households and 50.8% of renter households are considered cost burdened. Duluth has a higher cost burdened proportion for owner households than the PMA (18.4%) and St. Louis County (18.3%), but slightly lower than Minnesota as a whole (19.5%). Duluth has a higher cost burden for renter households than St. Louis County (47.9%) and Minnesota (44.4%) and nearly equal to the PMA as a whole (50.9%).
- Among owner households earning less than \$50,000, 53.8% are estimated to be cost burdened in Duluth. This is higher than Minnesota (48.7%) and higher than St. Louis County (39.7%).
- An estimated 70% of Duluth renter households that earn less than \$35,000 are cost burdened, which is higher than St. Louis County at 66%, but lower than Minnesota at 73.1% and slightly lower than the PMA at 71.1%.

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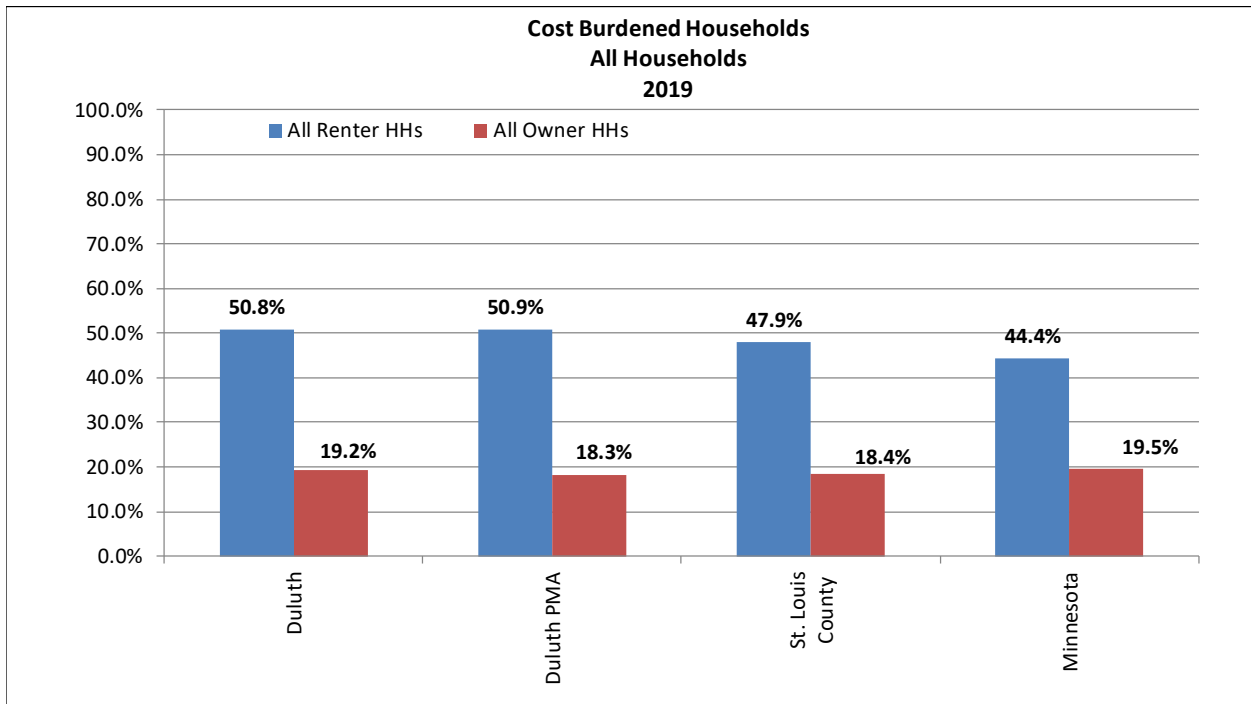
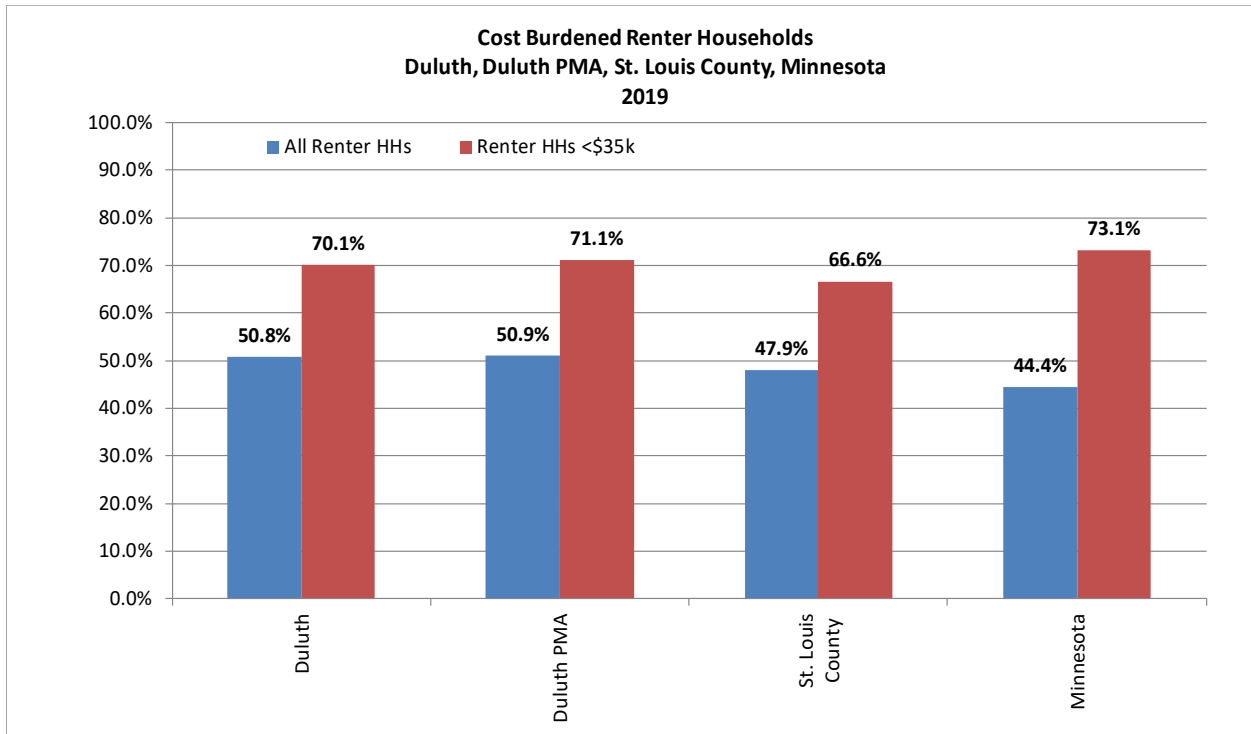
- The proportion of all cost burdened households in Duluth (32%) was higher however, than the PMA (30%), St. Louis County (27%) and Minnesota (27%).

Community	Duluth		Duluth PMA		St. Louis County		Minnesota	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Owner Households								
All Owner Households	21,854		29,013		61,109		1,599,624	
Cost Burden 30% or greater	4,196	19.2%	5,320	18.3%	11,214	18.4%	312,140	19.5%
Owner Households w/ incomes \$50,000 or less	7,655		9,792		23,070		436,007	
Cost Burden 30% or greater	3,350	43.8%	4,302	43.9%	9,170	39.7%	212,436	48.7%
Renter Households								
All Renter Households	14,674		16,338		25,082		634,488	
Cost Burden 30% or greater	7,455	50.8%	8,309	50.9%	12,024	47.9%	281,581	44.4%
Renter Households w/incomes \$35,000 or less	9,369		10,103		15,912		308,837	
Cost Burden 30% or greater	6,568	70.1%	7,180	71.1%	10,597	66.6%	225,891	73.1%
All Households								
All Households	36,528		45,351		86,191		2,234,112	
Cost Burden 30% or greater	11,651	31.9%	13,629	30.1%	23,238	27.0%	593,721	26.6%
Median Contract Rent ¹	\$755		\$999		\$683		\$881	

¹ Median Contract Rent 2017 adjusted for inflation to 2019
Note: Calculations exclude households not computed.
Sources: American Community Survey; Maxfield Research and Consulting LLC



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Housing Choice Vouchers

In addition to properties that provide rental assistance to tenants on-site through a project-based subsidy, “tenant-based” subsidies such as *Housing Choice Vouchers*, can help lower income households afford market-rate rental housing. The tenant-based subsidy is funded by the Department of Housing and Urban Development (HUD) and is managed by the Housing and Re-development Authority of Duluth. Under the Housing Choice Voucher program (in the past, also referred to as Section 8) qualified households are issued a voucher that the household can take to an apartment that has rent levels within the payment standards set by the Duluth HRA related to the Fair Market Rents as established by the Department of Housing and Urban Development. The household then pays approximately 30% of their adjusted gross income for rent and utilities, and the Federal government pays the remainder of the rent to the landlord. The maximum income limit to be eligible for a Housing Choice Voucher is 50% AMI based on household size, as shown in Table HA-1. The following are key points about the Housing Choice Voucher Program in Duluth.

- The Duluth HRA currently has 1,287 housing choice vouchers in utilization of a total allocation of 1,510 vouchers. The gap between the allocation and the number of vouchers in utilization reflects several factors including rising rents in the Duluth area so there is a need for higher assistance payments to cover the rental payment gaps and households that are unable to use their vouchers because of rents above the payment standard, lower landlord participation and an overall tight rental housing market. There are 2,932 households on the wait list and the estimated time to obtain a voucher is between 18 and 24 months, which has increased.
- Most of the vouchers issued are used in Duluth, although households are allowed to port out vouchers to other jurisdictions.

Housing Costs as a Percentage of Household Income

Housing costs are generally considered affordable at 30% of a households’ adjusted gross income. Table HA-4 on the following page illustrates key housing metrics based on housing costs and household incomes in Duluth city. The table estimates the percent of Duluth city households that can afford rental and for-sale housing based on a 30% allocation of income to housing. Housing costs are based on the average for the City.

The housing affordability calculations assume the following:

For-Sale Housing

- 10% down payment with good credit score
- Closing costs rolled into mortgage
- 30-year mortgage at 4% interest rate

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- Private mortgage insurance (equity of less than 20%)
- Homeowners insurance for single-family homes and association dues for townhomes
- Owner household income estimated as of 2019

Rental Housing

- Background check on tenant to ensure credit history
- 30% allocation of income
- Renter household income, estimated as of 2019

Because of the down payment requirements and generally strict underwriting criteria for a mortgage, not all households will meet the income qualifications outlined above. The for-sale affordability analysis excludes equity that a homeowner may bring with them when purchasing a new residence.

- The median income for all households in Duluth as of 2019 is estimated at \$50,586. Median incomes however, vary by tenure (owner and renter). Based on data collected from the 2017 American Community Survey and adjusted for inflation, the estimated median income of a Duluth homeowner is \$66,932 compared to \$27,714 for renters.
- According to the 2019 income distribution for Duluth, 65% of all households and 81% of owner households could afford to purchase an entry-level home in Duluth (\$140,000). When adjusting for move-up buyers (\$250,000), an estimated 43% of all households and 56% of owner households would income-qualify.
- An estimated 33% of existing renter households can afford to rent a one-bedroom unit in Duluth (Avg. 1BR Rent-\$961/month). The percentage of renter income-qualified households decreases to 22% that can afford an existing three-bedroom unit (\$1,256/month). After adjusting for new construction rental housing, the percentage of renter households that are income-qualified decreases. An estimated 21% of renters would be able to afford a new market rate one-bedroom unit (\$1,300 per month) while 9.5% could afford a new two-bedroom unit (\$1,800 per month) and only 5.0% could afford a new three-bedroom unit (\$2,400 per month).

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TABLE HA-4 DULUTH CITY HOUSING AFFORDABILITY - BASED ON HOUSEHOLD INCOME						
For-Sale (Assumes 10% down payment and good credit) (Excludes prior home equity)						
	Single-Family			Townhome/Twinhome/Condo		
	Entry-Level	Move-Up	Executive	Entry-Level	Move-Up	Executive
Price of House (Previously Owned Homes)	\$140,000	\$250,000	\$500,000	\$100,000	\$220,000	\$450,000
Pct. Down Payment	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Total Down Payment Amt.	\$14,000	\$25,000	\$50,000	\$10,000	\$22,000	\$45,000
Estimated Closing Costs (rolled into mortgage)	\$4,200	\$7,500	\$15,000	\$3,000	\$6,600	\$13,500
Cost of Loan	\$130,200	\$232,500	\$465,000	\$93,000	\$204,600	\$418,500
Interest Rate	4.000%	4.000%	4.000%	4.000%	4.000%	4.000%
Number of Pmts.	360	360	360	360	360	360
Monthly Payment (P & I)	-\$622	-\$1,110	-\$2,220	-\$444	-\$977	-\$1,998
(plus) Prop. Tax	-\$117	-\$208	-\$417	-\$83	-\$183	-\$375
(plus) HO Insurance/Assoc. Fee for TH	-\$47	-\$83	-\$167	-\$100	-\$100	-\$100
(plus) PMI/MIP (less than 20%)	-\$56	-\$101	-\$202	-\$40	-\$89	-\$181
Subtotal monthly costs	-\$841	-\$1,502	-\$3,005	-\$668	-\$1,349	-\$2,654
Housing Costs as % of Income	30%	30%	30%	30%	30%	30%
Minimum Income Required	\$33,654	\$60,096	\$120,193	\$26,705	\$53,951	\$106,173
Pct. of ALL Duluth HHDS who can afford ¹	65.2%	43.1%	14.8%	72.2%	47.7%	18.3%
No. of Duluth HHDS who can afford ¹	23,683	15,634	5,378	26,215	17,314	6,640
Pct. of Duluth owner HHDS who can afford ²	80.9%	56.4%	21.3%	87.1%	61.6%	26.1%
No. of Duluth HHDS who can afford ²	17,676	12,331	4,646	19,030	13,468	5,698
No. of Duluth owner HHDS who cannot afford ²	4,178	9,524	17,208	2,824	8,386	16,156
Rental (Market Rate)						
	Existing Rental			New Rental		
	1BR	2BR	3BR	1BR	2BR	3BR
Monthly Rent	\$961	\$1,176	\$1,256	\$1,300	\$1,850	\$2,400
Annual Rent	\$11,532	\$14,112	\$15,072	\$15,600	\$22,200	\$28,800
Housing Costs as % of Income	30%	30%	30%	30%	30%	30%
Minimum Income Required	\$38,440	\$47,040	\$50,240	\$52,000	\$74,000	\$96,000
Pct. of ALL Duluth HHDS who can afford ¹	60.9%	53.3%	50.5%	49.2%	32.6%	21.7%
No. of Duluth HHDS who can afford ¹	22,092	19,339	18,325	17,847	11,836	7,891
Pct. of Duluth renter HHDS who can afford ²	32.9%	24.7%	21.7%	20.8%	9.5%	5.0%
No. of Duluth renter HHDS who can afford ²	4,825	3,621	3,188	3,056	1,391	735
No. of Duluth renter HHDS who cannot afford ²	9,849	11,053	11,486	11,618	13,283	13,939

¹ Based on 2019 household income for ALL households
² Based on 2019 estimated median household income by tenure (i.e. owner and renter incomes. Owner incomes = \$66,932 vs. renter incomes = \$27,714
Source: Maxfield Research & Consulting, LLC

Introduction

This section calculates the potential demand for affordable for-sale and rental housing in the Duluth PMA and in Duluth city from 2019 to 2024. This section discusses the potential need/demand for housing to serve households with incomes at or less than 30%, 50%, 60% and 80% of AMI. Rent levels set above 80% AMI are considered essentially as market rate housing although new construction rental properties are still requesting public assistance for properties with rents at or above 120% of AMI.

Affordable Housing Demand

Demand for affordable housing is calculated here for households with incomes at or less than 80% of AMI. For the City of Duluth, a family of four people would be able to earn no more than \$57,920 annually to qualify at that level. Under current market conditions and federal funding cuts, the lack of affordable housing has increased HCV wait lists, decreased utilizations and increased homelessness (particularly those that are unsheltered).

First-time homebuyers who are in the market to purchase, may be deterred by older homes with a substantial amount of deferred maintenance. A portion of these entry-level buyers are looking for new housing, but with a smaller footprint and smaller lot size than many cities allow. We suggest that the City consider creative options for providing new homes that will meet the needs of a highly mobile generation, one that is willing to sacrifice size for quality and convenience, which is likely to be the next housing realm.

Most of the demand for is projected to come from the primary draw area, from workers who want to live in proximity to their place of employment (between Miller Hill Mall and Downtown) and from others who want to live near the Downtown. A somewhat higher proportion is anticipated to come directly from the City of Duluth as it is the largest jurisdiction in the Primary Market Area and has the largest housing stock. Duluth is attracting workers from outside of the Duluth area, many from other locations in Minnesota who are moving to Duluth to take jobs in Health Care, Manufacturing and Professional Services, according to conversations with local employers, leasing agents and Realtors working with new residents moving to the area. Most of the desirable amenities (cultural, recreational, entertainment) are in and near the Downtown area.

For-Sale Demand

Table DMD-1 presents our demand calculation for for-sale housing in the Duluth Primary Market Area including single-family detached and single-family attached homes focusing on the potential demand for new construction, entry-level homes. Some non-profit organizations are exploring the potential to develop affordable condominium units in a building with an elevator

CONCLUSIONS AND RECOMMENDATIONS

targeted to moderate-income buyers that cannot afford or do not prefer a single-family home, but still want to own their housing. Although condominiums may imitate a rental property, homeowners are responsible for the ongoing upkeep and maintenance of the property. Buyers seeking convenience may not be willing to undertake these responsibilities or may not be willing to share those responsibilities with others in an Association arrangement. Others are exploring small lot, smaller size homes that may have expansion space or an unfinished basement.

Although Duluth has units available for sale at prices less than \$150,000, the number of those units has been decreasing over the past several years as the supply on market has dropped and prices have increased substantially.

According to information gathered from local Realtors and local non-profit agencies and organizations, there is significant demand for entry-level ownership housing, but these buyers are often priced out of the market competing against investors for properties that are usually targeted for conversion to rental housing. This reduces the number of owned homes in the market that would continue to be owner-occupied.

Table DMD-1 calculates for-sale demand from household growth over the next five years. We estimate that a higher proportion of buyers would desire a single-family product due to significant pent-up demand for entry-level housing in the for-sale segment. We also include pent-up demand, as there is currently a shortage of housing in the Duluth market at most price points.

Based on projected household growth, current prices for resale homes, the older age of the entry-level housing stock and the market supply of homes available for sale, we estimate that if sites could be made available for entry-level for-sale housing Duluth could capture 60% of the potential demand or 349 single-family and 142 owned multifamily homes. We estimate that demand for entry-level housing would constitute 25% of the total demand for an estimated 87 single-family and 36 owned multifamily homes. Housing products developed as entry-level are assumed to be on smaller lots, have less square footage and less exterior maintenance than traditional homes.

The proportion of households owning their housing is derived from the 2019 household tenure proportion for Duluth as shown on Table D-6. The proportion of households owning their housing has continued to decrease. In 2000, the proportion was 68%, which decreased to 64% in 2010 and has now decreased to 60% in 2019. This shift is a result of several factors including, but not limited to an overall aging population, many which are considering alternatives to owning, young households which prefer renting for lifestyle reasons or because the affordability of owned housing, especially new housing, is out of reach. High debt loads, including student debt, and the challenge of saving for a downpayment, has led many households to delay purchasing a home or forego homeownership altogether.

Based on the proportion of existing single-family and multifamily units and considering the level of development that has occurred over the past several years, we estimate a ratio of 75% single-family and 25% owned multifamily. Demand from outside of the Market Area is determined

CONCLUSIONS AND RECOMMENDATIONS

based on local experience in the market and previous interviews with Realtors. The proportion of the demand capturable by Duluth from the overall PMA is estimated based on the amount of new housing developed and historic owned housing sales in the region as estimated by data from the LSAR (Lake Superior Realtor's Association).

The demand calculations account for 50 single-family lots planned for development in the City. This results in demand for 447 single-family and 177 owned multifamily units in the Primary Market Area. Because Duluth and the immediate area has a regional draw, the calculations account for an estimated 30% coming from outside of the Primary Market Area. This increases demand to 581 single-family and 215 owned multifamily units.

Pent-up demand for new construction units is estimated at 20% of total demand, although depending on the price point, this proportion could be higher. Applying a 20% pent-up demand factor increases for-sale demand to 698 single-family and 259 multifamily units or 957 for-sale units over the next five years or an average of 191 units annually.

We estimate that Duluth could capture 60% of the demand for new construction units at a conservative level. If additional land is made available for the development of single-family and owned multifamily homes, the capture rate could rise to 70% capturable. Figures are shown for 60% and 70% capturable rates.

At 60% capturable:

419 SF 155 MF

At 70% capturable:

488 SF 181 MF

We estimate that of the total demand, 30% would be for entry-level or housing that would be priced at \$180,000 or less. This results in the following at 60% and 70% capturable.

At 60% capturable:

126 SF 47 MF

At 70% capturable:

147 SF 54 MF

These capture rates may be higher if products are developed that create a deeper market penetration.

CONCLUSIONS AND RECOMMENDATIONS

TABLE DMD-1 PROJECTED DEMAND FOR AFFORDABLE FOR-SALE HOUSING DULUTH PRIMARY MARKET AREA 2019 to 2024			
		2019 TO 2024	
Projected HH growth in the Primary Market Area		1,105	
(times) Proportion of households interested in owning their housing	x	<u>60%</u>	
(equals) Estimated no. of potential owner households from HH growth	=	663	
		<u>Single-Family</u>	<u>Multifamily</u>
(times) Proportion interested in single-family versus multifamily	x	<u>75%</u>	<u>25%</u>
(equals) Potential Market Area owners by category	=	497	166
(less) For-Sale units planned for development in the Market Area	-	<u>50</u>	<u>0</u>
(equals) Potential additional demand for for-sale housing	=	447	166
(plus) Demand from outside Market Area	+	<u>30%</u>	<u>30%</u>
(equals) Demand for for-sale housing from HH growth	=	581	215
(plus) Pent-up demand for for-sale housing (20%)	+	<u>116</u>	<u>43</u>
(equals) Total demand from HH growth and pent-up demand	=	698	259
(times) Proportion of Market Area capturable in Duluth	x	<u>60%</u>	<u>60%</u>
(equals) Total potential demand for for-sale housing (all price points) (60% capture)	=	419	155
(times) Proportion of Market Area capturable in Duluth	x	<u>70%</u>	<u>70%</u>
(equals) Total potential demand for for-sale housing (all price points) (70% capture)	=	488	181
(times) Proportion of Demand for Entry-Level Housing	x	<u>30%</u>	<u>30%</u>
(equals) Excess Demand for New Entry-Level Housing (<\$180,000) (60% capture)	=	126	47
(equals) Excess Demand for New Entry-Level Housing (<\$180,000) (70% capture)	=	147	54
Source: Maxfield Research and Consulting			

Rental Housing

Market Rate

Over the past decade, major metropolitan areas have experienced an increase in “lifestyle” renters, those who prefer to rent rather than own despite the fact they could own their home. This group includes young professional couples and singles, empty nesters and seniors (typically independent and mobile). They usually have higher incomes and in the case of the younger households, prefer to live in proximity to their place of work (this according to a study conducted by the National Multihousing Council on the characteristics of the lifestyle renter).

Duluth has a growing base of young and mid-age professional workers primarily in the health care industry. A portion of those households prefer to rent their housing initially, especially if they are new to the community. Incomes for this group are likely to range from \$40,000 and over based on tenure by income data and average incomes by industry from the Minnesota Department of Employment and Economic Development (MN DEED). Using an allocation of 30% of income for housing costs would generate an affordable rent of \$1,000, including utilities. To achieve this rent level, the unit, location and building characteristics must be commensurate with the perceived value. If a renter is to pay this amount, they must view distinctive benefits for this higher amount, such as close to employment, close to shopping and entertainment, views, and upscale unit finishing. To achieve rent levels of \$1,000 or more per unit, off-street, enclosed reserved parking must be available in a well-lit and reasonably secure area.

It is our opinion that there is demand for rental units on the property that would be priced between \$975 and \$1,400 per month for one- and two-bedroom units considering smaller size units to reduce the potential financial gap. Our conversations with local developers and property managers of rental housing indicate that a subsidy of some sort would be required to reduce rents to this level for either new construction or renovation in the Downtown. These units would be priced to a moderate-income market with incomes of between \$40,000 to \$68,000. Units priced at the above level would be considered “affordable,” yet would be targeted to a household earning between 100% to \$120% of the Duluth median household income.

Table DMD-2 shows the potential demand for market rate rental housing in Duluth over the next five years. Based on the demand calculations, we estimate a total demand of 1,031 market rate units. Even though listed as “market rate,” some additional financial assistance may be necessary to keep rents competitive for the overall market.

Income-qualified households are those with incomes at or above \$48,000 as of 2019, the level that would be needed to afford rents at most of the new market rate properties in Duluth. The number of households is identified by age group reflecting estimated growth from 2019 to 2024.

CONCLUSIONS AND RECOMMENDATIONS

TABLE DMD-2 PROJECTED DEMAND FOR MARKET RATE RENTAL HOUSING DULUTH PRIMARY MARKET AREA 2019 TO 2024					
	Number of Households				
	Age <25	Age 25 to 34	Age 35 to 44	Age 45 to 64	Age 65 & Over
Demand From Household Growth					
Projected Income-Qualified Household Growth 2019 - 2024 ¹	-9	-188	633	-568	1,698
(times) Proportion estimated to be renting their housing ²	x 88%	54%	32%	22%	32%
(equals) Demand For Rental Housing, 2019 - 2024	= -8	-102	203	-125	543
Demand From Existing Households					
Estimated number of renter households in 2019	3,575	3,966	2,105	3,572	3,033
(times) Estimated % Turnover between 2019 & 2024	x 82%	68%	52%	38%	32%
(equals) Total Existing Households Projected to Turnover	= 2,932	2,697	1,095	1,357	971
(times) Percent of Households Income Qualified ²	x 50%	72%	79%	78%	60%
(equals) Total Number of Income-Qualified Households	= 1,451	1,939	865	1,059	582
(times) Estimated % Desiring New Rental Housing ³	x 16%	16%	16%	16%	16%
(equals) Demand From Existing Households	= 232	310	138	169	93
Total Demand From Household Growth and Existing Households	224	209	341	44	637
Demand Summary					
Total Market Area Demand for Rental Housing in PMA	=	946			
(plus) Demand from outside PMA (25%)	+	315			
(equals) Potential demand for rental housing in the PMA	=	1,261			
(minus) Pending rental units in the PMA at equilibrium	-	230			
(equals) Excess demand for rental housing in the PMA	=	1,031			
¹ \$48,000 in 2019 based on pricing of beginning average rent for units in the competitive set ² Data from U.S. Census Bureau. ³ Source - <i>The Upscale Apartment Market: Trends and Prospects</i> . Prepared by Jack Goodman of Hartrey Advisors for the National Multi Housing Council.					
Source: Maxfield Research & Consulting, LLC					

Subsidized (General Occupancy)

Table DMD-3 presents demand for subsidized rental housing (affordable to households with incomes at or less than 50% of AMI, which includes those eligible for Housing Choice Vouchers. There is significant pent-up demand for HCVs in the Duluth area and the current wait list is 2,932 households. Financial resources for projects of any size greater than 50 units have been exceptionally difficult to develop. As rents increase, households that need housing targeted at 50% or less of AMI, usually find themselves paying more for even affordable housing (i.e. rents at 60% AMI) because the rent levels are still less than what is being charged in the private market.

CONCLUSIONS AND RECOMMENDATIONS

There continues to be substantial demand for subsidized rentals affordable rentals in the Duluth area as demonstrated by the survey of affordable properties and the low vacancy rate and waiting lists many buildings. Although there is demand for units priced at 60% of AMI, the greatest need is for units priced at 50% or less of AMI. Most households being served through public housing and/or Housing Choice Vouchers are those with incomes less than \$20,000 annually. Funding sources to satisfy financial gaps for these units however, remain limited.

TABLE DMD-3 PROJECTED DEMAND FOR SUBSIDIZED RENTAL HOUSING DULUTH PRIMARY MARKET AREA 2019 - 2024					
	Number of Households				
	Age <25	Age 25 to 34	Age 35 to 44	Age 45 to 64	Age 65 & Over
Demand From Household Growth					
Projected Income-Qualified Household Growth 2019 - 2024 ¹	154	-454	-115	-874	321
(times) Proportion estimated to be renting their housing ²	x 89%	53%	33%	28%	34%
(equals) Demand For Rental Housing, 2019 - 2024	= 138	-242	-38	-245	109
Demand From Existing Households					
Estimated number of renter households in 2019	3,537	3,312	1,743	3,403	2,579
(times) Estimated % Turnover between 2019 & 2024 ²	x 98%	93%	69%	48%	37%
(equals) Total Existing Households Projected to Turnover	= 3,466	3,080	1,203	1,633	954
(times) Percent of Households Income Qualified	x 65%	36%	28%	29%	51%
(equals) Total Number of Income-Qualified Households	= 2,253	1,109	337	474	487
(times) Estimated % Desiring New Rental Housing ³	x 50%	50%	50%	50%	50%
(equals) Demand From Existing Households	= 1,127	554	168	237	243
Total Demand From Household Growth and Existing Households	1,264	312	130	-8	352
Demand Summary					
Total Market Area Demand for Rental Housing in PMA	=	1,769			
(plus) Demand from outside PMA (25%)	+	590			
(equals) Potential demand for subsidized rental housing in the PMA	=	2,359			
(minus) Pending subsidized rental units in the PMA at equilibrium	-	157			
(equals) Excess demand for subsidized rental housing in the PMA	=	2,202			
¹ \$25,350 to \$67,200 annual income in 2019 ² Data from U.S. Census Bureau. ³ Source - <i>The Upscale Apartment Market: Trends and Prospects</i> . Prepared by Jack Goodman of Hartrey Advisors for the National Multi Housing Council.					
Source: Maxfield Research & Consulting, LLC					

CONCLUSIONS AND RECOMMENDATIONS

Affordable (General Occupancy)

Table DMD-4 presents demand for affordable rental housing (affordable to households with incomes from 50% to 80% of AMI. Although this range excludes nearly all those eligible for Housing Choice Vouchers, properties with shallow subsidies may be able to accept households with an HCV if their rent levels do not exceed the payment standards in the area. At this time, the payment standards for HCVs are as follows:

Studio	\$650
1BR	\$735
2BR	\$950
3BR	\$1,200
4BR	\$1,325
5BR	\$1,525

As mentioned, there is significant pent-up demand for HCVs in the Duluth area with a current wait list of 2,932 households and limited funding to develop low-income housing, affordable (i.e. shallow subsidy rentals) have been picking up some of the subsidized demand provided that rent levels meet the payment standards. This would likely be for new units priced at no more than 60% of AMI as 80% of AMI units would exceed the above rent levels.

Rents at 80% of AMI are less than new market rate developments, thereby providing new housing for households that cannot afford the new housing without some type of rental assistance or a rent level that is nearer to the overall averages for the market.

Using a similar calculation for affordable demand but limiting the qualifying income range to incomes between 50% and 80% of AMI, demand for additional affordable rental housing is calculated at 669 units in the Duluth PMA. Additional demand will come from outside of the Market Area, we estimate 25%, increasing demand by another 223 units. This results in demand for 892 units. We subtract units planned for the area that would have rent levels between 50% and 80% AMI and add additional pent-up demand for affordable units as vacancy rates are extremely low for affordable rentals (i.e. less than 1% according to the market survey).

This results in total estimated demand for 1,010 units in the Primary Market Area for affordable rentals. We estimate that Duluth could capture a majority of this demand, at least 80% to 90%.

CONCLUSIONS AND RECOMMENDATIONS

TABLE DMD-4 PROJECTED DEMAND FOR AFFORDABLE (50% TO 80% AMI) RENTAL HOUSING DULUTH PRIMARY MARKET AREA 2019 - 2024					
	Number of Households				
	Age <25	Age 25 to 34	Age 35 to 44	Age 45 to 64	Age 65 & Over
Demand From Household Growth					
Projected Income-Qualified Household Growth 2019 - 2024 ¹	14	-295	62	-540	688
(times) Proportion estimated to be renting their housing ²	x 89%	53%	33%	28%	34%
(equals) Demand For Rental Housing, 2019 - 2024	= 13	-158	20	-151	234
Demand From Existing Households					
Estimated number of renter households in 2019	3,537	3,312	1,743	3,403	2,579
(times) Estimated % Turnover between 2019 & 2024 ²	x 98%	93%	69%	48%	37%
(equals) Total Existing Households Projected to Turnover	= 3,466	3,080	1,203	1,633	954
(times) Percent of Households Income Qualified	x 41%	40%	31%	30%	40%
(equals) Total Number of Income-Qualified Households	= 1,421	1,232	373	490	382
(times) Estimated % Desiring New Rental Housing ³	x 25%	25%	25%	25%	25%
(equals) Demand From Existing Households	= 355	308	93	123	95
Total Demand From Household Growth and Existing Households	368	150	114	-29	329
Demand Summary					
Total Market Area Demand for Rental Housing in PMA	=	669			
(plus) Demand from outside PMA (25%)	+	223			
(equals) Potential demand for affordable (shallow-subsidy) rental housing in the PMA	=	892			
(minus) Pending shallow-subsidy rental units in the PMA at equilibrium	-	5			
(plus) Demand for additional units from pent-up demand	+	123			
(equals) Excess demand for affordable (shallow-subsidy) rental housing in the PMA	=	1,010			
¹ \$25,350 to \$67,200 annual income in 2019 ² Data from U.S. Census Bureau. ³ Source - <i>The Upscale Apartment Market: Trends and Prospects</i> . Prepared by Jack Goodman of Hartrey Advisors for the National Multi Housing Council.					
Source: Maxfield Research & Consulting, LLC					

Affordable (Active Adult Demand (55+))

Table DMD-5 presents a demand calculation for affordable senior housing, ownership and rental products. The table identifies the number of senior households that would be age- and income-qualified (55+ or 62+) for housing that would be affordable to those with incomes at or less than 60% of AMI. We anticipate that most senior households would have incomes between 50% and 60% of AMI, but a portion of households may qualify to reside at an affordable property if they have a Housing Choice Voucher. This would allow seniors with incomes of less than 50% of AMI to reside at the property.

As shown on the table in 2019, there are an estimated number of 1,538 households age 55 years or older with incomes of \$25,000 to \$34,999 in the Duluth PMA including those that are excluded because they may not qualify if they still own their own homes and decide to sell. This figure is anticipated to rise to 1,997 households, a modest increase of 459 households or 29.8% over the five-year period.

CONCLUSIONS AND RECOMMENDATIONS

The total age- and income-qualified market base is multiplied by the capture rate by age cohort. These capture rates are higher for affordable rental housing than for market rate. As shown, we allocate capture rates of 1.5% for households age 55 to 64, 7.5% for households age 65 to 74 and 18.0% for households age 75 years or older. Applying these capture rates results in potential demand for 162 affordable rental units, increasing to 223 affordable rental units by 2024.

Demand from outside of the Primary Market Area is anticipated to account for 25% of the demand for affordable age-restricted housing, increasing demand by 54 units in 2019 and 74 units in 2019. Total demand for age-restricted housing is estimated at 216 units in 2019, increasing to 297 units by 2024.

There are no affordable active adult rental properties in Duluth currently that target moderate-income seniors, although there are several properties that serve low income seniors. There may be a portion of units at the high end of low-income rentals and at the low end of market rate rentals that would likely qualify to rent at a new age-restricted (62+) property in Duluth.

Excess demand potential remains at 216 units in 2019, increasing to 297 units by 2024.

We understand that the HRA is considering this type of product on one of the remaining parcels on the Harbor Highlands site.

CONCLUSIONS AND RECOMMENDATIONS

DMD-5 ADULT/FEW SERVICES AFFORDABLE HOUSING DEMAND PRIMARY MARKET AREA 2019 & 2024						
	2019			2024		
	Age of Householder			Age of Householder		
	55-64	65-74	75+	55-64	65-74	75+
# of Households w/ Incomes of <\$25,000-\$34,999 ¹	670	748	999	541	804	1,081
(minus) # of HHs w/ Incomes of \$30,000 to \$34,999 ¹	- 335	- 374	- 499	- 159	- 201	- 226
(times) Homeownership Rate	x 79%	x 78%	x 65%	x 79%	x 78%	x 65%
(equals) Total Potential Market Base	= 406	= 457	= 675	= 415	= 648	= 935
(times) Potential Capture Rate	x 1.5%	x 7.5%	x 18.0%	x 1.5%	x 7.5%	x 18.0%
(equals) Potential Demand	= 6	= 34	= 122	= 6	= 49	= 168
Potential Demand from PMA Residents	= 162			= 223		
(plus) Demand from Outside Market Area (25%)	+ 54			+ 74		
(equals) Total Demand Potential	= 216			= 297		
(minus) Existing and Pending Affordable Adult/Few Services Units ²	- 0			- 0		
(equals) Excess Demand Potential	216			297		
¹ 2024 calculations define income-qualified households as all households with incomes between \$28,000 and \$37,999 and subtracting owner households with incomes between \$33,000 and \$37,999). ² Existing and pending are deducted at market equilibrium, or 95% occupancy.						
Source: Maxfield Research and Consulting, LLC						

Existing Active Adult Senior Housing Properties

There are two senior cooperatives in Duluth (both market rate), an independent ownership townhome property and a third senior cooperative under construction. **Zvago**, adjacent to the Lakeshore campus on London Road is targeted to a more affluent buyer profile. **Gramercy** is the oldest senior cooperative in Duluth and the most affordable and has 81 homes. Share costs for Gramercy range from a low of \$45,916 for a one-bedroom, one bath with an estimated monthly fee of \$757 per month. Qualifying annual income is \$18,865. The highest share price is for a two-bedroom, two-bath with a share cost of \$73,101 with an estimated monthly fee of \$1,242 per month and a qualifying income of \$32,895.

Realife Cooperative of Duluth has 35 homes and a waiting list for residents. Share prices are above those of Gramercy, but below those of the new Zvago Cooperative.

Miller Creek Townhomes is entirely owned occupied. Pricing ranges from the low \$200,000s to generally the high \$200,000s, although some larger and more fully-appointed units have sold in the \$300,000s.

CONCLUSIONS AND RECOMMENDATIONS

Mount Royal Pines offers independent living to seniors age 62+. Pricing for one-bedroom units starts at \$1,105 per month for a one-bedroom, one bath unit and ranges to \$2,154 to \$2,218 per month for a large two-bedroom, two bath unit with 1,436 square feet. Enclosed heated parking is \$65 per month additional. This property is older but is fully market rate. There is usually a wait list to reside at Mount Royal Pines. Mount Royal Pines provides activities but does not provide meals or health services.

Development Concepts

Affordable Housing

There is demand in the market for new construction entry-level housing that would be targeted to first-time homebuyers or others that are seeking a relatively low-maintenance, modest size home. The product could be single-level, or perhaps a design similar to the expansion bungalows of the 40s and 50s.

Floor layouts should be open and the product should be “green” and sustainable. Solar panels, water cisterns, and geo-thermal heat are all features that we believe would appeal to a target market for this type of product. Buyers may be willing to pay more to obtain sustainable features.

The product could be pre-manufactured and assembled on-site to reduce labor and material costs.

This type of concept is also being utilized in the development of rental housing where the forms are manufactured and then assembled on-site. Buildings are traditional in character, elevator-style buildings. Townhome-style developments are popular with families and costs can be lower, but finding sufficient land is usually a challenge.

The substantial funding gaps that occur in the development of affordable and subsidized housing continue to substantially limit the ability to provide the housing needed to satisfy demand. Communities have used tax credits, bond funding, grants, and other types of financing, but the costs to pool all these resources together also raise the costs to develop the housing.

Tax abatement, land trusts, land write-downs, are some other tools that have used successfully with various developments.

There have been some discussions in some communities about establishing a Housing Fund, funded by a sales tax that would provide funds to assist in the development of affordable housing, but we are not aware at this time if this has been placed into use.