

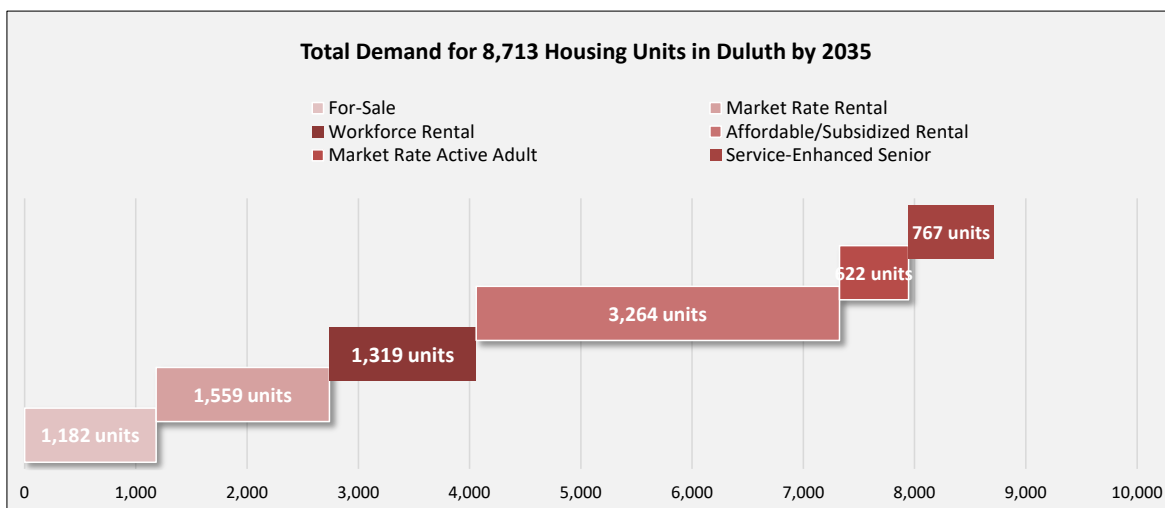
Purpose and Scope of Study

Maxfield Research and Consulting was engaged by the City of Duluth to prepare a Housing Needs Analysis for the City. The analysis provides recommendations on the amount and types of housing that may be developed to meet the needs of current and future households in the community.

The scope of this study includes an analysis of the demographic and economic characteristics of Duluth and the surrounding Primary Market Area (PMA), a review of existing housing stock characteristics and market analyses covering the for-sale, rental and senior housing markets. Additionally, the study includes an assessment of housing affordability in the area. Detailed housing demand calculations to 2035 and development concept recommendations are provided for the community. The study concludes with an evaluation of challenges and opportunities associated with housing development in Duluth.

Key Findings

- Demand for nearly all housing product segments was found in Duluth, but there are specific product types that have been identified as being in high demand and should be considered for development priority; moderately priced housing, ownership and rental, targeted to the area's workforce and housing alternatives targeted to older adults and seniors (townhomes, twin homes) are two of the most pressing needs in Duluth. Demand is also strong for affordable and subsidized housing.
- An estimated 38% of the demand will be for affordable and subsidized rental housing (general occupancy and senior), while 14% will be for for-sale (single-family and owned multi-family). An estimated 18% is for market rate rental; 15% is for workforce rental, 7% is for market rate active adult and 9% is for service-enhanced housing (independent living, assisted living, memory care).



- Much of the projected demand may not be satisfied, particularly senior housing as many seniors prefer to age in place instead of moving to alternative housing. Additionally, funding availability for affordable and subsidized housing is limited and financial programs are extremely competitive for these units, which increases the challenges for developing sufficient new housing to meet the projected demand.

Demographic Analysis

- As of the 2020 Census, Duluth had 86,697 people and 37,104 households. Between 2010 and 2020, Duluth's population increased 0.5%, adding 435 people, while the household base expanded 3.9% (1,400 households). We estimate that Duluth has experienced solid growth since the COVID-19 pandemic, adding 1,303 people (1.5% growth) and 796 households (2.1% growth) between 2020 and 2025.
- Duluth's population is projected to increase 1.5%, adding 1,300 people between 2025 and 2030, while the household base expands 2.6% (1,000). Duluth is expected to add another 1,200 people (1.3% growth) and 980 households (2.5% growth) between 2030 and 2035.
- Achieving any population and household growth in Duluth will be highly dependent on the availability of suitable housing options in the community catering to a variety of household types, age groups, and income levels. Growth will also be impacted by increased, or decreased, hiring at area employers.
- In 2025, the largest adult cohorts by age in Duluth are 25 to 34 and 35 to 44, totaling an estimated 13,027 people (14.8% of the population) and 11,219 people (12.7%), respectively. By 2035, the largest age group is expected to remain the 24 to 34 age cohort, representing 14.2% of the total population.
- Notable population shifts projected for Duluth between 2025 and 2035 include significant growth in the 75+ age group, and solid growth among the 35 to 44 and 45 to 54 age groups and contractions for other adult age groups.
- In 2025, Duluth's median household income is estimated to be \$66,428, an estimated 30% lower than Minnesota (\$86,801). The projected average annual median household income growth of 2.6% in Duluth between 2025 and 2030 is slightly less than the historic annual inflation rate of 2.7% over the past ten years.
- In Duluth, 58.3% of all households own in 2025, giving it a homeownership rate that is lower than St. Louis County (81.1%) and Minnesota (70.0%). The total number of renter households residing in Duluth grew by an estimated 2,080 households between 2010 and 2025 (14.7%) while owner households expanded by 5.2% (1,115).

- In Duluth, households living alone are estimated to be the most common household type (37% of all households) in 2025, followed by married couple households without children (23%).
- Between 2010 and 2025, family households experienced slight contraction in Duluth, declining by an estimated -139 households (-0.7%). The number of non-family households increased 13.7%, adding 2,334 households, including 11.7% growth among households living alone (1,467 households).

Employment Analysis

- Duluth and St. Louis County have historically maintained annual unemployment rates that have tracked consistently with Minnesota and the US and generally below equilibrium (generally considered to be 5.0%). The 2024 average annual unemployment rates of 1.9% in Duluth, 3.5% in St. Louis County, and 3.2% in Minnesota shows Duluth at a very low rate compared to historical values.
- The Market Area experienced a solid recovery of jobs post-COVID, and the area is expected to sustain strong employment growth over the next ten years. St. Louis County is projected to add 13,507 jobs between 2024 and 2035 (14.1% growth), including 16.4% growth in Duluth (9,213 jobs), compared to 13.7% growth in the Northeast Region. Labor availability will greatly impact the ability of Duluth to sustain employment levels and achieve the projected job growth. New housing is needed to support economic development in the area.
- An estimated 36,261 workers commute into Duluth for employment daily (inflow), while 13,769 resident workers leave the community (outflow). An estimated 33,600 people both live and work in the City (interior flow).
- Overall, Duluth is an importer of workers as a higher number of nonresidents commute into the City for employment than resident workers commute out. With 36,261 workers commuting into the City for employment daily, 28.4% commuting more than 50 miles away, there is an opportunity to provide housing options for a portion of this workforce.
- A household earning the 2024 average weekly wage in Duluth (\$1,157) would be able to afford an apartment renting for \$1,504 per month to not exceed 30% of its monthly income on housing costs, slightly less than the average rent for market rate rental housing units in the community (\$1,587).
- Assuming that a potential home buyer has good credit and makes a 10% down payment, a household would need a minimum annual income of \$87,600 to be able to afford a single-family home sold at the 2024 median resale price of \$292,000 in Duluth. The median

household income in Duluth as of 2025 is estimated at \$66,428. The average weekly wage in Duluth as of 2nd Quarter 2024 equates to an annual income of \$60,164.

- The data indicates that rental housing in Duluth is relatively affordable proportionate to wages, but much of the for-sale housing would not be affordable for many workers.

Housing Characteristics

- There are an estimated 40,530 housing units in Duluth, 96% of which are occupied (38,900). Unoccupied units may be vacant for several reasons or may be under construction and have not yet received a certificate of occupancy.
- Compared to the First-tier cities/townships and St. Louis County, Duluth has notably higher proportions of units in multifamily structures with 10 to 49 units and 50 or more units, as well as mobile homes.
- An estimated 43% of the housing units in Duluth were built prior to 1940, higher than the First-tier cities/townships (14%) and St. Louis County (29%). The 1950s through the 1980s were the most active decades in Duluth for housing unit production. An estimated 30% of Duluth's housing stock was built from 1950 through 1979 (12,287 units).
- From 2018 through 2024, 1,878 new housing units were permitted in the City of Duluth and 268 units were removed for a net increase of 1,610 for an average of 230 new units per year, including 42 new detached single-family units, 6 townhomes and 164 multifamily units per year. During this period, Duluth issued Certificates of Occupancy for 1,484 units after accounting for units demolished.
- Despite a lack of land available for new single-family construction, the pace of construction for new detached single-family homes increased during the period from 2018 through 2024. The highest number of permits issued for new single-family homes was in 2022 with 72 new units. Townhome development had slowed to zero in 2021 and 2022, although four units were constructed in 2023 and two in 2024, despite demand in this segment. Multifamily production fluctuated but remained strong with 346 units permitted in 2023 and 116 permitted in 2024.

For-Sale Housing Market Analysis

- Increased competition for homes (as indicated by the decreasing supply of available housing and extremely short marketing times) has caused significant price appreciation in recent years.

- In Duluth, the median price for detached single-family homes increased 58.7%, climbing from \$184,000 in 2018 to \$292,000 in 2024, averaging a 6.8% increase annually. Median multifamily (townhomes, twin homes, condominiums) resale prices increased 43.4% from \$265,000 in 2018 to \$380,000 in 2024 (5.3% average annual increase).
- Detached single-family homes comprised 95% of all closed resales in Duluth since 2018 and the remaining 5% were multifamily (townhome, twin home, condominium) units.
- New construction detached single-family homes have a median price of \$529,450 in Duluth and \$531,000 in St. Louis County, most of which are in Duluth and Hermantown. New construction multifamily units have a median price of \$495,000 in Duluth. All these units are in Duluth.
- Based on the supply of available for-sale housing in Duluth as of January 2025, there is a 1.6-month supply of homes available for sale on the market, compared to 2.4 months for the Lake Superior Area Realtors (LSAR) Region (Minnesota side).
 - Equilibrium in the for-sale housing market is generally considered to be a six-month supply, although markets throughout Minnesota have not seen a balanced supply for for-sale homes on the market for more than eight years, demonstrating pent-up demand for new for-sale homes in Duluth.
- As of February 2025, there were 49 residential lots listed for sale on the MLS in the PMA. Actively-marketing lots have a median list price of \$4.06 psf (\$135,000) with a median lot size of (0.70 acres). The average lot price is \$167,876 with lot size of 1.45 acres.

Rental Housing Market Analysis

- Nationally, the equilibrium vacancy rate for market rate rental housing is considered as 5.0%, which allows for normal turnover and an adequate supply of alternatives for prospective renters.
 - Based on the survey of general occupancy rental buildings (apartments and single-family homes) in Duluth, we found that the existing stabilized market rate rental properties are 1.8% vacant, while the affordable properties are 1.1% vacant. Many affordable and subsidized properties have wait lists. The data indicates that there is pent-up demand for rental housing in Duluth.
- We identified 393 units pending in five projects, including 303 market rate units and 90 affordable units affordable and subsidized units. Among the pending projects, 250 units are under construction and 143 units are planned but not fully approved.

- The average monthly rental rate across all market rate general occupancy properties is \$1,587 (\$1.88 per square foot) with a median rental rate of \$1,443 (\$1.71 per square foot). There is a notable difference in rents between older and newer properties, as the five newest properties (opened in the past three years) have an average rent of \$1,792, 13% higher than the average rent among all properties.

Senior Housing Market Analysis

- Strong growth is occurring among seniors in the PMA. Aging of baby boomers led to a 26% increase in the age 75 to 79 population between 2020 and 2025 (844 people). As this group ages, the 75 and older age group is expected to expand 24% by 2035, adding 2,198 people.
- Maxfield Research identified a total of 40 senior housing facilities in the PMA, totaling 2,630 units, including 35 in Duluth, two properties in Hermantown and three in Proctor. In total, there are 124 market rate active adult rental units, 273 active adult ownership units, 965 affordable and subsidized rental units and 1,268 service-enhanced units. Among the service-enhanced facilities, an estimated 516 units are independent living, 613 are assisted living units and 139 are memory care units.
- At the time of the survey, affordable and subsidized rental properties in Duluth were 4.1% vacant, while the market rate active adult property was fully occupied. Many of these facilities maintain lengthy wait lists. The below-equilibrium vacancy rate, coupled with extensive wait lists, suggests that there is pent-up demand for affordable/subsidized and market rate active adult senior rental housing in Duluth.
- Service-enhanced facilities had an overall vacancy rate of 3.9% which is below the market equilibrium rates of 5% for independent living and 7.0% vacancy for assisted living and memory care. There is pent-up demand for independent living (1.9% vacancy rate) and more limited pent-up demand for assisted living and memory care facilities (5.9% and 5.8% vacancy rates, respectively). We identified demand for additional service-enriched housing in Duluth although different service levels have varying levels of demand.
- Maxfield Research finds that many assisted living facilities in Minnesota, and the Midwest, have experienced elevated vacancy rates since the COVID-19 pandemic. Vacancy rates have moderated in Duluth since the pandemic although labor challenges for these types of facilities continue to impact the ability to service existing units in addition to considering new development.

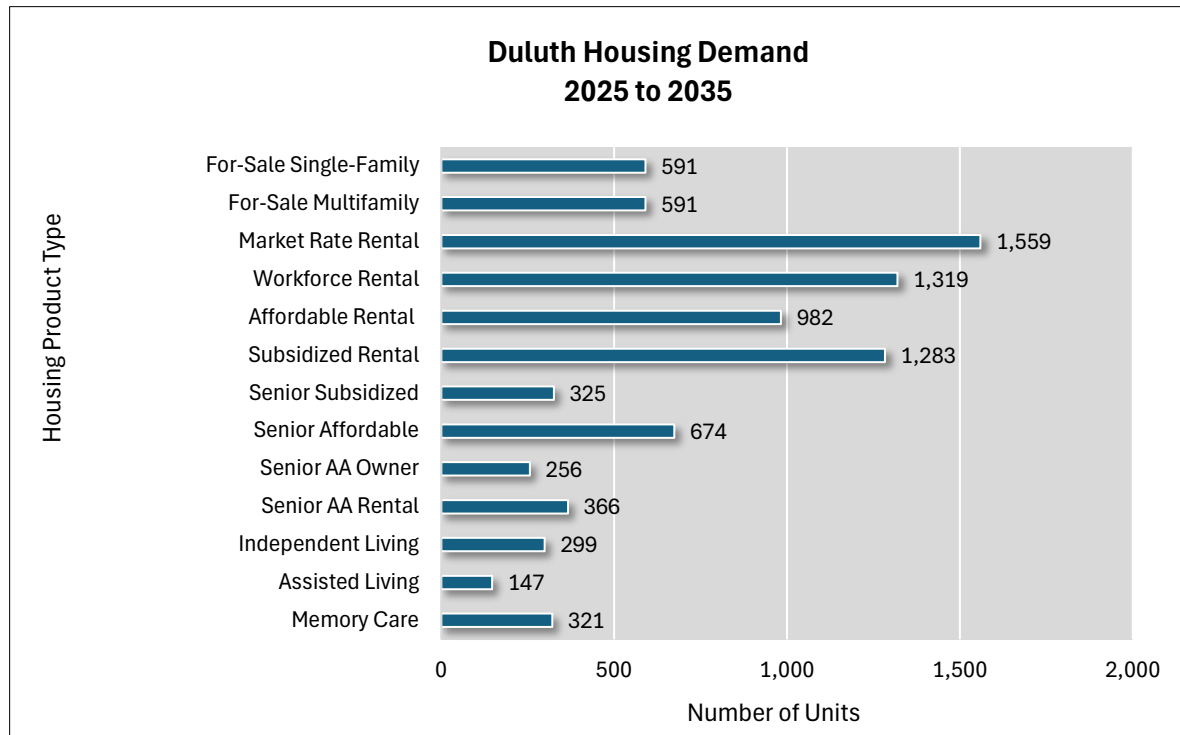
Housing Affordability

- As of February 2025, the Duluth Housing and Redevelopment Authority (HRA) has 1,309 Housing Choice Vouchers in use with 3,098 applicants on the wait list. The estimated time to obtain an HCV is 20 to 23 months. Sixty-eight vouchers have been issued but the prospect has not yet found a unit.
- An estimated 31% of all households in Duluth are considered cost-burdened (paying more than 30% of their income for housing costs), including 19% of owner households and 53% of renter households. By comparison, 20% of owner households and 53% of renter households are cost burdened in the First-tier cities/townships.
- An estimated 29% of renter households in Duluth are severely cost-burdened (paying 50% or more of their income toward housing), higher than the 16% in the First-tier cities/townships. For owner households in Duluth with incomes of less than \$50,000, 58% are cost-burdened. For renter households with incomes less than \$35,000, 77% are cost-burdened.
- Based on current home prices, 52% of all households in the PMA could afford to purchase an entry-level detached single-family home priced at \$180,000. That proportion drops to 30% that could afford a move-up detached single-family home priced at \$300,000.
- An estimated 48% of renter householders could afford to rent a studio or one-bedroom unit at older market rate rental properties in the community at an average rent of \$950 per month. The income-qualified percent drops to 30% that could afford monthly rents for a new construction one-bedroom unit priced at \$1,500 per month.

Housing Demand Analysis

- As summarized in the following figure, we find demand for 6,325 general occupancy (not age-restricted) housing units in Duluth from 2025 to 2035, including 1,182 for-sale units and 5,143 rental units. Demand is identified for 679 for-sale units and 3,085 rental units from 2025 to 2035.
- We also estimate demand for 1,437 housing units targeting older adults and seniors in Duluth in 2025, increasing to 2,388 units by 2035.
- As of February 2025, there were 49 existing vacant lots listed for sale on the MLS and located in the PMA. Based on the for-sale housing demand calculations, the existing lot supply is insufficient to support demand. In-fill lots may be utilized in Duluth to create areas for additional for-sale homes in addition to redevelopment sites but even utilizing in-fill and redevelopment sites are not expected to be able to provide enough land to meet demand.

HOUSING DEMAND SUMMARY CITY OF DULUTH 2025 to 2035 (March 2025)			
General Occupancy Housing Demand 2025 to 2035			
	2025 to 2030	2030 to 2035	2025 to 2035
For-Sale Units	679	503	1,182
Detached Single-Family Units	325	266	591
Other/Multifamily Units*	354	237	591
General Occupancy Rental Units	3,085	2,058	5,143
Market Rate	935	624	1,559
Workforce^	791	528	1,319
Affordable^	589	393	982
Subsidized^	770	513	1,283
Total General Occupancy Housing Units	3,764	2,561	6,325
Senior Housing Demand			
	2025	2030	2035
Market Rate Active Adult	438	799	622
Ownership Units	164	344	256
Rental Units	274	455	366
Affordable & Subsidized Senior Housing^	573	735	999
Subsidized Units	105	180	325
Affordable Units	468	555	674
Service-Enhanced Senior Housing	426	894	767
Independent Living (IL)	127	426	299
Assisted Living (AL)	50	141	147
Memory Care (MC)	249	327	321
Total Senior Housing Units	1,437	2,428	2,388
*Includes twin homes, townhomes, condominiums			
^Workforce = affordable to households between 60% and 100% of AMI			
^Affordable = affordable to households at 50% to 60% AMI but incl some lower income HHs			
^Subsidized = affordable to households at 50% AMI or less			
Totals may not add due to rounding			
Note: Sr. Demand is cumulative, meaning that units developed would be subtracted from excess demand for the upcoming period			
Source: Maxfield Research & Consulting			



Recommendations

- The following table summarizes a potential pricing breakdown for new construction for-sale housing units in Duluth, including “entry-level”, “move-up”, and “executive” housing for the short-term (2025 to 2030).

NEW CONSTRUCTION FOR-SALE HOUSING PRICING RECOMMENDATIONS CITY OF DULUTH 2025 to 2030 (March 2025)			
	Purchase Price*	Pct.	Units
Detached Single-Family			
Entry-level	Less than \$300,000	30%	98
Move-up	\$350,000 to \$450,000	60%	195
Executive/Luxury	\$600,000+	10%	33
Detached Single-Family Total:		100%	325
Townhome/Twin Home			
Entry-level	Less than \$300,000	50%	177
Move-up	\$350,000 to \$600,000	50%	177
Townhome/Twin Home Total:		100%	354
*Pricing is in 2025 dollars and can be adjusted to account for inflation.			
Source: Maxfield Research & Consulting			

- Based on current local real estate market conditions in Duluth, we consider new construction detached single-family homes priced below \$300,000 to be entry-level housing, while move-up new construction detached single-family homes would likely be priced in the \$350,000 to \$450,000 range. Pricing for a move-up townhome or twin home unit would likely begin at approximately \$300,000.
- We anticipate that 65% of the new detached single-family units (195 units) will target move-up buyers and recommend that 30% (98) be priced for less than \$300,000 to target moderate income buyers (entry-level). A limited percentage (10%) would be priced for the executive/luxury market.
 - A household would need to have a minimum income of \$97,261 to afford a home purchased at \$300,000, which falls within the upper range considered to be “moderate-income” (i.e. \$85,400 at 100% AMI to \$102,480 at 120% AMI for a two-person household).
- We anticipate that 50% of the new construction townhome/twin home units (177) will target move-up buyers and/or empty nesters and recommend that 50% (177 units) should be priced below \$300,000 to target moderate income buyers.
- The development of any new for-sale housing products in Duluth priced to target moderate income buyers will likely require a public-private partnership or alternative development concept (i.e. community land trust, affordable housing cooperative).
- Entry-level home demand is currently not being satisfied through the turnover of the existing supply of older single-family homes in Duluth. Many of the older single-family homes have been purchased by investors and converted to rentals, essentially shifting these homes from a residential to commercial market value. Increased development of townhomes and twin homes will also help to free up some homes for entry level buyers.
- In addition to demand for owned housing products, we find strong demand for additional general occupancy rental housing options in Duluth.
- Below-equilibrium vacancies at the existing market rate, affordable and subsidized rental properties suggest pent-up demand for new rental housing in the community.
- The following figure provides a summary of the recommended rental housing by product type, including monthly rent ranges, development timing, and target markets.

GENERAL OCCUPANCY RENTAL HOUSING RECOMMENDATIONS (Short-Term)						
CITY OF DULUTH						
2025 - 2030 (March 2025)						
		Monthly Rent Range ¹		No. of Units	Development Timing	
Market Rate & Workforce Rental						
Apartments	Studio	\$1,100 - \$1,800	2BR	600 - 800	2025+	
Townhomes	2BR	\$1,850 - \$2,800	3BR	200 - 250	2025+	
Target Markets:	An apartment building would likely attract younger workforce renters, lifestyle renters, older adults, and seniors. Rental townhomes would target young family households, empty-nesters, and seniors.					
Affordable Rental ²						
Apartments	Studio	\$930 - \$1,440	2BR	300 - 350	2025+	
Townhomes	2BR	\$1,500 - \$1,850	3BR	80 - 100	2025+	
Target Markets:	We recommend developments targeting households between 40% to 60% AMI, likely comprised of singles, single-parent households, older adults and seniors.					

¹ Pricing in 2025 dollars and can be adjusted to account for inflation.

² Affordability subject to income guidelines; recommended rent ranges based on max rents at 50% and 60% AMI

Note - Recommended development concepts do not directly equal total demand.

Source: Maxfield Research & Consulting

- Based on housing needs identified in the community and based on the demographic analysis, many workers need moderately priced housing (i.e. young teachers, mid-level health care workers and manufacturing workers) who earn between \$21.00 to \$25.00 per hour, which equates to \$44,000 to \$52,000 per year. We recommend the development of market rate workforce rental housing with rent limits set to target households earning from 60% to 80% of AMI and from between 80% to 100% of AMI. These thresholds fill gaps in the moderate-income and upper moderate-income levels for workforce housing
 - (60% to 80%; incomes between \$42,300 (1pp HH) and \$80,480 (4pp HH)
 - (80% to 100%; incomes between \$56,400 (1pp HH) and \$100,600 (4pp HH)
- The growing older adult and senior population will support long-term demand for senior housing units in Duluth to 2035 and beyond. Demand exists for a variety of senior housing products, but needs should be prioritized toward for-sale market rate active adult and independent senior housing in addition to affordable rental active adult housing. These will provide housing options in the short term for those that are seeking to relocate to alternate housing products.

- The development of new senior housing will satisfy housing needs in Duluth by increasing the number of options for older adult and senior residents that want to relocate to new age-restricted housing. Additionally, the development of housing alternatives for seniors will stimulate the turnover of existing homes and rental units occupied by seniors, creating more opportunities for general occupancy buyers and renters.
- **We estimate that the development of senior housing could generate the availability of at least a ratio of 0.5:1 more affordable for-sale units from seniors selling older single-family homes to move into age-restricted housing.**
- The following table summarizes a recommended mix of senior housing units by service level including product type, pricing, project size, and development timing.

RECOMMENDED SENIOR HOUSING DEVELOPMENT (Short-Term)				
CITY OF DULUTH				
2025 to 2030 (March 2025)				
	Pricing Range ¹	No. of Units	Development Timing	
Age Restrcted Senior Housing				
Active Adult For-Sale Housing				
Market Rate Cooperative ²	\$110,000/1BR+D - \$250,000/2BR/2BR+	100 - 150	2025+	
Market Rate Townhome/Twinhomes	\$350,000 2BR - \$550,000 3BR	80 - 100	2025+	
Active Adult Rental Housing				
Affordable ^{2,3}	\$900/1BR - \$1,240/2BR	100 - 120	2026+	
Market Rate Service-Enhanced Senior Housing				
Independent Living	\$2,500/1BR - \$4,000/2BR	100 - 120	2025+	
Assisted Living	\$3,200/Studio - \$5,000/2BR	36 - 48	2028+	
Memory Care ⁴	\$4,500/Studio - \$6,000/1BR	36 - 48	2025+	
¹ Pricing in 2025 dollars. Pricing can be adjusted to account for inflation.				
² Alternative concept is to combine affordable and market rate active adult into mixed-income building.				
³ Affordablity subject to income guidelines; rates based on max rents at 50% AMI				
⁴ Memory care housing could be a component of an assisted-living or service-intensive building.				
Note - Unit amounts reflect recommended size of property that for a single project, but do not equal total calculated long-term demand				

Because of the large size of the Baby Boom population, there will be demand for housing products targeted to this group well beyond 2035.