



ZIMMERMAN/VOLK ASSOCIATES, INC.

Post Office Box 4907
Clinton, New Jersey 08809
908 735-6336
info@ZVA.cc • www.ZVA.cc

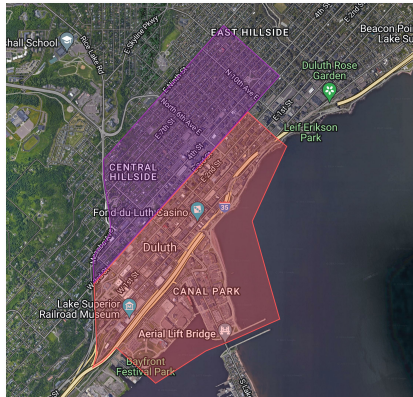
Residential Market Analysis Across the Urban-to-Rural Transect

EXECUTIVE SUMMARY AN ANALYSIS OF RESIDENTIAL MARKET POTENTIAL PRIMARY AND SECOND/WEEKEND/VACATION UNITS

The Greater Downtown Study Area
The City of Duluth, St. Louis County, Minnesota

June, 2023

This study determined the market potential and optimum market position for newly-introduced



affordable/workforce and market-rate rental and for-sale housing units that could be developed over the next five years through new construction or adaptive re-use of existing buildings within the Greater Downtown Study Area in the City of Duluth, Minnesota. The Study Area encompasses both the Downtown Core, bounded by Mesaba Avenue to the west, 3rd Street to the north, 9th Avenue to the east, and Lake Superior to the south, and a portion of the Hillside neighborhood, bounded by 3rd Street to

the south, Mesaba Avenue to the west, 9th Street in the north, and 12th Avenue East to the east. (*See Study Area Map above.*)

SUMMARY OF FINDINGS: PRIMARY HOUSING

- An annual average of 8,050 households of all incomes comprise the market potential for new and existing primary housing units in the City of Duluth each year over the next five years.
 - Approximately 43 percent of those households live outside the city; the other 57 percent are households that would be moving within the city.
 - An annual average of 2,175 households of all incomes represent the market for new and existing primary housing units in the Greater Downtown Study Area over the next five years.
 - The annual average market potential of households of all incomes for the Downtown Core and Hillside Study Areas over the next five years is detailed on the following page.
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An Analysis of Residential Market Potential
Primary and Second/Weekend/Vacation Units
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	DOWNTOWN CORE	HILLSIDE
Average Annual Market Potential	1,352 HH	1,205 HH
<u>Tenure/Housing Type Propensities</u>	<u>100%</u>	<u>100%</u>
Multi-Family For-Rent	77%	50%
Multi-Family For-Sale	11%	8%
Single-Family Attached For-Sale	12%	10%
Single-Family Detached For-Sale	n/a	32%
<u>Lifestage</u>	<u>100%</u>	<u>100%</u>
Empty-Nesters and Retirees	22%	29%
Families	8%	22%
Younger Singles and Couples	70%	49%

- The optimum market position for new affordable/workforce and market-rate housing in each Study Area has been developed to correspond to the housing preferences and financial capabilities of those target households with incomes at or above 60 percent of the area median family income (AMI) for newly-introduced rental units and at or above 80 percent of the AMI for newly-introduced for-sale units. Sixty percent AMI ranges from \$35,850 for a single-person household to \$55,300 for a five-person household; 80 percent AMI ranges from \$47,800 for a single-person household to \$73,750 for a five-person household.
- Focusing on renter households with annual incomes at or above 60 percent of the AMI and buyer households with annual incomes at or above 80 percent of the AMI, the annual average market potential for each Study Area would be as follows:

	DOWNTOWN CORE	HILLSIDE
Average Annual Market Potential	792 HH	767 HH
<u>Tenure/Housing Type Propensities</u>	<u>100%</u>	<u>100%</u>
Multi-Family For-Rent	79%	50%
Multi-Family For-Sale	10%	8%
Single-Family Attached For-Sale	11%	9%
Single-Family Detached For-Sale	n/a	33%

- Based on the target households’ financial capabilities and housing preferences, the optimum market position for newly-introduced (both new construction and adaptive re-use of existing buildings) primary housing units that could be constructed within each Study Area is summarized on the next page.

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	DOWNTOWN CORE	HILLSIDE
MULTI-FAMILY FOR-RENT (APARTMENTS)		
Households with Incomes Between 60% and 80% AMI		
Base Rent Range	\$750-\$1,400	\$775-\$1,550
Base Size Range	350-1,100 sf	450-1,300 sf
Base Rent-Per-Square Foot	\$1.27-\$2.14	\$1.19-\$1.72
Households with Incomes at 80% AMI and up		
Base Rent Range	\$1,200-\$3,200	\$1,300-\$2,800
Base Size Range	400-1,450 sf	500-1,550 sf
Base Rent-Per-Square Foot	\$2.21-\$3.00	\$1.81-\$2.60
MULTI-FAMILY FOR-SALE (CONDOMINIUMS)		
Households with Incomes Between 80% and 115% AMI		
Base Price Range	\$175,000-\$225,000	\$185,000-\$250,000
Base Size Range	700-900 sf	750-1,400 sf
Base Price-Per-Square Foot	\$235-\$260	\$179-\$250
Households with Incomes at 115% AMI and up		
Base Price Range	\$250,000-\$425,000	\$265,000-\$395,000
Base Size Range	800-1,550 sf	850-1,600 sf
Base Price-Per-Square Foot	\$274-\$324	\$247-\$312
SINGLE-FAMILY ATTACHED FOR-SALE (TOWNHOUSES)		
Households with Incomes Between 80% and 115% AMI		
Base Price Range	\$215,000-\$250,000	\$225,000-\$265,000
Base Size Range	950-1,350 sf	1,000-1,450 sf
Base Price-Per-Square Foot	\$185-\$226	\$183-\$225
Households with Incomes at 115% AMI and up		
Base Price Range	\$350,000-\$495,000	\$365,000-\$465,000
Base Size Range	1,300-2,000 sf	1,300-1,850 sf
Base Price-Per-Square Foot	\$243-\$269	\$251-\$281
SINGLE-FAMILY DETACHED FOR-SALE (HOUSES)		
Households with Incomes Between 80% and 115% AMI		
Base Price Range	n/a	\$235,000-\$285,000
Base Size Range	n/a	1,100-1,500 sf
Base Price-Per-Square Foot	n/a	\$190-\$214
Households with Incomes at 115% AMI and up		
Base Price Range:	n/a	\$325,000-\$500,000
Base Size Range:	n/a	1,100-2,100 sf
Base Price-Per-Square Foot	n/a	\$238-\$295

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- For each Study Area, absorption of the newly-developed units is forecast using capture rates of the target households for each housing type, assuming the production of appropriately-positioned new housing, as follows:

	DOWNTOWN CORE	HILLSIDE
MULTI-FAMILY FOR-RENT (APARTMENTS)		
	—Capture Rate: 15% to 20%—	
Total	<u>158</u> - <u>209</u>	<u>91</u> - <u>122</u>
Below 30% AMI	32 - 42	17 - 22
30% to 60% AMI	31 - 41	17 - 23
60% to 80% AMI	18 - 24	10 - 14
80% AMI and Above	77 - 102	47 - 63
MULTI-FAMILY FOR-SALE (CONDOMINIUMS)		
	—Capture Rate: 15% to 20%—	
Total	<u>23</u> - <u>29</u>	<u>15</u> - <u>18</u>
Below 30% AMI	4 - 5	2 - 2
30% to 60% AMI	4 - 5	2 - 3
60% to 80% AMI	3 - 4	1 - 1
80% to 115% AMI	4 - 5	3 - 3
115% AMI and Above	8 - 10	7 - 9
SINGLE-FAMILY ATTACHED FOR-SALE (TOWNHOUSES)		
	—Capture Rate: 15% to 20%—	
Total	<u>25</u> - <u>31</u>	<u>18</u> - <u>24</u>
Below 30% AMI	4 - 5	2 - 3
30% to 60% AMI	5 - 6	3 - 4
60% to 80% AMI	3 - 3	2 - 3
80% to 115% AMI	4 - 5	3 - 4
115% AMI and Above	9 - 12	8 - 10
SINGLE-FAMILY DETACHED FOR-SALE (HOUSES)		
	—Capture Rate: 10% to 12.5%—	
Total	n/a	<u>38</u> - <u>48</u>
Below 30% AMI		4 - 5
30% to 60% AMI		5 - 7
60% to 80% AMI		4 - 5
80% to 115% AMI		7 - 8
115% AMI and Above		18 - 23

- If new development, both new construction and adaptive re-use of existing buildings, could achieve these capture rates, between 368 and 481 new units of subsidized, affordable/workforce, and market-rate, could be leased or sold in both Study Areas each year over the next five years; at the end of five years, between 1,840 and 2,405 new subsidized,

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affordable/workforce, and market-rate rental and ownership housing units could be added to the housing stock of the Greater Downtown Study Area (the Core Downtown and Hillside Study Areas combined).

- The newly-developed units would not only attract new households to the Study Area but would also provide appropriate alternatives for households that might otherwise have moved out of the city for lack of appropriate housing.

SUMMARY OF FINDINGS: SECOND/VACATION/WEEKEND HOUSING

- An annual average up to 110 households have the potential to purchase a unit for use as a second/vacation/weekend unit in the Greater Downtown Study Area each year over the next five years.
- The ownership housing preferences of these households are as follows:
 - 25% Condominiums
 - 13% Townhouses
 - 62% Detached houses
- Characterized by lifestage, these households include:
 - 58% Empty nesters and retirees
 - 31% Families
 - 11% Younger singles and childless couples
- Based on the target households' financial capabilities and housing preferences, the optimum market position for new second/vacation/weekend housing units that could be constructed within the Greater Downtown Study Area is summarized on the following table:

MULTI-FAMILY FOR-SALE (CONDOMINIUMS)		
\$425,000-\$650,000	1,250-2,100 sf	\$310-\$340
SINGLE-FAMILY ATTACHED FOR-SALE (TOWNHOUSES)		
\$450,000-\$675,000	1,350-2,500 sf	\$270-\$333
SINGLE-FAMILY DETACHED FOR-SALE (DETACHED HOUSES)		
\$535,000-\$825,000	2,000-3,200 sf	\$258-\$268

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- Annual average absorption of new second/weekend/vacation units in the Greater Downtown Study Area is forecast shown as follows:

Housing Type	Targeted HH's	Capture Rates	Annual Absorption
MULTI-FAMILY FOR-SALE	28	20% - 25%	6 - 7
SINGLE-FAMILY ATTACHED FOR-SALE	14	20% - 25%	3 - 4
SINGLE-FAMILY DETACHED FOR-SALE	<u>68</u>	10% - 12.5%	<u>7</u> - <u>9</u>
TOTAL:	110		16 - 20

- If new development could achieve the capture rates above, between 16 and 20 new units per year could be sold as second/vacation/weekend units in the Greater Downtown Study Area over a five-year timeframe, or a five-year total of 80 to 100 new for-sale second/vacation/weekend housing units.
- Altogether then, including both primary and second/vacation/home units, between 384 and 501 new units per year could be leased or sold in the Greater Downtown Study Area over a five-year timeframe, for a five-year total of 1,920 to 2,505 new units.





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ASSUMPTIONS AND LIMITATIONS—

Every effort has been made to insure the accuracy of the data contained within this analysis. Demographic and economic estimates and projections have been obtained from government agencies at the national, state, and county levels. Market information has been obtained from sources presumed to be reliable, including developers, owners, and/or sales agents. However, this information cannot be warranted by Zimmerman/Volk Associates, Inc. While the proprietary residential target market methodology™ employed in this analysis allows for a margin of error in base data, it is assumed that the market data and government estimates and projections are substantially accurate.

Absorption scenarios are based upon the assumption that a normal economic environment will prevail in a relatively steady state during development of the subject property. Absorption paces are likely to be slower during recessionary periods and faster during periods of recovery and high growth. Absorption scenarios are also predicated on the assumption that the product recommendations will be implemented generally as outlined in this report and that the developer will apply high-caliber design, construction, marketing, and management techniques to the development of the property.

Recommendations are subject to compliance with all applicable regulations. Relevant accounting, tax, and legal matters should be substantiated by appropriate counsel.





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Zimmerman/Volk Associates, Inc. retains all rights, title, and interest in the ZVA Residential Target Market Methodology™ and the individual target market descriptions contained within this study. The specific findings of the analysis are the property of the client and can be distributed at the client's discretion.

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