

Imagine Duluth 2035: Housing Plan & Strategy

Mission Statement: Housing in Duluth will promote the essential character of its neighborhoods while providing desired, safe, clean and equitable living space for all members of the community.

Introduction:

“Housing- Where we live”

In 2006 the housing market for residential development was very robust with over 4,000 resales annually. Then Duluth, like the rest of the Country, experienced the recession of 2008 and the burst of the housing bubble. Since the recession a number of factors tightened the residential market. First, the loss of contractors due to restrictions in funding and reduction of construction demand resulted in contractors and skilled labor exiting the market area. Second, the cost of construction rapidly increased and continues to increase, reducing the ability to replace housing units affordably. Third, the lack of competition and poor soils continues to increase cost of new construction, in a trade area without production builders who might otherwise meet a growing demand for new housing products. Fourth, the cost of extending infrastructure is often prohibitive to allow for infill or new development adjacent to built-up areas within current residential density patterns. Duluth, like the rest of Minnesota is facing a housing shortage due to the reasons described above.



Housing Data:

Duluth's population was at its highest with over 100,000 people in the 1950s and 1960s. During the following decades, the population gradually decreased. For the past 25 years, the population in Duluth has hovered around 86,000 people.

Housing Age:

The number of housing units has remained relatively consistent at approximately 38,000; however, the age of the housing units has increased with time. 60% of the housing units (23,124) are over 50 years old - built prior to 1965. 45% of these housing units (17,165) were built in 1939 or earlier. These numbers illustrate a significant housing concern - how to address an aging housing stock. Without substantial renovation, the majority of existing housing units do not meet current technological needs nor do they provide desired living patterns (such as having only one second floor bathroom). These housing units also encompass a majority of the buildable land in Duluth, reducing the amount of land available for new construction, therefore they must be addressed.

The average lifespan of a house according to the U.S. Department of Housing and Urban Development (HUD) guidelines is 40-50 years without significant annual maintenance. When older housing stock lacks routine maintenance, it becomes substandard. Census data indicates that the percentage of renters and homeowners experiencing housing problems correlates closely with household income. Housing repair and rehabilitation issues that are not addressed will lead to more condemned housing units that are unsafe for habitation. According to City records, there have been 2,120 housing units aged 20 to 50 that have been rehabbed and 2,307 housing units older than 50 that have been rehabbed. However, 18,697 housing units have not been reported as having significant rehab. Given the age of housing stock in Duluth, rehabilitation will likely continue to be an important focus. Although rehabilitation is expensive, typically it is less costly than new construction, depending on the housing and needed renovation.

Housing type:

Another issue with having an old housing stock is determining if the existing housing meets the community's need. The current housing stock consists of 23,610 single family homes, 3,899 duplex units, 3,105 townhouse units, 963 mobile home units, and the remaining units (over 6,570) are multifamily units (in structures that have ten or more units).

Similar to the consistent population being around 86,000; the number of households has been around 35,500. However, the average household size has been decreasing from 2.51 in 1980 to 2.24 in 2013, similar to national trends. The smaller

households show a need for smaller units such as apartment buildings, condominiums, or townhouses.

According to the US Census, 39% of Duluth's population is under the age of 25; while 23% is aged 25 to 44; 24% of the population is 44 to 64 and 14% is 65 and older. Typically, the 25 to 44 age cohort is described as the "family formation" in which that is the age group that has the highest demand for single family housing units. The remaining typically demand smaller housing types. These descriptions are a broad characteristic and do not represent every person, but are being used to exemplify that there may be a difference between Duluth's current housing stock and the needed housing stock. In addition, as people age and go through the different lifestyles, from student to worker to retiree or have families or have their incomes change, their housing needs also may change.

Another significant recent change is the demand for rental units. In 1980, there were 12,547 Renter Occupied Units, in 2014 there were 14,293 Renter Occupied Units. This increase in demand for Rental units coupled with the stagnant number of units has caused Duluth's vacancy rate to consistently be below 3% for the past five years, a vacancy rate of 5 or 6% is considered healthy.

It is important for a community to provide different types of housing types for meet the various needs people have at all income levels and stages of life. A key concern in Duluth, similar to other parts of Minnesota and the Country, is housing affordability.

Housing Affordability:

HUD determines housing to be affordable when costs for housing are no more than 30% of a households' gross income (i.e. before taxes and deductions are removed). The average wage in Duluth for 2017 was \$45,034, while the family median income was \$67,200. Using this formula, the person making the average wage could afford a house at a \$163,000 price point, while the family could afford a house at \$239,000. The median wage is also described as the Moderate/Move-up Income level and incorporates teachers, healthcare practitioners, skilled laborers, police, and business persons, depicted in the Duluth Housing Units Chart. Although the average sales price in Duluth in 2016 was \$182,000, the average housing unit also needed repairs and renovation due to the age and condition of housing. According to a preliminary study by the Duluth Area Association of Realtors, the additional renovation costs range from \$38,503 to \$96,451, which impacts the affordability of owning a home.

The median household income for renters in Duluth in 2015 was \$21,393 and the average rent in Duluth was \$851. Using HUD's 30% formula, the amount of rent that would be affordable would be \$534. As described earlier in this section, Duluth has had a consistent vacancy rent of 3%, exemplifying that the need for rental units is higher than the supply. Similar to owner occupied housing units, the majority of rental units are in older buildings which are expensive to maintain, renovate and repair. This higher cost of building maintenance impacts the rent affordability. Typically, people who make the average renter income are people who work in offices,

sales, food service, construction, and health care support, therefore they provide the support services for Duluth's economy.

There were also approximately 2,500 people living in shelters or supportive housing units (supportive housing assists people who need temporary assistance for housing, such as a battered spouse or who need permanent housing support such as for a person with a disability). These housing types are more expensive to provide than Owner Occupied and Rental Units due to the stringent regulatory codes and the cost of providing services. These housing types provide safe, decent environments so that people do not become homeless. Supportive housing is needed throughout the city. Future planning efforts will include evaluation of distribution of supportive housing within Duluth.

The high cost of housing and the lack of suitable housing have been a consistent issue for city leaders therefore they commissioned a study about the Housing Need.

Housing Need:

In 2013, the City of Duluth and Duluth Economic Development Authority contracted with Maxfield Research to quantify what type of housing should be developed in Duluth to meet current and future housing needs. The study showed total housing demand for owned and rental housing was estimated at 4,470 units over the next six years.

Since then, approximately 1,400 rental units and owner-occupied homes have been built. The rental units include Bluestone Lofts & Flats, Miller Hill Flats, Kenwood Village,

Capstone Apartments, Grand Avenue Estates, and Endi.

The attached Housing Needs Chart breaks out by income level those units that have come on the market, and details what remains to be accomplished.

Much of the recent housing development has been targeted to market-rate rental (675 units) and single family homes with values over \$250,000 (110 newly built homes). Housing that is needed and has not be built include subsidized (includes supportive housing) rental housing (290 units needed); entry level rental and ownership opportunities for households up to 50% area median income (772 rental and 165 owner units); and low-to-moderate workforce or “move up” housing for those up to 80% area median income (835 rental and 450 owner units).

Housing Input:

On September 21, 2016, the Imagine Duluth 2035 Kick-off Celebration was held at the Denfeld High School, with over 300 community members attending and sharing their vision for the future of Duluth. Key takeaway points from the input received included that 40% of residents stated they liked where they live and want to continue living at that location; a main concern was the cost to rehabilitate existing housing; and a majority of people said “proximity to services” was a higher priority than the type of housing.

To further study the housing needs and demands, the Housing Focus Group reviewed recent housing studies, determined what areas still needed research, and talked about emerging housing issues. Their mission was to look at

the entire housing continuum, therefore they developed specific questions.

New Development

1. Are there housing types that are missing or in short supply in the Duluth market?
2. What kinds of housing should be planned for individuals and families moving here?
3. Where should/could we target new developments, particularly in light of people saying they want convenient access to amenities (neighborhood businesses, transit, parks, jobs, etc.)?
4. A “no build” (or urban growth) boundary would limit infrastructure extensions and preserve open space at the periphery of the city; would this limit future success?
5. When redevelopment occurs, is resiliency to withstand natural disasters such as the 2012 flood being taken into consideration? How do we define resilience and how far do we want to take it?
6. Where should new subsidized housing units be located?
7. Are there areas of the City where mixed use housing and commercial buildings make sense?
8. What incentives are most effective to encourage construction of new housing?
9. Design standards could be adopted to ensure new multi-family housing projects are attractive; what are the cost implications?

Existing Development

1. How many owner-occupied homes are in need of major repairs? How many rental properties?

2. Can older homes be modernized to fit today's preferred lifestyle with open concept, multiple bathrooms, home offices, etc.?
3. What best practices are most effective to increase energy efficiency in older houses?
4. Is the City's rental licensing program ensuring apartments are safe for tenants? Could / should there be additional standards required? How do we define "safe?" Do we care about exterior maintenance / neighborhood issues?
5. What new or revised incentives could the City use to encourage needed housing rehab?
6. Are there new or different approaches the City could use to address blighted, vacant housing that negatively impacts neighborhoods?
6. Are there appropriate housing options for Seniors that address issues of aging while allowing them to live in their preferred neighborhood?
7. Should new housing developments include universal design features?
8. At this point in time, how many new affordable housing units are needed? What type? Number of units?
9. Is the city's existing affordable housing fully occupied and well maintained? What is the total dollar value of the maintenance backlog? Are there tenants living in public housing inappropriately, or who may have a higher income potential?

The research to these questions, along with data on the maps and public input established the foundation for the four concepts that were used to develop the housing policies and strategies.

Housing Fairness & Equity

1. How can we ensure there are enough quality housing options available for all households, at all income levels?
 2. How do we encourage a variety of housing options in every neighborhood throughout the City?
 3. What steps can we take to eliminate housing discrimination and ensure Fair Housing for all our citizens? What is missing from State/Federal law?
 4. Many families and individuals of modest means have difficulty finding adequate affordable housing, what can be done to change that?
 5. How should people who need assistance with daily living tasks be provided with housing?
- Accessibility to Places to Work, Shop and Play.
 - Inclusiveness of Diverse Populations: Provide Housing for Different Needs
 - Maintain Unique Neighborhood Character While Improving Housing Options
 - Promote Affordable, Attainable Housing Opportunities

Housing Framework:

Because of the importance and complexity of addressing affordable housing issues, Mayor Emily Larson asked the City's Chief Administrative Officer Dave Montgomery and the Director of the Planning and Construction Services Department Keith

Hamre to develop a specific plan on affordable housing opportunities. An invitational Housing Round Table was held in November, 2016, that brought together the major affordable housing and homeless service organizations in Duluth. Agencies and organizations willing to partner with the City on housing planning sent representatives to participate in the Round Table. They include the Duluth Housing & Redevelopment Authority, Local Initiatives Support Corporation, One Roof Community Housing, Center City Housing Corporation, CHUM, Loaves & Fishes, American Indian Community Housing Organization, St. Louis County, and Community Action Duluth.

In March, 2017 the Housing Round Table reconvened in a strategy session to map out the best locations for rental and ownership housing development, and to define those neighborhoods where rehabilitation and infill housing was the highest priority. Taking into account the extensive input secured during the Comprehensive Planning effort, the resulting map and strategies were formed into the following Housing Action Framework. **[Map – Housing Action Framework, original]**

Specialized Improvement Areas

Within the Reinvestment Zone, two Specialized Improvement Areas (SIAs) have been identified for targeted neighborhood reinvestment. Beginning in July 2017, this programmatic approach will include:

- Acquisition of tax-forfeit and condemned properties, and disposition of these and vacant lots in coordination with neighborhood partners.
- Targeted single and multi-family rehabilitation funding, including exterior rehabilitation.
- Livability factors such as enhanced rental license and blight enforcement, traffic calming, pedestrian safety, and tree planting.
- Enhanced collaboration with the Duluth Police and Fire Departments.
- Establishment of SIA metrics to evaluate progress and efficacy of program components.

The preceding map delineates two different primary approaches to housing development: Reinvestment and New Investment. The first addresses the core neighborhoods of Lincoln Park, and Central and East Hillside **[Map – Specialized Improvement Areas, LP and Hillside]**. As the geographic areas first settled in Duluth, these neighborhoods have the oldest housing stock, with many properties built over a hundred years ago. It is also home to some of the most affordable housing options in the City, though much of this housing stock is in need of repair and modernization. Historically, these neighborhoods have the most diverse population and highest concentration of low-income households. Input received during the public engagement phase of the Comprehensive Plan found many younger families would like to move into these neighborhoods, with the new Lincoln Park Middle School as a major draw. But the need for renovation of the existing housing is perceived as a barrier.

Reinvestment Zone:

The areas outlined in green on the map, encompassing the Lincoln Park and Hillside neighborhoods, has been designated as Duluth's "Reinvestment Area". The housing strategies for this area are:

- Concentrate current income eligible rental and homeowner housing rehabilitation programs in this area.
- Encourage private developers and contractors to renovate houses that have been vacant or become tax forfeit through the use of profit sharing incentives.
- Generate additional funds to promote owner occupied stabilization for reinvestment in the units with no income guidelines
- Stimulate mixed income and market rate housing development on infill sites.
- Reinvestment in neighborhood amenities using City resources creating visible impact, such as improvements to sidewalks and streets, parks, lighting, etc.
- Encourage mixed use housing options in the commercial district in Lincoln Park, in Downtown Duluth, and in the East Hillside's 4th Street and Plaza business districts.
- Support the continued effort to acquire and rehabilitate tax forfeit and abandoned single family properties, bringing them back into the housing stock.
- Locate new supportive housing in areas that provide access to health, social services, other goods and services, public transportation and employment opportunities.

Within the reinvestment area, there are key sites where redevelopment will result in positive impacts consistent with many years

of city planning and policy decisions. These sites include the Esmond Building in Lincoln Park, the Harbor Highlands area of the Hillside, and the vacant Central High School site.

Core Investment Areas (CIAs), explored further in the Transformative Actions section, are predominately in redevelopment areas. These CIAs will be scrutinized for improvements related to the built environment, such as new trail connections or improved public streetscape amenities, but also for appropriateness of new housing opportunities, whether investment in senior housing, a greater mix of affordable housing in appropriate locations, or new higher density housing to support retail areas.

New Investment Area:

Affordable housing opportunities have historically been concentrated in the core areas of the City, distant from many job opportunities created over the past 20-30 years closer to the Duluth Heights neighborhood at the top of the City's bluff. Dispersing a variety of new housing developments to Duluth Heights and other neighborhoods will greatly increase living options for more low and moderate income families and individuals. A clear message received during the Comprehensive Plan public outreach was the expressed desire to live within walking distance to neighborhood business districts, near job centers, and in close proximity to transit lines (depicted in red on the map). The neighborhood centers that will provide the amenities desired by homeowners and tenants alike are within the blue circles on the map. By concentrating the expansion of new housing in these areas, it will also help to provide a wider choice of options throughout the City.

This expansion of housing is not intended to encourage “sprawl” to undeveloped areas within City boundaries. A main goal of the Comprehensive Plan is to maximize existing underutilized infrastructure by creating more density. The “New Investment” areas on the map are all below infrastructure capacity, so new housing development in these areas will serve to increase the City’s resiliency and improve utilization to assist in funding long-term infrastructure maintenance.

Strategies to promote housing development in the New Investment Areas include:

- Ensure the housing portion of the updated Comprehensive Land Use Plan encourages the construction of workforce housing in areas outside the core neighborhoods, but conveniently located near transit, commercial nodes, and employment opportunities.
- Use City resources, such as tax increment financing and tax abatement, to assist only those housing developments that aligned with Comprehensive Plan principles and regulations and create more affordable units.
- Promote inclusive neighborhoods with diverse populations, by dispersing additional affordable housing options throughout Duluth.
- Implement City policies that limit any extension of City utilities and infrastructure beyond what is currently in place for new housing development.
- Prioritize new Supportive Housing options in areas that will provide easy, efficient access to health, social services, other goods and services, public transportation and employment opportunities.

Strategic Improvement Areas:

Out of the Housing Action Framework came a concept to focus on two primary areas for strategic, targeted investment through the selection of Strategic Investment Areas (SIAs). These areas (one in Lincoln Park, one in the Hillside) would be selected based on concentrations of vacant, tax-forfeit, and condemned houses. Strategies for addressing the housing opportunities in the SIAs will be evaluated with housing partners, including those who participated in the Housing Round Table. The intent is for targeted SIA investment over a 2-3 year period, with specific evaluation measures to ensure certain levels of value through the reinvestment in these areas.

Maps:

- *Where will you live*
- *Social center*
- *Pop density*
- *Housing unit density*
- *Home value map*
- *Housing action framework map*

Housing Resources:

Construction costs and resource availability remained a dominant theme throughout the development of the plan. These concerns broke down into the categories of:

- Additional public resources to support housing development
- Operational support for supportive housing
- Construction costs for multi-family new construction
- Construction costs for single family new construction

The Housing Action Framework set forth priorities for new investment areas and reinvestment areas, addressing where limited resources should be allocated. Table RH8 outlines local government support for new housing:

Source Year	Community Development Funding CDBG/HOME	Housing & Redevelopment Authority (HRA) General Fund Levy
2017	\$1,450,099	\$1,008,855
2016	\$1,485,679	\$974,879
2015	\$1,147,806	\$933,342

CDBG and HOME Investment Partnership funding is provided to the City of Duluth to provide for adequate housing for low income people.

HRA funding is provided to HRA through a general tax levy. This funding is allocated as follows:

- 25% to support HRA federal programs, such as Section 8 housing and Public Housing

- 25% to provide public benefits, such as police department support in HRA buildings and operation of community facilities such as the Rainbow Center.
- 50% to support development and redevelopment services to the community.

Other resources brought to bear on local projects include tax increment financing (TIF), tax abatement, and resources from private foundations and non-profits. Partners such as the local chapter of the Local Initiatives Support Corporation have been important in identifying new resources and expanding the capacity of local non-profit organizations.

State and federal resources include the low-income housing tax credit process, paired with other programs administered by the Minnesota Housing Finance Agency. Other federal resources supporting housing include Environmental Protection Agency grants supporting site development, and Department of Housing and Urban Development (HUD) programs that may be targeted at redeveloping cities. Occasionally, resources such as Historic or New Market tax credit programs are appropriate in specific redevelopment or development situations. Exploration of HUD's programs related to Section 108 loans, which can be used to leverage other resources, may be appropriate in targeted redevelopment situations.

Additional Public Resources

Beyond the HRA's levy authority and the City's funding through its Community Development Block Grant and HOME Investment Partnership programs, resources dedicated to construction of new housing tend to focus on specific

development sites and relies on tax abatement or tax-increment financing. Alternative sources of permanent financing for housing have not been identified, but remain needed. New sources will be evaluated and developed as implementation of the Imagine Duluth 2035 plan proceeds.

Supportive Housing

Long term funding for supportive housing is an area of need for the City. Resources to provide for housing support, such as mental health counseling, housing counseling, and job counseling come primarily non-local sources. Additional supportive housing is needed in Duluth, both for transitional situations and for individuals in need of permanent supportive housing. However, from state and federal resources have been flat or declining over the past several years.

Multi-Family Construction Costs

Preservation and new construction for multi-family housing, whether affordable or market-rate, has seen availability of resources stable or declining. Local support has been important in providing gap financing for new market rate developments in Duluth over the past decade. Site costs, complicated in any older city, are an area of focus because of heavy clay soils and exposed bedrock throughout the City.

Financing of new multi-family construction has proceeded for market rate development in partnership with local and national financial institutions. Innovations by local developers, including partnerships by a wide range of local financial groups, has been important in allowing new development to proceed. For affordable multi-family development, local markets have relied extensively on the Low-Income Housing Tax Credit program administered

by MHFA. Gap financing has been provided through the use of tax abatement and TIF.

Expansion of new financial sources for multi-family construction is important for Duluth. Also critical is seeking cost reduction measures; innovation in design may improve this process on selected sites. An expansion of available contractors in the region would allow for this development type to expand.

Single Family Construction Costs

The City has collaborated with the Duluth Area Association of realtors during the Imagine Duluth process to evaluate factors leading to higher costs of single family construction.

Housing Policies and Strategies

The following draft Housing Policies and Strategies were developed using the information from the Housing Data, Needs, Study, Input and Framework sections. They apply uniformly to all of Duluth.

P1: Increase density in and around the designated Core Investment Areas.

S1: Promote infill development with a mix of densities appropriate to the context of the surrounding neighborhood.

S2: Encourage and incentivize live/work opportunities.

S3: Explore opportunities to increase amenities to create livable and walkable neighborhoods.

S4: Focus on creative housing options of a non-traditional neighborhood design, such as homeownership through dense attached or detached single family housing development fronting a pedestrianized street.

S5: Create walk-to-work incentives for employers to support housing near employment centers.

P2: Provide affordable, attainable housing opportunities.

S1: Establish new parameters and a framework for communication and collaboration for financing new rental housing and additional homeownership in the community.

S2: Align funding, resources, and zoning to implement Reinvestment Area goals.

S3: Develop a cost-effective housing replacement and reinvestment strategy that includes a variety of housing types that encourage homeownership.

S4: Catalogue available lots and develop a schedule for development phasing. Bring new development sites online only as existing lots are finally developed.

S5: Foster opportunities for creative housing types and concepts, including tiny houses, townhomes, housing for individuals in Duluth on a temporary basis, and passive energy homes.

S6: Continue to adjust applicable UDC criteria for housing development to encourage innovation and to simplify and accelerate the development process.

P3: Prioritize inclusive housing policies to reflect the city's social, cultural, economic, and historic diversity and development patterns.

S1: Plan for a mix of housing types in all neighborhoods, available to a variety of income levels, including a prioritization for housing with ADA accessible design.

S2: Actively enforce anti-discrimination laws and act to promote fair housing practices in coordination with the Human Rights Officer.

S3: Promote housing and neighborhood design that encourages safety, interaction between neighbors, fosters a sense of community, and reduces social isolation.

S4: *Prioritize opportunities for permanent affordability, including affordable homeownership programs, in neighborhoods throughout the City.*

P4: Improve the quality of the city's housing stock and neighborhoods.

S1: *Reduce slum and blight conditions by promptly addressing vacant structures, strategically razing blighted buildings, and promoting the use of high quality materials in new construction.*

S2: *Promote and curb appeal of neighborhoods, with consideration of elements such as lighting, trees and boulevards, streets and sidewalks, and well-maintained structures*

S3: *Seek new sources of funding to increase resources dedicated to construction of new housing and renovation of existing housing throughout the city.*

S4: *Continue to expand enforcement of the adopted housing and property maintenance codes, with a focus on rental housing. Evaluate measures to expand penalties for non-compliant properties.*

S5: *Encourage healthy and safe housing that provides high indoor air quality, noise protection, and is free of hazardous materials and conditions.*

S6: *Consider programs to support contractors, including contractor capacity-building programs to encourage business growth that will be supportive of new housing options.*

P5: Expand the cohesiveness of “One Duluth” by expanding a variety of housing opportunities throughout the city while maintaining unique community characteristics within distinct individual neighborhoods.

S1: *Proceed with implementation of neighborhood plans and other neighborhood initiatives previously adopted.*

S2: *Continue collaboration between neighborhoods and the Duluth Police Department using the community policing model to enhance safety within the community.*

S3: *Support platforms, whether physical and public or private, electronic, institutional that encourage neighborhood events, activities, and communication.*

S4: *Expand opportunities for temporary and permanent installations of art of all types in neighborhoods.*

S5: *Expand partnerships with St. Louis County to evaluate and develop tax-forfeit lands in appropriate locations for housing.*

