

An Update Assessment of Housing Demand in The Downtown District of Duluth, Minnesota

Prepared For:

Greater Downtown Council and
Duluth Economic Development Authority
Duluth, MN

May 2017



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Ms. Heather Rand
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Duluth Economic Development Authority
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Dear Ms. Stokes and Ms. Rand:

Attached is the update assessment of the potential demand for housing in Downtown Duluth. This study focuses on an analysis of demographic trends and current market conditions to support the development of residential units in the Downtown.

The study reviews growth trends and resident demographic characteristics, reviews current housing market conditions for for-sale and rental housing, inventories Downtown population, inventories pending housing developments and quantifies the number of housing units that could be supported in Downtown to 2030.

This report identifies demand for housing that would be generated by the draw area population in addition to demand for second residences that would come primarily from households residing outside of the Duluth area that would want to live in Duluth either year-round or seasonally.

Detailed findings are found in the body of the report.

We have enjoyed conducting this study for you and are available to answer any questions or provide additional information.

Sincerely,

MAXFIELD RESEARCH AND CONSULTING, LLC

Mary C. Bujold
President
Attachment

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Purpose and Scope of Study

Maxfield Research and Consulting, LLC was engaged by the Greater Downtown Council and the Duluth Economic Development Authority to assess the potential demand for additional housing in Downtown Duluth. For this report, the Downtown core CBD (Central Business District) is defined roughly as an area bounded by Mesaba Avenue on the west, 9th Avenue East on the east, Canal Park and the Harbor area on the south and 3rd Street on the north. We acknowledge the connection of the Central and East Hillside neighborhoods to an area that has been identified as the greater Downtown District, but focus on the potential to add new housing in and/or in close proximity to the Downtown core CBD.

Key Findings of Study

The following paragraphs summarize the key points regarding the potential demand for additional housing in the greater Downtown District. The primary draw area used in this analysis includes the Cities of Duluth, Proctor and Hermantown in addition to the Townships of Canosia, Lakewood, Rice Lake and Midway. In addition, there is a proportion of demand for housing in the Downtown that will come from outside of this area, from other communities in Northern Minnesota and from households seeking housing for seasonal use (i.e. retirement housing, vacation homes, etc.)

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 tourist 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 concentrated during the summer months.
- The Duluth-Superior MSA is now considered to be a major Minnesota tourist location and events such as Grandma's Marathon, Duluth Blues Fest, Tall Ships Festival 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 sees approximately 6.7 million visitors annually.
- Duluth is also a regional health care and education center. The regional medical facilities and the strength of nearly 28,000 students in colleges and universities in the area including University of Minnesota Duluth (UMD), College of St. Scholastica, Lake Superior College and

University of Wisconsin Superior within five miles of the Downtown bring customers and jobs to the region.

- Strong enrollment growth in the 2000s at the local colleges and universities combined with increased job growth overall in the community reduced the availability of rental housing in the community during the previous decade. Although enrollment has decreased somewhat, new rental housing targeted to students has been successful, capturing a segment of the market that was previously missed.
- New rental and for-sale multifamily housing developed in the community has also captured young professionals and empty-nesters that are looking for a specific lifestyle. New contemporary features and amenities have attracted these households even at price points at the top end of the market.

Area Growth Trends and Demographic Analysis

- Census 2010 data indicates that the Downtown Duluth area (defined herein as Census Tracts 12, 13, 14, 16, 17 and 19) decreased in population and households from 2000 to 2010. As of 2016, the larger Downtown District is estimated to have gained 23 people and 170 households. As of 2016, Downtown Duluth is estimated to have 10,957 people and 5,881 households residing in housing units in the greater Downtown District.
- The Downtown Core CBD gained 598 people, but lost -76 households between 2000 and 2010. From 2010 to 2016, the Downtown core is estimated to have gained 40 people and 37 households for a total of 2,827 people and 1,903 households.
- The current unemployment rate in Duluth is 3.1%. Growth in employment over the past five years has resulted in a substantial decrease in the unemployment rate. At this level, there are likely some job shortages occurring in specific industries.
- Health care, Manufacturing and Natural Resources have brought a number of new living wage jobs to the region. Over the past year, 3rd Quarter 2015 through 3rd Quarter 2016, Duluth gained 43 jobs overall and jobs in Health Care, Education and Retail Trade were the largest gainers during the period.
- Several industry sectors have grown rapidly in Duluth over the past four years 2012 through 2016. Employees at companies in these industries are primary target markets for new housing in the Downtown. These include Health Care, Education, Retail Trade and Professional and Business Services. The largest employment sectors in Duluth as of 3rd Quarter 2016 are Health Services, Retail Trade, Leisure and Hospitality and Education. Most of the Health Services employment is located in the Downtown.

- Recent figures on covered employment (jobs by place of work) revealed that the Education and Health Services sectors continue to experience strong growth. The average weekly wage in Duluth increased from \$939 as of 2015 to \$951 as of 2016. This equates to an annual gross income of approximately \$49,452. This is a per worker income. Most households today have more than one worker.
- The median household income in the Downtown District was estimated at \$21,887 as of 2016 and is projected to remain stable at \$21,679 over the next five years (2021). The low median household income reflects the large number of lower-income households that reside in the Downtown. However, new households moving into the Downtown into condominium and upscale rentals have incomes substantially higher than the median, ranging from an estimated \$40,000 to more than \$100,000 annually. A portion of the estimated 20,000 workers that commute to the Downtown from various neighborhoods in and surrounding the City would be targets for various types of new housing in the Downtown.

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. New for-sale condominiums were developed in the Sheraton Hotel (33 units) and on the Weiland Block (14 units). All of the units at the Sheraton have been sold and there have been some resales. Of the 14 units at the Weiland Block, five remain to be sold, almost all one-bedroom units. Prices range from \$250,000 to \$285,000. One of the units that was sold is being rented out at a price of \$3,500 per month for a two-bedroom, two bath unit.
- According to recent figures released by the Duluth Association of Realtors, the median home price in Duluth year to date 2016 was \$157,545, an increase of 3% year-over-year. Low mortgage interest rates have allowed more households into the for-sale market. As a result, the prices of some homes are being bid up.
- Housing construction in the Downtown continues to be constrained by several factors, some unique to Duluth. These factors include:
 - Limited land availability in the central city for new construction;
 - Difficult terrain in the Downtown and elsewhere in the City restricts the number of sites suitable for new construction;
 - Soil conditions (bedrock) limiting developable sites;
 - Constrained by westward growth (Lake Superior forms eastern barrier);
- An inventory of Downtown housing among the Census Tracts included in the Downtown District identified a total of 6,201 housing units (vacant and occupied units). There are more housing units located on the periphery of the Downtown District boundaries in

neighborhoods such as Observation Hill, Chester Park and Central Hillside. Housing in the Central Hillside neighborhood is some of the oldest in the City and housing prices in that neighborhood are generally lower. Housing prices are somewhat higher in Observation Hill and Chester Park, but are still modest compared to other areas of the City.

- A portion of these older, predominantly single-family homes and duplexes have been converted from owner-occupied housing to renter-occupied housing serving workers, students and moderate-income families. Households residing in the Downtown core CBD and the Downtown District have convenient access to service providers (health care, retail), public transit, government and other services.
- New upscale housing added in the Downtown core CBD has been successful. A total of 37 units was added since 2010, owned and rental products. There is more housing product as of 2016 in the Downtown District than in 2010 as an estimated 175 new units of housing has been added (most targeted to low/moderate income or special needs) and most located outside of the Downtown core CBD in the Central and East Hillside areas. These totals exclude the new ENDI multifamily property, which just recently opened, with 143 rental apartment units in the Endion neighborhood, east of Downtown.
- 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 located in the Downtown. Although there have been few new market rate developments constructed, those that have come on-line have been well-received and have maintained high occupancies.
- In 2002, when the initial assessment was completed, we noted a local perception that Downtown Duluth housed predominantly low-income households. Although there are several HRA-managed and privately managed properties that target low-income households, new upscale housing has been successful and is targeting upper-middle to high-income households. The close proximity to amenities and features such as lake views, retail shopping, health care, entertainment and public transit appeals to a broad variety of household types and income levels. As such, Downtown communities are attracting households that prefer an “urban” environment, regardless of the income associated with the household. Costs to develop new housing are generally high, due to high land and construction costs. Therefore, attracting households that have incomes sufficient to support the monthly housing costs is important when considering new construction.

Second Residences

- With the recovery and the aging of the baby boom generation, the oldest baby boomers are now retiring or moving into semi-retirement. Many in this age group are considering housing products other than their single-family home in order to achieve greater flexibility,

increase mobility and a reduced responsibility for home upkeep and maintenance. The rapid housing market recovery from the Recession has enabled a large proportion of this group to recoup their home equity to be able to transition to other housing products. Duluth has captured a portion of the second home market in Minnesota and the increased attractiveness and amenity value of the Downtown continues to attract potential buyers/renters to apartments, condominiums and townhomes. In addition, some buyers may elect to purchase only a fractional interest in a vacation home or part-time residence such as the Beacon Pointe on Water Street.

- A greater variety of housing in the Downtown (upper-income, middle-market) will enhance the vitality of Downtown's after hours environment and in a sufficient amount, will spur increased retail development. Downtown residents are more likely to consider the Downtown as their neighborhood and spend money for entertainment, recreation and other retail goods and services in close proximity to where they live and work.

Demand for Primary Residences

- From 2017 to 2030, we estimate demand in the Downtown District for between 40 and 95 for-sale units and 300 market rate and 110 moderate-income (household incomes ranging from \$35,750 for one-person to \$51,050 for four people) rental units (targeted to incomes of 80% of AMI or less) in the Downtown. Properties with rent levels set at 80% of AMI or above are considered market rate.
- We recommend that housing be developed initially at the following sizes and general price levels and locations:
- Micro rental units are a population trend at this time with an overall decrease in rental housing square footages. This type of unit in the Downtown with street level retail could be targeted to a middle income young professional household. Rent levels should be less than \$1,200 per month.
- For-sale townhomes in the East Hillside and/or Endion neighborhoods, with middle to upper middle price points targeting singles and young families.
- For-sale condominiums at a middle price point with view of Lake Superior.
- Traditional market rate rentals with strong amenities, but weighted more heavily toward smaller unit sizes.

Demand for Secondary Residence

- In addition, we have calculated demand that would result from buyers seeking a second residence or a retirement residence that may be from outside of the draw area. The rise in second home ownership in the United States and increased interest in vacation properties is expected to continue in the short-term. We estimate that Downtown Duluth could support demand for 35 units of housing in a second residence in the short-term (next five years). This could be condominiums or townhomes or single-family homes or a combination of these.

Downtown Housing and Revitalization

- The development of a critical mass of market rate housing in the Downtown is likely to require public/private partnership in order to achieve a broader range of housing types at varying price points. Downtown housing still appeals to those that desire to live in close proximity to employment, entertainment and retail goods and services.
- A greater variety of housing in the Downtown (upper-income, middle-market) will enhance the vitality of Downtown's after hours environment and in a sufficient amount, will spur increased retail development. Downtown residents are more likely to consider the Downtown as their neighborhood and spend money for entertainment, recreation and other retail goods and services in close proximity to where they live and work. At this time, we see a need for housing that would provide a more diverse range of housing product, but target households with incomes at 100% to 120% of area median household income.
- The Downtown area is attractive to a variety of market segments including students, the approximate 20,000 working professionals, retirees, seasonal residents, and others. Housing can be developed to specifically meet the needs of one or more of these segments (i.e. student-specific housing, senior housing with services, housing for seasonal residents).

Next Steps

We recommend identifying sites in both the Downtown core, the greater Downtown District and the East Hillside neighborhoods to develop a broader variety of housing products with contemporary features that will appeal to a diverse group of buyers and renters. We recommend focusing initially on more rental housing, but also consider for-sale products, such as small lot single-family and townhomes that have been scarce in the central city.

We recommend that local organizations and the City work in cooperation to identify potential funding alternatives to traditional federal and state programs that limit the type of housing that

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can be developed. These other programs may include density credits, tax exempt bonds, and other types of loans, land acquisition, tax increment financing, tax abatement, among others. We recommend that specific attention be given to long-range plans for creating neighborhoods through the concentration of a critical mass of housing in key locations.

Draw Area Definition

This section of the report reviews factors related to the demand for housing located in the Downtown District of Duluth, Minnesota. Demographic information examined include population, household and employment trends, age distribution of the population and household base, the propensity of households to rent/own their housing, and household incomes. The data includes information for the larger Duluth draw area in addition to data for the aggregation of Census Tracts which are considered as the Downtown District.

The Census Tracts that are part of the Downtown District are 12, 13, 14, 16, 17, and 19. The Downtown core Central Business District (CBD) includes Census Tract 17, Block Group 1 and Census Tract 19, Block Groups 1 and 2.

The larger draw area consists of the Cities of Duluth, Proctor, Hermantown and the Townships of Canosia, Rice Lake, Midway and Lakewood. Maxfield Research identified this Study Area based on a review of traffic patterns, natural and man-made geographic boundaries, and our knowledge of the draw areas for housing. We include a map of the Downtown District and the draw area on the following pages.

The majority of the demand for housing in the Downtown will come from within the defined draw area (75%). The additional 25% will come from areas outside of the draw area such as from greater St. Louis County and Lake County in Minnesota in addition to Douglas County in Wisconsin. Households in these other areas may be drawn to the Downtown for other reasons. Downtown core CBD housing is more likely to attract a higher proportion of households from outside of the traditional draw area due to its higher concentration of entertainment venues and recreational amenities. We also include data in the demographic tables for St. Louis County and for Minnesota as comparisons.

Population and Household Growth Trends and Projections

Tables 1 and 2 show data on population and the household base for the Downtown core (CBD), the larger Downtown District, the draw area, St. Louis County and Minnesota from 2000 to 2030. Data for 2000 and 2010 are from the Census Bureau. Estimates for 2016 and forecasts for 2020 and 2030 were developed by Maxfield Research using data from the Minnesota State Demographic Center and ESRI, Inc., a national demographics forecasting firm. The Downtown core CBD includes the following block groups: Census Tract 17 (Block Group 2) and Census Tract 19 (Block Groups 1 and 2). The following paragraphs summarize the key points from the tables.

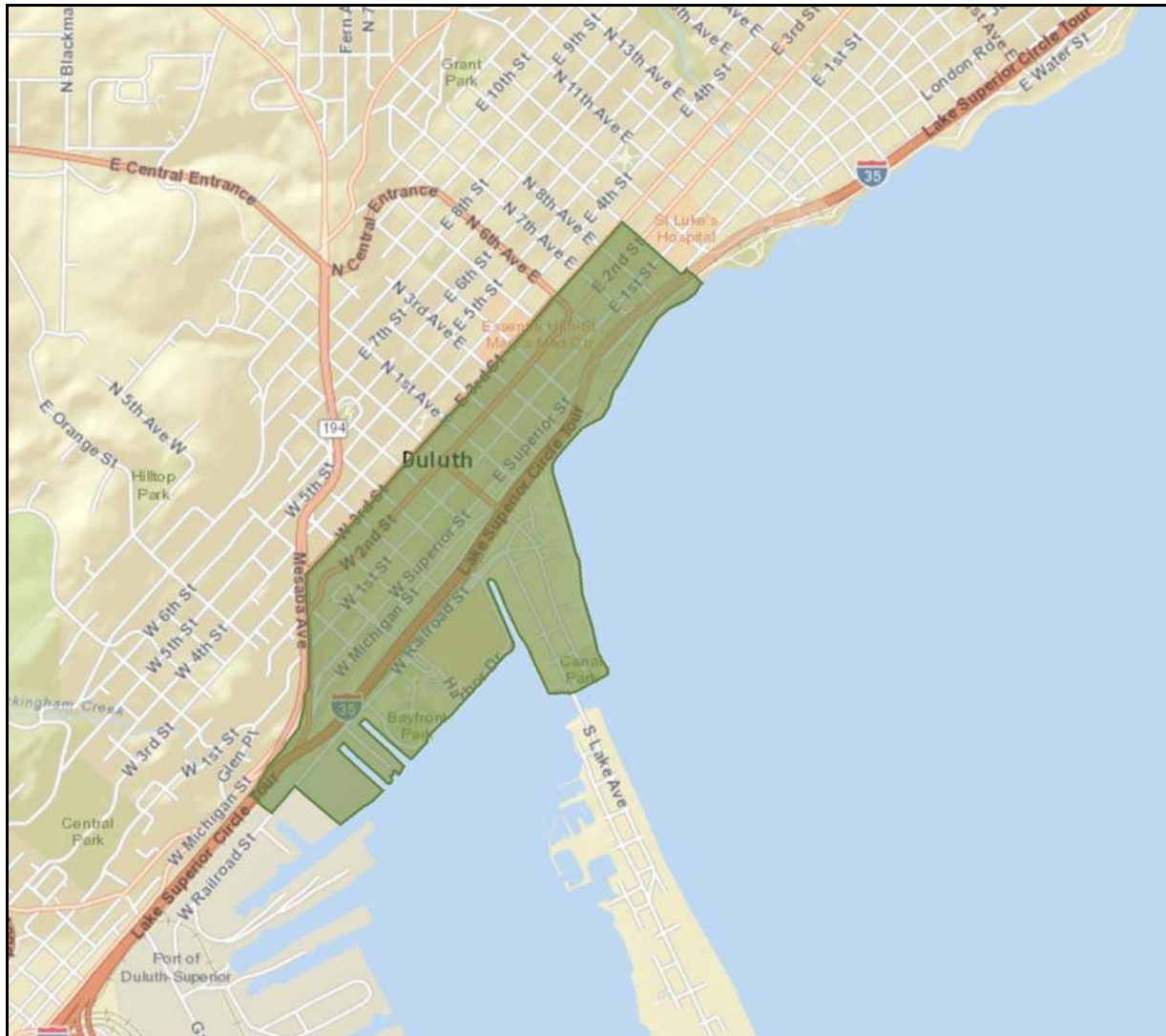
The Downtown core CBD as encompassed by the Census block groups extends from Mesaba Avenue on the west to 9th Avenue East on the east and from the Aerial Lift Bridge in Canal Park to 3rd Street on the north.

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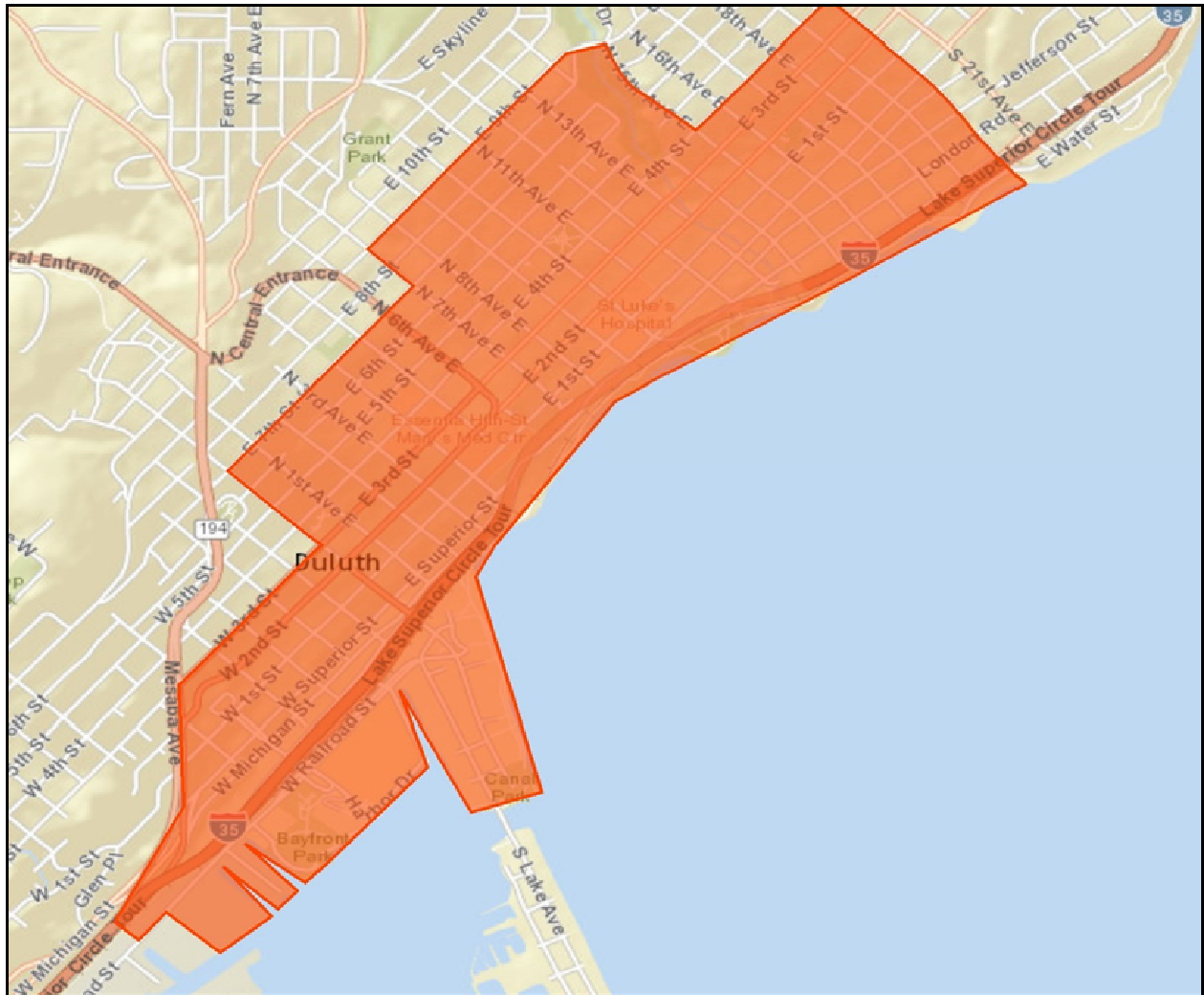
Population

- From 2000 to 2010, the Downtown core CBD gained population increasing by 598 people (-0.27%). Conversely, the remainder of the Downtown District lost population during the same period by a greater amount, 689 people or -0.08%. This resulted in an overall loss for the greater Downtown District of 91 people (-0.08%)
- The Duluth Study Area had 106,847 people in 2000 and as of 2016 remained at about 53 percent of St. Louis County's total population base.
- During the 1980s, the City of Duluth lost -7,300 people, a decrease of nearly -8.0 percent. The 1990s however, brought a stabilization of the former decline, and Duluth gained 1,425 people or 1.7 percent. St. Louis County also lost a significant number of people during the 1980s, but added 2,315 people during the 1990s, or 1.2 percent.

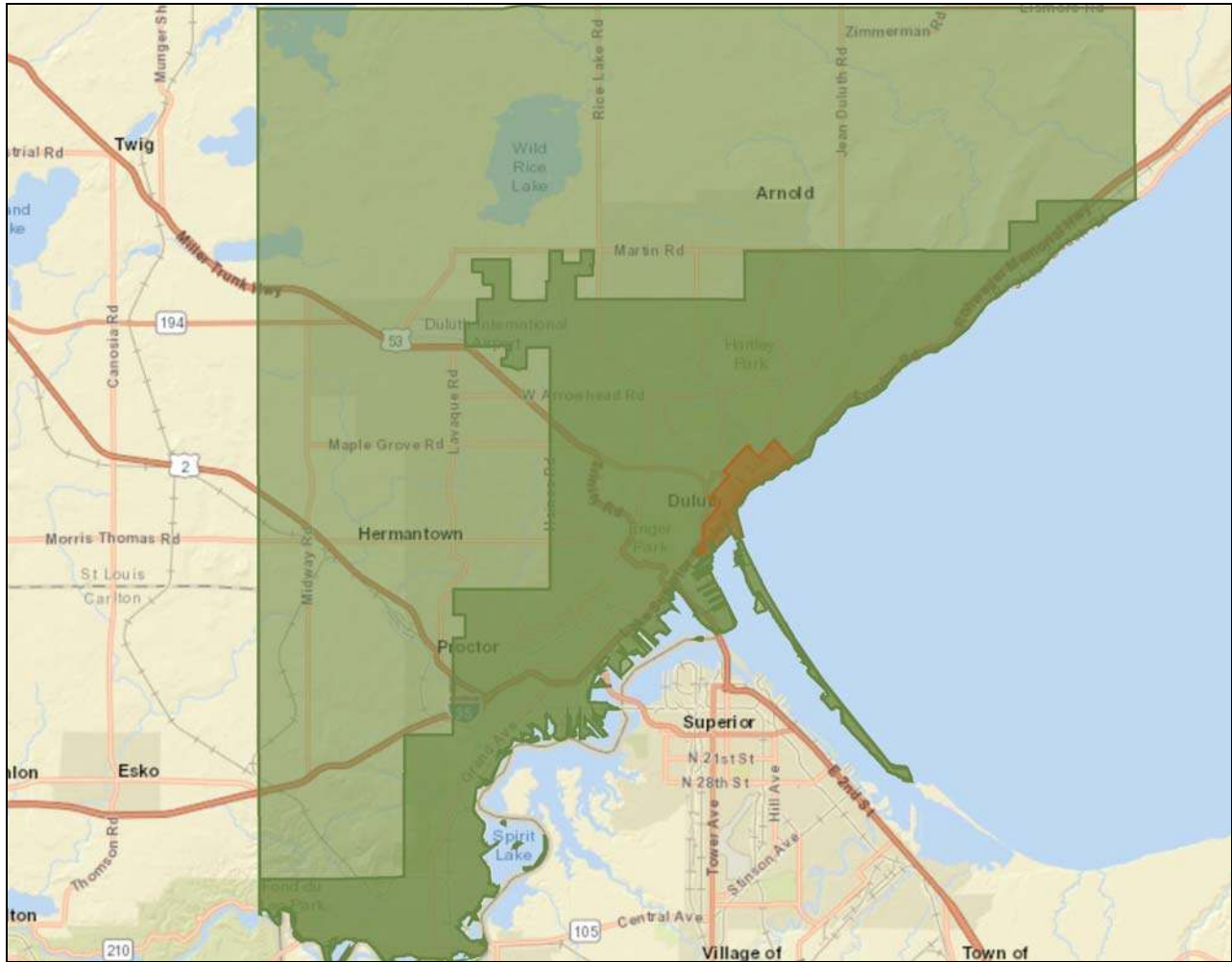
Downtown Core CBD



Downtown Duluth District



Duluth Draw Area



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	U.S. Census		Estimate	Forecast		Change					
	2000	2010	2016	2020	2030	2000-2010		2010-2020		2020-2030	
						No.	Pct.	No.	Pct.	No.	Pct.
Downtown Duluth	11,025	10,934	10,957	11,047	11,555	-91	-0.8	113	1.0	508	4.6
Downtown CBD	2,189	2,787	2,827	2,891	3,166	598	0.27	104	0.04	275	0.10
Remainder Of Dwntn.	8,836	8,147	8,130	8,156	8,389	-689	-0.08	9	0.00	233	0.03
Duluth City	86,918	86,265	87,190	88,020	89,820	-653	-0.8	1,755	2.0	1,102	1.3
Remainder of Study Area											
Proctor	2,852	3,057	3,095	3,119	3,180	205	7.2	62	2.0	61	2.1
Hermantown	7,448	9,414	9,835	10,115	10,815	1,966	26.4	701	7.4	700	9.4
Midway Twp.	1,479	1,399	1,435	1,459	1,600	-80	-5.4	60	4.3	141	9.5
Canosia Twp.	1,998	2,158	2,195	2,223	2,293	160	8.0	65	3.0	70	3.5
Rice Lake Twp.	4,139	4,095	4,135	4,163	4,233	-44	-1.1	68	1.7	70	1.7
Lakewood Twp.	2,013	2,190	2,237	2,273	2,363	177	8.8	83	3.8	90	4.5
Subtotal	19,929	22,313	22,932	23,352	24,484	2,384	12.0	1,039	4.7	3,423	17.2
Duluth Area Total	106,847	108,578	110,122	111,372	114,304	1,731	1.6	2,794	2.6	4,525	4.2
St. Louis County	200,528	200,226	200,412	201,129	200,300	-302	-0.2	903	0.5	601	0.3
Minnesota	4,919,479	5,303,925	5,541,669	5,687,161	5,974,304	384,446	7.8	383,236	7.2	287,143	5.8
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											

- The gain in population in the Downtown core during the 2000 was the largest gain in over the past two decades. Post-recession, from 2010 to 2016, however, all jurisdictions are estimated to have gained population. Hermantown experienced the highest population growth rate between 2000 and 2010, increasing by 26.4%.
- The Downtown core CBD is anticipated to increase its population by 104 people between 2010 and 2020, an increase of 0.04%. The remainder of the Downtown is projected to increase its population by 9 people. Duluth city is forecast to increase its population by 1,755 people or 2.0% over this same time period. The overall draw area is expected to increase its population by 4.7%. These growth trends are similar to many other regional centers in the Upper Midwest. A strong focus on new residential development in the Downtown core moving forward could positively impact the projections, increasing the number of people in the Downtown by 2020.
- Looking forward to 2030, the population is projected to continue to increase by modest amounts, with a rate of growth that is expected to exceed that of the previous decade. As shown, the Downtown District is anticipated to increase by 508 people (4.6%), which includes an increase of 275 people for the Downtown core CBD and 233 people for remainder of the Downtown, while the City overall is forecast to add 1,102 people (1.3%). The economy is expected to continue to increase due to growth in economic development across several sectors including natural resources, manufacturing and health care. St. Louis County is projected to add a modest number of people during the 2010s, 903 people 0.5%),

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which indicates that the area outside of the Duluth draw area in St. Louis County is projected to lose a small number of people.

There continues to be demand for housing in the City of Duluth. Limited land availability and the unique topography of the City (hills and rock) create challenges to development to accommodate the demand for new housing. Utilizing existing parcels for redevelopment to housing will be necessary to satisfy the future demand for housing in the Downtown and elsewhere in the City.

Households

Household growth is a particularly reliable gauge of an area's housing needs, because households, by definition, are occupied housing units.

- As of 2016, the Downtown core CBD was estimated to have 2,827 people and 1,903 households. The remainder of the Downtown was estimated to have 8,130 people and 3,978 households or a total of 5,881 households in the Downtown District. The City of Duluth was estimated to have 36,528 households in the City of Duluth as a whole and the larger draw area 45,251 households. The Downtown District accounted for approximately 16% of the total households in the City of Duluth as of 2000, 2010 and 2016.
- Household growth from 2000 to 2010 was modest for the City, but the greater Downtown District including the Downtown core CBD lost households between 2000 and 2010. The Downtown core CBD lost 76 households while the remainder of the Downtown lost 36 households, but Duluth city gained 205 households (0.6%). It is estimated that between 2010 and 2016, the Downtown core CBD gained 37 households and the remainder of the Downtown gained 133 households. The City of Duluth as a whole is estimated to have added 823 households.
- Household growth during the 2000s was concentrated in Duluth outside of the Downtown and in the surrounding townships. While Duluth city continues to add households, the Downtown has also added households through additional housing. As mentioned previously, we identified 175 housing units that have been added to the overall greater Downtown District since 2010. Market rate rental and condominium housing was also added to the Downtown core CBD during the last half of the 2000s.
- Although there continues to be a lack of vacant land available for new construction, sites are being targeted for renovation and redevelopment. During this process, it is likely that some buildings will be razed to make way for new construction while others will be renovated and converted over to housing, similar to Canal Lofts. New developments in the Downtown core CBD include market rate rental and condominium housing. Low-income housing and housing for populations with special needs has been added in the Downtown area outside of the Downtown core in the Central Hillside area. Gateway Towers, an existing affordable property on the west side of the Downtown, is undergoing a complete

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renovation to stabilize the 150 units in the building and to maintain their affordability for low-income households.

- Household growth in the Market Area is forecast to continue over the next two decades, but the period from 2020 to 2030 is projected to show a modest slowing in the growth rate during that period. The larger Downtown District is projected to add 360 households (6.0%) during the 2020s with the Downtown core CBD adding 250 households and the remainder of the Downtown adding 110 households. Duluth city is projected to add 972 households (1.1%) during the same period.

	U.S. Census		Estimate	Forecast		Change					
	2000	2010	2016	2020	2030	2000-2010		2010-2020		2020-2030	
						No.	Pct.	No.	Pct.	No.	Pct.
Downtown Duluth	5,823	5,711	5,881	6,005	6,365	-112	-1.9	294	5.1	360	6.0
Downtown CBD	1,942	1,866	1,903	1,953	2,203	-76	-0.04	87	0.05	250	0.13
Remainder of Dwr	3,881	3,845	3,978	4,052	4,162	-36	-0.01	207	0.05	110	0.03
Duluth City	35,500	35,705	36,528	37,028	38,000	205	0.6	1,323	3.7	972	1.1
Remainder of Study Area											
Proctor	1,196	1,268	1,295	1,315	1,355	72	6.0	47	3.7	40	1.4
Hermantown	2,726	3,355	3,575	3,719	4,020	629	23.1	364	10.8	301	4.0
Midway Twp.	495	541	556	568	588	46	9.3	27	5.0	20	1.4
Canosia Twp.	751	820	840	853	878	69	9.2	33	4.0	25	1.3
Rice Lake Twp.	1,494	1,611	1,636	1,652	1,674	117	7.8	41	2.5	22	0.5
Lakewood Twp.	710	798	821	836	866	88	12.4	38	4.8	30	1.5
Subtotal	7,372	8,393	8,723	8,943	9,381	1,021	13.8	550	6.6	438	2.2
Duluth Area Total	42,872	44,098	45,251	45,971	47,381	1,226	2.9	1,873	4.2	1,410	1.3
St. Louis County	82,619	84,783	85,869	86,594	88,000	2,164	2.6	1,811	2.1	1,406	0.7
Minnesota	4,919,479	5,303,925	5,541,669	5,687,161	5,974,304	384,446	7.8	383,236	7.2	287,143	5.8
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											

- The City of Duluth is projected to add 1,323 households during the 2010s, an increase of 3.7%. The Remainder of the draw area (adjacent cities and townships) combined however, is projected to add 550 households, somewhat less than the City. The greater household growth in Duluth proper reflects more in-fill and redevelopment in the City this decade. The area outside of the City however, has a greater amount of land available for new housing development. Several of the townships accommodate only large lot development due to zoning restrictions and a lack of substantial infrastructure. Duluth's lack of land for new development continues to constrain its growth unless more redevelopment occurs.

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Comparing Tables 1 and 2 reveals that household growth has occurred in the face of lower population growth. This has been a result of social and demographic factors that began in the 1960s and continue today. Large numbers of households were formed by the “baby boom” generation (persons born between 1946 and 1964) starting in the late 1960s and continuing through the 1980s. The increases in the number of households did not have a corresponding increase in population as household size declined.

Couples' decisions to have fewer or no children, increased divorce rates, and a shift from traditional to non-traditional households are the major factors contributing to smaller household sizes. Today, the disparity between household and population growth rates is lessening, as the “baby bust” generation (persons born between 1965 and 1976) is now the driving force of household formation. In addition, baby boomers held off having children longer than their parents, resulting in a “baby boomlet,” which lasted almost 20 years (1977 to 1995).

The children of baby boomers, Millennials, are of the age when they would typically enter the housing market. However, due to the Recession and concerns about housing appreciation, many Millennials are delaying traditional household formations and in addition are choosing to rent rather than own once they move into the housing market.

The increases in population and households in the Downtown core CBD will be less disparate because most of the new households added will consist of only one or two people per unit. New housing development in the Downtown core CBD since 2011 has been limited and we believe that development has been insufficient to satisfy pent-up demand for a variety of housing products in the Duluth area.

The rate of housing development was severely curtailed between 2008 and 2012, the period of the Recession. Housing development is increasing, but there continues to be greater demand than is being accommodated by new housing construction. Other factors such as labor cost rates and construction costs have further hindered housing development despite low mortgage rates and strong demand.

Population Age Distribution

Age distribution data for the population is shown on Table 3 for 2000, 2010, 2016 and 2021. The 2000 and 2010 data is from the US Census while the 2016 projections are from ESRI, Inc., a nationally recognized demographic services firm and were adjusted by Maxfield Research to reflect the most recent population estimates and projections.

- The City of Duluth, like St. Louis County and Minnesota (and much of the nation) is growing older and will continue to do so into the foreseeable future as the baby boom generation (the largest number of people in US history) ages into the older adult and senior age cohorts.

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**TABLE 3
PROJECTED AGE DISTRIBUTION
DOWNTOWN CORE AND DISTRICT, DULUTH CITY AND DRAW AREA
2000 - 2021**

Age	U.S. Census		ESRI		Change			
	2000	2010	Estimate	Forecast	2000-2010		2010-2021	
			2016	2021	No.	Pct.	No.	Pct.
<i>Downtown core CBD</i>								
Under 10	122	103	110	120	-19	-15.6	17	13.9
10 to 19	117	171	155	146	54	46.2	-25	-21.4
20 to 24	290	354	336	231	64	22.1	-123	-42.4
25 to 34	320	363	390	461	43	13.4	98	30.6
35 to 44	350	272	267	286	-78	-22.3	14	4.0
45 to 64	625	863	845	808	238	38.1	-55	-8.8
65 and over	857	661	724	867	-196	-22.9	206	24.0
Total	2,681	2,787	2,827	2,919	106	4.0	132	4.9
<i>Downtown District</i>								
Under 10	1,021	930	899	905	-91	-8.9	-25	-2.4
10 to 19	1,090	898	849	862	-192	-17.6	-36	-3.3
20 to 24	2,494	2,868	2,859	2,527	374	15.0	-341	-13.7
25 to 34	1,837	1,911	2,014	2,230	74	4.0	319	17.4
35 to 44	1,419	996	952	1,013	-423	-29.8	17	1.2
45 to 64	1,788	2,288	2,243	2,179	500	28.0	-109	-6.1
65 and over	1,376	1,043	1,141	1,340	-333	-24.2	297	21.6
Total	11,025	10,934	10,957	11,056	-91	-0.8	122	1.1
<i>Duluth City</i>								
Under 10	9,619	9,094	8,768	8,632	-525	-5.5	-851	-8.8
10 to 19	13,391	11,696	11,274	11,395	-1,695	-12.7	-2,117	-15.8
20 to 24	9,549	12,044	11,026	9,943	2,495	26.1	1,477	15.5
25 to 34	10,484	11,523	12,770	12,935	1,039	9.9	2,286	21.8
35 to 44	12,222	8,676	8,793	9,718	-3,546	-29.0	-3,429	-28.1
45 to 64	18,506	21,366	20,913	19,652	2,860	15.5	2,407	13.0
65 and over	13,147	11,866	13,646	15,745	-1,281	-9.7	499	3.8
Total	86,918	86,265	87,190	88,020	-653	-0.8	272	0.3
<i>Draw Area Total</i>								
Under 10	12,280	11,753	11,353	11,248	-527	-4.3	-927	-7.5
10 to 19	11,583	14,636	14,084	14,309	3,053	26.4	2,501	21.6
20 to 24	15,445	13,228	12,219	10,943	-2,217	-14.4	-3,226	-20.9
25 to 34	12,543	13,985	15,450	15,800	1,442	11.5	2,907	23.2
35 to 44	15,886	11,677	11,540	12,675	-4,209	-26.5	-4,346	-27.4
45 to 64	23,474	28,435	27,904	26,417	4,961	21.1	4,430	18.9
65 and over	15,636	14,864	17,599	20,453	-772	-4.9	1,963	12.6
Total	106,847	108,578	110,149	111,845	1,731	1.6	3,302	3.1
Sources: U.S. Census Bureau, ESRI, Inc.; Maxfield Research and Consulting								

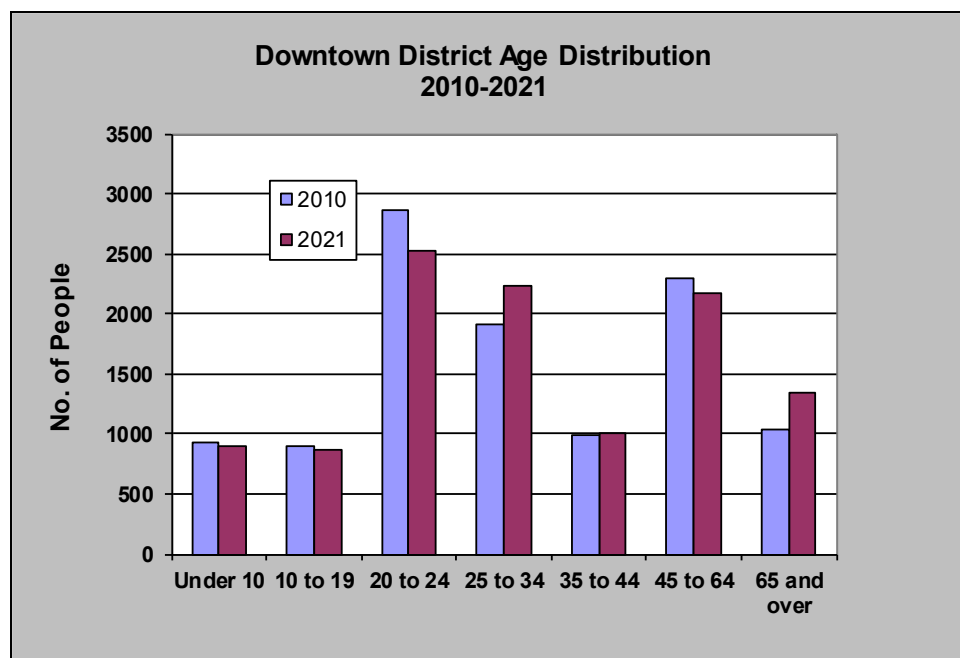
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- During the 2000s, the draw area's 25 to 34 population declined by roughly –3,200 people (-20.5%). Meanwhile, the 18 to 24 and the 35 to 44 cohorts experienced population increases, 2,037 and 371 people, respectively. The increase among 18 to 24 year olds was a result of increasing enrollments at local colleges and universities. Enrollment at local colleges and universities continued to increase during the 2000s and peaked in 2012 before beginning to decline.
- According to enrollment figures collected from the College of St. Scholastica and from the University of Minnesota, enrollment increased by 3,251 students from 2000 to 2011 before starting to decrease.
- Enrollments at Duluth's post-secondary institutions reached a peak in 2011 and have decreased in each year since that time. High school graduation rates have been declining in Minnesota, which has led to a decrease in undergraduate enrollments at nearly every public and private post-secondary education institution. High school graduations are projected to increase from 2016 through 2026 after which time they will again gradually decline. This trend indicates that undergraduate enrollments should start to increase again modestly at the local colleges and universities, strengthening the off-campus rental market.
- During the 2000s, the 45 to 64-age cohort had the largest increase, adding 238 people in the Downtown core DBD (38.1%), 500 people (28.0%) in the overall Downtown District, 2,860 people in Duluth as a whole (15.5%) and 4,961 people in the Draw Area (21.1%). The growth in this age cohort is primarily attributed to the aging of the baby boom generation into their mid-age adult years. The oldest baby boomers were 70 years of age in 2016. The youngest of this group was 52. The majority of these households are in an age group where they consider move-up housing or, if at the older end of the age range, may consider alternate housing products to a single-family home for lifestyle reasons. A portion of upper-income boomers may also choose to purchase or rent a second residence for longer periods of time in a location away from their permanent residence.
- From 2000 to 2010, the number of seniors in the Downtown core CBD decreased by 196 people (-22.9%) and by 333 (-24.2%) in the Downtown District. Duluth city lost -1,281 seniors (-9.7%) and the larger draw area lost 772 seniors (-4.9%). From 2010 to 2021, the number of seniors is forecast to increase primarily because of the aging of the baby boom generation fully into this age group.
- The number of people under age 20 is expected to decrease between 2010 and 2021, but is expected to increase slightly in the Downtown core CBD. There is a projected decrease in the number of people ages 20 to 24 in the Downtown core CBD and overall Downtown District, although this could perhaps be shifted if there was additional student housing developed in the Downtown that would attract more of this group to the Downtown area. Currently, the majority of the off-campus student housing is focused on areas immediately adjacent to the University of Minnesota and the College of St. Scholastica, although there

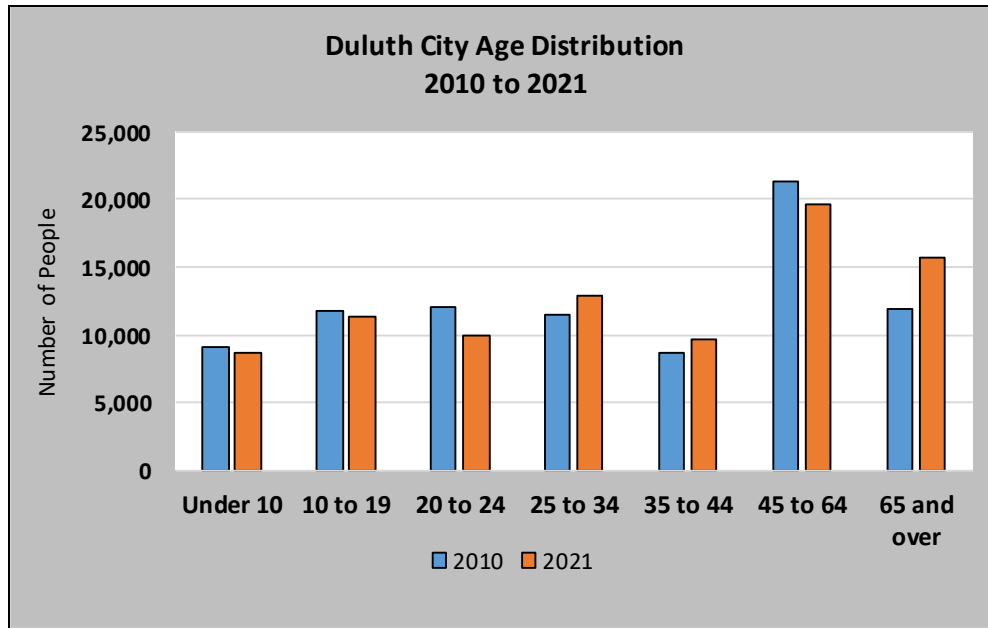
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are students living in a number of older apartment buildings in the Downtown located primarily above 4th Street.

- Lake Superior College has indicated a need for some housing for its students. They currently have some students residing at newer upscale apartments in Duluth where there is a shuttle that takes students from their apartment to campus at designated times of the day. In speaking with admissions staff at Lake Superior College, there is a satellite campus in the Downtown that offers classes for specific areas of study. Lake Superior College would like to grow the number of students in these areas which may result in a portion of those students desiring to reside in housing in the Downtown as a convenient location for attending classes at the Downtown campus. Lake Superior College has and continues to make efforts to recruit more non-commuter students to the school. Increasing the non-commuter population at LSC increases the potential demand for off-campus housing for students that come from out of the area.
- Between 2010 and 2021, the number of people age 25 to 34 is projected to increase. This group is one of the predominant renter segments along with those ages 35 to 44 and would potentially be attracted to rental housing in the Downtown.



The preceding chart visually depicts the trends discussed in this section. As shown, growth is projected to be greatest among seniors with modest growth among those ages 25 to 44.



MSA Population and Household Projections

Table 4 shows population and household projections for the Duluth-Superior MSA from 2010 to 2040. The table shows growth between 2015 and 2030, but decreasing again by 2040. Considering the MSA, there are likely to be a portion of people living in the Superior, Wisconsin area or in areas near to Duluth such as Carleton County to the south that may work in Duluth and would find it attractive to live there. We account for the proportion of these people in the demand calculations in a later section of the report as demand coming from outside of the Duluth Primary Market Area.

	2010 to 2040		Forecast		
	Census 2010	Estimate 2015	2020	2030	2040
Duluth-Superior, MN-WI MSA	279,746	279,601	285,050	288,068	281,648

Sources: US Census; MN State Demographic Center; WI Dept. of Administration

Household Incomes

Tables 5 and 6 display updated household income distributions for the Downtown core DBD, the larger Downtown District and the larger Duluth draw area for 2016 and 2021. This data was calculated using household distributions from data provided by ESRI Inc., a national demographic services firm and adjusted by Maxfield Research to reflect updated household projections based on data from the American Community Survey and Minnesota State Demographic Center. This data is important in determining the size of the potential market

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that can afford specific price ranges. We consider housing to be “affordable” at a cost for households of 30 percent of income, which is the level used by the Department of Housing and Urban Development (“HUD”). Senior households however, are often able and willing to spend up to 40 percent of their income on housing, since they generally do not have as many expenses (i.e. child care, saving for children’s education retirement, etc.) as do younger households.

Households with substantial equity in an existing home and households with annual incomes of \$75,000 and above often spend a somewhat smaller proportion of their income on housing, approximately 25% to 28%.

- As of 2016, the median household income for households in the Downtown Duluth District was estimated at \$21,887. The highest median household income was among householders 35 to 44 at \$28,995. The majority of renters tend to be under age 34 and older than 65, although these traditional age groups are changing as more households choose to rent for lifestyle reasons. The 2016 estimated median income of households under 25 was \$18,223 while households age 25 to 34 was \$27,294. The 2016 median income of households age 65 to 74 was \$20,265 and households over age 75 had a median income of \$14,801.
- The median household income in Downtown District is expected to drop slightly over the next five years, a function of current demographic trends. Except for households under age 25, all other age cohorts are projected to see modest increases in their median household incomes over the next five years.
- Table 6 shows there are an estimated 13,866 households in Duluth city with incomes of \$75,000 and above who would be a potential market for upper-end for sale units and/or upscale rentals. Of those, 11,668 are between the ages of 15 and 64. We exclude households age 75+, as many of these households often require support services. Households with incomes of \$45,000 or more would be able to afford rents of at least \$1,125 per month (the minimum price for most new construction rental housing), allocating 30% of their income for housing costs. Depending on the location and features of housing in the Downtown, there is a substantial number of households in the Duluth area with sufficient incomes to afford housing priced at this level.
- According to the Duluth Area Association of Realtors, home prices climbed 10.3% from the end of 2015 to the end of 2016. Continued low mortgage interest rates and an increase in employment have caused consumer confidence to increase post-recession. As of year-end 2016, resales in Duluth proper were 1,393, up from 1,268 in 2015. The median resale price of was \$157,545 as of year-end 2016, up from \$154,600 in 2015. Low mortgage interest rates also increase the amount of home that can be purchased.

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- Seniors are willing to pay up to 40 percent of their income on housing that meets their needs. For housing with intensive support services, seniors will pay up to 100 percent of their income and even spend down assets to avoid being placed in a nursing home.

Household Income in 2016	Households by Age of Householder							
	2016							
	Total	15-24	25-34	35-44	45-54	55-64	65-74	75+
Under \$15,000	2,062	557	364	173	248	316	140	264
\$15,000-\$24,999	1,003	249	185	84	106	116	125	138
\$25,000-\$34,999	777	210	181	85	93	90	67	51
\$35,000-\$49,999	647	151	162	80	83	85	52	34
\$50,000-\$74,999	608	88	165	84	107	107	35	22
\$75,000-\$99,999	244	29	62	37	54	41	11	10
\$100,000-\$149,999	183	29	53	25	39	28	9	0
\$150,000 or more	145	14	32	27	36	30	4	2
Total Households.	5,669	1,327	1,204	595	766	813	443	521
Median Income - Downtown	\$21,887	\$18,223	\$27,294	\$28,995	\$27,519	\$22,073	\$20,265	\$14,801
Median Income - Duluth Area	\$49,775	\$26,452	\$47,203	\$59,183	\$68,537	\$59,967	\$47,047	\$28,208
Household Income in 2021	2021							
	Total	15-24	25-34	35-44	45-54	55-64	65-74	75+
Under \$15,000	2,165	510	422	190	228	338	203	274
\$15,000-\$24,999	911	185	179	77	80	107	151	132
\$25,000-\$34,999	684	151	173	76	72	85	74	53
\$35,000-\$49,999	954	196	256	122	109	129	91	51
\$50,000-\$74,999	372	42	106	57	60	66	27	14
\$75,000-\$99,999	257	29	72	39	50	44	13	10
\$100,000-\$149,999	182	24	57	25	34	33	9	0
\$150,000 or more	172	18	43	31	38	35	5	2
Total Households.	5,697	1,155	1,308	617	671	837	573	536
Median Income - Downtown	\$21,679	\$17,727	\$27,448	\$29,736	\$28,185	\$21,768	\$19,244	\$14,672
Median Income - Duluth Area	\$47,944	\$26,245	\$45,185	\$63,723	\$77,438	\$65,008	\$45,816	\$28,456
Income	Change 2016-2021							
	Total	15-24	25-34	35-44	45-54	55-59	65-74	75+
Under \$15,000	103	-47	58	17	-20	22	63	10
\$15,000-\$24,999	-92	-64	-6	-7	-26	-9	26	-6
\$25,000-\$34,999	-93	-59	-8	-9	-21	-5	7	2
\$35,000-\$49,999	307	45	94	42	26	44	39	17
\$50,000-\$74,999	-236	-46	-59	-27	-47	-41	-8	-8
\$75,000-\$99,999	13	0	10	2	-4	3	2	0
\$100,000-\$149,999	-1	-5	4	0	-5	5	0	0
\$150,000 or more	27	4	11	4	2	5	1	0
Total Households.	28	-172	104	22	-95	24	130	15
%	0.5%	-13.0%	8.6%	3.7%	-12.4%	3.0%	29.3%	2.9%
Median Income...	-\$208	-\$496	\$154	\$741	\$666	-\$305	-\$1,021	-\$129
%	-1.0%	-2.7%	0.6%	2.6%	2.4%	-1.4%	-5.0%	-0.9%

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

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TABLE 6 HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER DULUTH DRAW AREA 2016 & 2021								
Households by Age of Householder								
Household Income in 2016	2016							
	Total	15-24	25-34	35-44	45-54	55-64	65-74	75+
Under \$15,000	6,820	1,100	1,161	699	807	1,212	675	1,166
\$15,000-\$24,999	5,059	633	833	494	479	657	737	1,226
\$25,000-\$34,999	4,806	609	814	542	493	665	731	952
\$35,000-\$49,999	5,729	502	1,068	715	702	909	927	906
\$50,000-\$74,999	8,427	429	1,581	1,231	1,556	1,741	1,213	676
\$75,000-\$99,999	5,051	174	796	799	1,190	1,227	587	278
\$100,000-\$149,999	5,533	197	810	977	1,350	1,374	588	237
\$150,000 or more	3,282	59	381	593	902	839	402	106
Total Households.	44,707	3,703	7,444	6,050	7,479	8,624	5,860	5,547
Median Income - Downtown	\$21,887	\$18,223	\$27,294	\$28,995	\$27,519	\$22,073	\$20,265	\$14,801
Median Income - Duluth Metro	\$49,775	\$26,452	\$47,203	\$59,183	\$68,537	\$59,967	\$47,047	\$28,208
Household Income in 2021	2021							
	Total	15-24	25-34	35-44	45-54	55-64	65-74	75+
Under \$15,000	7,393	1,076	1,295	807	754	1,225	919	1,317
\$15,000-\$24,999	4,812	512	766	479	355	591	838	1,271
\$25,000-\$34,999	4,278	460	711	503	358	560	773	913
\$35,000-\$49,999	6,918	595	1,302	871	723	1,030	1,262	1,135
\$50,000-\$74,999	6,027	258	1,085	965	953	1,192	1,062	512
\$75,000-\$99,999	5,553	172	891	953	1,130	1,289	784	334
\$100,000-\$149,999	6,337	191	938	1,191	1,339	1,539	826	313
\$150,000 or more	4,041	63	504	771	972	1,002	576	153
Total Households.	45,359	3,327	7,492	6,540	6,584	8,428	7,040	5,948
Median Income - Downtown	\$21,679	\$17,727	\$27,448	\$29,736	\$28,185	\$21,768	\$19,244	\$14,672
Median Income - Duluth Metro	\$47,944	\$26,245	\$45,185	\$63,723	\$77,438	\$65,008	\$45,816	\$28,456
Income	Change 2016-2021							
	Total	15-24	25-34	35-44	45-54	55-59	65-74	75+
Under \$15,000	573	-24	134	108	-53	13	244	151
\$15,000-\$24,999	-247	-121	-67	-15	-124	-66	101	45
\$25,000-\$34,999	-528	-149	-103	-39	-135	-105	42	-39
\$35,000-\$49,999	1,189	93	234	156	21	121	335	229
\$50,000-\$74,999	-2,400	-171	-496	-266	-603	-549	-151	-164
\$75,000-\$99,999	502	-2	95	154	-60	62	197	56
\$100,000-\$149,999	804	-6	128	214	-11	165	238	76
\$150,000 or more	759	4	123	178	70	163	174	47
Total Households.	652	-376	48	490	-895	-196	1,180	401
%	1.5%	-10.2%	0.6%	8.1%	-12.0%	-2.3%	20.1%	7.2%
Median Income....	-\$208	-\$496	\$154	\$741	\$666	-\$305	-\$1,021	-\$129
%	-1.0%	-2.7%	0.6%	2.6%	2.4%	-1.4%	-5.0%	-0.9%

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

- The primary draw area is projected to grow by 652 households by 2021, with a greater proportion of the growth expected to occur among households in the upper income categories - \$75,000 and above. This indicates a potential for increased demand for for-sale housing and market rate rental housing with a portion of those households likely to be attracted to units located in the Downtown.

Household Tenure by Age of Householder

Table 7 presents data on the number of renter and owner households by age group within the primary draw area in 2010 and 2016. Data from 2010 is from the Decennial Census while 2016 data is an estimate from the American Community Survey. This information is useful in assessing the potential target market groups that are most likely to own and rent their housing. The following are the key points from the table.

- As of 2010, 15% of households in the Downtown District owned their housing while 85% rented. This compares to 60.1% of households in the City of Duluth owning their housing and 64% of households in the draw area as a whole owning their housing.
- Renter households are the majority in the Downtown District, but the proportion of households renting their housing decreased slightly between 2010 and 2016, from 85% in 2010 to 83% in 2016. Owner households are clustered among the middle age cohorts, those between the ages of 45 and 64. Older households may elect to rent their housing if they need support services and/or desire freedom from upkeep and maintenance of a single-family home.
- Conversely, renter households are clustered in the youngest and the oldest age cohorts. The large number of students attending the University of Minnesota, the College of St. Scholastica and Lake Superior College affects demand within the local rental market. As of 2016, there were an estimated 3,436 renter households under age 25 (88.9%) and 3,559 renter households between the ages of 25 and 34 (56.0%).
- In more rural areas and regional centers in Greater Minnesota, the proportion of owner households age 25 to 34 tends to be higher than in the Twin Cities Metropolitan Area. This higher proportion of younger owner households reflects housing prices that are usually much lower and these households are somewhat less mobile. In addition, rental housing is usually scarcer.

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Age	DOWNTOWN DISTRICT				DULUTH CITY				DRAW AREA TOTAL				
	2010		2016		2010		2016		2010		2016		
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	
15-24	Own	39	2.8	26	1.8	450	11.4	428	11.1	505	12.1	502	12.3
	Rent	1,348	97.2	1,388	98.2	3,506	88.6	3,436	88.9	3,675	87.9	3,575	87.7
	Total	1,387	100.0	1,414	100.0	3,956	100.0	3,864	100.0	4,180	100.0	4,077	100.0
25-34	Own	124	10.7	129	11.2	2,774	47.0	2,792	44.0	3,451	49.8	3,411	46.2
	Rent	1,034	89.3	1,018	88.8	3,122	53.0	3,559	56.0	3,479	50.2	3,966	53.8
	Total	1,158	100.0	1,147	100.0	5,896	100.0	6,351	100.0	6,930	100.0	7,377	100.0
35-44	Own	123	19.3	136	17.2	3,262	67.0	3,199	63.4	4,455	71.1	4,488	68.1
	Rent	515	80.7	653	82.8	1,607	33.0	1,850	36.6	1,811	28.9	2,105	31.9
	Total	638	100.0	789	100.0	4,869	100.0	5,049	100.0	6,266	100.0	6,593	100.0
45-54	Own	175	20.2	251	35.8	4,655	70.7	4,461	73.3	6,473	75.1	6,049	76.2
	Rent	692	79.8	451	64.2	1,928	29.3	1,624	26.7	2,146	24.9	1,888	23.8
	Total	867	100.0	702	100.0	6,583	100.0	6,085	100.0	8,619	100.0	7,937	100.0
55-64	Own	192	25.1	204	25.7	4,971	77.3	5,107	77.0	6,596	80.5	6,864	80.3
	Rent	573	74.9	591	74.3	1,461	22.7	1,526	23.0	1,600	19.5	1,684	19.7
	Total	765	100.0	795	100.0	6,432	100.0	6,633	100.0	8,196	100.0	8,548	100.0
65-74	Own	101	28.0	139	31.2	2,770	77.3	3,226	77.6	3,595	79.4	4,246	80.0
	Rent	260	72.0	306	68.8	815	22.7	931	22.4	933	20.6	1,062	20.0
	Total	361	100.0	445	100.0	3,585	100.0	4,157	100.0	4,528	100.0	5,308	100.0
75-84	Own	63	21.3	64	20.1	1,955	70.0	1,787	68.8	2,490	70.9	2,257	69.6
	Rent	233	78.7	255	79.9	839	30.0	810	31.2	1,023	29.1	984	30.4
	Total	296	100.0	319	100.0	2,794	100.0	2,597	100.0	3,513	100.0	3,241	100.0
85+	Own	28	11.7	38	14.1	732	46.0	959	53.5	856	45.4	1,183	54.5
	Rent	211	88.3	232	85.9	858	54.0	833	46.5	1,030	54.6	987	45.5
	Total	239	100.0	270	100.0	1,590	100.0	1,792	100.0	1,886	100.0	2,170	100.0
TOTAL	Own	845	14.8	987	16.8	21,569	60.4	21,959	60.1	28,421	64.4	29,000	64.1
	Rent	4,866	85.2	4,894	83.2	14,136	39.6	14,569	39.9	15,697	35.6	16,251	35.9
	Total	5,711	100.0	5,881	100.0	35,705	100.0	36,528	100.0	44,118	100.0	45,251	100.0

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

- The younger age groups (predominantly renter) tend to be mobile, are more likely to be single, may not have yet accumulated a down payment for a single-family home or do not yet necessarily want to settle into homeownership. Seniors often no longer need the space of a single-family home, some travel frequently or have a second home in the warmer climates, and others just want/need to rid themselves of the burden of home maintenance.
- Younger households (up to age 34) are more likely to rent their housing than any of the other age cohorts, and it is this group that comprises the largest number of renters in the Downtown District as well as in Duluth and in the draw area as a whole. As of 2016, households up to age 35 rented their housing in the following proportions for each jurisdiction: 93% in the Downtown District, 68.5% in the City of Duluth and 64.2% in the draw area.
- The largest growth in the number of owner households occurred among households ages 45 to 54 in the Downtown District. This age cohort gained 43% in the owner segment between 2010 and 2016.

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- As the graph below shows, the propensity of households in the Downtown District to own their housing generally increases until it peaks at age 45 to 54 and then again at ages 65 and 74 after which it decreases again with the oldest senior households (75+).

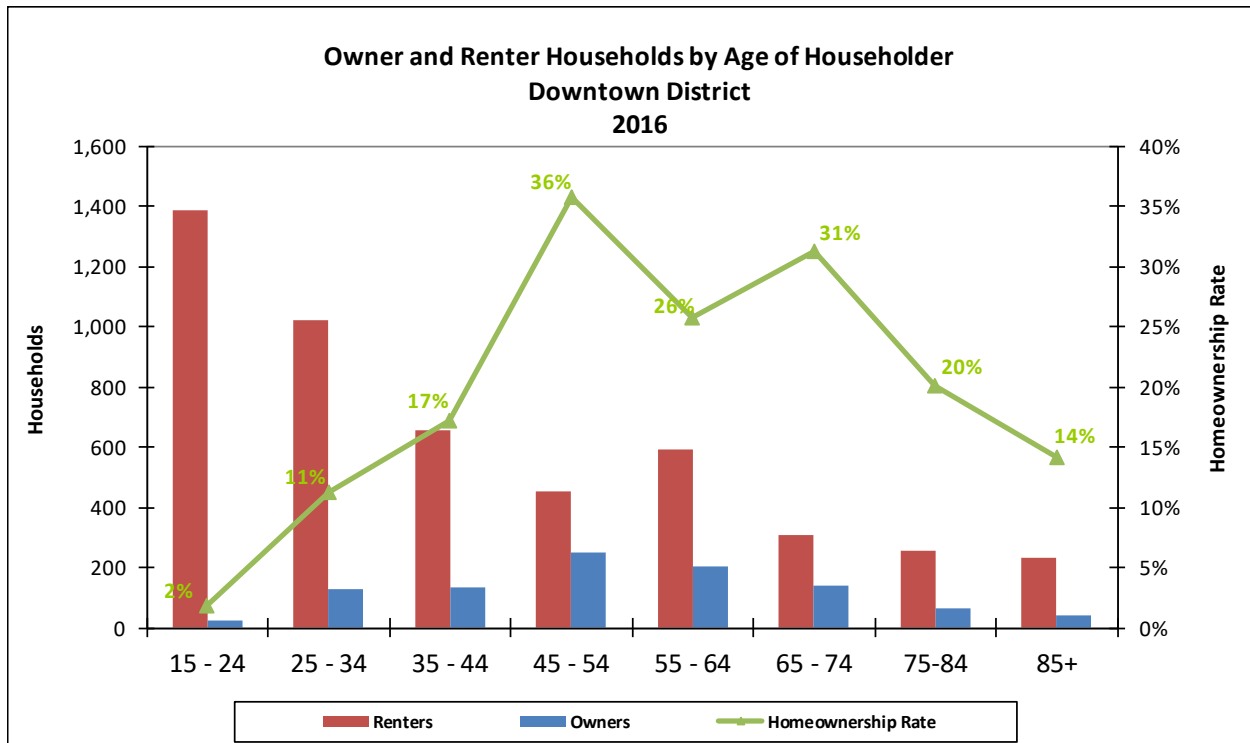


Table 8 shows a summary of the change in owner and renter households in the Downtown core CBD, the Downtown District and in Duluth city in 2000, 2010 and 2016.

- The table reveals that the proportion of renter households in the Downtown District is projected to remain stable over the next five years. Despite low mortgage interest rates and increasing market activity for for-sale housing, there continues to be increasing demand for rental housing in Duluth as new product has been brought to the market.
- Comparing the age distribution trends presented earlier in this section to the propensity to rent figures stated above it would seem to indicate that demand for rental housing is at a lull with number of younger households stabilizing. The number of renter households in the Downtown District and in the City of Duluth increased by a greater number than owner households, 652 renter households versus 484 owner households, documenting the increased demand for rental housing.

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**TABLE 8
HOUSEHOLD TENURE
DOWNTOWN CORE CBD, DOWNTOWN DISTRICT AND CITY OF DULUTH
2000, 2010 AND 2016**

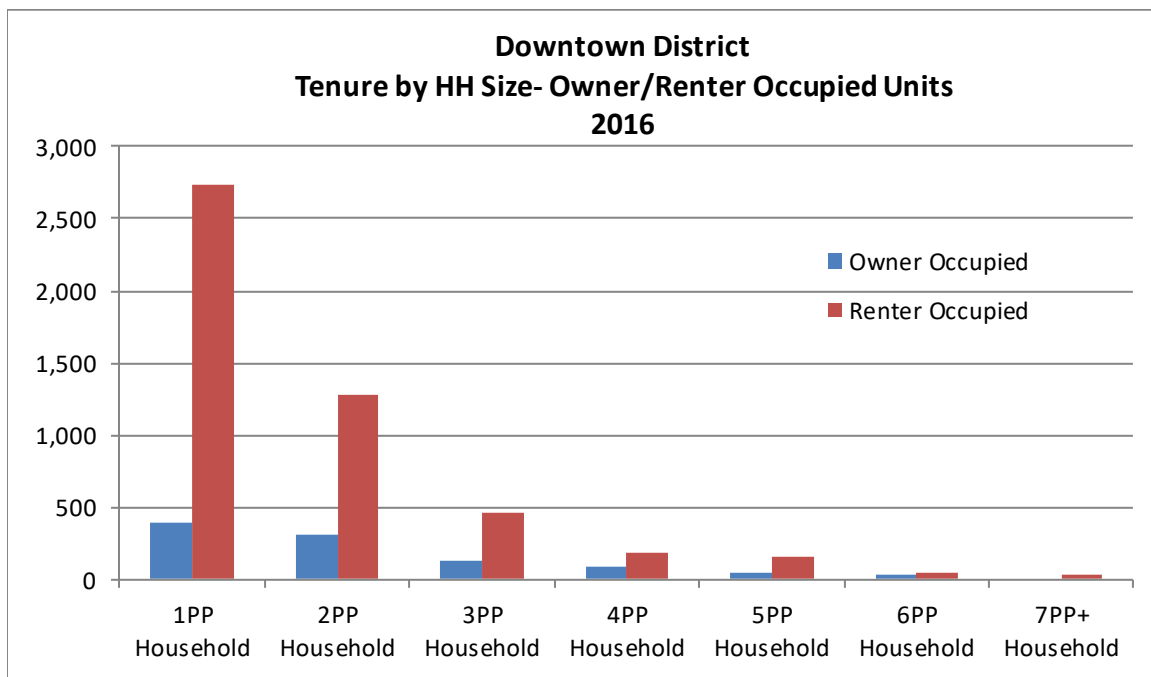
	2000				2010				2016			
	Own		Rent		Own		Rent		Own		Rent	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Downtown CBD	30	1.5	1,912	98.5	55	2.6	1,811	97.4	87	4.6	1,816	95.4
Dwn. District	1,021	17.5	4,802	82.5	845	14.8	4,866	85.2	987	16.8	4,894	83.2
Remainder of City of Duluth	21,752	73.3	7,925	26.7	5,747	86.3	915	13.7	5,910	85.7	985	14.3
City of Duluth	22,773	64.1	12,727	35.9	21,569	60.4	14,136	39.6	21,959	60.1	14,569	39.9

Sources: Maxfield Research and Consulting; Bureau of the Census

Tenure by Household Size

Table 9 presents information on owner and renter households by household size for the Downtown Core CBD and the Downtown District in 2010 and 2016. Data is an estimate based on information compiled from the Decennial Census and the American Community Survey by the US Census Bureau.

The table shows that from 2010 to 2016, the Downtown core CBD gained owner households, increasing from 55 to 87 during the period. Most of increase is estimated to be in single- and two-person households. The renter population is also estimated to have increased, primarily among single-person and two-person households. This is typical for a Downtown urban environment, which tends to attract fewer traditional family households.



DEMOGRAPHIC ANALYSIS

**TABLE 9
TENURE BY HOUSEHOLD SIZE
DOWNTOWN DISTRICT
2010 AND 2016**

Size	DOWNTOWN CORE CBD							
	2010				2016			
	Owner Occupied		Renter Occupied		Owner Occupied		Renter Occupied	
	Number	Pct.	Number	Pct.	Number	Pct.	Number	Pct.
1PP Household	23	41.8%	1,491	82.3%	47	54.0%	1,502	82.7%
2PP Household	23	41.8%	237	13.1%	33	37.9%	274	15.1%
3PP Household	5	9.1%	54	3.0%	7	8.0%	14	0.8%
4PP Household	4	7.3%	19	1.0%	0	0.0%	20	1.1%
5PP Household	0	0.0%	4	0.2%	0	0.0%	0	0.0%
6PP Household	0	0.0%	5	0.3%	0	0.0%	0	0.0%
7PP+ Household	0	0.0%	1	0.1%	0	0.0%	6	0.3%
Total	55	100.0%	1,811	100.0%	87	100.0%	1,816	100.0%
Size	DOWNTOWN DULUTH							
	2010				2016			
	Owner Occupied		Renter Occupied		Owner Occupied		Renter Occupied	
	Number	Pct.	Number	Pct.	Number	Pct.	Number	Pct.
1PP Household	289	34.2%	2,814	57.8%	393	40.3%	2,736	55.8%
2PP Household	343	40.6%	1,166	24.0%	305	31.3%	1,280	26.1%
3PP Household	102	12.1%	444	9.1%	125	12.8%	464	9.5%
4PP Household	83	9.8%	247	5.1%	85	8.7%	183	3.7%
5PP Household	14	1.7%	111	2.3%	41	4.2%	158	3.2%
6PP Household	7	0.8%	59	1.2%	27	2.8%	51	1.0%
7PP+ Household	7	0.8%	25	0.5%	0	0.0%	33	0.7%
Total	845	100.0%	4,866	100.0%	976	100.0%	4,905	100.0%

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

- The table shows the majority of renter households in the Downtown District are one-person households. In 2010, single-person renter households comprised 58% of all renter households in the Downtown. By 2016, that proportion had decreased to 56% with two-person households increasing slightly from 24% in 2010 to 26% in 2016. Three-person households also increased slightly from 9.1% in 2010 to 9.5% in 2016. We anticipate that the Downtown District will continue to have a larger share of one- and two-person households as family households typically prefer to locate outside of the Downtown.

Tenure by Household Income

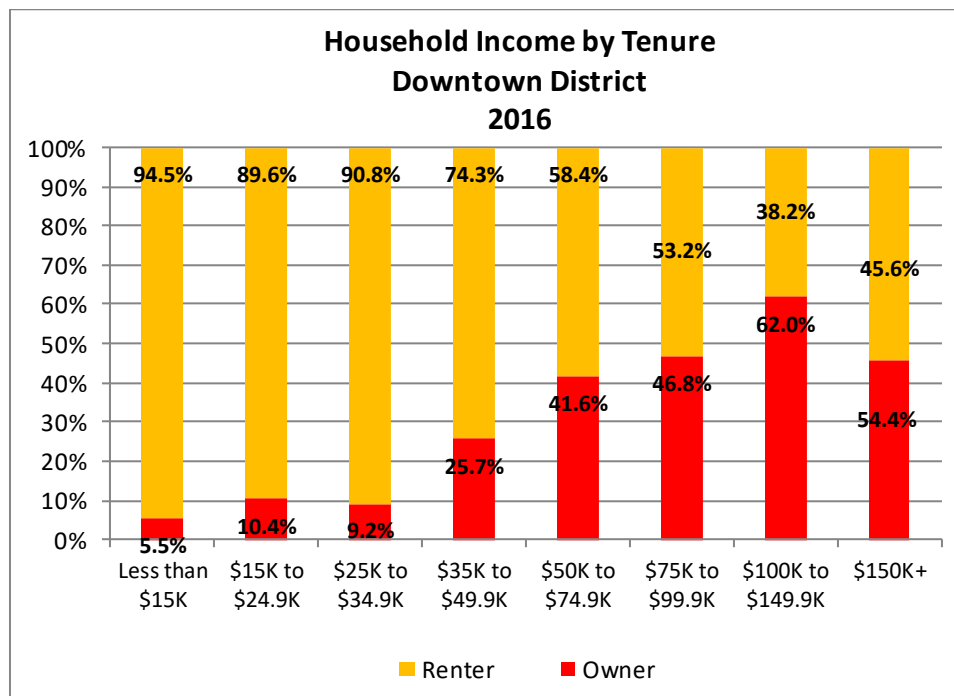
Table 10 presents information on owner and renter households by income for the Downtown District in 2010 and 2016. This information is compiled from Census data and data from the American Community Survey. The table shows that in the Downtown core CBD, 95.8% of households are estimated to rent their housing as of 2016, compared to 4.2% owning their housing. The median income for owner households in the Downtown core is substantially higher than for renter households, with a spread of more than \$50,000.

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**TABLE 10
TENURE BY HOUSEHOLD INCOME
PRIMARY MARKET AREA
2016**

Income	DOWNTOWN CORE CBD				DOWNTOWN DULUTH				CITY OF DULUTH			
	Owner-Occupied	Pct.	Renter-Occupied	Pct.	Owner-Occupied	Pct.	Renter-Occupied	Pct.	Owner-Occupied	Pct.	Renter-Occupied	Pct.
Less than \$15,000	17	5.5%	1,001	94.5%	122	5.5%	2,090	94.5%	1,253	20.5%	4,870	79.5%
\$15,000 to \$24,999	5	10.4%	367	89.6%	119	10.4%	1,020	89.6%	1,605	34.5%	3,053	65.5%
\$25,000 to \$34,999	0	9.2%	174	90.8%	69	9.2%	693	90.8%	2,023	49.4%	2,050	50.6%
\$35,000 to \$49,999	14	25.7%	133	74.3%	179	25.7%	516	74.3%	2,969	61.2%	1,890	38.8%
\$50,000 to \$74,999	12	41.6%	81	58.4%	249	41.6%	349	58.4%	4,838	72.2%	1,861	27.8%
\$75,000 to \$99,999	9	46.8%	20	53.2%	102	46.8%	114	53.2%	3,562	89.5%	422	10.5%
\$100,000 to \$149,999	16	62.0%	16	38.2%	71	62.0%	45	38.2%	3,540	93.0%	276	7.0%
\$150,000+	14	45.6%	24	54.4%	65	45.6%	78	54.4%	2,199	95.2%	116	4.8%
Total	87	4.6%	1,816	95.4%	976	16.6%	4,905	83.4%	21,989	60.2%	14,538	39.8%
Median HH Income	\$67,322		\$16,163		\$48,032		\$20,971		\$66,415		\$22,619	

Sources: U.S. Census Bureau - American Community Survey; Maxfield Research and Consulting LLC



Employment Growth Trends

This section presents trends in employment growth for the City of Duluth and St. Louis County including information on place of residence and place of work employment.

Labor Force (Place of Residence Employment)

Table 11 shows growth in the labor force, employment and unemployment for Duluth city and St. Louis County from 2000 through November 2016. This data is compiled by the Minnesota Workforce Center and documents the number of employed residents in a given area. This data is place of residence employment.

The following are key points from the Table 11.

- In Duluth, the labor force increased by 436 people from 2000 through November 2016. Employment during the same period increased by 2,104, resulting in a net drop in unemployment of -1,668 people. The unemployment rate in the City declined consistently from 7.6% in 2010 to a low of 3.1% in November 2016. Duluth's unemployment rate has consistently remained below that of St. Louis County, which had an unemployment rate of 8.1% in 2010 and a rate of 4.9% in November 2016.
- Employment increased rapidly post-recession as several sectors of the economy supported job growth. Health care, manufacturing, tourism and professional services all experienced strong increases during the recovery and continue to post solid gains in the Duluth area. Growth in natural resources (primarily the oil industry) has also created spin-off jobs in professional and business services at more than living wages. At an unemployment rate of 3.1%, the area could generally be considered to have full employment and some industries may be experiencing modest labor shortages at this level.
- Although the sizeable student population helps to support the labor force in the community, particularly with respect to service positions, there continues to be a shortage of skilled workers in specific job categories, which acts as a constraint to future employment growth. Labor shortages coupled with relatively tight housing market, rental and owner-occupied, is likely to constrain economic development over the long-term. Efforts to balance new employment growth with new housing development will assist the community in creating the skilled labor and infrastructure necessary to sustain new employment growth.

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TABLE 11 ANNUAL AVERAGE RESIDENT EMPLOYMENT DULUTH AND ST. LOUIS COUNTY 2000 through 2016 (November)						
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	46,036	44,631	1,405	3.1%	4.9%	3.2%
Change, 2000 through November 2016						
No.	436	2,104	-1,668	N/A	N/A	N/A
Pct.	1.0%	4.9%	-54.3%	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	99,029	94,186	4,843	4.9%	4.9%	3.2%
Change, 2000 through November 2016						
No.	-4,498	-4,778	280	N/A	N/A	N/A
Pct.	-4.3%	-4.8%	6.1%	N/A	N/A	N/A
Sources: MN DEED; Maxfield Research and Consulting, LLC						

Employment by Industry (Place of Work)

Table 12 shows employment growth by industry or the number of jobs in a given area as of 3rd Quarter 2015 and 2016. This data represents employment covered by worker's compensation and as such, excludes smaller classes of workers such as railroad workers, workers of very small farm operations, among others. The data is compiled by the Minnesota Department of Employment and Economic Development (MN DEED). Also shown is the average weekly wage for the various industry sectors.

- The table shows that Education, Health Services and Retail Trade added the greatest number of jobs over the period shown. The largest number of jobs was added in the Education sector with 378 new jobs (8.0%) followed by Health Services with 362 new jobs (2.0%) and Retail Trade added 266 new jobs (4.3%). The largest decrease occurred in the Construction sector with a decrease of -430 jobs or -16.3%. Nearly all other sections remained relatively stable over the period. From 3rd Quarter 2015 to 3rd Quarter 2016, Duluth gained 43 new covered jobs, an increase of 0.6%.
- Health care and education industries continue to post strong gains with these two sectors a significant part of the local economy. The continued growth projected for the Health Services sector in Duluth will bring increased opportunities to provide additional housing and more housing located in close proximity to these employment centers. The Downtown and Canal Park areas with their base of retail, entertainment and other services are prime locations to attract a portion of new employees from health care employers.
- ***Cirrus Aircraft, AAR and suppliers to these two businesses are rapidly growing. Because covered employment data lags by at least nine months, the current covered employment figures do not reflect the recent increase in employment for these businesses. Mining employment has also increased, but has been primarily in Superior where employment for oil refining for the pipeline has also increased rapidly. This accelerated increases in Professional Services in Duluth primarily for engineering and engineering consulting services.***
- These manufacturing businesses are actively recruiting for employees. In addition, engineering firms have also been actively recruiting for employees from outside of the Duluth area. These new employees are a target market for Downtown housing.

**TABLE 12
COVERED EMPLOYMENT TRENDS
CITY OF DULUTH
2015 and 2016 (3rd Quarter)**

	Estimates No. of Jobs		Avg. Weekly Wage		Change-# of Jobs 2015-2016	
	2015	2016	2015	2016	No.	Pct.
Natural Resources/Mining	35	26	\$655	\$652	-9	-25.7
Construction	2,635	2,205	\$968	\$1,114	-430	-16.3
Manufacturing	2,867	2,850	\$966	\$1,098	-17	-0.6
Trade and TCU ²						
Utilities	726	772	\$1,832	\$2,022	46	6.3
Wholesale Trade	1,146	1,227	\$1,008	\$1,042	81	7.1
Retail Trade	6,194	6,460	\$466	\$492	266	4.3
Transp. & Warehousing	1,381	1,402	\$1,111	\$1,120	21	1.5
Information	963	943	\$905	\$913	-20	-2.1
Financial Activities	2,707	2,697	\$1,147	\$899	-10	-0.4
Services						
Professional/Business Serv.	5,048	4,794	\$778	\$989	-254	-5.0
Education	4,744	5,122	\$805	\$912	378	8.0
Health Services	18,035	18,397	\$812	\$941	362	2.0
Leisure/Hospitality Serv.	7,125	6,831	\$249	\$326	-294	-4.1
Other Services	2,075	2,084	\$393	\$427	9	0.4
Government	3,719	3,633	\$1,085	\$1,070	-86	-2.3
Total/Average	59,400	59,443	\$939	\$951	43	0.6

¹ Agriculture, Forestry, Fishing, and Mining

² Transportation, Communication, and Utilities

³ Finance, Insurance, and Real Estate

Sources: MN DEED; Maxfield Research and Consulting, LLC

- Over the next ten years, the Services sector is projected to continue to experience the strongest employment growth as our economy moves toward a predominantly service-based function. As mentioned previously, strong growth is forecast for Health Services, Education, and Retail Trade. However, due to employment growth in the Manufacturing and Mining sectors, additional jobs are also forecast for Transportation and Warehousing along with Natural Resources and Mining.
- As a corollary to increases in the Manufacturing and Mining sectors, job growth is anticipated in Information and Professional and Business Services to support the growth occurring in the other two segments.

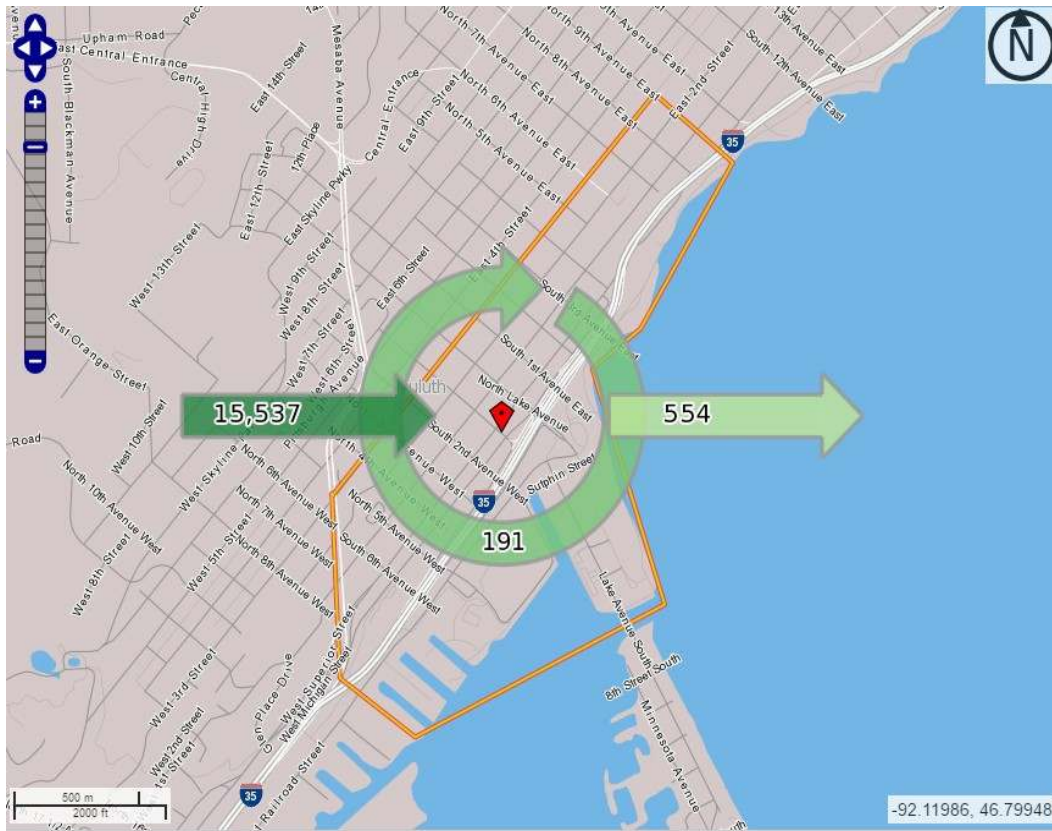
Commuting Patterns

Table 13 shows commuting patterns of area workers and residents in Duluth as of 2014. The data shows the destination and inflow-outflow of workers from Duluth to other surrounding areas. This information is compiled through the US Census Bureau’s Local Employment Household Dynamics (LEHD) program.

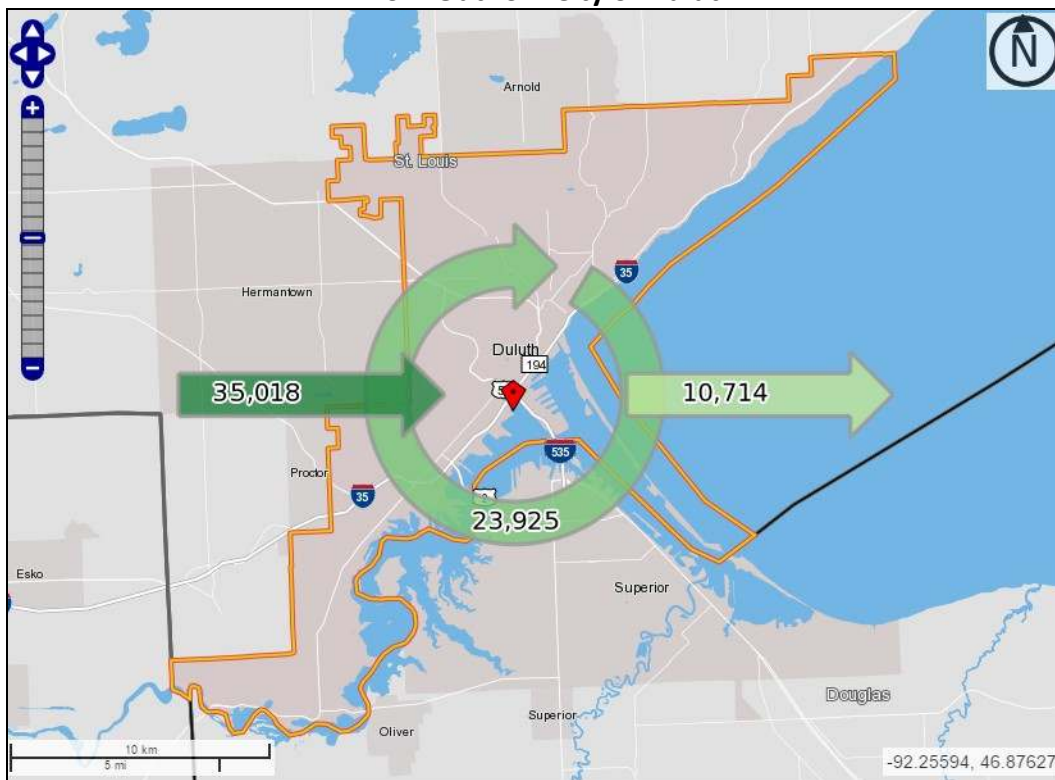
- The table shows that 69.1% of workers in Duluth reside in Duluth city while 5.1% reside in Superior, Wisconsin and 4.1% reside in Hermantown. Much smaller proportions are allocated for the remaining cities shown on the table. Approximately 41% of workers are employed in the City of Duluth, while 6.7%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

TABLE 13 COMMUTING PATTERNS CITY OF DULUTH 2014					
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	23,925	69.1%	Duluth city, MN	23,925	40.6%
Superior city, WI	1,768	5.1%	Superior city, WI	3,924	6.7%
Hermantown city, MN	1,406	4.1%	Hermantown city, MN	2,539	4.3%
Cloquet city, MN	629	1.8%	Cloquet city, MN	1,214	2.1%
Minneapolis city, MN	357	1.0%	Arnold CDP, MN	900	1.5%
Proctor city, MN	277	0.8%	Proctor city, MN	755	1.3%
Hibbing city, MN	255	0.7%	Minneapolis city, MN	597	1.0%
St. Paul city, MN	244	0.7%	St. Paul city, MN	518	0.9%
Minnetonka city, MN	231	0.7%	Esko CDP, MN	402	0.7%
Arnold CDP, MN	188	0.5%	Hibbing city, MN	399	0.7%
Bloomington city, MN	180	0.5%	Two Harbors city, MN	378	0.6%
All Other Locations	5,179	15.0%	All Other Locations	23,392	39.7%
Total All Jobs	34,639		Total All Jobs	58,943	
Home Destination = Where workers live who are employed in the PMA					
Work Destination = Where workers are employed who live in the PMA					
Sources: US Census Bureau Local Employment Dynamics; Maxfield Research and Consulting LLC					

Inflow-Outflow- Downtown District



Inflow-Outflow-City of Duluth



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- The two maps show the inflow and outflow of commuters from the Downtown District and the City of Duluth. The inflow-outflow shows that more workers come into the Downtown core than leaves for work, 15,537 workers coming in versus 554 workers commuting out. As of 2014, 191 workers both lived and worked in the Downtown District (Zip Codes) 55802 and 55806.
- In the City of Duluth, 35,018 workers come into the City daily for work while 10,714 workers leave. An estimated 23,925 workers live and work in the City of Duluth.
- The data shows that Downtown District and the City of Duluth overall are net importers of workers, which increases the potential to draw workers into the Downtown District to live.
- A portion of people living in the Downtown may decide to reverse commute, meaning they prefer to live Downtown, but work outside of the Downtown in other locations. Only a very modest number of people live and work in the Downtown. In attracting more households to the Downtown, offering additional opportunities for housing may increase the number of workers that would consider living in the Downtown near their place of employment.

Summary of Demographic and Economic Trends

The following paragraphs summarize the key points from the demographic analysis that have the greatest potential to impact potential housing development in the Downtown District.

- Between 2000 and 2010, the population decreased again in the Downtown District as well as in the City of Duluth as a whole. While there were fewer people, the number of households in the City as a whole increased, but the number of household in the Downtown district also decreased, meaning there were fewer people and households in the Downtown District in 2010 than in 2000. Between 2010 and 2016, we estimate that there has been an increase of 23 people in the Downtown as well as 170 households, but housing opportunities could be greater.
- Projections show the larger Downtown District is estimated to grow by 113 people between 2010 and 2020 and that households are projected to increase by 294 households. The Downtown core CBD is estimated to account for the majority of this gain, primarily from new rental developments that have opened in the Downtown and are targeted to serve those with low-moderate incomes and/or special needs. Additional market rate housing has been developed in the Downtown, but it has been a relatively small number of units (Canal Park Lofts and Weiland Block) compared to the other properties.
- Although the City of Duluth has an aging population, there remains a very large young age cohort, predominantly college and university students that generally occupy low-cost housing units in the Downtown and in several of the neighborhoods that are near to the

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educational institutions. Lake Superior College has no on-campus housing and has been considering the potential to develop housing for a portion of its students. In addition, it may decide to capitalize on locating some additional education programs in the Downtown and providing housing for students that would attend a second campus or may prefer to be bussed up to the main campus.

- The greatest growth in age is projected to occur among people ages 55 to 64 to 2021, followed by those 25 to 34, the predominant renter cohort. Both of these age groups have in the past found the Downtown district attractive, but for different reasons. The younger age group is more likely to prefer to rent their housing and may typically consider recreation and entertainment opportunities as primary attractions for living in the Downtown. Empty-nesters typically prefer to own their housing and may want to free themselves from some of the upkeep and maintenance of a single-family home. They may prefer a residence that offers more flexibility for travel in addition to other features and amenities.
- Household incomes are increasing, however the median household income in the City of Duluth remains modest, \$49,775 as of 2016. As of 2016, there were an estimated 6,560 households in Duluth with incomes of less than \$15,000 annually. By 2021, the median household income in the City is projected to stay roughly the same at \$47,944. The low incomes for the Downtown district tend to reflect the high proportion of students and low-income seniors and others as there is a higher proportion of this type of housing in the Downtown.
- Employment growth in Duluth has been strong since 2011 increasing in each year since that time. The current unemployment rate as of November 2016 was 3.1%, the lowest in many years. Strong employment growth in manufacturing, health services and other services fueled employment gains over the past 18 months. Much of the previous job growth and the most recent job increases have occurred in health care, a strong industry in the region.
- According to information compiled by the Census Bureau's Local Employment Household Dynamics, for 2014, the Downtown District gains workers daily. Duluth city as a whole and the Downtown District are net importers of workers with higher numbers of people coming into the City and the Downtown core district. As shown, 35,018 workers come into Duluth daily while about 10,000 workers leave for jobs outside of the City. About 15,000 workers come into the Downtown core district while only 554 leave.
- Tourism in the Duluth region escalated dramatically during the 1990s and the community has capitalized on this with the development of the Lake Walk and warehouse district near Canal Park and the Aerial Lift Bridge. New hotels, national chain restaurants and other specialty shops have opened, creating a regional tourist attraction. The annual Grandma's Marathon, which attracts athletes from all over the world, has placed Duluth on the global radar screen along with the Tall Ships Festival and the Blues Fest. This trend shows no signs of diminishing.

Introduction

This section presents an overview of current housing market conditions in the Downtown District and in the City of Duluth as a whole. This section provides information on residential construction trends, resales of owner-occupied housing, rental housing conditions and pending housing developments. For the purpose of this analysis, we focus on new housing located in the Downtown.

Residential Construction

Table 14 shows residential construction from building permits issued in the City of Duluth from 2000 through 2016. The table reveals that Duluth city has experienced increasing construction of residential units over the past five years, testament to the strong demand for housing in the community. Most recently, several multifamily buildings have been erected, targeted to the general population, including students.

- The table shows that permits were issued for a total of 2,505 units, including 1,074 single-family homes from 2000 through 2016 in Duluth. The majority of these units have been built on land over the hill. Only a limited amount of new residential development has occurred in the Downtown core CBD.
- Permits were issued for an average of 147 units annually over the 17-year period. Permits issued for new multifamily units increased substantially in 2014 and 2015 as new rental properties were constructed, in the Woodland and Kenwood neighborhoods, near the University of Minnesota Duluth and the College of St. Scholastica.
- Average annual permits were issued for 63 single-family homes, 8 duplex units and 11 units in 3-to 4-unit structures for the period from 2000 through 2016. From 2010 through 2016, average annual permits were issued for 35 single-family homes, eight duplex units, three units in 3- to 4-unit structure and 117 units in 5 or more unit buildings.

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Year	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	46	4	12	118	180
2015	29	0	0	368	397
2016	40	2	0	0	42
Totals	1,074	138	181	1,112	2,505
Average	63	8	11	65	147
Sources: City of Duluth, Census Bureau; Maxfield Research					

Downtown Residential Environment

According to the most recent estimates from the American Community Survey, there are 6,201 housing units (occupied and vacant) in the Downtown District. Of those, more than half, or 54%, were built prior to 1939 or earlier. A number of homes were constructed in the late 1800s.

- Large scale high-rise structures in the Downtown primarily date from the 1960s and 1970s and generally provide housing to those with low- and moderate incomes. A number of older single-family homes in the Downtown have converted to rental housing with multiple tenants. Downtown offers convenient services to many households through access to service providers, public transportation and other services.
- Within the past ten years, there has been more development of for-sale and rental housing in the Downtown, but the numbers still remain limited. There has been more for-sale development in the Downtown core CBD over the past ten years than rental development. Typically, we would expect to see the opposite.

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The for-sale units developed have almost entirely been targeted to upper income households. Pricing ranges from the mid-\$200,000s to nearly \$1.0 million. The number of units in each property also varies dramatically with most being small, fewer than 25 units. About half have been constructed in existing buildings, while the other half have been new construction.

Housing in the Downtown offers several benefits yet presents several challenges. The Central Business District is situated in close proximity to Lake Superior. Views of Lake Superior from areas east of Lake Avenue are striking. Views of the Harbor are also extremely attractive, although more obstructed. The Downtown is connected to many buildings via skywalk and Canal Park and the Lake Walk provide a substantial amount of recreational and entertainment opportunities for both tourists and area residents. The challenges include identifying buildings and/or spaces suitable within buildings to create housing, creating a sufficient amount of housing to achieve a “critical mass,” creating housing that will meet the market demands for price/features/location, and creating momentum to initiate a revitalization of the Downtown.

There is currently a perception that housing in the Downtown is only for low- and moderate-income households. In part, this perception is supported by the greater amount of this product that is located in the core of Downtown. Community and Federal financial incentives have focused on providing assistance for households that would not otherwise have been able to afford “market rate” housing.

The upper-middle and upper income groups have purchased units in the Downtown, but in small numbers. Some of the condominium units that were constructed are being rented out to others by their owners. Rent levels have increased overall as new units have come on-line charging higher rental rates and pushing the market upward.

For-Sale Housing Market

The for-sale housing market in Duluth has softened modestly, but remains tight in the middle price ranges, those that are typically sought after by first-time homebuyers. According to recent figures released by the Duluth Association of Realtors, the median home price in Duluth proper as of year-to-date November 2016 was \$156,000, up from \$151,000 in 2015, an increase of 3.3%. The total number of closed sales year-to-date was 2,921, up nearly 12% from one year ago in November 2015. Days on market (time to sell) remained essentially the same year-over-year at 76 days. Months of supply is a balanced 6.1 months, indicating that the for-sale housing market is generally balanced in terms of housing supply.

Since 2010, the City of Duluth has issued permits for an average of 163 housing units annually, most of which been new construction. The majority of these new units are not located in the Downtown.

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- Housing construction has been constrained due to limited land availability;
- The varying terrain of the City limits the number of sites suitable for large scale new construction;
- Bedrock formations increase the costs of construction, especially for larger buildings;
- Constrained by westward growth (Lake Superior forms eastern barrier);

Since 2010, there have been market rate and affordable housing units constructed in the greater Downtown District, but most of the market rate development has been focused in the Downtown core CBD. Units developed in the Weiland Block brought 14 condominium units to the market, of which five remain available for sale. Canal Park Lofts (23 units) opened last year and has units available for lease. ENDI, 157 units of luxury market rate rental housing recently opened just west of 21st Avenue East and south of London Road. Units are in initial lease-up at this time.

Four other for-sale properties were developed in the Downtown during the 2000s. Two condominium units were configured on the upper floors of an existing building at Lake Avenue and Superior Street. One very large townhome unit was developed in an existing commercial building in the Downtown and 33 condominium units were developed on the top floors of the Sheraton Hotel, also on Superior Street. Several other market rate owner-occupied units are scattered throughout the Downtown core including 7 West Superior Street (Bushe's), 300 West Superior Street (Apters), condominium units at the Water and Gas Building on First Street and some rentals above Fannie Rose Candy at 103 East Superior Street.

One other for-sale property is the Waterfront condominiums located within the existing Suites Hotel that is situated in Canal Park. Several of these condominiums are used as vacation rentals by the individuals that own them.

The Weiland Block contains 14 condominium units of which five units still remain to be sold. Pricing of remaining units ranges from \$250,000 to \$415,000. Most of those we spoke with believed there would be a greater market for for-sale housing in the Downtown than for rental housing. The potential target markets for for-sale housing, mid-age professionals and empty-nesters would be more likely to want to purchase, rather than rent their housing. Again, the proportion of homeowners in these age groups (45 to 64) tends to be higher, 80% or greater. Many have an existing home they may want to sell. The housing market is a seller's market currently. A portion may have a second home or seasonal cabin elsewhere.

Again, these potential homeowners will desire certain features and amenities if they are to purchase a unit in the Downtown, particularly, if they purchase a unit at an upper-end price point. Unit size will be important, however typically the square footage of a unit is balanced against other desirable features and amenities such as high ceilings, large windows, plenty of natural light, hardwood floors/woodwork, upscale unit finishes, water views, secured building,

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convenient, secured parking, elevator (if multistory building), and convenient to retail goods and services.

Tables 15 and 16 show resale pricing for single-family homes in the Downtown District and in the City of Duluth. Multifamily in the Downtown District refers to buildings sold as multitenant.

TABLE 15 HOME REALES DOWNTOWN MLS DISTRICT					
SINGLE-FAMILY					
Year	No. of Sales	Low	High	Average	Median
2016	12	\$35,000	\$975,000	\$289,962	\$203,450
2015	12	\$36,584	\$435,000	\$106,882	\$65,500
2014	12	\$40,000	\$890,000	\$253,783	\$109,250
2013	14	\$34,000	\$740,000	\$238,764	\$161,125
2012	13	\$16,000	\$460,000	\$115,492	\$68,000
2011	11	\$25,000	\$440,000	\$101,854	\$69,900
2010	14	\$36,250	\$610,000	\$224,689	\$154,700
MULTIFAMILY					
Year	No. of Sales	Low	High	Average	Median
2016	12	\$35,000	\$975,000	\$289,962	\$203,450
2015	12	\$36,584	\$435,000	\$106,882	\$65,500
2014	12	\$40,000	\$890,000	\$253,783	\$109,250
2013	14	\$34,000	\$740,000	\$238,764	\$161,125
2012	13	\$16,000	\$460,000	\$115,492	\$68,000
2011	11	\$25,000	\$440,000	\$101,854	\$69,900
2010	14	\$36,250	\$610,000	\$224,689	\$154,700
Source: Duluth Area Association of Realtors					

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TABLE 16 HOME RESALES CITY OF DULUTH				
SINGLE-FAMILY				
Year	No. of Sales	Days on Market	Average	Median
2016	1,326	47	\$185,419	\$157,545
2015	1,227	52	\$180,655	\$154,600
2014	1,185	57	\$163,286	\$144,900
2013	1,129	62	\$157,747	\$137,000
2012	933	68	\$150,060	\$131,750
2011	884	78	\$150,060	\$135,000
2010	801	72	\$156,063	\$135,000
MULTIFAMILY				
Year	No. of Sales	Days on Market	Average	Median
2016	67	93	\$176,931	\$151,200
2015	41	71	\$218,293	\$150,000
2014	69	128	\$193,644	\$170,000
2013	75	123	\$199,983	\$161,750
2012	64	200	\$207,642	\$183,500
2011	83	113	\$200,588	\$169,700
2010	68	76	\$234,681	\$214,375

Source: Duluth Area Association of Realtors

Multifamily for the City of Duluth refers to condominium and townhome units. Condominium and townhome sales in the Downtown District are included in the single-family totals. The table shows that single-family market activity has increased since 2010 with average and median sales prices increasing during that period. The median price of single-family homes rose from \$135,000 in 2010 to \$157,545 as of the end of 2016. This represents 16.7% for the period or an average annual increase of 2.6%. For condominium and townhome developments, market activity has fluctuated and average and median sales prices have also experienced fluctuations. Some of the fluctuation is a result of the housing slump and some a result of the total number of sales has increased and decreased during the period.

Total market activity in the Downtown each year since 2010 has been relatively consistent, with sales of between 10 and 14 units per year for single-family (including condo/townhome) and multifamily (apartment buildings). Although pricing has fluctuated somewhat due primarily to the age and condition of the property being sold, the high end of the resale scale has started to increase. As of 2016, the highest sales price in the Downtown was \$975,000 for a condominium unit at 311 E. Superior Street (Sheraton).

Rental Housing

Maxfield Research identified three market rate upscale rental properties in the Downtown including The Harbours, Bridgeman Russell Building, Canal Park Lofts and one property, ENDI, outside of the Downtown in the Endion neighborhood. The Harbours is located on Michigan Avenue. Units at The Harbours are connected by skywalk to Downtown office buildings and to the Arena/Auditorium complex. The tenant profile of the property is primarily mid-age professionals, empty-nesters and young seniors who prefer the convenience of living close to goods and services. Several of the residents have homes located elsewhere in the United States or lake cabins near Duluth. Some of these residents may have been willing to purchase their housing, but there were few if no options available at the time they made their decision.

Canal Park Lofts has 23 units and opened in 2016 with units leasing from \$1,150 to \$2,206 per month. Units feature high ceilings, brick walls and open floor plans. There are few common area amenities in the building, but it is located in the midst of restaurants, shopping, and recreation with limited views of Lake Superior. Currently, the property is offering one month free with a 12-month signed lease.

Bridgeman Russell has 31 units, was developed in 2006 and has a mix of studio, one-bedroom and two-bedroom units. Pricing for units at Bridgeman Russell range from \$875 to \$1,500 per month for loft-style units. The property has two units available, a one-bedroom and a two-bedroom unit.

Village Place Apartments is a mixed-income building with a mix of subsidized, moderate-rent and market rate units. The property is currently offering one month rent free on all market rate units. The property has 78 total units, of which 38 are market rate. The property was developed in 2004.

ENDI is the newest property in the area, leasing units that range in price from \$1,140 per month for a one-bedroom unit to \$4,250 for a three-bedroom unit. Features include 9 foot ceilings, bocce ball, bike storage and repair, book nook, fenced dog run, gallery wall for art display, gourmet kitchens, gas range in select homes, fireplace in select homes, granite counters, guest suite, outdoor grilling areas with seating, LED lighting, laundry pick-up and delivery, fitness center, business center, roller shade window treatments, reserved garage parking, walk-in shower (select homes) and Wi-Fi control.

In addition to traditional apartment buildings, we noted that several condominium units are leased instead of owner-occupied. Pricing for owned housing units that are leased varies widely, from minimal monthly rent for an older, small single-family home to \$3,500 per month for a two-bedroom, two bath unit at the Weiland Block. These units add to the rental housing stock in the Downtown, but fluctuate back and forth between owner-occupied and renter-occupied.

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TABLE 17 MARKET RATE NEWER AND UPSCALE GENERAL OCCUPANCY RENTAL DEVELOPMENTS DOWNTOWN DISTRICT December 2016										
Project Name	Year Built	Total Units	No. of Units	Unit Mix	Monthly Rent	Avg. Rent	Unit Size	Avg. Size	Rent Per Sq. Ft.	Amenities/Comments
The Harbours	1993	38	1	EFF	\$925	925	475 - 475	475	\$1.95 - \$1.95	Five-story concrete mid-rise on top of five floors of commercial/office space. Nine units have solariums and covered ramp parking, one stall included; free Wi-fi access
300 West Michigan St.		2	4	1BR	\$1,150 - \$1,250	1200	851 - 851	851	\$1.35 - \$1.35	
Duluth		5.3%	33	2BR	\$1,350 - \$1,550	1450	1,320 - 1,791	1,556	\$1.02 - \$0.75	
Bridgeman Russell Apartments	1905	31	3	EFF	\$875	875	697 - 709	703	\$1.26 - \$1.23	Three-story historic conversion to urban loft apartments; Underground parking; fitness center, high-speed internet, cable TV, secured entry, oversized windows
10 West First Street	2006	1	24	1BR	\$1,100 - \$1,200	1150	825 - 872	849	\$1.33 - \$1.26	
Duluth		3.2%	4	2BR	\$1,500	1500	1,250 - 1,280	1,265	\$1.20 - \$1.17	
ENDI	2016	143	88	1BR	\$1,150 - \$1,420	1285	550 - 732	641	\$2.09 - \$1.57	New luxury apartment building with upscale features and amenities. Enclosed heated garage parking; bocce ball, granite counters, stainless appliances, in-unit washer/dryers, book nook, outdoor grilling stations, 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.
2120 London Road		1	20	1BR+Den	\$1,725 - \$1,950	1838	876 - 897	887	\$1.97 - \$1.92	
Duluth		0.7%	32	2BR	\$2,100 - \$3,625	2863	1,032 - 1,580	1,306	\$2.03 - \$1.33	
In initial Lease-up			3	3BR	\$4,300 - \$4,600	4450	2,855 - 3,497	3,176	\$1.51 - \$1.23	
Village Place Apartments	2006	17	4	EFF	\$920 - \$960	940	407 - 407	407	\$2.26 - \$2.36	Mixed Income building; market rate and affordable units; laundry on each floor; elevator, wood floors, berber-style carpeting, kitchen islands, off-street parking, children's play area, walk-in closets
602 E. 5th Street		0	6	1BR	\$1,185 - \$1,395	1290	750 - 800	775	\$1.58 - \$1.48	
Duluth		0.0%	7	2BR	\$1,500	1500	833 - 981	907	\$1.80 - \$1.53	
Lake Superior View Condos	n/a	8	8	2BR	\$1,200 - \$1,200	1200	1,250	1,250	\$0.96 - \$0.96	Condominium building with units available for rent; Heated garage parking available at additional monthly fee. Monthly rent includes trash removal; resident pays all other utilities.
7B East 4th Street		0								
Duluth		0.0%								
Glen Place Apartments	1993	68	5	EFF	\$630	630	300	300	\$2.10	Wall unit air conditioners, balcony/deck, views of Lake Superior; detached garages, 100% smoke-free.
1115 West Michigan Avenue		0	28	1BR	\$850	850	650	650	\$1.31	
Duluth		0.0%	24	2BR	\$950 - \$1,100	1025	900	900	\$1.06	
			11	3BR	\$1,500	1500	1,180	1,180	\$1.27	

Source: Maxfield Research and Consulting, LLC

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Older properties tend to offer few additional features while newer buildings provide upgraded unit details and may also provide some common area amenities. Many single-family homes sold in the Downtown have rental licenses through the City. There are also several high-rise properties that provide housing to households with low- and moderate incomes including The Gateway, Greysolon Plaza, Lennox Place and Kingsley Heights that serve low-income households including those that have a disability and/or are seniors age 62 years or older.

Washington Studios is an artist's cooperative where practicing artists with incomes at or less than 60% of the Area Median Income may apply to reside in the building, practice their craft and/or exhibit their work. Firehouse Flats opened in 2013 and is located at 128 East 4th Street. The property used two historic buildings and added a new construction building to complete the 40-unit development. There are eight, 1BR units, 28, 2BR units and four, 3BR units. Rents are set at 30% or less of AMI for nine of the units, 60% or less for 27 of the units and the remaining four units are targeted to formerly homeless individuals.

Single-family units that have been converted to multiple resident dwellings in and adjacent to the Downtown is, in part, a result of the older age of the housing stock. The stock's older age and in some cases, lack of maintenance has created housing with rent levels that are at the low end of the rental spectrum. Despite the fact that some of this housing is currently being renovated, it does not provide the modern features and amenities desired by most of today's renters, and particularly upper-income renters.

What is generally missing from the Downtown today is market rate rental housing at a middle price point and targeted to households that earn between \$40,000 to \$55,000 per year. These households would be able to afford monthly rents of between \$1,000 to \$1,375. Most of the upscale units that are being rented in the Downtown are above this price point or only a few of the units start at this price level. In considering how to attract more of the younger workforce to the Downtown, mid-level pricing must be a factor. Most of the rental units are also much larger in size. Sizing down units is more challenging in a renovated building unless the original spaces lend themselves to small units. More often, units created out of warehouse buildings end up being long and deep with larger sizes and therefore, higher price points. New construction or building floor plates that are narrower may be able to overcome this type of situation to bring units to the market that are priced for the middle market.

The small number of units added to the Downtown core CBD over the past six years (37 units) has not created a clear "critical mass" to demonstrate that there are many more households living in the Downtown. In addition, a revitalization of the Downtown needs to incorporate residential units as one component. Retail and entertainment businesses locating in the Downtown are interested in a household base that has a higher level of disposable income to spend on goods and services. Although upper-income households typically have higher incomes, they also may have other residences that they travel to outside of the Downtown. A larger mass of middle market housing units would support more retail goods and services in the Downtown.

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New market rate rental housing is currently priced from a low of \$875 per month for a studio unit at the Bridgeman Russell Building to a high of \$4,600 per month for a three-bedroom, two and one half bath rental at the ENDI. Monthly rents at The ENDI are some of the highest in Duluth. The property received tax increment financing from the City to assist with development. The ENDI is in its initial lease-up phase and a number of units have already been rented.

The City of Duluth publishes the *Housing Market Indicators Report* annually, which presents the findings of a survey of rental properties in the Duluth area. The most recent issue is dated 2015. According to the rental survey, District 5 (Central Hillside, Downtown) had one of the lowest vacancy rates in the City at 1.6%. The only other planning district to have a lower vacancy rate was Kenwood/Chester Park at 0.7%. These rates are well below the 5% rate considered to be sufficient to support adequate consumer choice and turnover. The very low vacancy rate may be attributed, in part, to the significant affordability of the housing stock in this area, which shows that housing turnover is very low and households renting out of economic necessity may be more likely to remain as finding similar housing at an affordable cost is difficult.

Construction of new market rate rental housing in the Downtown, depending on the building and the site, will likely require monthly rents of at least \$900 and may increase to at least \$1,500.00. Existing buildings that target market rate renters. There is a growing market for rental units, but today's renters expect that with the higher rent level, there will be a clear value trade-off between the rental price and features and amenities. Features provided in The ENDI and the acceptance of those units in the marketplace is testament to that value relationship.

Conversions or development of small buildings are able to provide enhanced features and amenities within the individual units, but if fewer than 50 units, are not likely to be able to incorporate an array of common area features such as fitness center, game room, community room, among others. For smaller buildings, we believe it is best to focus on the unit interiors with features such as high ceilings, decks, rooftop garden or lounge, high quality interior finishes, in-unit washer/dryers, etc.

Smaller buildings that offer views of the Lake could command higher monthly rentals because of the views. View premiums for Lake views are often substantial, at times \$100 or more per month for direct views.

Pending Downtown Residential Developments

Boisclair Corporation is proposing to redevelop the existing Duluth Armory Building on London Road and 14th Avenue East into a mixed-use development to include rental apartments, retail and office space. The apartments at this time are targeted to be mixed income, moderate rent and market rate, but the concept has not yet been finalized.

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The Duluth Economic Development Authority (DEDA) is seeking proposals from qualified developers to redevelop the site of the existing vacant Pastoret Terrace property located on 1st Street and North 2nd Avenue. Developer selection could occur sometime summer 2017.

Other Downtown locations are currently under consideration for redevelopment in the core Downtown, along 1st Street in addition to properties along 4th Street east of Central Entrance.

Condominium Market Trends

Historical

The market for condominium units has fluctuated over the past decade, due to a sluggish housing market and uncertainty regarding the price appreciation of condominium units. Sales of condominium units have been and still tend to be fueled by empty-nesters and young seniors seeking alternatives to their single-family homes. A portion of this group is already purchasing twinhomes and single-level townhomes to satisfy this demand. Some of these product types may also be developed in the Downtown, but these units will require less density and will be higher priced.

Current Trends

With the housing slump, condominium unit pricing dropped considerably in many geographies and caused a number of buyers to reconsider. As the housing market has recovered, there is more interest and activity among buyers to purchase condominiums, but there is less interest from the development community in providing them. Development of new condominium product has been hampered by construction litigation claims and additional costs for multiunit dwellings. The Minnesota Legislature passed a law that extended the construction warranty period for condominium structures from six years to 10 years. Because of the higher risk to developers, builders, architects and others in the construction industry, a number of developers and builders have been deterred from developing this product. Although a number of developers are working to try to reduce the potential risks of litigation through changes to legislation, little progress has been made to date. Most new condominium developments in the market have been located in upscale markets with either a small number of very expensive units or a larger size building, again with units that would be priced at the upper end of the market to support total development costs.

The most recent condominium units developed in the Downtown have been at 311 E. Superior Street (a top the Sheraton Hotel) and in the Weiland Block. These sites are both located in the Downtown east of Lake Avenue. Pricing of the condominium units at the Sheraton current range from the mid-\$200,000s on the low end up to \$975,000 at the high end. Most of the units are priced in the mid-\$400,000s for unit sizes that average about 1,500 square feet.

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The 14 units at the Weiland Block are located on levels four and five. Pricing for the remaining units ranges from \$250,000 to \$285,000 and includes primarily one-bedroom units. Unit sizes range from 944 square feet to 1,440 square feet. All of the two-bedroom units except for one have been sold. A two-bedroom unit is currently available for lease at a monthly rental rate of \$3,500 for 1,440 square feet.

Additional units have been developed in other buildings in the Downtown, but these consider of one or two units to a building. Pricing has ranged from the mid-\$400,000 to nearly \$800,000 for a large townhome on the upper floors of a downtown commercial building on Superior Street.

Second Residence

- According to the National Association of Realtors, vacation home sales declined in 2015, but still recorded the second highest level of sales since 2006. Conversely, investment home sales (sales of properties that will be rented out) increased in 2015. Steadily increasing rental demand caused pricing of investment properties to rise.
- The supply of homes available on the market, particularly short-sale or distressed properties, resulted in buyers purchasing fewer properties in 2015 than previously. With prices on the rise, fewer buyers decided to buy. The vacation and investment buyer segment remains dominated by baby boomers at or near retirement.
- More buyers are purchasing to be able to rent their homes and many will rent their homes for periods of less than 30 days, capitalizing on rental demand in vacation markets from short-term renters. Most vacation and investment home purchases remain concentrated in the South 47% with 25% in the West, 15% in the Northeast and 13% in the Midwest. Forty percent of buyers purchased in a beach area, 19% purchased in the mountains or lakefront and 16% purchased in the country.
- Some buyers prefer being no more than an hour or two away from home, some prefer traveling up north and others prefer the heat of Arizona, Florida or California as their getaway.
- Encouraged by rising housing demand and rising prices, many buyers of investment properties stated in the survey they believed that now was a good time to purchase. Investment buyers indicated primarily purchasing for the ability to obtain rental income and price appreciation.
- The trend toward second home ownership continues to remain strong. If mortgage interest rates remain low, second home buyers are likely to remain a factor in the housing market, especially for high tourist areas. According to the survey, 58% of buyers purchase single-family homes, while 25% purchased a condo and 13% purchased a townhome.

Introduction

This section calculates the potential demand for housing in the Downtown District between 2017 to 2030. Demand is calculated for for-sale and rental housing utilizing the Duluth draw area in addition to demand that would be generated from households coming to Duluth seeking a second residence. This section also discusses potential current challenges to Downtown housing development.

The development of a critical mass of market rate housing in the Downtown is likely to require public/private partnership in order to be able to realize larger size projects. Although small buildings have been converted to residential use, the number of units is sometimes too small to effect significant change. Increasing the number of housing units in the Downtown, particularly market rate units, will provide additional economic support for retail goods and services to serve those living in the Downtown core.

The majority of the demand for housing in the Downtown District is projected to come from the primary draw area, from workers who want to live in close proximity to their place of employment, and from others who want to live in the Downtown or in nearby neighborhoods because they offer a unique environment and housing products not found elsewhere. Downtown residents live Downtown because they find strong reasons to do so (i.e. close proximity to work, convenience, desirable amenities (cultural, recreational, entertainment), and increased flexibility).

A larger group of Downtown residents will evolve once a critical mass of housing is established Downtown and/or once specific neighborhoods have been created. The establishment of a critical mass of Downtown housing may require the designation of an area or areas for redevelopment and new construction. More housing units in the Downtown may be developed, but a small number of units developed in a few buildings will extend the process of Downtown revitalization by dampening the momentum that could be achieved through the development of larger buildings.

Expanding the amount of housing at the middle and upper income levels in the Downtown will enhance the vitality of Downtown's after hours environment and in a sufficient amount, will spur increased retail development. Downtown residents are more likely to consider the Downtown as their neighborhood and spend money for entertainment, recreation and other retail goods and services in close proximity to where they live and work.

For-Sale Demand-Primary Residence

Table 18 presents a demand calculation for primary residence for-sale housing in the Duluth Draw Area and an estimate of the proportion of demand capturable by the Downtown. It has been our experience that the Downtown can usually capture a range of total demand of

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between 10% and 20% depending on its draw area, sites available for development, projected growth and current housing conditions in the CBD. We believe that Downtown Duluth will be able to support a capture rate of 5% of single-family and 25% of multifamily for-sale over time as more housing units and a greater mix of price points becomes available in the Downtown District. Downtown's capture rate may be constrained by several factors, including availability of building sites, financial assistance and employment growth rates.

TABLE 18 PROJECTED DEMAND FOR FOR-SALE HOUSING DULUTH MARKET AREA 2017 to 2030			
		2017 to 2030	
Projected HH growth in the Market Area		1,472	
(times) Proportion of households that would be interested in owning their housing	x	<u>64%</u>	
(equals) Estimated no. of potential owner households from HH growth	=	942	
		<u>Single-Family</u>	<u>Multifamily</u>
(times) Number interested in single-family versus multifamily	x	<u>70%</u>	<u>30%</u>
(equals) Potential Market Area owners by category	=	659	283
(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	=	609	283
(plus) Demand from outside Market Area	+	<u>30%</u>	<u>30%</u>
(equals) Demand for for-sale housing from HH growth	=	792	367
(plus) Pent-up demand for for-sale housing (3%)	+	<u>24</u>	<u>11</u>
(equals) Total demand from HH growth and pent-up demand	=	816	378
(times) Proportion of Market Area capturable by Downtown	x	<u>5%</u>	<u>25%</u>
(equals) Total potential demand for Downtown (13 years)	=	40	95
Source: Maxfield Research and Consulting			

Table 18 calculates for-sale demand from household growth over the next seven years. We have projected a higher proportion of prospective buyers will desire multifamily housing due to significant growth in the age 45 and over population and a desire for greater mobility and flexibility in their lifestyles. We also include pent-up demand, as there is currently a shortage of

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housing in the Duluth market at nearly all price points. Demand for for-sale housing for primary residences is estimated at 40 units of single-family and 95 units of multifamily. Single-family, if developed, should be targeted to the East End neighborhood where there would be sites to accommodate lower density development. If employment growth accelerates and produces increased in-migration and/or the development environment becomes more conducive to developing owned multifamily product, then these figures may increase above what is listed here.

Rental Housing-Primary Residence

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 close proximity to their place of work (this according to a study conducted by the National Multihousing Council on the characteristics of the lifestyle renter).

Downtown Duluth has a growing base of young and mid-age professional workers primarily in the health care industry. A portion of those households may 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. Using an allocation of 30% of income for housing costs would generate an affordable rent of \$1,000, including utilities. In order 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 within convenient walking distance to work, close to shopping and entertainment, views, and upscale unit finishing. In order to achieve rent levels of \$1,000 or more per unit, off-street, reserved parking must be available in a well lit and reasonably secure area.

There is demand for rental units that would be priced between \$900 and \$1,500 per month for one- and two-bedroom units in the Downtown and that the number is greater than for the top end of the rent spectrum. 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 \$60,000. 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.

The demand calculations for rental housing in Downtown Duluth are shown on Table 19.

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TABLE 19 PROJECTED DEMAND FOR RENTAL HOUSING DULUTH MARKET AREA 2017 to 2030			
		2017 to 2030	
Projected HH growth in the Market Area		1,472	
(times) Proportion of households that would be interested in renting their housing	x	<u>36%</u>	
(equals) Estimated no. of potential renter households from HH growth	=	530	
		<u>Market Rate</u>	<u>Affordable</u>
(times) Number interested in market rate versus affordable housing (not mutually exclusive-some overlap)	x	<u>75%</u>	<u>25%</u>
(equals) Potential Market Area renters by category	=	397	132
(less) Rental units planned for development in the Market Area	-	<u>0</u>	<u>80</u>
(equals) Potential additional demand for rental housing	=	397	52
(plus) Demand from outside Market Area	+	<u>25%</u>	<u>25%</u>
(equals) Demand for rental housing from HH growth	=	497	66
(plus) Pent-up demand (20%/20%)	+	<u>99</u>	<u>13</u>
(equals) Total Demand from HH growth and Pent-up Demand	=	596	364
(times) Proportion of Market Area capturable by Downtown	x	<u>50%</u>	<u>30%</u>
(equals) Total potential demand for Downtown	=	300	110
Source: Maxfield Research and Consulting, LLC			

Second Residence/Vacation Rentals

Table 20 shows a calculation of demand for second residence units in Duluth based on the growth in the target market base, households age 45+ with household incomes of \$100,000 or higher. We have utilized this category as a benchmark because prices for upscale condo/townhome units continue to escalate and most buyers from this market purchasing a second home are likely to have incomes at or above this range.

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TABLE 20 PROJECTED OWNER HOUSING DEMAND-Second Residence DULUTH DRAW AREA 2017 TO 2030		
No. of HHs age 45 to 74 w/incomes of \$100,000+ (Twin Cities)	235,941	Households
(times) 5.5% capture rate	<u>5.5%</u>	
(equals) Demand from existing base	12,977	Households
(plus) Projected growth in HHs' w/incomes of \$100,000+	23,686	Households
(times) 5.5% capture rate	<u>5.5%</u>	
(equals) Demand from household growth in target market	1,303	Households
Potential Market for Second Homes from Primary Buyer Area	14,279	Households
(times) Proportion that would come from other locales	10%	
(equals) Gross Demand for Second Homes, 2017-2030	15,707	Units
(times) Proportion capturable by Duluth	<u>1.0%</u>	
(equals) Potential short-term demand in Duluth for second homes	157	
(less) Units Planned for Development	0	Units
Remaining Demand	157	
Short-Term Demand (five years) (second homes-for-sale/rentals)	35	
Source: Maxfield Research and Consulting, LLC		

The success of second residence development in Duluth is predicated on the following factors: increased growth in the 45+ age group over the next ten to twenty years, continued low mortgage interest rates, and reasonably strong economic growth (in major metropolitan areas where the majority of buyers will be coming from). Currently, all of these factors have combined, increasing the demand for second homes in recreational and resort communities in northern Minnesota and in other areas across the country. Many mid-age buyers who are still working prefer to purchase a second home in close proximity to their current residence (one to two hours away).

We have utilized households in the Twin Cities Metro Area to calculate base demand. Additional demand for second homes will come from households currently residing in other locales. We have utilized a factor of 10% of total demand that would come from this group.

The National Association of Realtors has identified a ratio of second home ownership at 5.5% nationally. Maxfield Research compared this ratio to the ratio of seasonal units in Minnesota to the total Minnesota household base as of the 2015 American Community Survey and found an

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identical ratio of 5.5%. Therefore, we have used this ratio as a capture rate for the target market.

We have identified a capture rate for this analysis of 5.5% of existing households and 5.5% of projected upper-income household growth over the next five years. This results in potential demand from the Primary Buyer Area of 14,279 households. Factoring that 10% of the demand for second homes is likely to come from outside of this market adds 1,428 households for a total of 15,707 households. We estimate that Duluth should be able to capture 1% of the potential demand for second homes. This would result in total demand for 157 units. We reduce this demand by the number of units under construction, currently being marketed and planned which totals 0 units, resulting in remaining demand for 157 units in Duluth proper over the next 13 years. We project that demand in the short-term (next five years) would be approximately 20% of this demand for a total of 35 units. This demand calculation does not account for units that would be used as primary residences. Of this total, we estimate that 70% of this demand could be captured by the Downtown core CBD or 25 units.

Target Markets

The primary target market for for-sale residential units in Downtown Duluth will be generated predominantly by buyers ages 35 to 64 who may be purchasing a first residence (first-time homebuyer), purchasing a primary residence for lifestyle reasons (single-professional, downsizing, retirement) or purchasing a second home (for investment or retirement use. Buyers at the upper range of the target age group are more likely to purchase a unit as a primary residence for lifestyle reasons or as a second residence or investment property. Buyers at the younger end of the age range are more likely to purchase the home as a primary residence.

The traditional target markets for condominiums and townhouses have been predominantly empty-nesters and younger seniors, although young and middle-age professionals are now often considering these housing types as attractive alternatives to a single-family home because they are seeking increased leisure time and a reduction in maintenance responsibilities that would be associated with maintaining a single-family home.

The target market segments for rental housing have diversified over the past ten years with the result that a portion of households across the age spectrum are now renting their housing. Although the predominant age group remains households ages 25 to 44, an increasing proportion of households age 45 years or older are choosing to rent.

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Continued employment growth in the region is likely to have the greatest impact on the ability to attract households to the Downtown. While a number of households prefer to be near their place of employment, a vital and robust Downtown can be a draw for those that work outside of the Downtown and choose to “reverse-commute.”

Although student enrollments are currently down at each of the major post-secondary education institutions, these enrollments are projected to increase again beginning in 2020 to 2026, creating a larger pool of students that will need housing in the community.

A number of households relocating to Duluth have lived in several other larger metropolitan areas prior to coming to the area. They are familiar with other urban concepts and are expecting to see and experience some of the same qualities and characteristics found in those other locations. They are conscious of what they perceive should be the quality of the housing and the price/value relationship. New housing needs to continue to bring contemporary concepts to the market to optimize the number of households that would choose to live in the Downtown core or in the East End neighborhood. Entertainment, recreation and shopping (including a grocery store) are important to provide to Downtown residents.

Locations for New Housing

Views of Lake Superior will continue to be highly desirable. However, there are many other housing units in Duluth that do not have views of the Downtown and have been well-received in the market. In order to provide housing on a broader scale with a greater variety of price points, some buildings will be developed that have no views of Lake Superior. As such, there should be other features and amenities for residents to take the place of lake views including pocket parks, landscaped greenways, street level retail with housing above, pet parks and play areas for children. The Downtown must be perceived as being attractive and safe. A critical mass of new housing in key locations could change the environment of key areas.

New housing that has been constructed in the Downtown provides buyers and renters with contemporary features and amenities similar to new housing product in other communities. Moving forward, successful locations for new for-sale and rental housing are more likely to focus on the overall quality of the surrounding environment and increasing availability and access to goods and services to support and sustain the “urban” character of the location.

We recommend that development focus on housing in the core of the Downtown east of Lake Avenue to Central Entrance and then from Central Entrance east to 21st Street East. The character of these two areas could be substantially different, creating two essentially distinct residential areas. Housing in the Downtown core CBD would be in close proximity to the Lakewalk and entertainment in Canal Park and moving up the hill could offer units with dramatic views of Lake Superior if multiple stories. Areas in the Downtown core east of Lake

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Avenue extending east to 15th would be in close proximity to the substantial employment in the medical district.

Summary Conclusions

- Demand for housing in Downtown Duluth has been driven by growth in households at opposite ends of the age continuum, the increase in the employment base of young to mid-age households and the aging baby boom generation considering alternative housing options. In addition to these groups, students will be attracted to housing in Downtown Duluth, but at different price points, different product types and different tenure formats.
- Employment growth among several industries in Duluth has already increased the demand for housing and will continue to increase the demand for housing in the Downtown. Major employers in Downtown Duluth include Minnesota Power, Maurices, Essential Health, St. Luke's, Enbridge and others. A portion of current and future employees will be interested in locating close to their work. Being located close to work has been cited as a key criterion in their selection of a housing unit in surveys of upscale renter households and urban residents in other metropolitan area across the country.
- The student base in the Duluth area continues to offer opportunities to develop housing specifically to meet the needs of this market segment. Although current enrollments are down, this group is projected to rise again later this decade and through the first half of the 2020s. Downtown and East End locations may be attractive to this group.
- Demand for condominiums and townhomes was very sluggish over the past five years, but demand is now beginning to resurge. The difficulty here is that developers are less likely to produce these types of units because of litigation risk and in some markets, building code requirements that would price some units above the price levels supportable by the local market. Demand for these products in the Downtown will continue to be driven by upper-income households, typically age 45 years or older on high-amenity sites with a high level of unit finishing.
- A broader mix of housing and more market rate housing is needed in Downtown to attract a variety of target markets and enhance the vitality of the Downtown. Increasing the mix of housing, particularly at the moderate to market rate price levels will provide a more diverse and dynamic living environment in the Downtown.
- There is a potential to develop housing locations in the Downtown and in the East End that do not require direct views of Lake Superior. However, views of the Lake will continue to be highly sought after and will continue to generate a substantial price premium.

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- Strong growth in the second home market due to an overall aging population, continued low mortgage interest rates and a recovery to strong primary residence appreciation over the few years has resulted in resulting in additional home equity for many baby boomer households which is translating into increased demand for vacation rentals and second residences;
- Growing interest in Duluth as a tourist and retirement location continues to attract potential buyers and renters to the Duluth area and increases the potential demand for housing in the Downtown and in the East End;

Recommendations

Ongoing discussions regarding the development of housing in the Downtown have revealed that some of the more important challenges developers face are: code restrictions, parking requirements, and a lack of programs available to cost effectively develop certain types of housing in the Downtown. It is important that private developers and local community organizations work with the various municipal entities such as the Planning, Building Inspections, the EDA, the HRA and others to tap into their specific areas of expertise to enhance development opportunities and streamline the development process.

Recent multifamily residential development in the Downtown core CBD has focused on the development of housing targeted to households with very low incomes. While it is important to provide affordable housing, there is also a need to “balance” the housing mix to support a robust neighborhood environment that can attract employment and retail goods and services to serve all segments of the residential market. At this time, the Downtown core CBD lacks sufficient moderate-income and market rate housing to support a commensurate increase in retail goods and services. High construction costs may require a public-private partnership to support the development of new residential rental units that will gradually increase the rent levels in the Downtown and support additional development that will increase overall property values for the Downtown core CBD as a whole and the overall Downtown area. Supporting the development of additional market rate housing in the Downtown will effectively improve property values across the spectrum for all types of properties, commercial and residential, over the long-term.

Lack of sites available for development of new housing is also a challenge to meeting economies of scale in providing moderately priced housing units. We recommend that local organizations and the City work in cooperation to identify potential funding alternatives to traditional federal and state programs that limit the type of housing that can be developed. Other programs that have been utilized include density credits, tax exempt bonds, and other types of loans, land acquisition, tax increment financing, tax abatement, among others.

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Many communities throughout the State and throughout the country are currently incorporating housing as a part of their marketing plans. Regularly promoting the Downtown as a great place to live, work and play, is a theme now heard often in small and large Downtowns. The promotion of Downtown as a place to live is two-fold, promoting the Downtown to prospective residents and promoting the Downtown to developers as an investment.

Developing housing in the Downtown will most likely require public-private partnerships for any sizeable project. Working together to achieve a common goal, of providing a variety of housing that creates a “Downtown neighborhood” will also strengthen the commercial core of the City and its community image among all residents.