

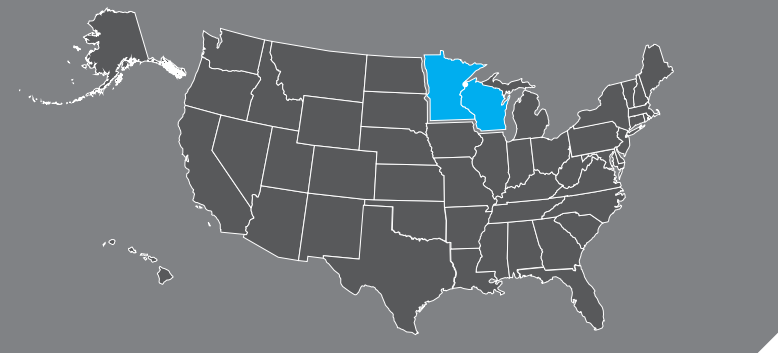
HUD PD&R Housing Market Profiles

Duluth, Minnesota-Wisconsin



Quick Facts About Duluth

- **Current sales market conditions: balanced.**
- **Current rental market conditions: balanced.**
- **Duluth is home to the only all-freshwater aquarium in the United States, the Great Lakes Aquarium.**



By Tomasz Kukawski | As of October 1, 2015

Overview

The Duluth metropolitan area is located along the shore of Lake Superior and consists of Carlton and St. Louis Counties in Minnesota and Douglas County in Wisconsin. The metropolitan area is rich in natural resources, and the Port of Duluth-Superior, at the head of the Great Lakes St. Lawrence Seaway System, makes it an active participant in global trade. Traditionally a transportation, mining, and manufacturing hub, the Duluth metropolitan area is developing as a center for health care, financial services, and tourism.

- As of October 1, 2015, the estimated population of the Duluth metropolitan area is 280,500, an average increase of 130, or less than 0.1 percent, annually since 2010.
- From 2006 to 2009, the population grew by an average of 920, or 0.3 percent, annually in response to expansions in the education and health services and the professional and business services sectors. During that time, net in-migration averaged 750 people a year.
- St. Louis County in Minnesota is the largest county in the metropolitan area with 200,900 people, accounting for 72 percent of the total population in the metropolitan area.



PD&R

The education and health services sector led nonfarm payroll growth in the Duluth area.

	3 Months Ending		Year-Over-Year Change	
	September 2014 (thousands)	September 2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	134.9	136.3	1.4	1.0
Goods-producing sectors	17.6	17.1	-0.5	-2.8
Mining, logging, and construction	10.2	9.7	-0.5	-4.9
Manufacturing	7.4	7.4	0.0	0.0
Service-providing sectors	117.3	119.2	1.9	1.6
Wholesale and retail trade	18.9	18.8	-0.1	-0.5
Transportation and utilities	6.5	6.8	0.3	4.6
Information	1.4	1.4	0.0	0.0
Financial activities	5.5	5.5	0.0	0.0
Professional and business services	8.5	8.7	0.2	2.4
Education and health services	30.5	31.5	1.0	3.3
Leisure and hospitality	15.1	15.4	0.3	2.0
Other services	6.0	6.3	0.3	5.0
Government	24.8	24.8	0.0	0.0
	(percent)	(percent)		
Unemployment rate	4.6	4.7		

Note: Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

Economic Conditions

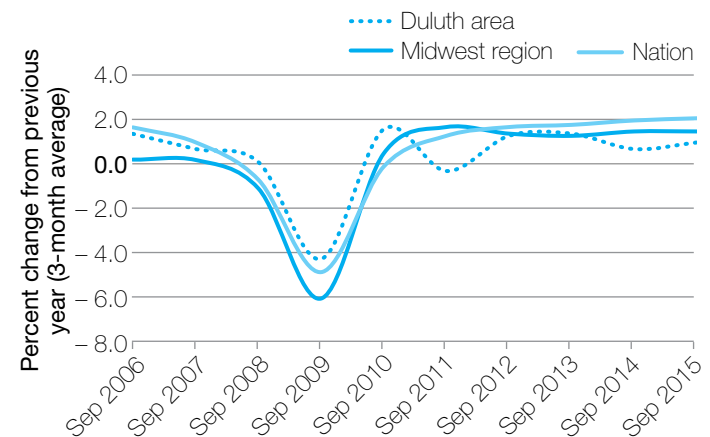
Nonfarm payrolls in the Duluth metropolitan area totaled 136,300 during the third quarter of 2015, an increase of 1,400, or 1.0 percent, from the third quarter of 2014 and the highest third quarter payroll number since 2000.

During the third quarter of 2015—

- The education and health services sector, which is the largest and fastest growing sector since 2000, increased by 1,000 jobs, or 3.3 percent, from the third quarter of 2014. Growth in the sector is driven by the health care and social assistance industry, which is led by two major healthcare systems: Essentia Health and St. Luke's Health Care System.
- The transportation and utilities sector increased by 300 jobs, or 4.6 percent, from the third quarter of 2014. Traditionally supported by freight forwarders and shipping agents at the Port of Duluth-Superior, this sector reported recent growth because of expanding aircraft design and maintenance firms such as AAR Corp. and Cirrus Aircraft. AAR Corp., the Illinois-based provider of aviation services, moved to Duluth in November 2012. The company currently employs 385 full-time workers and plans to hire 50 to 65 more workers within the next year.
- Most of the job losses occurred in the mining, logging, and construction sector, which decreased by 500 jobs, or 4.9 percent,

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Nonfarm payroll growth rates in the Duluth area have been weaker than regional and national growth rates since October 2013.



Note: Nonfarm payroll jobs.

Source: U.S. Bureau of Labor Statistics

Largest employers in the Duluth area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Essentia Health	Education and health services	5,350
St. Louis County	Government	1,950
University of Minnesota Duluth	Government	1,700

Note: Excludes local school districts.

Source: Northland Connection (<http://northlandconnection.com/industries.php>)

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from the third quarter of 2014. Reduced global demand for steel forced some of the local operators to reduce or suspend production of the iron ore.

- The unemployment rate in the metropolitan area averaged 4.7 percent, up slightly from 4.6 percent during the third quarter of 2014 but down from the previous peak of 8.9 percent in 2009.

The Port of Duluth-Superior is an important element of the local economy. Located at the head (westernmost point) of the Great Lakes St. Lawrence Seaway System, it is the largest volume port on the Great Lakes and the second largest dry bulk port in the

United States (Duluth Seaway Port Authority). The cargo transported via the marine terminals at the port supported approximately 11,500 jobs in Minnesota and Wisconsin (*The Economic Impacts of the Port of Duluth-Superior*, 2011 study by Martin Associates). Another influential factor on the local economy is the University of Minnesota Duluth (UMD), which is the third largest employer in the metropolitan area. The university contributed more than \$521 million and supported more than 4,000 jobs in the region during 2014 (2015 study by the Labovitz School of Business and Economics, Bureau of Business and Economic Research).

Sales Market Conditions

The sales housing market in the Duluth metropolitan area is currently balanced, with an estimated vacancy rate of 1.9 percent, unchanged from April 2010. During the 12 months ending August 2015, home sales increased and home sales prices increased because of the low supply of new homes and continued decline in real estate owned (REO) home sales. REO home sales declined by 75 sales, or 22 percent, to 260, and REO sales prices averaged approximately \$83,950, or 42 percent less than the price of regular resales.

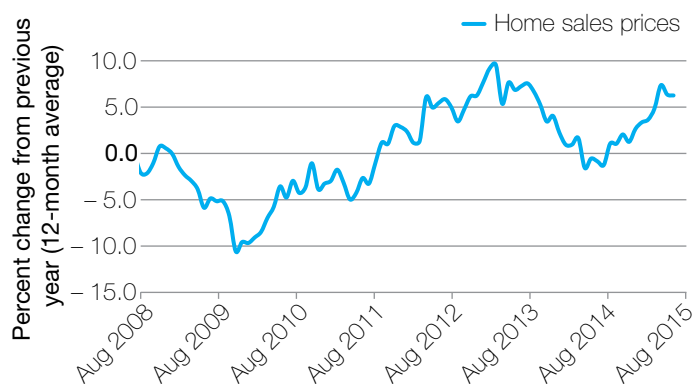
- During the 12 months ending August 2015, new home sales accounted for only 1.4 percent of total sales in the metropolitan area, up slightly from 1.2 percent during the previous 12-month period. High construction costs and limited buildable lots often make new single-family homes less affordable to potential buyers.
- New and existing home sales totaled 5,125 during the 12 months ending August 2015, an increase of 400 homes sold, or 9 percent,

from 4,725 homes sold during the 12-month period ending August 2014 and above the average of 5,000 homes sold annually from 2006 through 2010.

- The average home sales price was \$141,100 during the 12 months ending August 2015, an increase of \$8,325, or 6 percent, compared with the average price during the previous year. The average home sales price exceeded the prerecessionary average of \$134,100 that prevailed from 2007 through 2008.
- The percentage of home loans that were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into REO status declined from 3.3 percent in September 2014 to 3.1 percent in September 2015 (Black Knight Financial Services, Inc.). The current rate is higher than the 2.3-percent rate for Minnesota but lower than the 4.2-percent rate for the nation.

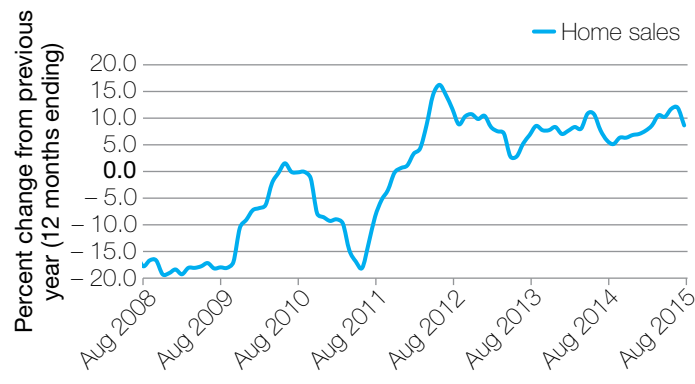
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Home sales prices have increased in the Duluth area since mid-2011, except for a brief decline in mid-2014.



Note: Includes single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

Home sales in the Duluth area, of which new homes comprise only 2 percent, have increased since 2012.



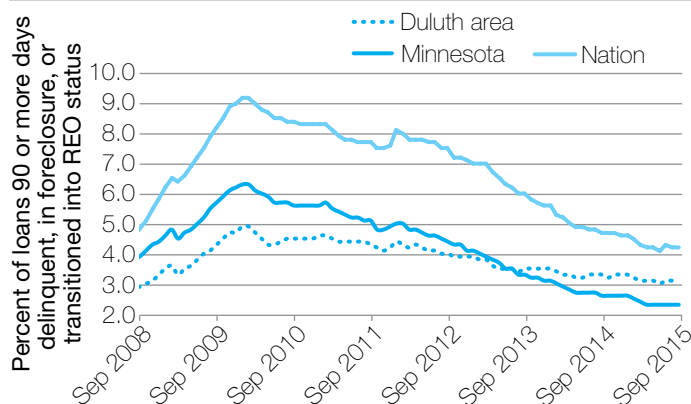
Note: Includes single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

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Single-family home construction activity, as measured by the number of single-family homes permitted, remains far below prerecessionary levels.

- The number of single-family homes permitted totaled 170 during the 12 months ending September 2015, a decline of 110, or 39 percent, from the previous 12 months (preliminary data, with estimates by the analyst).

After peaking in 2010, the percentage of seriously delinquent loans and REO properties has not declined as fast in the Duluth area as in Minnesota because of slower economic growth.

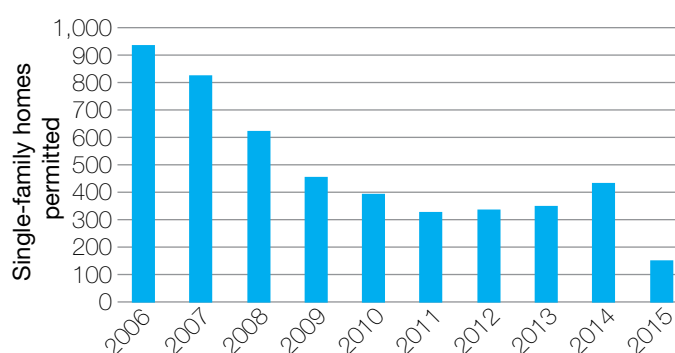


REO = real estate owned.

Source: Black Knight Financial Services, Inc.

- Single-family home construction activity averaged 800 homes permitted annually from 2006 through 2008 before declining 53 percent to an average of 380 homes a year from 2009 through 2013.
- Hawk Ridge Estates in the city of Duluth is a recent phased development with 126 single-family home lots. This mixed-income development underwrites its own incentive programs and uses proceeds from lot sales to offer downpayment assistance to new homebuyers. Home prices at the Hawk Ridge Estates range from \$180,000 to \$490,000. Of the 126 lots, 77 have been developed, with buildout of the development expected by 2019.

Single-family home permitting activity in the Duluth area has remained low since bottoming out in 2011.



Note: Includes preliminary data from January 2015 through October 2015.

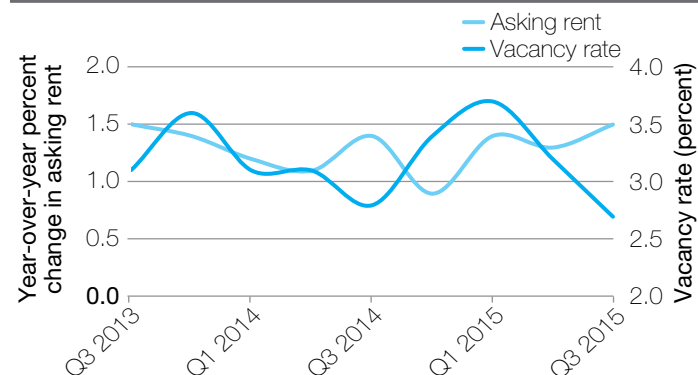
Sources: U.S. Census Bureau, Building Permits Survey; estimates by the analyst

Rental Market Conditions

Rental housing market conditions in the Duluth metropolitan area are currently balanced. Low levels of multifamily construction from 2009 through 2013 contributed to declining vacancy rates.

- The estimated vacancy rate for all rental units (including single-family homes, manufactured homes, and apartment units) is 6.2 percent as of October 1, 2015, a decrease from 6.9 percent in 2010.
- Single-family homes accounted for approximately 35 percent of all rental units in the metropolitan area in 2013, up from 29 percent in 2010 (2010 and 2013 American Community Survey 1-year data). A higher level of foreclosures and demand by UMD students to live off campus spurred the increasing number of conversions of single-family homes to rentals.
- The apartment market was tight, with a 2.2-percent vacancy rate in the third quarter of 2015, a slight decrease from 2.3 percent a year earlier (Reis, Inc.).
- The average asking rent was approximately \$884 during the third quarter of 2015, up 1.5 percent from the third quarter of 2014.

The average asking rent increased 1.5 percent for the first time since 2013 in the Duluth area, and apartment vacancy rates remained low.



Source: Reis, Inc.

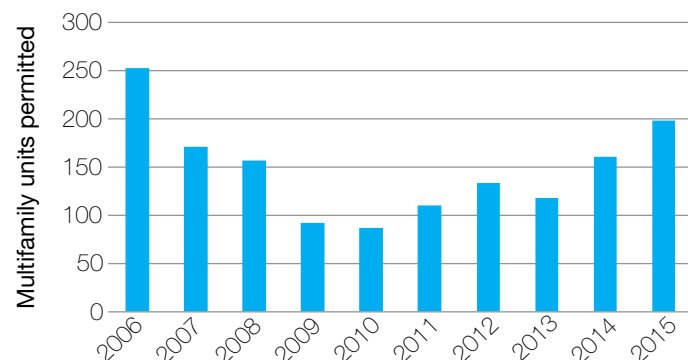
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Multifamily building activity, as measured by the number of multifamily units permitted, increased for the second consecutive year.

- During the 12 months ending September 2015, the number of multifamily units permitted increased by 30 units, or 16 percent, to 220 from the previous 12 months (preliminary data, with adjustments by the analyst).
- In the aftermath of the local economic downturn, brought on by the 2007-to-2009 national recession, building activity averaged only 110 units annually from 2009 through 2013.
- Most of the 265 multifamily units currently under construction in the metropolitan area are concentrated in the city of Duluth.
- The largest recent apartment development is BlueStone Commons, which includes two separate projects. The student-focused, 99-unit BlueStone Lofts opened in 2013, with rents that start at \$940 for a studio unit, \$1,200 for a one-bedroom unit, and \$1,530 for a two-bedroom unit. The 142-unit BlueStone Flats is under construction and geared toward young professionals and seniors; completion is scheduled for May 2016.

As the economy in the Duluth area has improved, multifamily homebuilding activity has increased.



Note: Includes preliminary data from January 2015 through October 2015.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by the analyst