Stantec

Housing Study

Cities of Cloquet and Scanlon, MN
Cloquet Economic Development Authority

October 1, 2024

Presentation Outline

1. Housing Study Overview
2. Key Findings
3. Housing Strategies
4. Questions and Answers

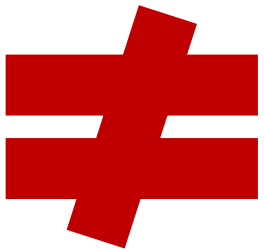
Housing Study Overview

Methodology

Housing Inventory

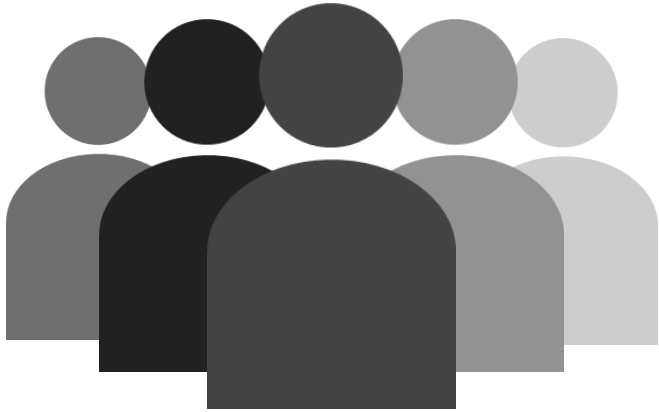
- Building type
- Condition
- Location
- Rent/home value
- Tenure
- Restricted

GAPS/ MISMATCHES



Market Indicators/Drivers

- Rent/Cost Trends
- Vacancy Trends
- Employment Trends
- Development Activity
- Conversions
- Demolitions
- Real Estate Expert Interviews



Demographics

- Age/life stages
- Household types
- Race/diversity
- Education
- Income
- Migration
- Transp. access

Inventory of Data Being Analyzed

Demographic Data

a. Population Growth
b. Household Growth
c. Age Profile
d. Household Size
e. Household Type
f. Household Income
g. Household Tenure
h. Education Levels
i. Racial and Ethnic Diversity

Economic Data

a. GDP Growth
b. GDP by Industry Sector
c. Employment by Industry Sector
d. Industry Location Quotients
e. Commute Patterns

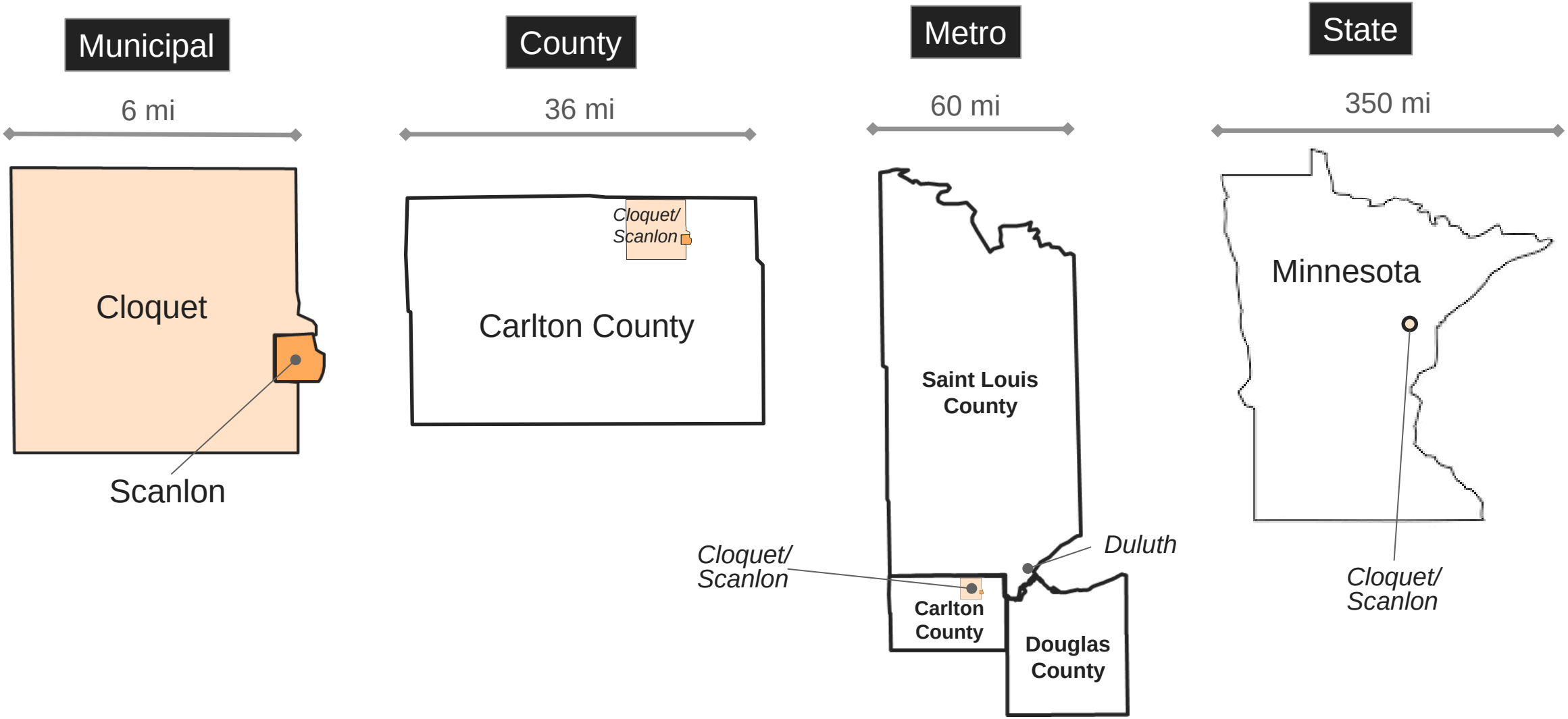
Housing Stock Data

a. Housing Year Built
b. Housing Type
c. Length of Residence
d. Mortgage Status
e. Bedroom Supply
f. Vacancy Types

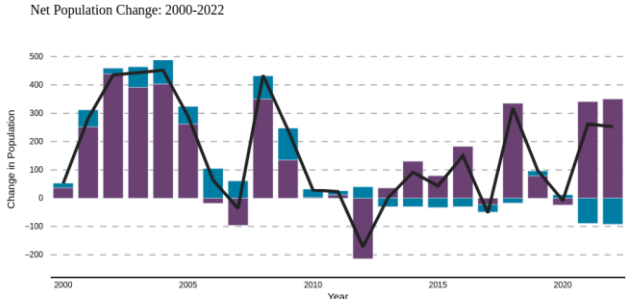
Housing Market Data

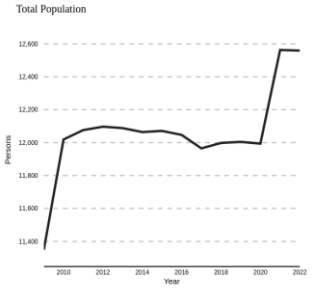
a. Housing Construction
b. Rental Inventory
c. Rent Trends
d. Vacancy Rates
e. For-Sale Inventory
f. Home Value Trends
g. Housing Cost Burden

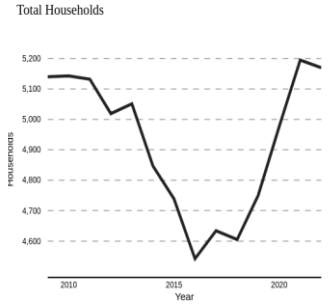
Geographies Analyzed

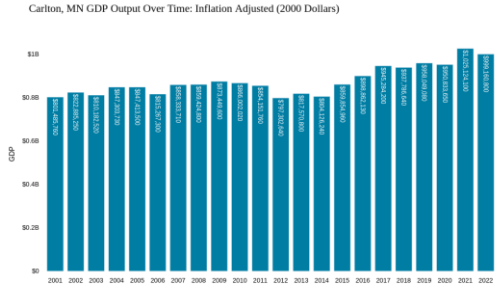


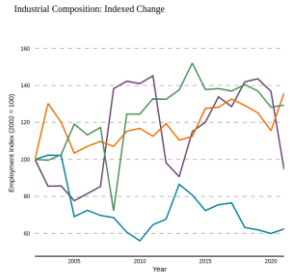
Sample of Data Exhibits

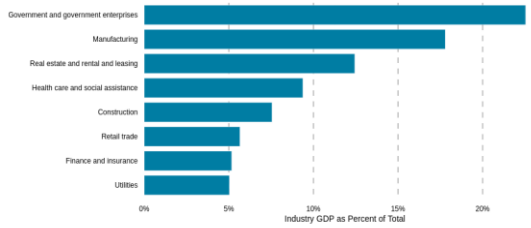


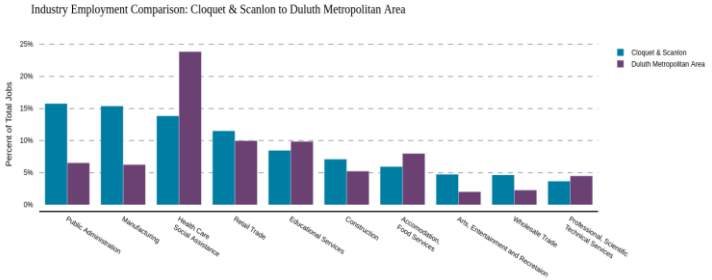


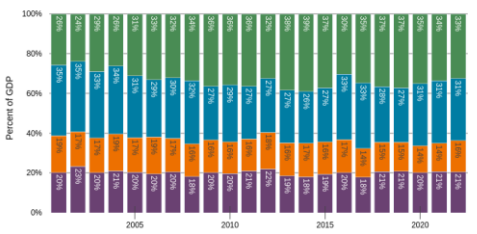


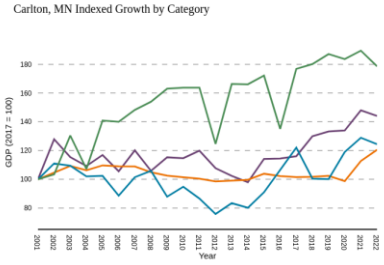


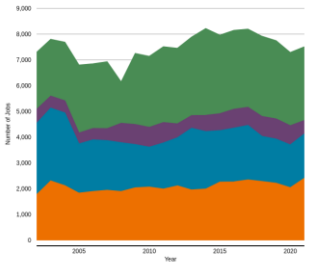


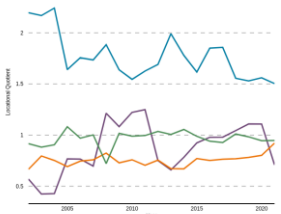


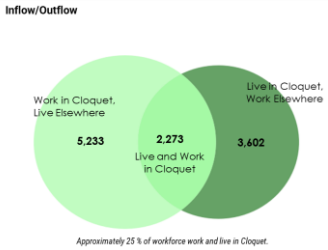


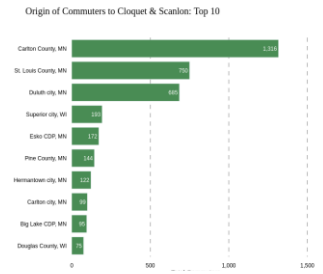


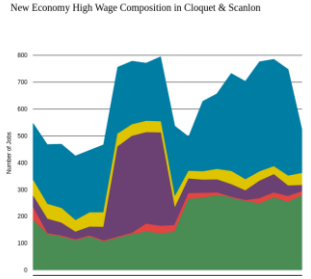


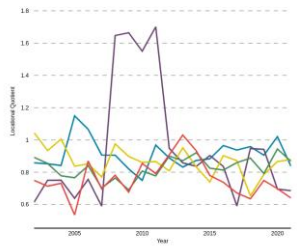


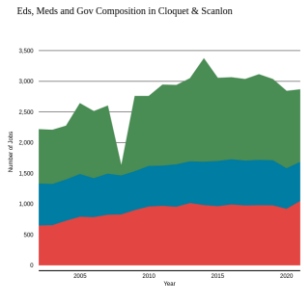


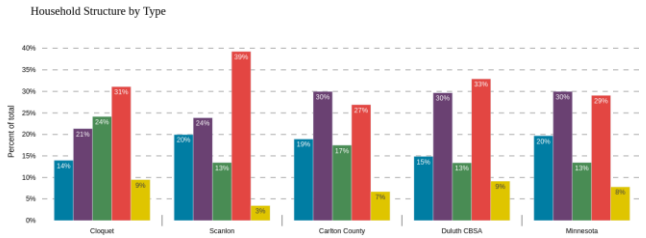


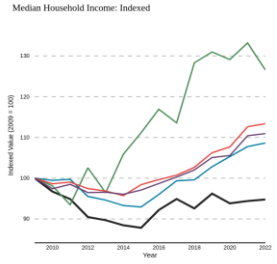


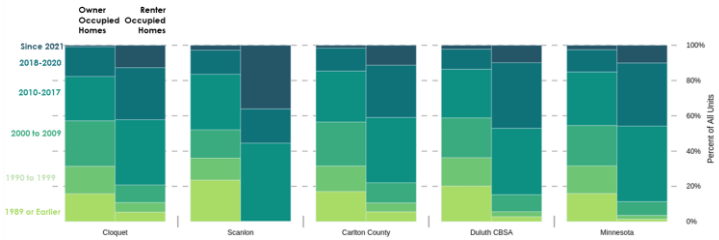


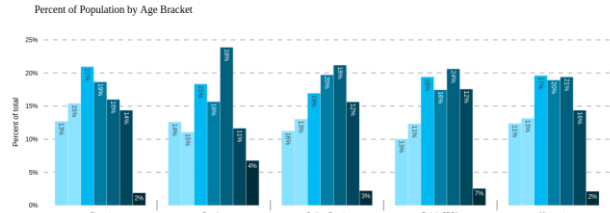




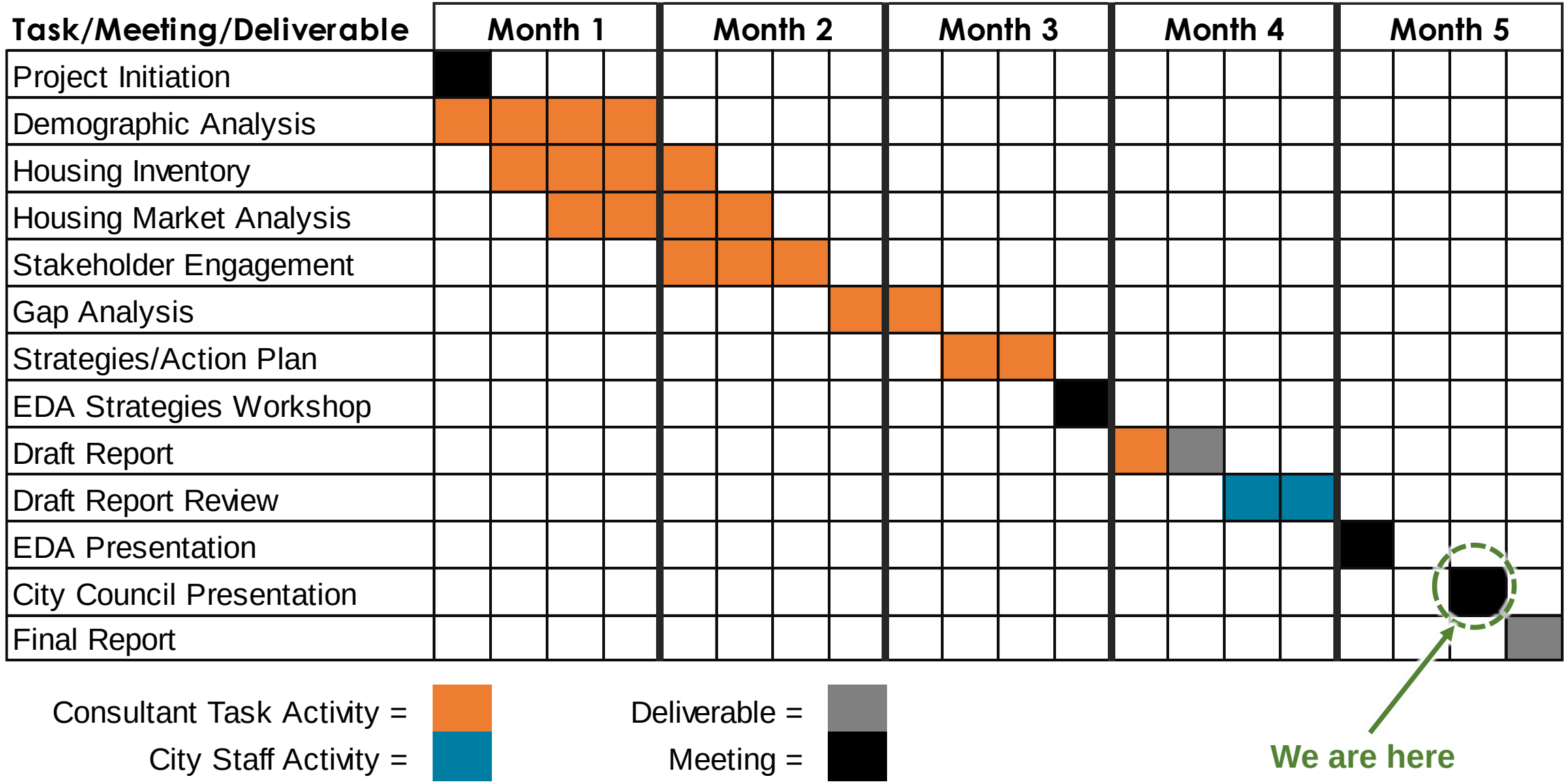








Schedule/Timeline



Key Findings

Key Findings: Economy

Manufacturing and other 'middle income' jobs, though still important, are being replaced by lower-wage service jobs. Median household incomes are lower, and growth has been more moderate than comparison geographies.

Impact 1: Greater demand for lower cost housing – both rented and owned. 42% of renter households are rent burdened (i.e., pay more than 30% of their income on rent).

Impact 2: Lower income households are more likely to rent rather than own.

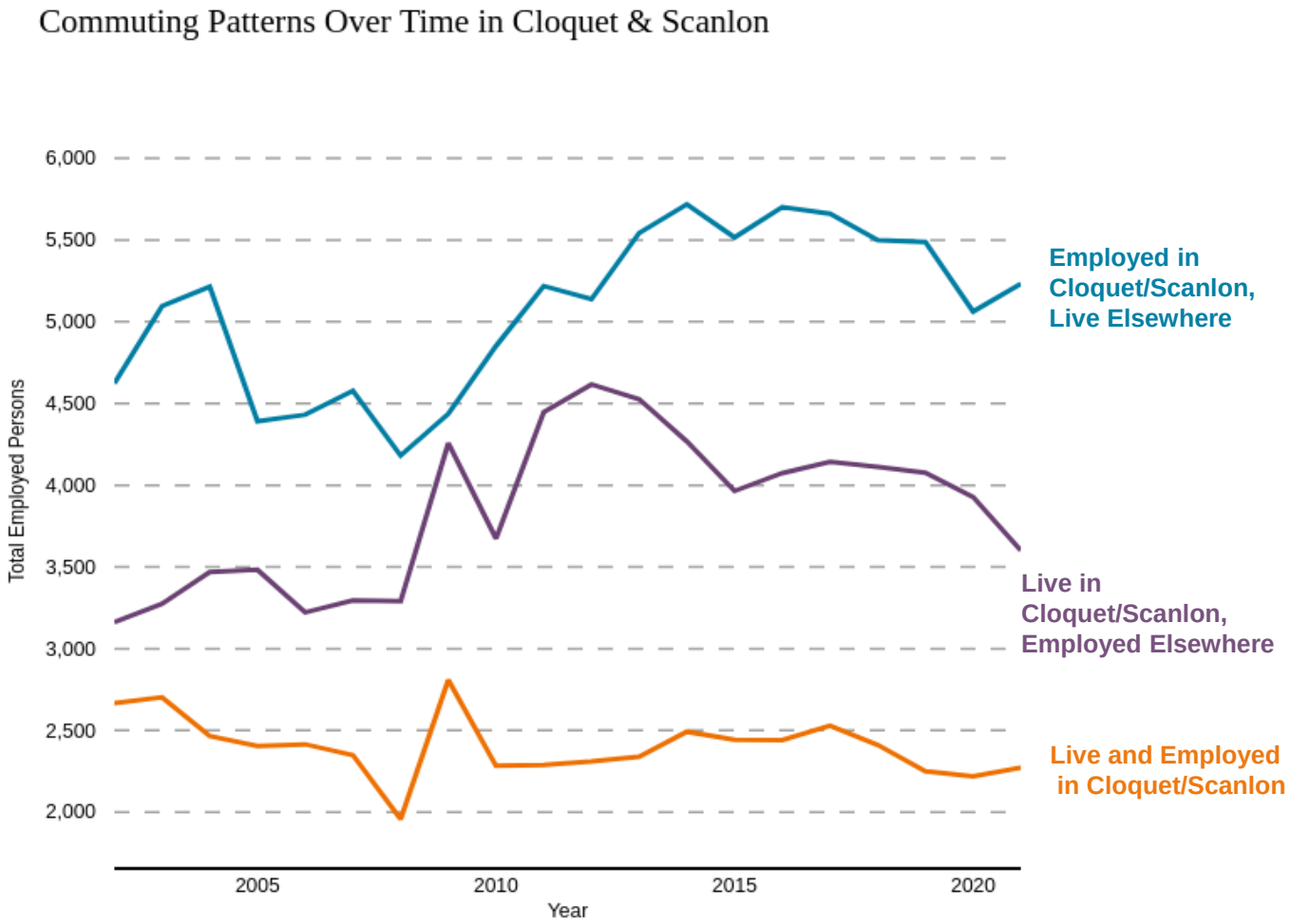
*Jobs on the Fond du Lac reservation (for example, the Casino) are coded as 'Government' related enterprises and are the major driver of employment in the Eds, Meds and Gov category.

Key Findings: Economy

Cloquet and Scanlon's economy is becoming increasingly integrated with the broader Duluth metro area.

Impact 1: Households are becoming more open to longer commutes in the interest of finding attainable housing and/or employment.

Impact 2: 42.4% of people who live in Cloquet/Scanlon commute to Duluth for work, whereas the major source of commuters to Cloquet/Scanlon for work are from unincorporated Carlton and St. Louis Counties.



Source(s): OnTheMap 2002-2021

Key Findings: Economy

Generationally, high inflation has resulted in major ripple effects across the economy.

Impact 1: High mortgage interest rates, rising wages, and high cost of materials have conspired to drive up the cost of housing construction and/or preservation.

Impact 2: Inventory remains constrained as households with lower debt financing costs hold onto mortgages even if their current housing arrangements are unsuitable to their needs.

Impact 3: Households are more likely to rent rather than own due to low inventory, higher costs of home ownership, and lack of attainable ownership homes.

Interest Rate Impact

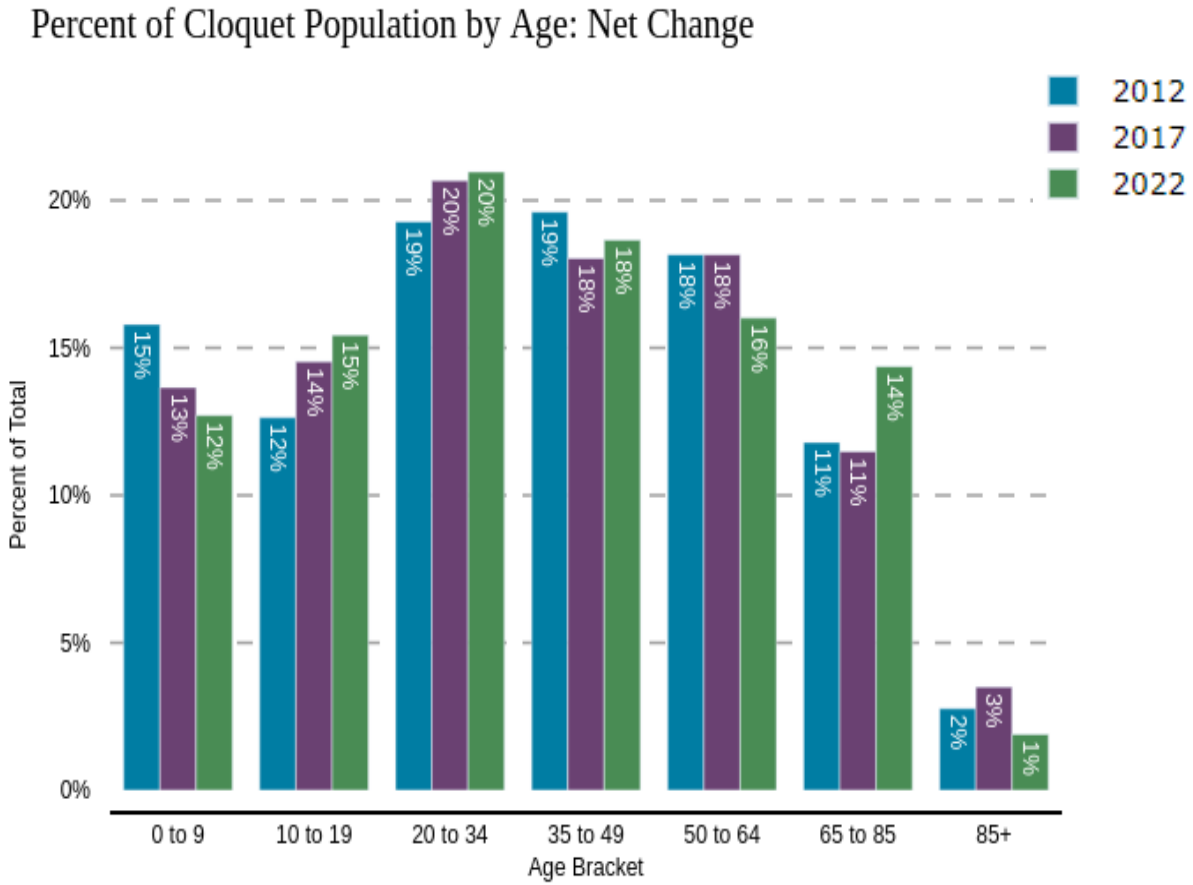
Interest Rate	Mortgage Payment	Household Income Required
3%	$883.37	$35,335
3.50%	$940.86	$37,634
4%	$1,000.31	$40,012
4.50%	$1,061.63	$42,465
5%	$1,124.78	$44,991
5.50%	$1,189.66	$47,586
6%	$1,256.21	$50,248
6.50%	$1,324.34	$52,974
7%	$1,393.98	$55,759
7.50%	$1,465.03	$58,601
8%	$1,537.42	$61,497

Key Findings: Demographics

Households age 75 and older are increasing, but many are staying in their existing homes.

Impact 1: This is preventing younger households from entering the ownership housing market.

Impact 2: This is locking up a lot of excess housing in the form of empty bedrooms.



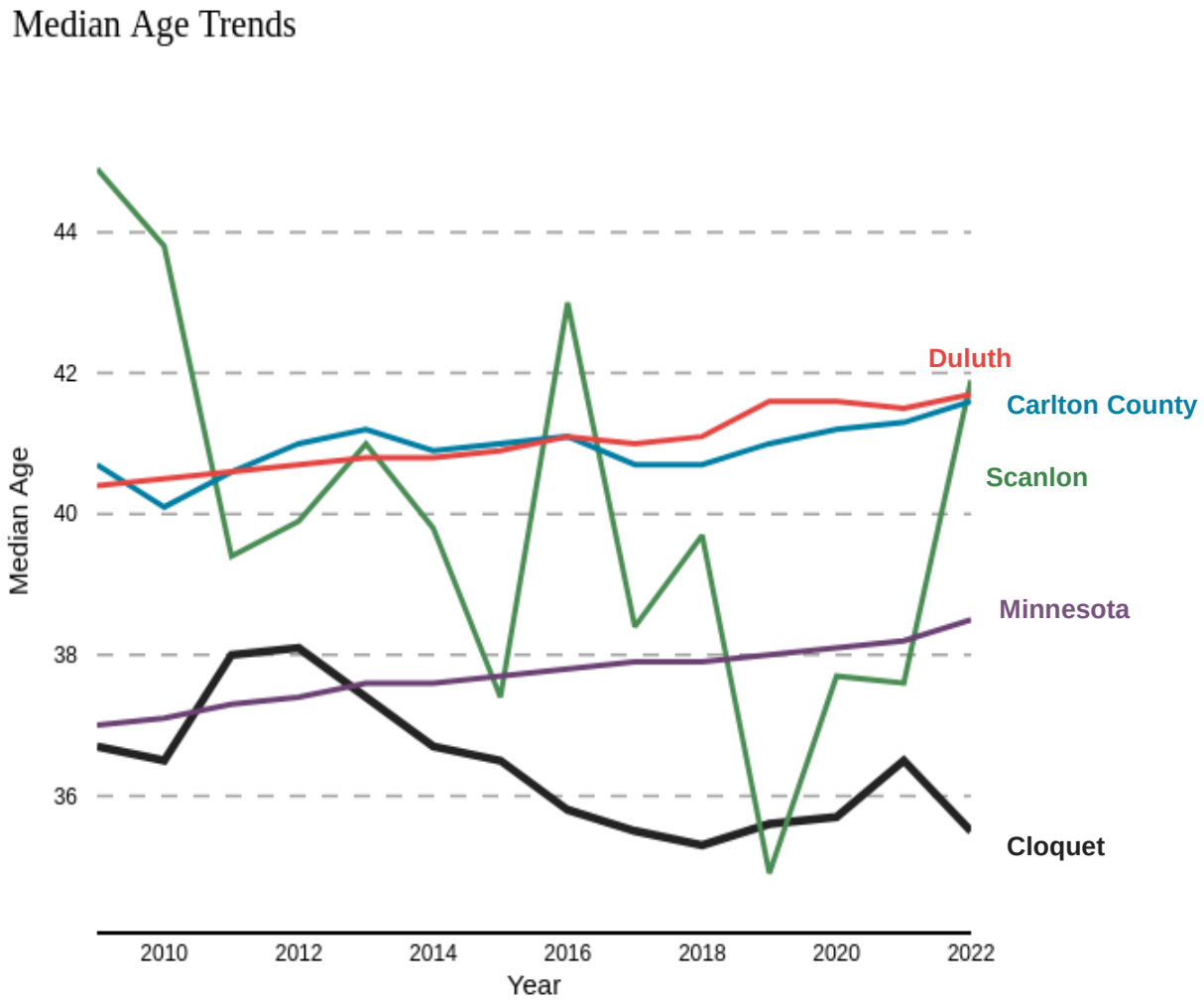
Source(s): ACS, 5-year estimates, 2012/2017/2022

Key Findings: Demographics

Cloquet's median age is well below comparison geographies as it attracts younger households in pursuit of attainable housing.

Impact 1: Many younger households are being priced out of other communities in the region. The older, smaller, and more affordable housing in Cloquet is attracting younger people.

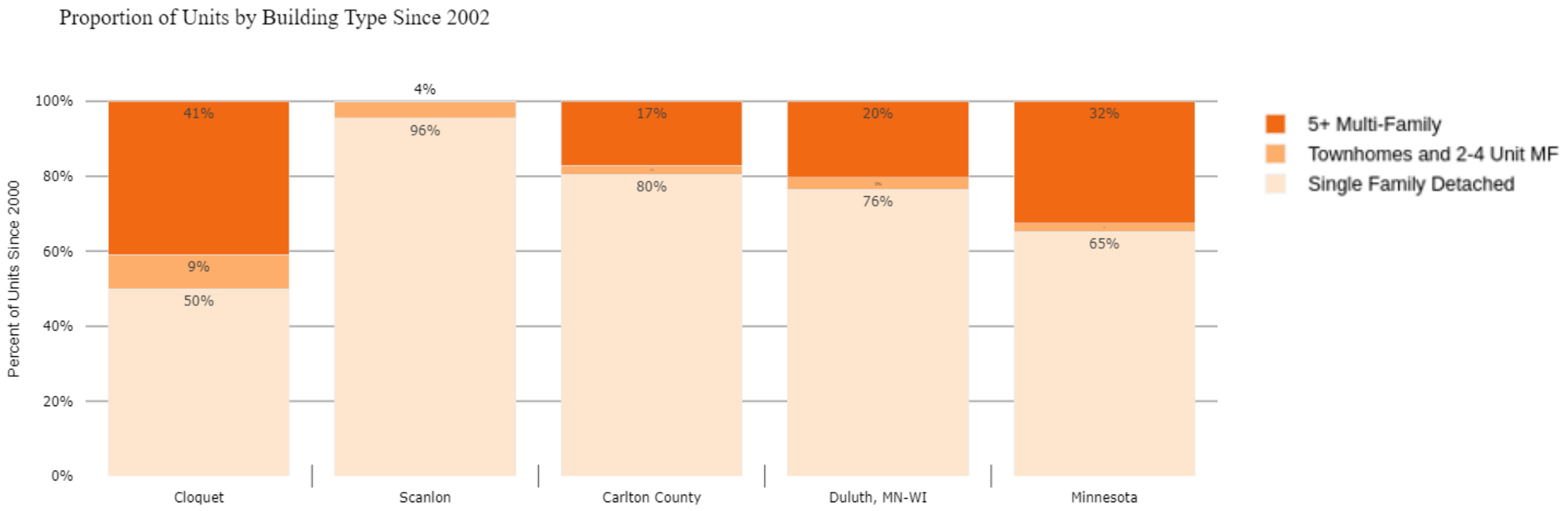
Impact 2: New multi-family construction may be attracting a different household mix. Households tend to be younger people living with roommates and non-family households rather than households with children.



Source(s): ACS, 5-year estimates, 2009-2022

Key Findings: Housing Market

Cloquet has added proportionally more 5+ multi-family units since 2002 than comparable geographies. This is concentrated in new rental apartment units constructed since 2013.



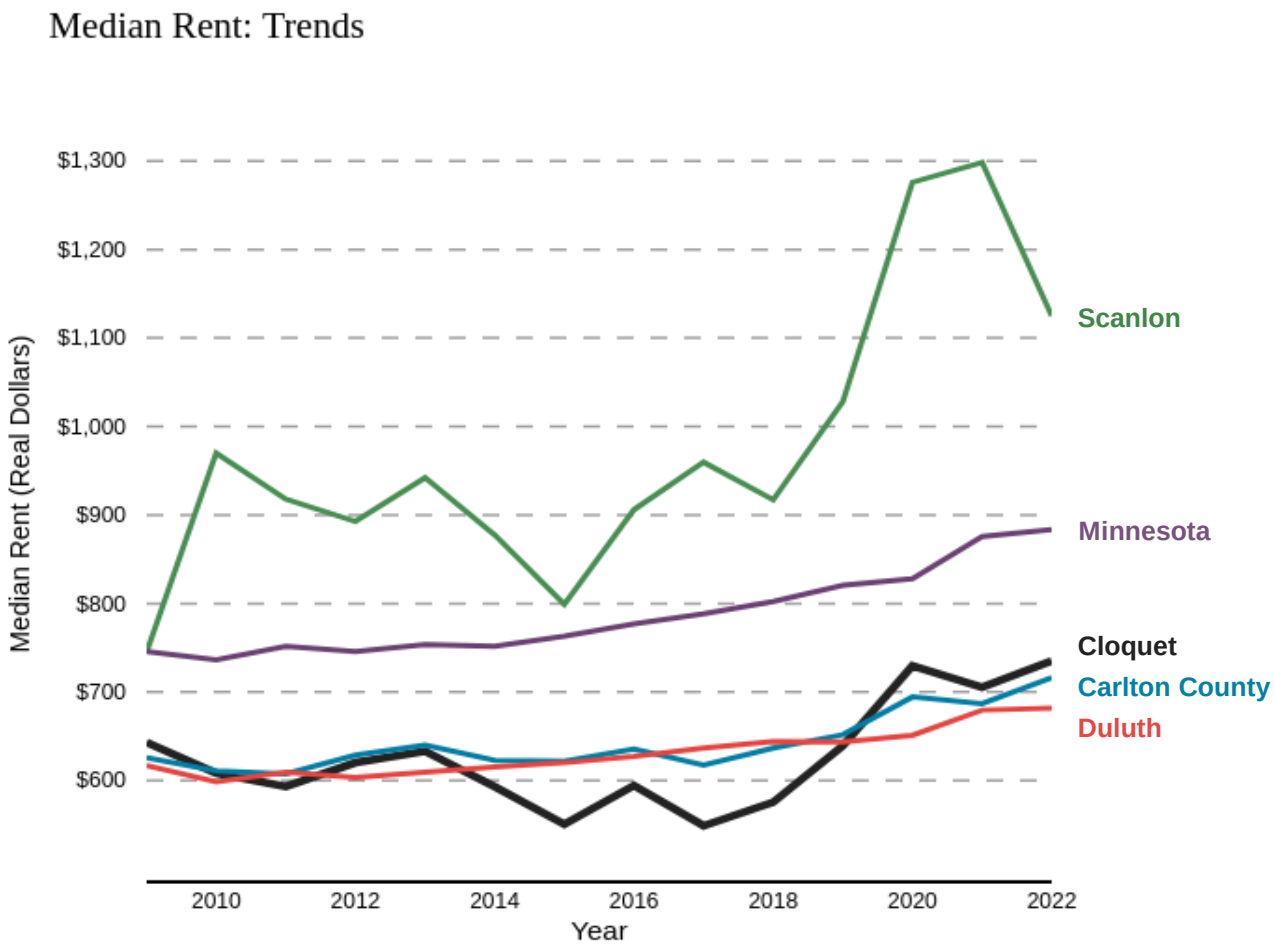
Key Findings: Housing Market

Rental demand remains robust despite recent construction, especially among lower income households. Rental vacancy rates sit below 2%.

Impact 1: Rents are increasing at a faster rate than the metro area.

Impact 2: Existing rental housing owners have less incentive to update or rehabilitate existing units.

Impact 3: Limits the availability of housing affordable for those earning prevailing wages. 42% of renters pay more than 30% of their income in rent, with a total of 17% paying 50% or more.



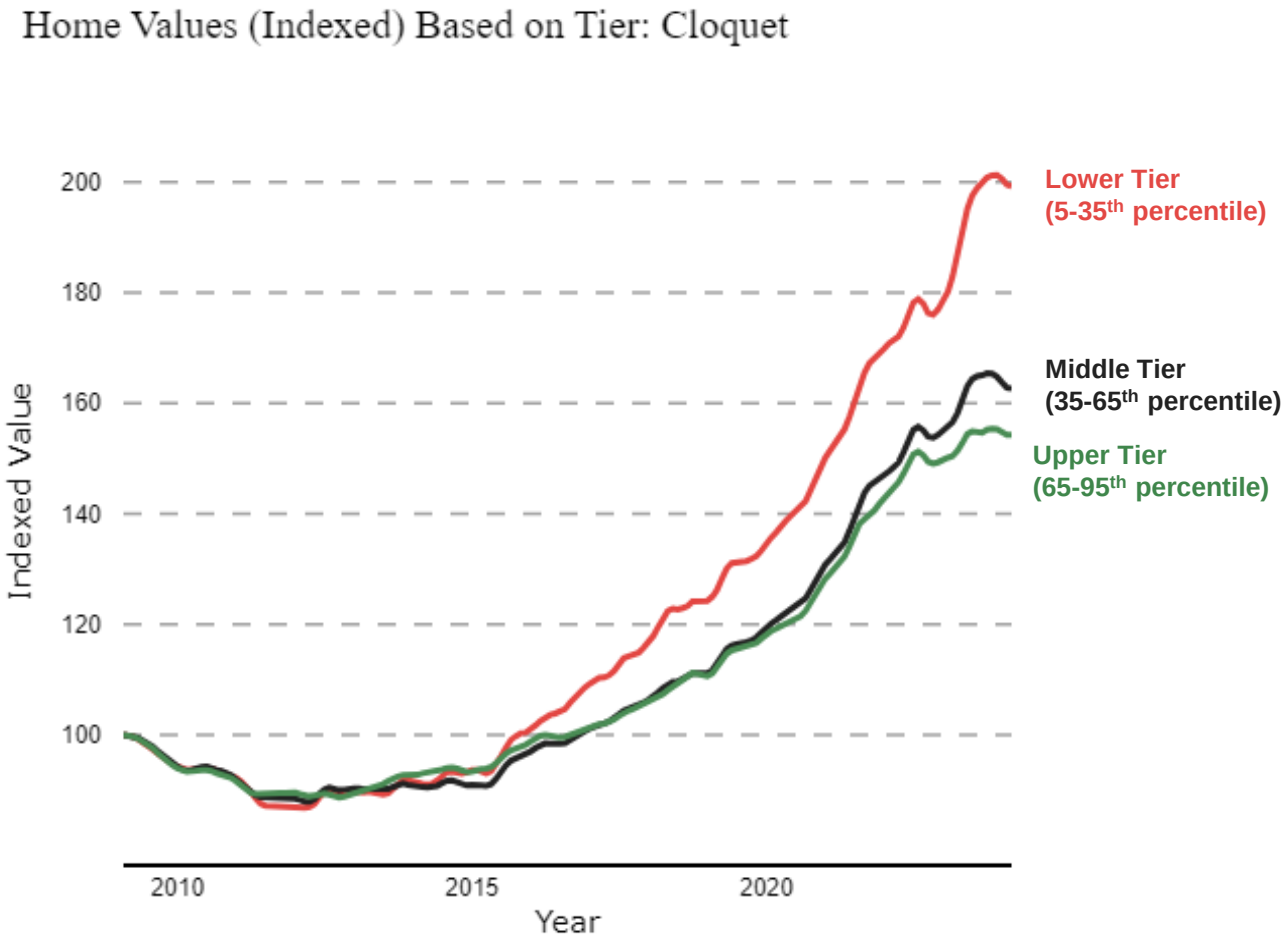
Key Findings: Housing Market

Demand for entry-level for-sale homes remains strong, with home values in the lower tier nearly doubling since 2009.

Impact 1: Median home prices are near $225,000, not far from the Duluth median.

Impact 2: Lower and Middle-Income households are being squeezed out of home ownership.

Impact 3: New inventory often cannot meet where the demand profile is strongest, dampening new construction.

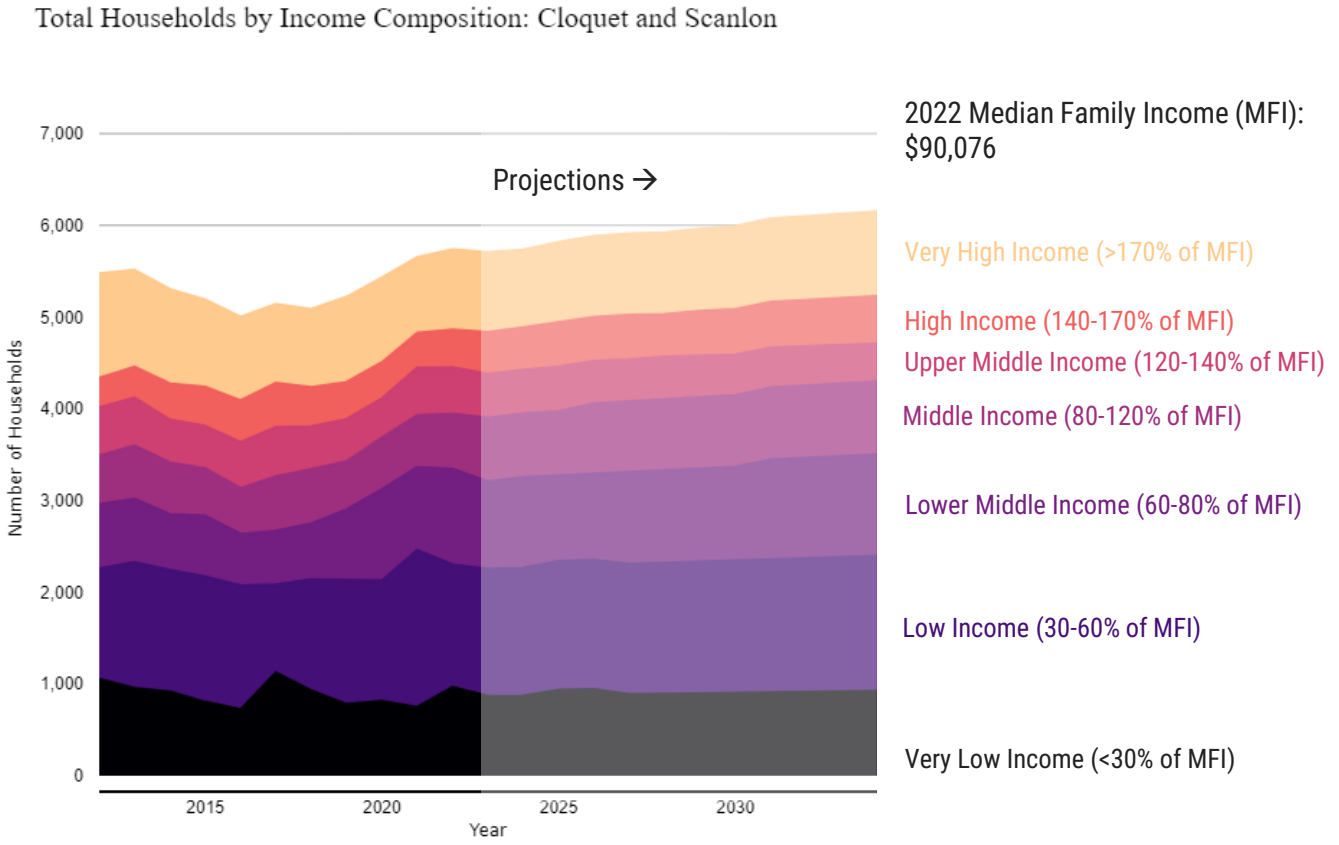


Source(s): Zillow, ZHVI Cuts by Metro, extracted 4/15/2024

Key Findings: Housing Gap and Need

Housing needs are driven by existing shortages of attainable rental and ownership housing and projected household growth in different income brackets.

- We forecast population growth based on a blended estimate of five- and ten-year historical growth rates. This yields 330 new households.
- Of new households added, we predict growth will continue in the 30-80% MFI category given the higher proportion of lower middle-income service sector jobs in the region.



Key Findings: Housing Gap and Need

Step 1: Projected Need

Vacancy Rate Adjustment: 51 current units would need to be added to bring the market into equilibrium.
Replacement Rate: We estimate 5 units annually would need to be built to replace demolished units, for a total of 50 over the next decade.
Household Growth: 330 Units

Step 2: Demand Model

Income Bracket	Rent				Own			
	1BR	2BR	3BR	4+ BR	1BR	2BR	3BR	4+BR
Very Low Income	5.9%	27.2%	30.8%	16.0%	0.7%	1.5%	7.3%	10.6%
Low Income	3.1%	11.9%	32.6%	21.9%	0.2%	1.1%	7.4%	21.9%
Lower Middle Income	1.0%	9.8%	21.8%	19.0%	0.2%	1.7%	10.5%	36.1%
Middle Income	1.0%	2.7%	15.4%	18.4%	0.4%	0.9%	10.0%	51.3%
Upper Middle Income	0.2%	1.9%	7.3%	12.7%	0.2%	0.1%	6.5%	71.2%
High Income	0.0%	1.3%	4.4%	14.4%	0.0%	0.3%	8.2%	71.4%
Very High Income	0.3%	1.1%	3.1%	11.1%	0.0%	0.3%	4.7%	79.5%

Step 3: Aggregate

Bracket	MFI Level	Rental	Ownership	Total
Very Low Income	<30% MFI	0	0	0
Low Income	30-60% MFI	76	34	110
Lower Middle Income	60-80% MFI	23	23	46
Middle Income	80-120% MFI	57	97	155
Upper Middle Income	120-140% MFI	0	0	0
High Income	140-170% MFI	17	67	84
Very High Income	>170% MFI	5	31	36
Total	*All*	*178*	*252*	*431*

Key Findings: Housing Gap and Need

General Residential Product Mix

Structure Type	Total Units
Multifamily	
Affordable	100
Market Rate	81
Single Family	
Manufactured Homes	56
Entry Level Homes	97
Move Up Homes	67
Executive Homes	31

Income Bracket	Household Income	Max Rent	Rental Demand Totals	Rental Product	New Product?	Max Home Value	Owner Demand Totals	Ownership Product	New Product?
Very Low Income <30% MFI	$21,938	$676	0	Section-8 Housing Vouchers	Vouchers	$82,500	0	Subsidized home ownership programs	None
Low Income 30-60% MFI	$36,563	$1,351	76	Section 8 Housing Vouchers, Limited Naturally Occuring Affordable Housing	Vouchers	$175,000	34	New single wide mobile home in existing home park	Single Wide Mobile Homes (including rent)
Lower Middle Income 60-80% MFI	$58,500	$1,802	24	LIHTC Housing Units, Older market rate units	LIHTC	$237,000	23	Double Wide Trailers, Existing Mobile Homes	Double Wide Mobile Homes, Subsidized Single Family (Duluth)
Middle Income 80-120% MFI	$87,750	$2,702	58	Market Rate Apartments and Townhomes	Market Rate	$360,000	97	Townhomes, condominiums, older split homes and smaller sf homes	Subsidized Single Family (Duluth) & Split Homes
Upper Middle Income 120-140% MFI	$102,375	$3,153	0	Section-8 Housing Vouchers	Vouchers	$437,250	0	Subsidized home ownership programs	None
High Income 140-170% MFI	$124,313	$3,828	17	Market Rate Apartments, Townhomes or SF Homes	Market Rate	$513,000	67	Single Family Homes, New Construction Split Homes	Single Family Homes (Move-Up)
Very High Income >170% MFI	> $124,312	--	6	Market Rate Apartments, Townhomes or SF Homes	Market Rate	--	31	Single Family Homes, New Construction SF Homes	Single Family Homes (Move-Up/Executive)

Key Findings: Housing Gap and Need

Demand Driver 1

An aging community in larger single-family homes owned outright

Supply Solution

A range of affordable rental, condominium, townhome, and split-level homes that offer lower maintenance and cost

Cascading Impact

Opens-up supply of underutilized single-family homes attainable for middle income households

Demand Driver 2

Workforce jobs drives demand for workforce housing

Supply Solution

Affordable and market rate apartments, new manufactured housing options, preservation of existing affordable housing

Cascading Impact

Generates sufficient supply of rental and attainable ownership housing to help stabilize rent growth, puts pressure to maintain existing properties

Demand Driver 3

Strong demand for attainable single-family homes

Supply Solution

Generating opportunity for home ownership for households that earn 80% MFI and above

Cascading Impact

Lowers pricing pressure on new construction, lowers pricing pressure on the 'middle market' of existing single-family homes, increasing attainability

Key Findings: Challenges and Opportunities

Challenge One: Mismatch between the ability to *supply* new housing at prices at prices households can afford is an issue. This is true in rental and ownership housing.

Challenge Two: Available lots in new subdivisions connected to municipal infrastructure are rare. New development can happen such as new single-story duplex, but it is difficult to build at scale, driving costs up.

Challenge Three: It is prohibitively risky and ultimately expensive for developers to self-fund the expansion of infrastructure. Developable land remains limited.

Challenge Four: Rural areas face unique challenges attracting private development even if market fundamentals are good. Much of this is due to macro-economic factors (loss of small to mid-size builders after the Great Recession, shift in finance towards non-traditional investors/larger banks, dependence on LIHTC funding that often require 'cookie cutter' projects of sufficient size that is often non-sensible for a more rural location). As a result, smaller municipalities must take on additional responsibility in teeing up new development to meet community housing needs.

Single-Family Attached
609 Adams St, Cloquet

Attainable at 140% of MFI

Split-Homes	
Year Built	2023
Sq Ft	1,398
Market Value	$369,900
Monthly Cost (I+T)	$2,771.91
Monthly Mortgage	$2,214.27

Notes: The range for new split-home redevelopment projects range from $325,000-370,000. This range is attainable for incomes ranging from 120-150% of MFI.

Housing Strategies (DRAFT)

Housing Strategies

Production

Preservation

Capacity Building

Housing Strategies

Production

New to Cloquet/Scanlon

1) New Subdivisions: A range of options of various risk and involvement.

2) Development Fee Waivers/Reductions: A new homeownership program pioneered in Rochester.

3) Manufactured Home Parks: Rarely considered option to provide high quality/low-cost affordable ownership housing.

In Practice with Potential to Scale

1) Tax Increment Financing: Encourage market rate and affordable housing, potential for pooling.

2) Use of City-Owned Land: Lower development costs for market rate and affordable projects.

3) Zoning Code Revisions: Encourage more density through ‘missing middle’ housing types in single family neighborhoods.

Housing Strategies

Preservation

New to Cloquet/Scanlon

1) Manufactured Home Park Conversion: Shifting to cooperative ownership for long-term affordability.

2) Preservation of Naturally Occurring Affordable Housing: A range of strategies to rehabilitate, maintain, and preserve older, non-subsidized units.

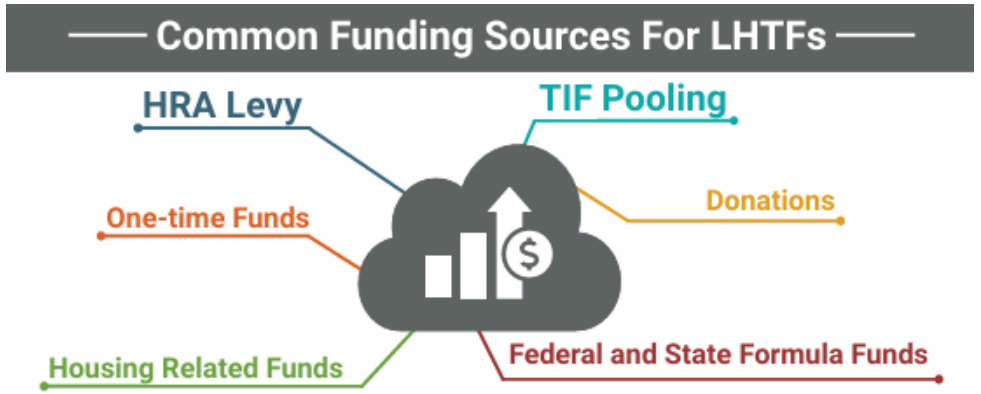
In Practice with Potential to Scale

1) Home Improvement Loans: Municipal programs to provide loans/grants for low-income home-owners.

Housing Strategies

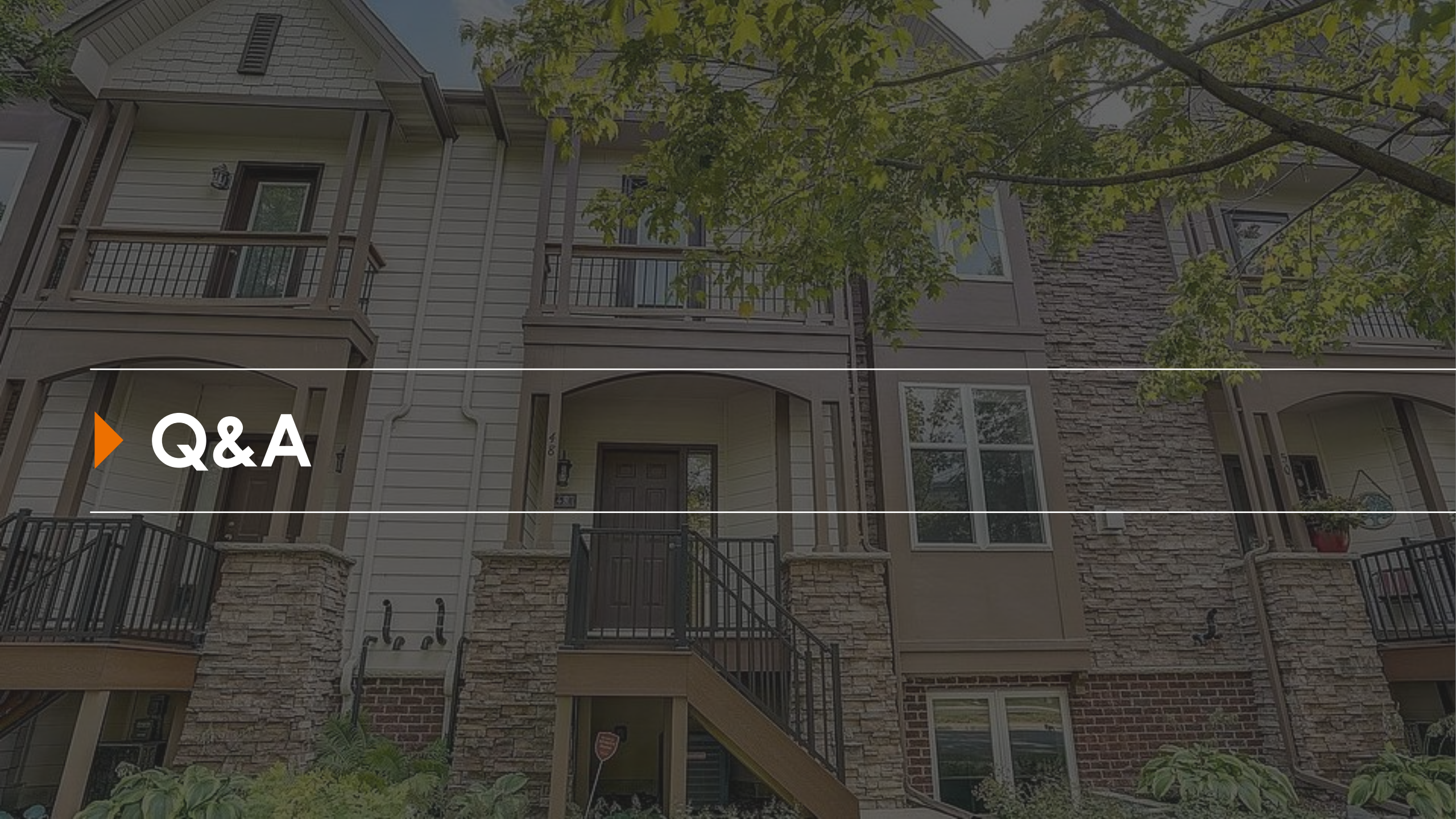
Capacity Building

Affordable Housing Trust Funds (HTF): Cloquet's new 'General Purpose' Housing Tool



Housing Strategies

Strategy	Type	Jurisdiction	What	Benefits
New Subdivisions	Policy and Financing	Municipal	Induce new single-family development	Continuum of strategies; low to high public dollars
Fee Waivers/Reductions	Policy and Financing	Municipal	Induce any type of new housing development	Can be targeted to specific housing types
Leveraging Publicly-Owned Land	Financing	Municipal or County	Induce subsidized workforce housing (owned/rented)	Highly flexible; potential for creativity
Tax-Increment Financing	Financing	Municipal	Induce subsidized workforce housing (rented)	Minimal public dollars
Zoning Code Revisions	Regulatory	Municipal	Allow for more housing types	Minimal public dollars
Manufactured Home Park Cooperative	Regulatory and Financial	Municipal, County, and State	Provides attainable home ownership options	Promotes affordability, a range of new strategies
Preservation of Naturally Occurring Affordable Housing (NOAH)	Financial and Regulatory	Municipal, County, and State	Blanket of strategies to prevent displacement	Promotes affordability AND habitable housing
Home Improvement Loans	Financial	Municipal, Public-Private Partnerships	Direct loans to property owners	Revolving funds can be self-sustaining
Affordable Housing Trust Fund	Financial	Municipal	Dedicated funds for a spectrum of housing initiatives	Highly flexible



Q&A