



Comprehensive Housing Needs Analysis For Two Harbors, Minnesota

Prepared for:

City of Two Harbors, Minnesota

August 2017



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Research & Consulting

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August 21, 2017

Dan Walker
City Administrator
City of Two Harbors
522 First Ave
Two Harbors, MN 55616

Dear Mr. Walker:

Attached is the *Comprehensive Housing Needs Analysis for Two Harbors, Minnesota* conducted by Maxfield Research and Consulting, LLC. The study projects housing demand to 2031 and provides recommendations on the amount and type of housing that could be built in Two Harbors to satisfy demand from current and future residents for the periods 2017-2020 and from 2021 to 2031.

The study identifies a potential demand for 707 new housing units to 2031. Demand was divided between general-occupancy housing (42%) and age-restricted senior housing (58%). Because nearly all the population growth is in the 65 and over demographic cohorts, strong demand exists for age-restricted housing and association-maintained housing products. Our inventory of general-occupancy rental housing found a low vacancy rate under 2% among the inventoried rental housing stock. The low vacancy rate indicates pent-up demand for additional rental units in Two Harbors. New for-sale construction has been slow since the recession. There is currently a limited variety of lots available to meet demand. Some options for new entry level lots could potentially be made available through in-fill or redevelopment. Detailed information regarding recommended housing concepts can be found in the *Conclusions and Recommendations* section at the end of the report.

We have enjoyed performing this study for you and are available should you have any questions or need additional information.

Sincerely,

MAXFIELD RESEARCH AND CONSULTING, LLC

A handwritten signature in black ink that reads "Mary C. Bujold". The signature is fluid and cursive.

Mary Bujold
President
Attachment

A handwritten signature in black ink that reads "Rob Wilder". The signature is fluid and cursive.

Rob Wilder
Research Associate

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Purpose and Scope of Study

Maxfield Research and Consulting, LLC was engaged by the City of Two Harbors to conduct a *Comprehensive Housing Needs Analysis* for Two Harbors, Minnesota. The Housing Needs Analysis provides recommendations on the amount and types of housing that should be developed in order to meet the needs of current and future households choosing to reside in the city.

The scope of this study includes: an analysis of the demographic and economic characteristics of the Primary Market Area for Two Harbors; a review of the characteristics of the existing housing stock and building permit trends; an analysis of the market condition for a variety of rental and for-sale housing products; and an assessment of the need for housing by product type in Two Harbors. Recommendations on the number and types of housing products that should be considered in Two Harbors are also supplied.

Demographic Analysis

- Two Harbors is the population center of the PMA (28.4% of the PMA's population in 2016) and is forecast to remain as such to 2031, although its population is expected to remain roughly flat between 2016 and 2031. Lake County's population is expected to decline by 10.8% between 2021 and 2031.
- Household growth is expected to outpace population growth in Two Harbors and the PMA between 2021 and 2031, continuing the trend from the previous decade. Again, Lake County is anticipated to experience significant contractions during this period, with the household base forecast to decline by -10.1%.
- Households growth is outpacing population growth in the PMA, leading to smaller household sizes. Population is anticipated to contract slightly between 2021 and 2031, while household growth is expected to increase slightly (0.7%).
- In 2010, the largest adult age cohort in the PMA was age 45 to 54. This age cohort is also the largest in Two Harbors. Between 2000 and 2010, the 55 to 64 age cohort grew by 42.7% (632 people) in the PMA and by 39.9% (125 people) in Two Harbors. In 2021, the largest adult age cohort will be those age 55 to 64 in the PMA, Lake County and the City of Two Harbors.
- The median income for the PMA in 2016 was \$54,621, 21.8% higher than the Two Harbors 2016 median income of \$44,853. Incomes in the PMA are forecast to increase by 7.6% and by 15.3% in Two Harbors between 2016 and 2021.
- Over 80% of PMA households are owner households. Further, there are high rates of ownership among the youngest age cohorts, where there are typically more renters.

Housing Characteristics

- The number of building permits issued for new residential units in the PMA continues to reflect the impact of the Great Recession. From 2000 to 2008, 81 new residential units were permitted in Two Harbors. The years 2009 through 2016 recorded only 15 permits issued for new residential units. Activity increased in 2016, with four single-family units permitted in the City.
- Owner-occupied, single-family detached units account for the largest share of housing in the PMA, over 85% of all housing units. Within the County, 80.8% of housing units are owner-occupied and 95.0% of owner-occupied units are single-family detached units.
- The age of the housing stock is older in Two Harbors than the remainder of the PMA, although in general, the housing stock is older, with the plurality of units in the PMA having been built prior to 1940. The median year built in the PMA is 1964, compared to 1946 in Two Harbors. The younger age of housing units outside of Two Harbors reflects an increase in development of retirement homes and larger size luxury homes built in the County.
- Two Harbors' renter households were most likely to pay between \$500 and \$749 in monthly rent, with 40.1% of renter occupied units reporting rents in this range. Almost 24.6% of renter occupied units in Two Harbors charged over \$1,000 in rent.

Employment Trends

- Total employment in the Arrowhead Economic Development Region (EDR) is projected to increase by 2.0% between 2014 and 2024, while employment in the State is projected to grow by 4.3%.
- As of April 2017, the unemployment rate in Lake County was 4.9%, below the Arrowhead EDR (6.1%) and above the State of Minnesota (3.7%).
- In Two Harbors, the Information sector reported the highest weekly wage, \$1,105, or approximately \$57,460 annually. The lowest average weekly wage was in the Leisure and Hospitality sector, at \$361 per week.
- Two Harbors is a net exporter of workers, with 1,066 commuting into the city compared to 1,259 workers leaving the city. In addition, 683 workers live and work in the City.

Rental Housing Market Analysis

- In total, Maxfield Research surveyed 129 general occupancy market rate rental units in the PMA spread across six multifamily developments (8 units and larger). At the time of the survey, there were three vacant units, showing a vacancy rate of 1.6%. Typically, a healthy rental market maintains a vacancy rate of roughly 5%, which promotes competitive rates, ensures adequate consumer choice and allows for unit turnover.

EXECUTIVE SUMMARY

- Affordable/subsidized properties in the PMA have 106 units and have no vacant units at the time of the survey in June 2017. Combined with market rate properties, there was an overall vacancy rate of 0.8% in the PMA.

Senior Housing Market Analysis

- There are three senior housing facilities located in the PMA with a total of 116 units. Combined, the overall vacancy for market rate senior projects was 4.0%. Generally, healthy senior housing vacancy rates range from 5% to 7% depending on the service level.
- There is one active-adult few services property in the PMA. Harbor Point has 42 subsidized senior units. There are no congregate senior properties in the PMA.
- There are two assisted living properties located in the PMA with a total of 63 units. *Ecumen Scenic Shores* in Two Harbors and *Carefree Living* in Silver Bay.
- There is one property in the PMA that provides memory care housing and services. *Care-free Living* in Silver Bay has 12 units of memory care.
- Because of the strong growth in the 65 and over demographics, senior housing need will be growing over the next decade and additional senior housing products will be needed to meet the projected demand.

Housing Affordability

- In Two Harbors, 23.0% of all owner households are cost-burdened, and 36.8% of renter households are cost-burdened. Compared to the Minnesota average, the percentage of cost-burdened owner and renter households in Two Harbors is slightly higher than the state average.
- The number of cost-burdened households in Two Harbors increases proportionally based on lower incomes. About 64.6% of renters with incomes below \$35,000 are cost-burdened and 41.5% of owners with incomes below \$50,000 are cost-burdened.

For-Sale Housing Market Analysis

- The median sales price in Two Harbors was \$145,000 in 2016, down \$5,000 from the 2015 median sales price in 2015, but was still \$41,000 higher than the local low sales price of \$104,000 in 2009 and was 14.0% higher than the 10-year average median sales price of \$127,210.
- As of June 2017, there were 86 single family homes and 57 condo/townhomes listed for sale in the Two Harbors Market Area.

EXECUTIVE SUMMARY

- Based on a median list price of \$202,400 for the PMA, the income required to afford a home at this price would be between \$58,000 and \$67,000, based on the standard of 3.0 to 3.5 times the median income (and assuming these households do not have a high level of debt). A household with significantly more equity (in an existing home and/or savings) could afford a higher priced home. An estimated 49% of PMA households as of 2017 had annual incomes at or above \$58,000.
- There are a total of 15 vacant lots in Two Harbors, located in the Hidden Springs and Harbor Hills subdivisions. Both subdivisions were platted before the recession and neither sold out before the market dropped off. Homes have steadily developed since the recession and of the 44 total lots, only 15 remain. Lots sizes in these subdivisions range from 0.19 acres to 0.60 acres. Lot prices range from \$20,000 to about \$30,000.

Development Pipeline

- As of July 2017, there are no new planned housing projects either under construction or in the planning process in Two Harbors or the Primary Market Area.

Housing Needs Analysis

- Based on our calculations, demand exists in Two Harbors for the following general occupancy product types between 2016 and 2031:
 - Market rate rental 62 units
 - Affordable rental 48 units
 - Subsidized rental 27 units
 - For-sale single-family 98 units
 - For-sale multifamily 65 units
- Suggested development is noted in Table CR-3 for 2017-2020 and for 2021-2031.
- In addition, we find demand for multiple senior housing product types. By 2031, demand in Two Harbors for senior housing is forecast for the following:
 - Active adult ownership 69 units
 - Active adult market rate rental 69 units
 - Active adult affordable 53 units
 - Active adult subsidized 54 units
 - Congregate/Independent Living 72 units
 - Assisted Living 43 units
 - Memory Care 47 units
- Suggested development is noted in Table CR-2 for 2017-2020 and for 2021-2031.

Introduction

This section of the report examines factors related to the current and future demand for housing in the Two Harbors Market Area. It includes an analysis of population and household growth trends and projections, projected age distribution, household income, household types, household tenure, employment growth trends and commuting patterns for the City of Two Harbors and the Primary Market Area. A review of these characteristics provides insight into the demand for various types of housing in the Market Area.

Primary Market Area Definition

Maxfield Research identified a draw area for the City of Two Harbors that consists of Lake County (which includes all of Two Harbors) and three county subdivisions in St. Louis County (Alden Township, Duluth Township, and Pequawaywan Township), Minnesota. Maxfield Research analyzed the capacity of the Primary Market Area (or PMA), to support additional general occupancy and senior housing based on its current resident base and considered growth trends and demographic characteristics, traffic and community orientation patterns, geographic and man-made barriers, discussions with local officials, and our experience in for-sale and rental housing feasibility.

Primary Market Area



DEMOGRAPHIC ANALYSIS

In considering the PMA, we estimate that 70% of the demand for proposed rental housing in the PMA will be generated from the PMA. The remaining portion of the demand (30%) would come from outside of the PMA. These individuals include people currently residing just outside the PMA who have an orientation to the area (i.e. job, recreation, etc.), and people who once resided in the area who desire to move back to be near friends and family.

Population and Household Estimates and Projections

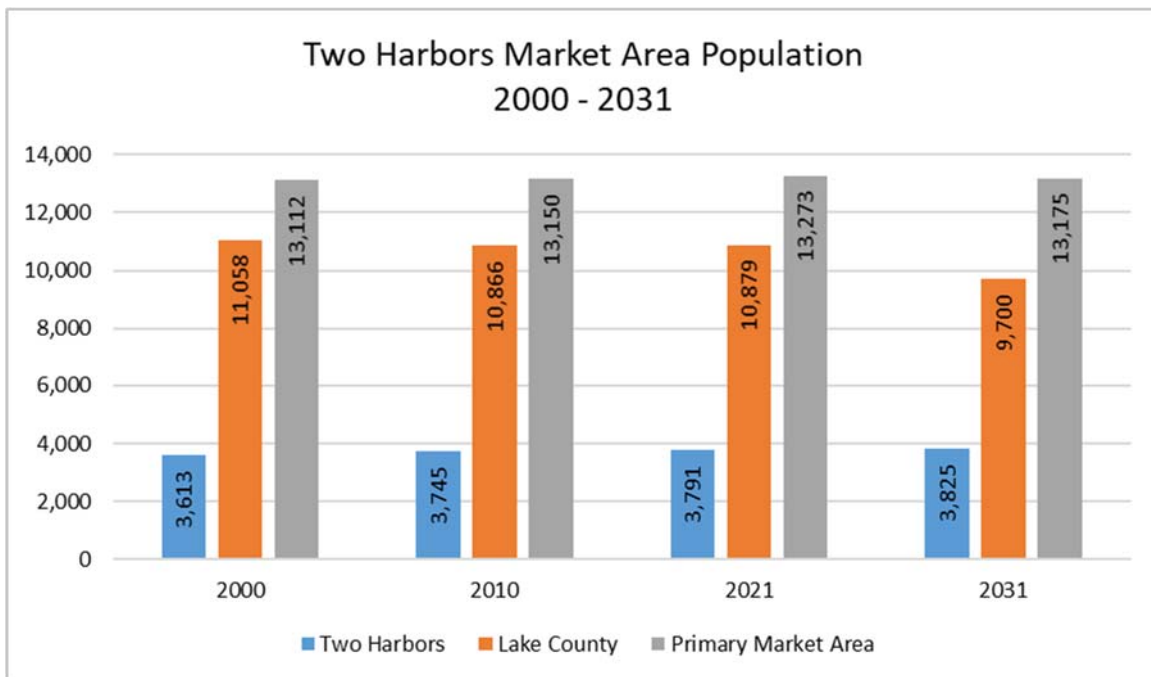
Table D-1 presents population and household growth trends and projections for the PMA through 2031. Estimates for 2016 and projections to 2031 are based on information from ESRI (a national demographics service provider), the State of Minnesota Demographer, with adjustments by Maxfield Research and Consulting, LLC based on local trends.

- The City of Two Harbors had a population of 3,613 people in 2000, and a household base of 1,523 households. As of 2010, the population in the city rose 3.7% (132 people) while the household base grew by 126 households, an increase of 8.3%. Between 2010 and 2021, the population in the City is anticipated to grow at a more modest rate, increasing by 1.2%, while households remain flat. By 2031, Two Harbors is forecast to have a population of 3,825, with a household base of 1,678.
- The PMA had a population of 13,112 in 2000 and a household base of 5,448 households. Growth in the PMA was slower than Two Harbors during the last decade, with modest population gains (0.3%, or 38 people) and household gains of 1.9%, or 93 households. By 2021, population growth is estimated at 123 people (a 0.9% increase) while household growth is estimated to remain flat.

TABLE D-1 POPULATION GROWTH TRENDS AND PROJECTIONS TWO HARBORS MARKET AREA 2000 - 2031											
	Historic		Projected			Change					
	Census		Projections			2000 - 2010		2010 - 2021		2021 - 2031	
	2000	2010	2016	2021	2031	No.	Pct.	No.	Pct.	No.	Pct.
Population											
Two Harbors	3,613	3,745	3,786	3,791	3,825	132	3.7%	46	1.2%	34	0.9%
Lake County	11,058	10,866	10,904	10,879	9,700	-192	-1.7%	13	0.1%	-1,179	-10.8%
Primary Market Area	13,112	13,150	13,248	13,273	13,175	38	0.3%	123	0.9%	-98	-0.7%
Households											
Two Harbors	1,523	1,649	1,653	1,647	1,678	126	8.3%	-2	-0.1%	31	1.9%
Lake County	4,646	4,825	4,804	4,773	4,292	179	3.9%	-52	-1.1%	-481	-10.1%
Primary Market Area	5,448	5,723	5,724	5,710	5,728	93	1.9%	-13	-0.2%	18	0.3%
Persons Per Household											
Two Harbors	2.37	2.27	2.29	2.30	2.28						
Lake County	2.38	2.25	2.27	2.28	2.26						
Primary Market Area	2.41	2.30	2.31	2.32	2.30						
Sources: U.S. Census; ESRI; Minnesota State Demographer; Maxfield Research and Consulting, LLC											

DEMOGRAPHIC ANALYSIS

- Lake County is anticipated to experience significant contractions in population and households between 2016 and 2031, after remaining roughly flat between 2000 and 2010. The County's population is expected to contract by -10.8% (-1,179 people) between 2021 and 2031, while the household base is expected to fall -10.1% (-481 households).
- Two Harbors is located entirely within Lake County, which is located entirely within the Primary Market Area. In 2000, Two Harbors accounted for 28% of the PMA's population, and Lake County accounted for 84% of the PMA's population. To 2031, Two Harbors is forecast to account for 29% of the PMA's population, while Lake County is anticipated to account for 74% of the PMA's population, due to strong growth in the three St. Louis County townships off-setting population loss in Lake County, as people move from rural jurisdictions to more urban and suburban jurisdictions.

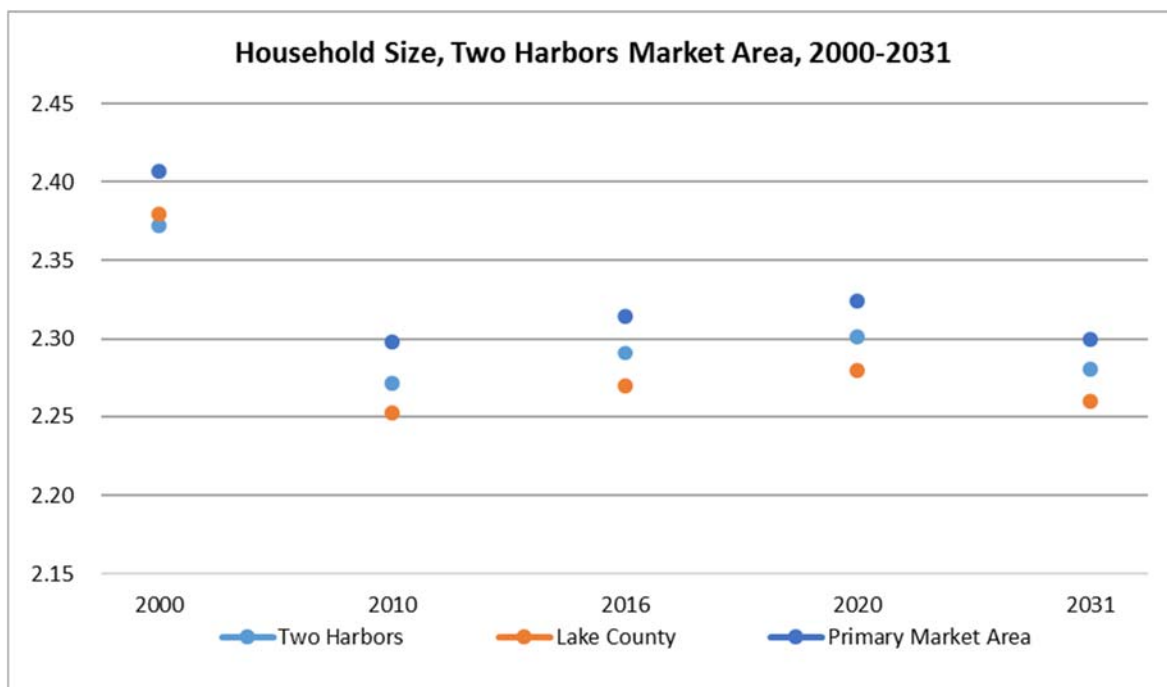


Household Size

Household size is calculated by dividing the number of people in households by the number of households (or householders). Nationally, the average number of people per household has been declining for over a century; however, there have been sharp declines starting in the 1960s and 1970s. The number of people per household in the U.S. was 4.5 in 1916 and declined to 3.2 in the 1960s. Over the past 50 years, it has dropped to 2.57 as of the 2000 Census. Due to the economic recession however, this trend was temporarily halted as renters and laid-off employees “doubled-up,” which increased the average U.S. household size to 2.59 as of the 2010 Census.

Declining household sizes have been caused by many factors, including: aging, higher divorce rates, smaller family sizes, demographic trends in marriage, etc. Most of these changes have resulted from shifts in societal values, the economy, and improvements in health care that have influenced peoples’ lifestyles. Table D-1 highlights the declining household size in the Two Harbors Market Area.

- In 2000, the average household size in the City of Two Harbors was 2.37. By the 2010 Census, household size had decreased to 2.27 and is estimated to have increased to 2.29 in 2016. To 2031, the average household size is projected to fall slightly to 2.28.
- The average household size in the PMA was 2.41 in 2000, falling to 2.30 in 2010. As of 2016, the PMA is estimated to have an average household size of 2.31. By 2031, the PMA’s average household size is projected to remain stable at 2.30, as millennials are projected to start families in the 2020s.

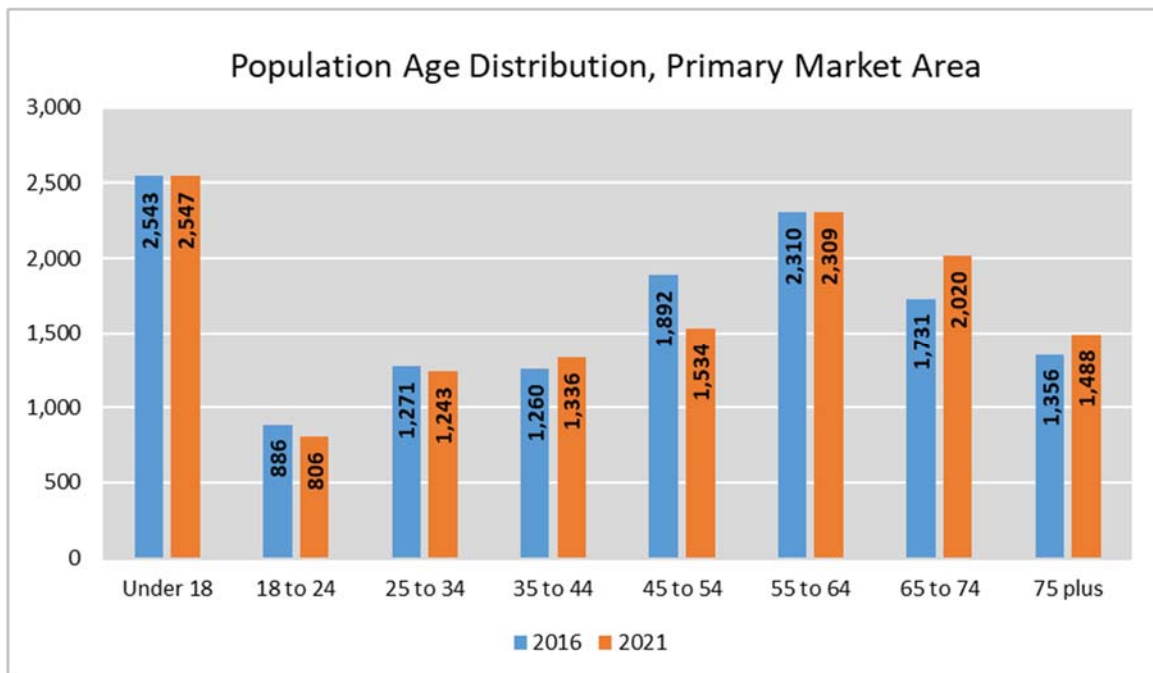


Age Distribution Trends

Table D-2 shows the distribution of persons in nine age cohorts for the Two Harbors Market Area in 2000 and 2010 with estimates for 2016 and projections to 2021. The 2000 and 2010 age distributions are from the U.S. Census Bureau. Maxfield Research and Consulting, LLC derived the 2016 estimates, as well as the 2021 projections, from ESRI with adjustments made to reflect local trends.

The key points from the table are found below.

- In 2010, the largest adult age cohort in the PMA was age 45 to 54. This age cohort is also the largest in Two Harbors. Between 2000 and 2010, the 55 to 64 age cohort grew by 42.7% (632 people) in the PMA and by 39.9% (125 people) in Two Harbors.
- In 2021, the largest adult age cohort will be age 55 to 64 in the PMA, Lake County and Two Harbors. This age cohort is expected to remain roughly the same size, with less than a 1.0% change in Two Harbors, Lake County and the PMA between 2016 and 2021.
- The largest proportional growth is expected to occur among the 65 to 74 age cohort, increasing by 16.7%, or 289 people in the PMA. The age 75+ cohort is anticipated to grow by 132 people, an increase of 9.7%. The increasing older adult population reflects larger state and national trends of an aging population, due primarily to the aging of the baby boom generation. The North Shore is a popular retirement destination and retirees may be moving to the area, which would further increase gains from demographic trends.



DEMOGRAPHIC ANALYSIS

TABLE D-2 POPULATION AGE DISTRIBUTION TWO HARBORS MARKET AREA 2000-2021								
	U.S. Census		ESRI		Change 2000-2010		Change 2016-2021	
	2000	2010	2016	2021	No.	Pct.	No.	Pct.
Two Harbors								
Under 18	831	824	808	863	-7	-0.8%	56	6.9%
18 to 24	294	296	285	267	2	0.7%	-18	-6.2%
25 to 34	397	499	482	442	102	25.7%	-40	-8.2%
35 to 44	499	397	405	465	-102	-20.4%	60	14.9%
45 to 54	500	502	454	392	2	0.4%	-62	-13.6%
55 to 64	313	438	503	505	125	39.9%	3	0.5%
65 to 74	336	324	395	417	-12	-3.6%	22	5.7%
75 plus	443	465	456	438	22	5.0%	-18	-3.8%
Total	3,613	3,745	3,786	3,791	132	3.7%	5	0.1%
Lake County								
Under 18	2,463	2,067	1,953	1,962	-396	-16.1%	9	0.5%
18 to 24	726	701	709	639	-25	-3.4%	-69	-9.8%
25 to 34	998	1,064	1,079	1,036	66	6.6%	-44	-4.1%
35 to 44	1,712	1,091	1,038	1,093	-621	-36.3%	54	5.2%
45 to 54	1,690	1,807	1,538	1,261	117	6.9%	-278	-18.0%
55 to 64	1,258	1,708	1,883	1,883	450	35.8%	0	0.0%
65 to 74	1,238	1,231	1,466	1,686	-7	-0.6%	220	15.0%
75 plus	973	1,197	1,231	1,326	224	23.0%	94	7.7%
Total	11,058	10,866	10,904	10,879	-192	-1.7%	-25	-0.2%
Primary Market Area								
Under 18	3,001	2,657	2,542	2,548	-344	-11.5%	7	0.3%
18 to 24	850	811	886	806	-39	-4.6%	-79	-8.9%
25 to 34	1,156	1,221	1,270	1,244	65	5.6%	-27	-2.1%
35 to 44	2,112	1,351	1,259	1,337	-761	-36.0%	77	6.1%
45 to 54	2,077	2,241	1,891	1,535	164	7.9%	-356	-18.8%
55 to 64	1,481	2,113	2,309	2,310	632	42.7%	1	0.1%
65 to 74	1,389	1,432	1,730	2,021	43	3.1%	291	16.8%
75 plus	1,046	1,324	1,355	1,489	278	26.6%	134	9.9%
Total	13,112	13,150	13,248	13,273	38	0.3%	25	0.2%
Sources: U.S. Census; ESRI; Metropolitan Council; Maxfield Research & Consulting, LLC								

Household Income by Age of Householder

The estimated distributions of household incomes in Two Harbors, Lake County, and the PMA in 2016 and 2021 are shown in Tables D-6 through D-10. The data was estimated by Maxfield Research and Consulting, LLC based on income trends provided by ESRI. The data helps ascertain the demand for different housing products based on the size of the market at specific cost levels.

The Department of Housing and Urban Development defines affordable housing costs as 30% of a household's adjusted gross income. For example, a household with an income of \$50,000 per year would be able to afford an estimated monthly housing cost of \$1,250. Maxfield Research and Consulting, LLC utilizes a figure of 25% to 30% for younger households and 40% or more for seniors, since seniors generally have lower living expenses and can often sell their homes and use the proceeds toward rent payments.

A generally accepted standard for affordable owner-occupied housing is that a typical household can afford to pay 3.0 to 3.5 times their annual income for a single-family home. Therefore, a \$50,000 income would translate to an affordable single-family home of \$150,000 to \$175,000. The higher end of this range assumes that the person has adequate funds for down payment and closing costs, but excludes savings or equity in an existing home.

Table D-6 presents household income by age of the householder in Two Harbors as of 2016 and 2021.

- In 2016, the median income in Two Harbors was \$44,853 across all ages. The median income is forecast to rise by 15.3% to \$51,696 by 2021.
- The highest median income was recorded among those ages 45 to 54 at \$60,105 in 2016. In 2021, those age 45 to 54 are expected to remain the highest earners with a median income of \$64,543, a 7.4% increase.
- Between 2016 and 2021, the median income of householders age 65 to 74 is forecast to experience the greatest growth, increasing 17.1% from \$38,600 in 2016 to \$45,207 in 2021. The increase in income among this age group reflects the population growth of the older age cohort and the tendency for people to work until an older age.
- The 2016 median sale price for a single-family home in Two Harbors was \$145,000. In order to afford a home at this price and not be cost-burdened, a household would need an estimated income of \$41,500 to \$48,300. An estimated 54.8% of Two Harbors' households could afford a home at the 2016 median sale price, based on the 2016 income distribution.

DEMOGRAPHIC ANALYSIS

TABLE D-3
HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER
TWO HARBORS
2016 & 2021

	Total	Age of Householder						
		<25	25-34	35-44	45-54	55-64	65 -74	75+
2016								
Less than \$15,000	201	8	20	22	24	36	28	63
\$15,000 to \$24,999	203	14	23	23	15	24	34	70
\$25,000 to \$34,999	244	16	41	27	24	37	49	50
\$35,000 to \$49,999	248	12	39	31	33	39	46	48
\$50,000 to \$74,999	398	13	71	57	71	91	61	35
\$75,000 to \$99,999	131	1	19	17	32	30	16	16
\$100,000 or more	230	5	37	37	67	50	17	17
Total	1,653	69	250	214	266	306	251	298
Median Income	\$44,853	\$32,100	\$50,395	\$51,043	\$60,105	\$52,966	\$38,600	\$27,582
2021								
Less than \$15,000	197	10	19	25	18	33	31	61
\$15,000 to \$24,999	236	17	22	30	15	27	41	84
\$25,000 to \$34,999	156	11	23	21	12	23	35	31
\$35,000 to \$49,999	180	10	27	23	20	29	37	34
\$50,000 to \$74,999	469	16	78	76	72	105	81	41
\$75,000 to \$99,999	151	1	21	24	29	33	23	20
\$100,000 or more	259	5	39	49	64	60	21	21
Total	1,647	70	229	248	230	310	269	292
Median Income	\$51,696	\$31,604	\$54,757	\$55,501	\$64,543	\$57,020	\$45,207	\$25,244
Change 2016 - 2021								
Less than \$15,000	-4	2	-1	3	-6	-3	3	-2
\$15,000 to \$24,999	33	3	-1	7	0	3	7	14
\$25,000 to \$34,999	-88	-5	-18	-6	-12	-14	-14	-19
\$35,000 to \$49,999	-68	-2	-12	-8	-13	-10	-9	-14
\$50,000 to \$74,999	70	3	7	19	1	14	20	6
\$75,000 to \$99,999	20	0	2	7	-3	3	7	4
\$100,000 or more	29	0	2	12	-3	10	4	4
Total	-6	1	-21	34	-36	3	18	-7
Median Income	\$6,843	-\$496	\$4,362	\$4,458	\$4,438	\$4,054	\$6,607	-\$2,338
Sources: ESRI; US Census Bureau; Maxfield Research & Consulting, LLC								

Sources: ESRI; US Census Bureau; Maxfield Research & Consulting, LLC

DEMOGRAPHIC ANALYSIS

Table D-7 shows the median income for Lake County for 2016 and 2021.

- The 2016 median income for Lake County was \$52,693 for all age cohorts. The median income is expected to rise to \$56,880 in 2021, a 7.9% increase in median income.

TABLE D-4 HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER LAKE COUNTY 2016 & 2021								
	Age of Householder							
Total	<25	25-34	35-44	45-54	55-64	65 -74	75+	
2016								
Less than \$15,000	479	12	34	43	63	103	88	136
\$15,000 to \$24,999	494	23	41	42	36	74	97	181
\$25,000 to \$34,999	484	19	61	47	50	87	109	111
\$35,000 to \$49,999	755	26	89	74	102	140	173	151
\$50,000 to \$74,999	1,153	29	151	131	217	308	216	101
\$75,000 to \$99,999	638	9	65	74	149	185	93	63
\$100,000 or more	801	9	83	111	241	211	104	42
Total	4,804	127	524	522	858	1,108	880	785
Median Income	\$52,693	\$39,185	\$53,957	\$57,791	\$68,726	\$59,198	\$46,874	\$31,110
2021								
Less than \$15,000	462	14	35	43	44	86	98	142
\$15,000 to \$24,999	557	25	41	49	28	74	118	222
\$25,000 to \$34,999	329	12	36	35	24	57	86	79
\$35,000 to \$49,999	562	18	65	50	56	99	147	127
\$50,000 to \$74,999	1,248	30	162	153	185	322	274	122
\$75,000 to \$99,999	704	10	72	85	127	196	128	86
\$100,000 or more	911	9	88	128	227	256	145	58
Total	4,773	118	499	543	691	1,090	996	836
Median Income	\$56,880	\$40,460	\$57,969	\$62,535	\$76,189	\$65,134	\$52,814	\$31,251
Change 2016 - 2021								
Less than \$15,000	-17	2	1	0	-19	-17	10	6
\$15,000 to \$24,999	63	2	0	7	-8	0	21	41
\$25,000 to \$34,999	-155	-7	-25	-12	-26	-30	-23	-32
\$35,000 to \$49,999	-193	-8	-24	-24	-46	-41	-26	-24
\$50,000 to \$74,999	95	1	11	22	-32	14	58	21
\$75,000 to \$99,999	66	1	7	11	-22	11	35	23
\$100,000 or more	110	0	5	17	-14	45	41	16
Total	-31	-9	-25	21	-167	-18	116	51
Median Income	\$4,187	\$1,275	\$4,012	\$4,744	\$7,463	\$5,936	\$5,940	\$141

Sources: ESRI; US Census Bureau; Maxfield Research & Consulting, LLC

- The highest income earners were those age 45 to 54 in 2016 (\$60,105) and 2021 (\$64,543), a gain of 7.4%, or \$4,438.
- At the same time, the 65 to 74 age cohort is forecast to experience the strongest income growth, increasing 12.7% (\$5,940) between 2016 and 2021, rising from \$46,874 in 2016 to \$52,814 in 2021.

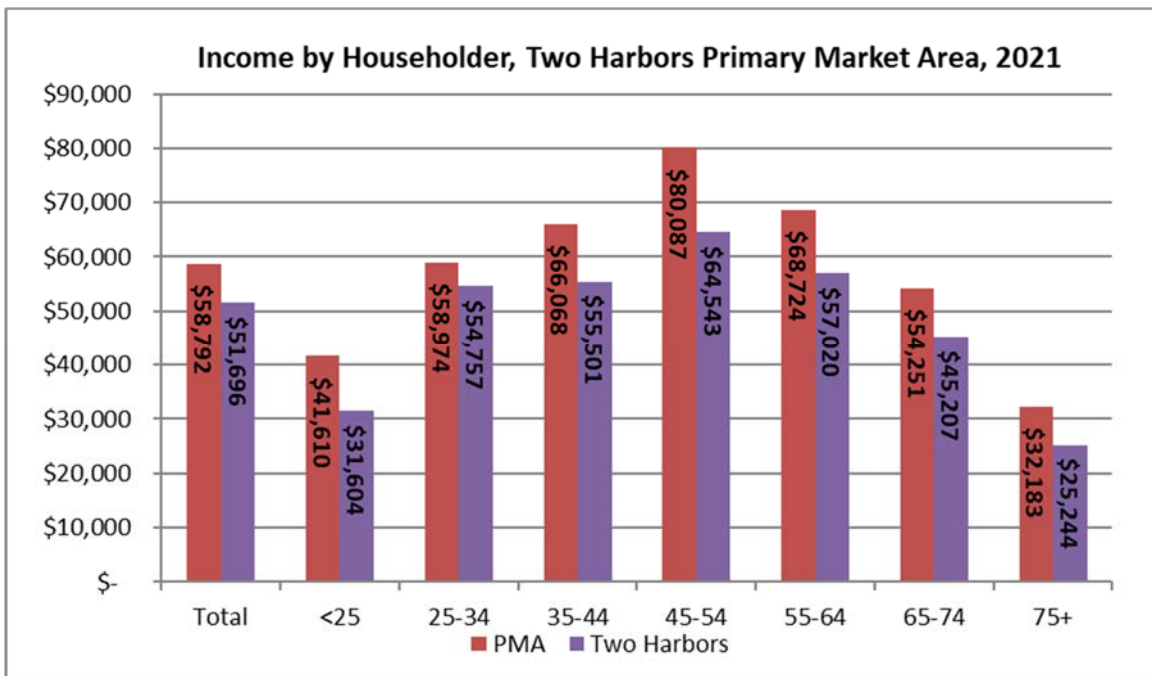
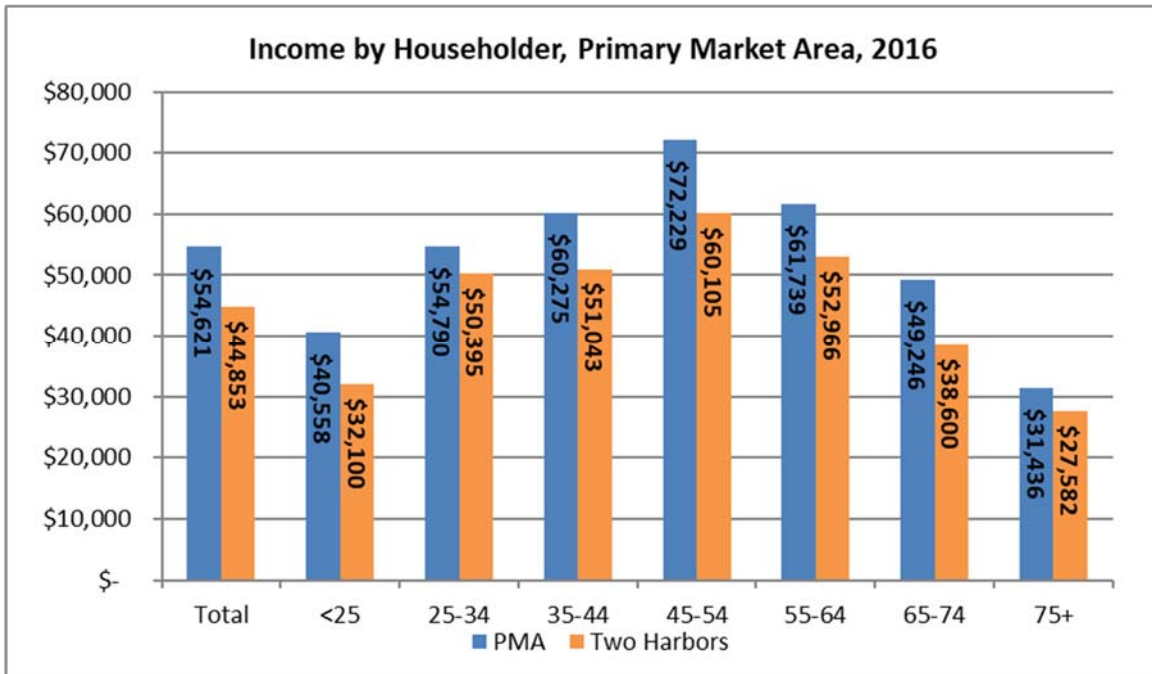
DEMOGRAPHIC ANALYSIS

Table D-8 displays the median income among age cohorts for the Primary Market Area.

TABLE D-5 HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER PRIMARY MARKET AREA 2016 & 2021								
	Age of Householder							
Total	<25	25-34	35-44	45-54	55-64	65-74	75+	
2016								
Less than \$15,000	546	12	38	49	72	123	105	147
\$15,000 to \$24,999	550	25	44	46	42	85	112	196
\$25,000 to \$34,999	547	19	64	56	56	103	123	126
\$35,000 to \$49,999	856	28	102	86	116	161	192	170
\$50,000 to \$74,999	1,364	33	173	156	262	370	254	115
\$75,000 to \$99,999	742	11	75	89	177	216	109	64
\$100,000 or more	1,118	10	100	155	331	319	155	47
Total	5,724	138	597	638	1,057	1,378	1,051	866
Median Income	\$54,621	\$40,558	\$54,790	\$60,275	\$72,229	\$61,739	\$49,246	\$31,436
2021								
Less than \$15,000	532	14	40	49	49	104	119	156
\$15,000 to \$24,999	604	26	43	52	29	81	132	240
\$25,000 to \$34,999	379	12	39	39	27	66	100	95
\$35,000 to \$49,999	679	20	80	62	67	121	172	155
\$50,000 to \$74,999	1,415	32	180	177	210	367	313	136
\$75,000 to \$99,999	805	11	84	101	148	225	148	87
\$100,000 or more	1,296	10	113	186	312	385	222	68
Total	5,710	125	580	667	842	1,350	1,207	939
Median Income	\$58,792	\$41,610	\$58,974	\$66,068	\$80,087	\$68,724	\$54,251	\$32,183
Change 2016 - 2021								
Less than \$15,000	-14	2	2	0	-23	-19	14	9
\$15,000 to \$24,999	53	1	-1	6	-13	-4	20	44
\$25,000 to \$34,999	-168	-7	-25	-17	-29	-37	-23	-31
\$35,000 to \$49,999	-177	-8	-22	-24	-49	-40	-20	-15
\$50,000 to \$74,999	51	-1	6	21	-53	-3	59	21
\$75,000 to \$99,999	64	0	9	12	-29	8	39	23
\$100,000 or more	178	0	13	30	-19	66	66	21
Total	-14	-13	-17	29	-215	-28	156	73
Median Income	\$4,171	\$1,052	\$4,184	\$5,793	\$7,858	\$6,985	\$5,005	\$747

Sources: ESRI; US Census Bureau; Maxfield Research & Consulting, LLC

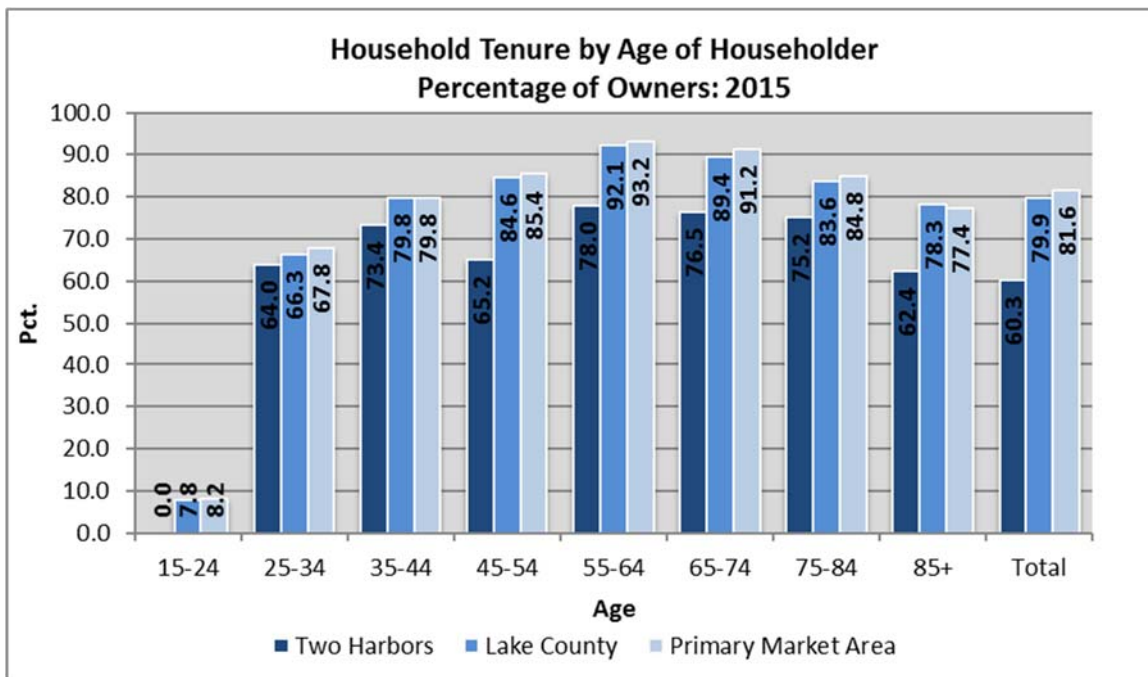
- In 2016, the median income of the Primary Market Area was \$54,621, and is projected to rise to \$58,792 in 2021.
- The highest earners in the Primary Market Area were in the age 45 to 54 cohort in 2016 (\$72,229) and are projected to remain in this cohort as of 2021 (\$80,087). The largest gain in median income is expected among the age 55 to 64 cohort. This age cohort is projected to experience an 11.3% increase in median income between 2016 and 2021.
- The median sale price of a single-family home in the PMA in 2016 was \$149,000, which means that households with incomes of \$42,600 or higher (63.7% of households) can afford a home that costs the median sale price and not be considered cost-burdened.



Tenure by Age of Householder

Table D-6 shows 2000 and 2010 and 2015 tenure data for Two Harbors, Lake County and the Primary Market Area from the U.S. Census Bureau and estimates from the American Community Survey data (also published by the Census Bureau). This data is useful in determining demand for certain types of housing since housing preferences change throughout an individual's life cycle.

- In 2000, 85.3% of PMA households were owner households. This number fell slightly in 2010 to 82.3%. As of 2015, the overall tenure rate in the PMA was estimated at 81.6%.
- The proportion of owner households in the PMA largely reflects the trends in Lake County, which has a higher homeownership rate than Two Harbors, due to the largely rural character of most of Lake County.
- Homeownership rates peak in in the age 55 to 64 cohort, at a high of 78.0% in Two Harbors, 92.1% in Lake County and 93.2% in the Primary Market Area. Seniors often begin considering senior housing options in their early 70s and later. This trend is reflected in the lower homeownership rates of the 75+ age groups.



DEMOGRAPHIC ANALYSIS

TABLE D-6
TENURE BY AGE OF HOUSEHOLDER
TWO HARBORS MARKET AREA
2000 to 2015

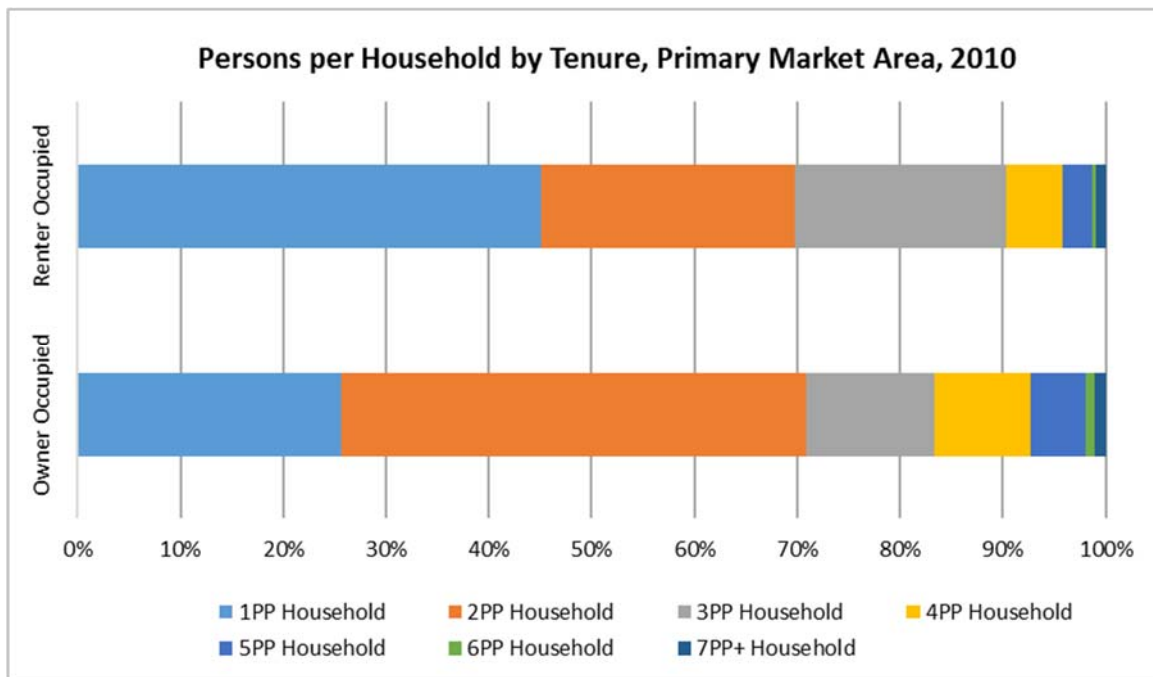
Age		Two Harbors						Lake County						Primary Market Area					
		2000		2010		2015		2000		2010		2015		2000		2010		2015	
		No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
15-24	Own	26	26.8	22	28.6	0	0.0	50	29.1	51	36.7	21	7.8	56	29.9	60	39.5	23	8.2
	Rent	71	73.2	55	71.4	248	100.0	122	70.9	88	63.3	248	92.2	131	70.1	92	60.5	259	91.8
	Total	97	100.0	77	100.0	248	100.0	172	100.0	139	100.0	269	100.0	187	100.0	152	100.0	282	100.0
25-34	Own	116	57.4	145	55.3	169	64.0	332	70.0	327	61.8	391	66.3	386	71.9	370	62.5	425	67.8
	Rent	86	42.6	117	44.7	95	36.0	142	30.0	202	38.2	199	33.7	151	28.1	222	37.5	202	32.2
	Total	202	100.0	262	100.0	264	100.0	474	100.0	529	100.0	590	100.0	537	100.0	592	100.0	627	100.0
35-44	Own	214	78.1	150	70.1	149	73.4	800	85.5	444	79.4	455	79.8	1,004	86.9	563	81.0	542	79.8
	Rent	60	21.9	64	29.9	54	26.6	136	14.5	115	20.6	115	20.2	151	13.1	132	19.0	137	20.2
	Total	274	100.0	214	100.0	203	100.0	936	100.0	559	100.0	570	100.0	1,155	100.0	695	100.0	679	100.0
45-54	Own	256	86.5	213	71.2	163	65.2	871	90.7	892	86.7	752	84.6	1,089	91.5	1,112	88.0	924	85.4
	Rent	40	13.5	86	28.8	87	34.8	89	9.3	137	13.3	137	15.4	101	8.5	151	12.0	158	14.6
	Total	296	100.0	299	100.0	250	100.0	960	100.0	1,029	100.0	889	100.0	1,190	100.0	1,263	100.0	1,082	100.0
55-64	Own	157	84.9	214	77.5	170	78.0	661	92.4	916	88.8	1,005	92.1	787	93.0	1,152	90.1	1,252	93.2
	Rent	28	15.1	62	22.5	48	22.0	54	7.6	115	11.2	86	7.9	59	7.0	126	9.9	92	6.8
	Total	185	100.0	276	100.0	218	100.0	715	100.0	1,031	100.0	1,091	100.0	846	100.0	1,278	100.0	1,344	100.0
65-74	Own	165	79.3	160	76.6	143	76.5	711	90.6	675	89.3	719	89.4	799	91.0	790	90.0	922	91.2
	Rent	43	20.7	49	23.4	44	23.5	74	9.4	81	10.7	85	10.6	79	9.0	88	10.0	89	8.8
	Total	208	100.0	209	100.0	187	100.0	785	100.0	756	100.0	804	100.0	878	100.0	878	100.0	1,011	100.0
75-84	Own	126	70.4	112	58.0	152	75.2	394	83.8	463	81.2	542	83.6	422	84.2	528	82.5	604	84.8
	Rent	53	29.6	81	42.0	50	24.8	76	16.2	107	18.8	106	16.4	79	15.8	112	17.5	108	15.2
	Total	179	100.0	193	100.0	202	100.0	470	100.0	570	100.0	648	100.0	501	100.0	640	100.0	712	100.0
85+	Own	40	48.8	44	37.0	78	62.4	83	61.9	125	59.0	177	78.3	102	66.2	137	60.9	192	77.4
	Rent	42	51.2	75	63.0	47	37.6	51	38.1	87	41.0	49	21.7	52	33.8	88	39.1	56	22.6
	Total	82	100.0	119	100.0	125	100.0	134	100.0	212	100.0	226	100.0	154	100.0	225	100.0	248	100.0
TOTAL	Own	1,100	72.2	1,060	64.3	1,024	60.3	3,902	84.0	3,893	80.7	4,062	79.9	4,645	85.3	4,712	82.3	4,884	81.6
	Rent	423	27.8	589	35.7	673	39.7	744	16.0	932	19.3	1,025	20.1	803	14.7	1,011	17.7	1,101	18.4
	Total	1,523	100.0	1,649	100.0	1,697	100.0	4,646	100.0	4,825	100.0	5,087	100.0	5,448	100.0	5,723	100.0	5,985	100.0

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

Tenure by Household Size

Table D-7 shows the distribution of households by size and tenure in the Primary Market Area in 2015. This data is useful in that it sheds insight into the types of housing units that may be most needed in the PMA.

- Household size for renters tends to be smaller than for owners. This trend is a result of the typical market segments for rental housing, including households that are younger and are less likely to be married with children, as well as, older adults and seniors who choose to downsize from their single-family homes. In 2015, 45.1% of renter households in the PMA were one-person households.
- This trend is reflected in both Two Harbors and Lake County, where 29.1% and 45.6% of renter households had only one person. Owner households were most likely to contain two people in the PMA, representing 45.2% of households.
- Among renter households in the PMA, over 90% have three or fewer people. Owner households are most likely to be two-person households, but larger households such as families with children are still common with about 22% being three-or four-person households.



DEMOGRAPHIC ANALYSIS

**TABLE D-7
HOUSEHOLDS BY SIZE
TWO HARBORS MARKET AREA
2015**

Size	Two Harbors				Lake County				Primary Market Area			
	Owner Occupied		Renter Occupied		Owner Occupied		Renter Occupied		Owner Occupied		Renter Occupied	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
1PP Household	298	29.1%	292	43.4%	1,060	26.1%	467	45.6%	1,254	25.7%	497	45.1%
2PP Household	350	34.2%	155	23.0%	1,835	45.2%	239	23.3%	2,207	45.2%	271	24.6%
3PP Household	119	11.6%	174	25.9%	483	11.9%	220	21.5%	609	12.5%	226	20.5%
4PP Household	133	13.0%	31	4.6%	399	9.8%	61	6.0%	460	9.4%	61	5.5%
5PP Household	95	9.3%	21	3.1%	235	5.8%	27	2.6%	256	5.2%	31	2.8%
6PP Household	17	1.7%	0	0.0%	36	0.9%	0	0.0%	45	0.9%	4	0.4%
7PP+ Household	12	1.2%	0	0.0%	14	0.3%	11	1.1%	53	1.1%	11	1.0%
Total	1,024	100%	673	100%	4,062	100%	1,025	100%	4,884	100%	1,101	100%

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

Household Type

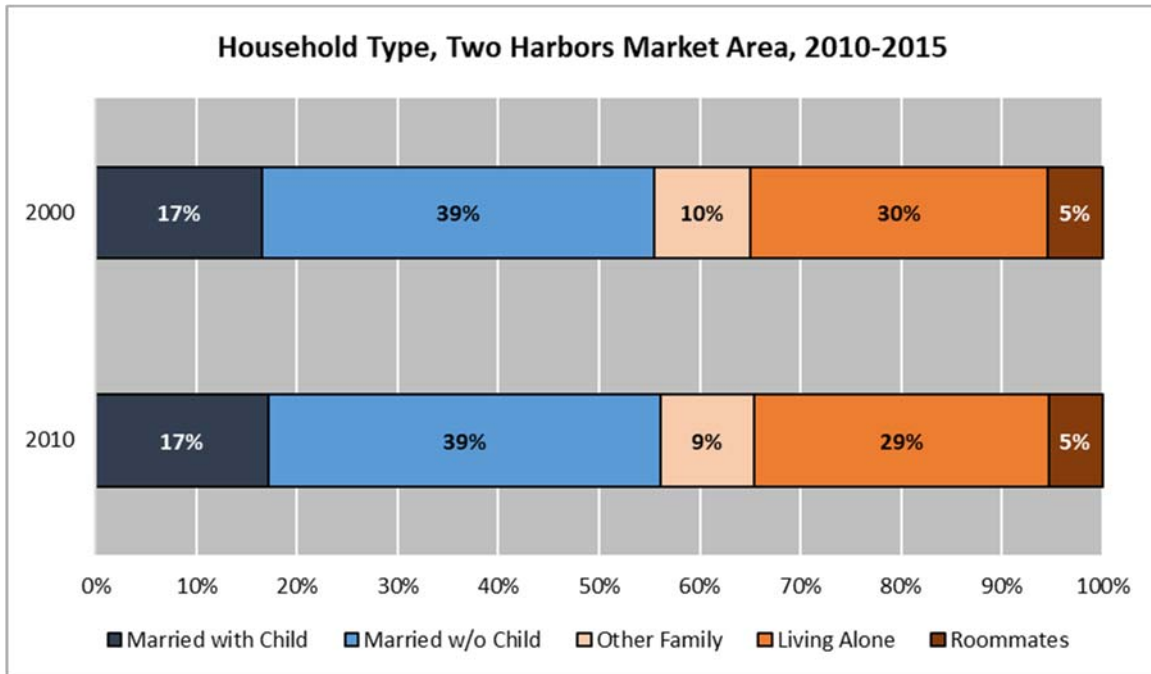
Table D-8 shows a breakdown of the type of households present in the Primary Market Area in 2010 and 2015. The data is useful in assessing housing demand since the household composition often dictates the type of housing needed and preferred. The following key points are summarized from Table D-8.

- Married couples without children represented the largest household type in the Primary Market Area in 2010. These households accounted for 38.9% of all households in the PMA.
- The next largest household type in the PMA was non-family households living alone (29.5% of households). A growing proportion of single-person households reflects several demographic and cultural shifts. The biggest contributing factor is the aging of the population, as baby boomers age and millennials postpone starting families.
- As of 2015, Married Couples without Children remains the largest proportion of households in the PMA, holding steady at 38.9%. Married with Children households in the PMA increased from 16.6% to 17.2% of households, an 8.8% increase. In Two Harbors, Married with Children households is projected to have increased by 24.0% between 2010 and 2015.
- The proportion of Non-family households fell slightly from 35.0% of households in 2010 to 34.6% of households in 2015. Other Family households decreased slightly from 9.5% of households to 9.3%.

DEMOGRAPHIC ANALYSIS

**TABLE D-8
HOUSEHOLD TYPE
TWO HARBORS MARKET AREA
2010 & 2015**

Households	Total HH's		Family Households						Non-Family Households			
			Married w/ Child		Married w/o Child		Other *		Living Alone		Roommates **	
	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015
Two Harbors	1,649	1,697	250	310	468	490	233	257	606	590	92	50
Lake County	4,825	5,087	750	863	1,850	1,893	498	520	1,474	1,527	253	284
Primary Market Area	5,723	5,985	948	1,031	2,228	2,330	546	555	1,690	1,751	311	318
State of Minnesota	2,087,227	2,124,745	443,212	456,223	617,297	626,309	288,506	294,017	584,008	600,804	154,204	147,392
Percent												
Two Harbors	100.0	100.0	15.2	18.3	28.4	28.9	14.1	15.1	36.7	34.8	5.6	2.9
Lake County	100.0	100.0	15.5	17.0	38.3	37.2	10.3	10.2	30.5	30.0	5.2	5.6
Primary Market Area	100.0	100.0	16.6	17.2	38.9	38.9	9.5	9.3	29.5	29.3	5.4	5.3
State of Minnesota	100.0	100.0	21.2	21.5	29.6	29.5	13.8	13.8	28.0	28.3	7.4	6.9
Change 2010-2015												
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Two Harbors	48	2.9%	60	24.0%	22	4.7%	24	10.3%	-16	-2.6%	-42	-45.7%
Lake County	262	5.4%	113	15.1%	43	2.3%	22	4.4%	53	3.6%	31	12.3%
Primary Market Area	262	4.6%	83	8.8%	102	4.6%	9	1.6%	61	3.6%	7	2.3%
State of Minnesota	37,518	1.8%	13,011	2.9%	9,012	1.5%	5,511	1.9%	16,796	2.9%	-6,812	-4.4%
* Single-parents with children												
** Includes unmarried couples without children and group quarters												
Sources: U. S. Census; ESRI, Inc.; Maxfield Research and Consulting, LLC												



Net Worth

Table D-9 shows household net worth in the Primary Market Area in 2016. Net worth is the difference between assets and liabilities or the total value of assets after debt is subtracted. The data was compiled and estimated by ESRI based on the Survey of Consumer Finances and Federal Reserve Board data. According to the Urban Institute Housing Finance Center, the average homeowner's net worth in the US is \$150,506 compared to an average net worth of just over \$5,000 for renters reported by the 2013 Federal Reserve Survey of Consumer Finances.

- The PMA reported an average net worth of \$775,590 and a median net worth of \$176,517. Median net worth is generally a more accurate depiction of the wealth of a majority of the area residents than the average. A few households with very high net worth can significantly skew the average. Communities with high levels of farming operations and land assets tend to also increase the average and median net worth in those areas.
- The highest median net worth was reported in the 55 to 64 and 65 to 74 age groups, over \$250,001. The highest average net worth was in the 65 to 74 age group with an average net worth of \$1,309,406, which suggests that some retirees have substantial assets.
- Median net worth rises with age, peaking between 55 and 74 when adults are in their peak earning years. After age 75, median net worth begins to decline as more people leave the workforce and live on fixed incomes.

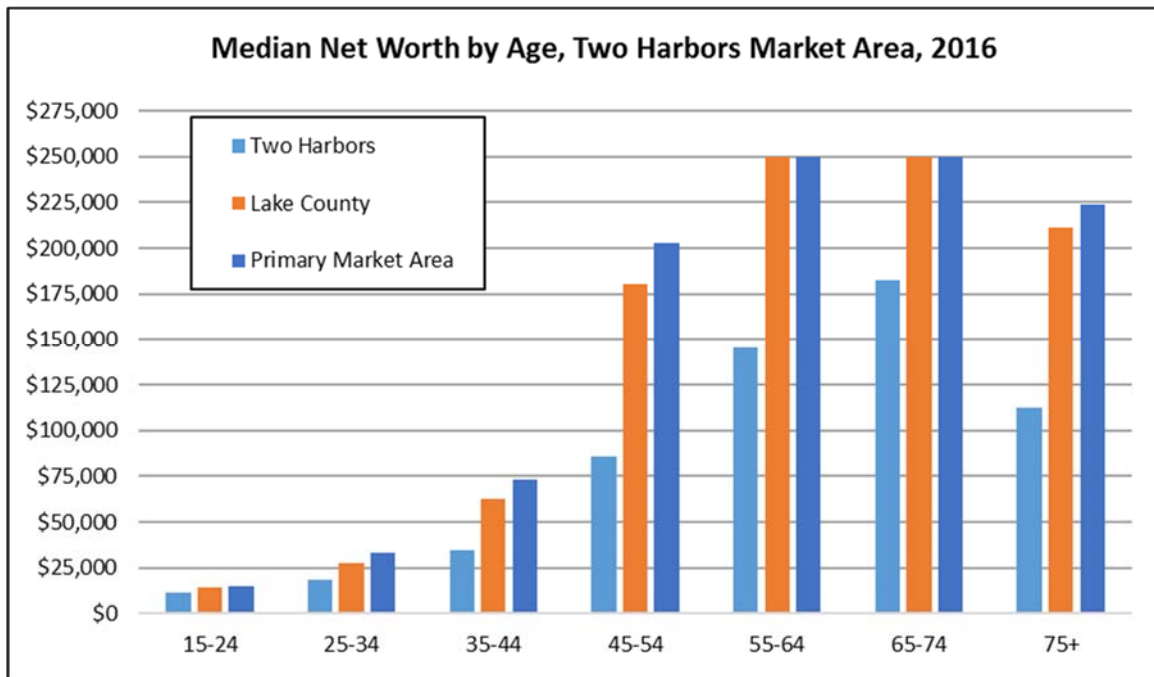
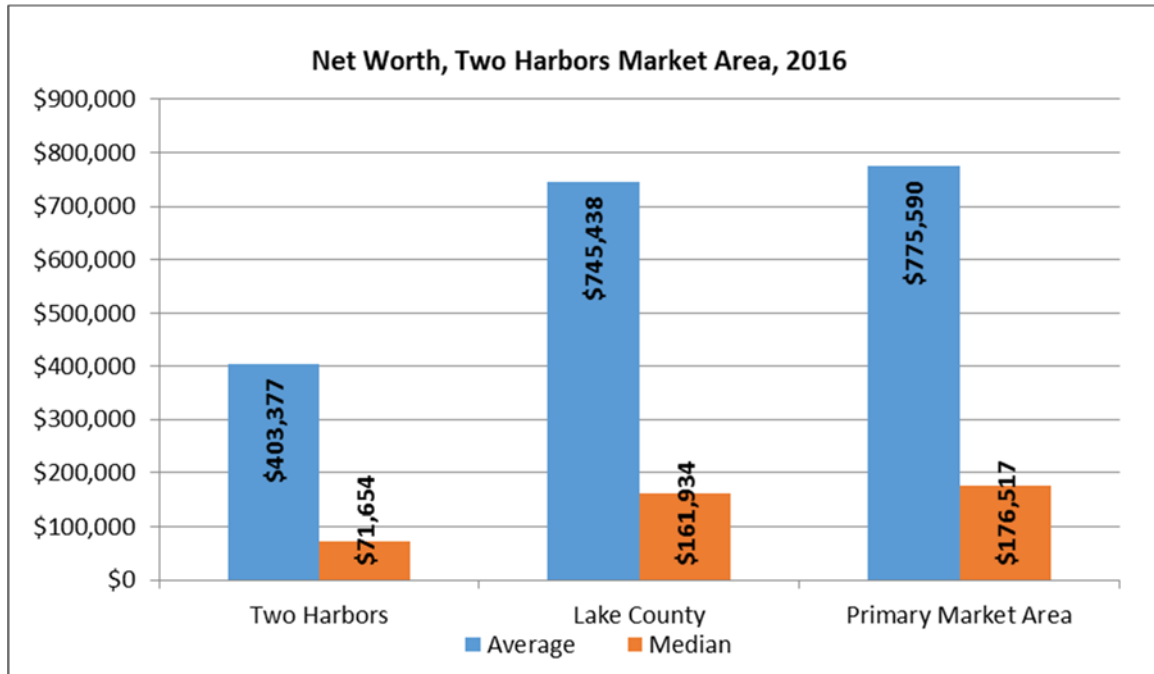


TABLE D-9
ESTIMATED NET WORTH BY AGE OF HOUSEHOLDER
TWO HARBORS MARKET AREA
2016

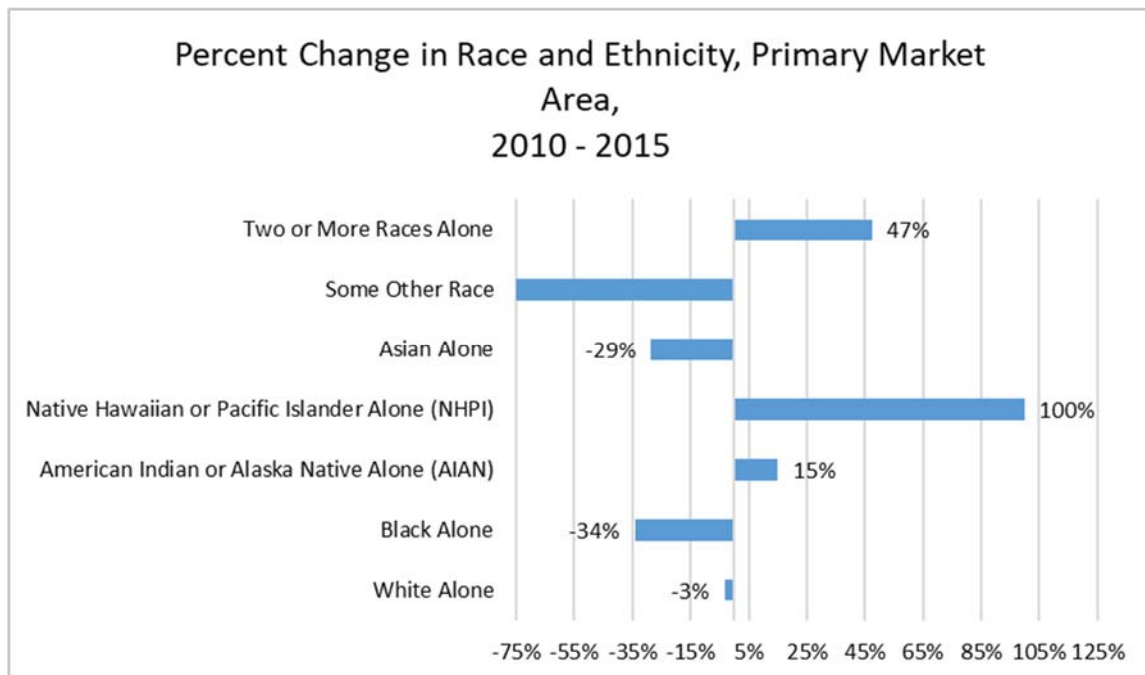
	Age of Householder							
	Total		15-24		25-34		35-44	
	Average	Median	Average	Median	Average	Median	Average	Median
Two Harbors	\$403,377	\$71,654	\$26,947	\$11,576	\$67,698	\$18,305	\$171,572	\$34,323
Lake County	\$745,438	\$161,934	\$30,608	\$14,007	\$89,134	\$27,880	\$316,868	\$62,667
Primary Market Area	\$775,590	\$176,517	\$42,742	\$14,894	\$99,141	\$33,245	\$368,672	\$73,063
	45-54		55-64		65-74		75+	
	Average	Median	Average	Median	Average	Median	Average	Median
Two Harbors	\$434,777	\$85,481	\$604,388	\$145,455	\$768,695	\$182,669	\$389,827	\$112,181
Lake County	\$695,807	\$180,689	\$959,595	\$250,001	\$1,290,250	\$250,001	\$725,392	\$211,259
Primary Market Area	\$737,507	\$202,477	\$991,940	\$250,001	\$1,309,406	\$250,001	\$724,926	\$223,596

Sources: ESRI; Maxfield Research and Consulting, LLC

Race of Population

The race of the population illustrates the diversity for Two Harbors, Lake County and the Primary Market Area. Data for 2010 and 2015 was obtained from the U.S. Census and the American Community Survey (published by the Census Bureau) and is presented in Table D-10.

- Most PMA residents reported their race as “White Alone” in 2010 (97.9%) and 2015 (97.5%). In Two Harbors, 95.0% of residents reported their race as “White Alone” in 2010, and 96.7% in 2015.
- From 2010 to 2015, the PMA saw increases in the population in the majority of racial groups, however, several racial groups experienced more significant growth than others. Similarly, residents identifying as Native Hawaiian or Pacific Islander Alone (NHPI) increased by 100.0% in the PMA.
- The steep drop in people reporting as “Some Other Race” can be largely attributed to changes in methodology that the Census Bureau implemented after the 2010 Census. Many people who responded “Some Other Race” later reported as “Hispanic or Latino *Ethnicity not Race*”.



DEMOGRAPHIC ANALYSIS

TABLE D-10
POPULATION DISTRIBUTION BY RACE
TWO HARBORS MARKET AREA
2000 & 2010

	White Alone		Black or African American Alone		American Indian or Alaska Native Alone (AIAN)		Native Hawaiian or Pacific Islander Alone (NHPI)		Asian Alone		Some Other Race		Two or More Races Alone		Hispanic or Latino <i>Ethnicity not Race</i>	
	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015
Number																
Two Harbors	3,640	3,494	27	12	10	4	3	0	15	0	6	0	130	103	37	30
Lake County	10,616	10,348	2	12	4	20	1	8	8	0	15	0	22	228	35	134
Primary Market Area	12,844	12,454	38	25	20	23	4	8	28	20	20	0	169	249	1,209	182
Minnesota	4,524,062	4,427,809	274,412	293,837	60,916	51,782	2,156	1,644	214,234	239,529	103,000	6,405	125,145	127,181	250,258	270,984
Percentage																
Two Harbors	95.0%	96.7%	0.7%	0.3%	0.3%	0.1%	0.1%	0.0%	0.4%	0.0%	0.2%	0.0%	3.4%	2.9%	1.0%	0.8%
Lake County	99.5%	97.5%	0.0%	0.1%	0.0%	0.2%	0.0%	0.1%	0.1%	0.0%	0.1%	0.0%	0.2%	2.1%	0.3%	1.3%
Primary Market Area	97.9%	97.5%	0.3%	0.2%	0.2%	0.2%	0.0%	0.1%	0.2%	0.2%	0.2%	0.0%	1.3%	1.9%	9.2%	1.4%
Minnesota	85.3%	86.0%	5.2%	5.7%	1.1%	1.0%	0.0%	0.0%	4.0%	4.7%	1.9%	0.1%	2.4%	2.5%	4.7%	5.3%

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

- Although residents identifying Native Hawaiian or Pacific Islander Alone and Two or More Races Alone experienced the largest proportional increase in population, these groups still make up a small proportion of the total population.
- Between 2010 and 2015, the Hispanic or Latino population increased in the PMA. In 2010, 0.7% of the PMA population reported their ethnicity as Hispanic or Latino. In 2015, the proportion of the population reporting their ethnicity as Hispanic or Latino increased to 1.4% of the county population.

Summary of Demographic Trends

The following points summarize key demographic trends that will impact the demand for housing in the Primary Market Area.

- Two Harbors is the population center of the PMA (28.4% of the PMA's population in 2016) and is forecast to remain as such to 2031, although its population is expected to remain roughly flat between 2016 and 2031. Lake County's population is expected to decline by 10.8% between 2021 and 2031.
- Household growth is expected to outpace population growth in both Two Harbors and the PMA between 2021 and 2031, continuing the trend from the previous decade. Again, Lake County is anticipated to experience significant contractions during this period, with the household base forecast to decline by -10.1%.
- Households growth is outpacing population growth in the PMA, leading to smaller household sizes. Population is anticipated to contract slightly between 2021 and 2031, while household growth is expected to increase slightly (0.7%).
- In 2010, the largest adult age cohort in the PMA was age 45 to 54. This age cohort is also the largest in Two Harbors. Between 2000 and 2010, the 55 to 64 age cohort grew by 42.7% (632 people) in the PMA and by 39.9% (125 people) in Two Harbors. In 2021, the largest adult age cohort will be those age 55 to 64 in the PMA, Lake County and the City of Two Harbors. This age cohort is expected to remain roughly the same size during this period in each geography, with less than a 1.0% change in Two Harbors, Lake County and the PMA.
- The median income for the PMA in 2016 was \$54,621, 21.8% higher than the Two Harbors 2016 median income of \$44,853. Incomes in the PMA are forecast to increase by 7.6% and by 15.3% in Two Harbors between 2016 and 2021. The median household income among the age 55 to 64 cohort is projected to experience the greatest increase (11.3%) in the PMA from 2016 to 2021. Because of lower housing prices, households earning the median income, should be able to afford to purchase.

DEMOGRAPHIC ANALYSIS

- Over 80% of PMA households were owner households. Further, there are high rates of ownership among the youngest age cohorts, where there are typically more renters. An estimated 45% of renter households in the PMA were one-person households, while owner households were most likely to be two-person households (45.2%).

Introduction

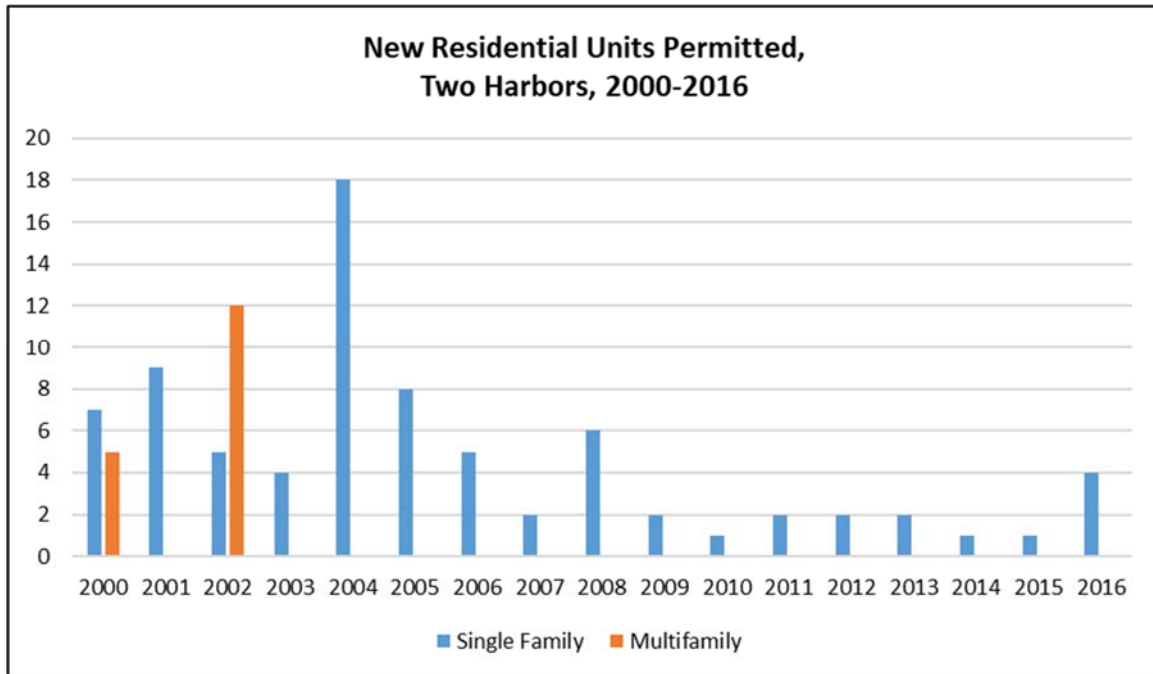
The variety and condition of the housing stock in a community provides the basis for an attractive living environment. Housing functions as a building block for neighborhoods and goods and services. We examined the housing market by reviewing data on the age of the existing housing supply, examining residential building trends since 2000 and reviewing housing data from the American Community Survey. The American Community Survey is group of data compiled from annual surveys of households in each state. The data is estimated based on the survey responses and averages are compiled for one-, three- and five-year periods. The five-year average estimates have been utilized for this analysis.

Residential Construction Trends

Maxfield Research obtained data on the number of new housing units from 2000 through 2016 from Housing and Urban Development's State of the Cities Data System (HUD SOCDs) and the City of Two Harbors. Table HC-1 displays the number of building permits issued for new construction of residential units by city in Two Harbors, Silver Bay, Beaver Bay, Lake County, and Duluth Township.

- From 2000 through 2016, there were 96 new residential units permitted in Two Harbors, 82% of which were issued for single-family homes. Multifamily development was much lower in Two Harbors with only 17 units total being built between 2000 and 2016.
- The effects of the Great Recession are illustrated in the decline in units permitted after 2008. From 2000 to 2008, 81 new residential units were permitted in Two Harbors. The years from 2009 through 2016 recorded only 15 permits issued for new residential units. Activity increased in 2016, with four single-family units permitted in the City.
- Of the residential units permitted in Lake County, Two Harbors accounted for 7.5% of the units permitted from 2000 through 2016.
- The effect of the great recession can be seen in the number of units permitted in 2007 and before and the number of units permitted since 2008. An estimated 62% of residential units permitted in the PMA (Lake County and Duluth Township) were permitted between 2000 and 2007.

HOUSING CHARACTERISTICS



**TABLE HC-1
BUILDING PERMIT TRENDS
TWO HARBORS MARKET AREA
2000 - 2016**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Two Harbors																		
Single Family	7	9	5	4	18	8	5	2	6	2	1	2	2	2	1	1	4	79
Duplex/TH/Quad	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Multifamily 5+	5	0	12	0	0	0	0	0	0	0	0	0	0	0	0	0	0	17
Silver Bay																		
Single Family	4	4	2	1	4	0	1	4	0	1	0	2	0	3	0	0	0	26
Duplex/TH/Quad	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Multifamily 5+	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Beaver Bay																		
Single Family	0	1	1	2	4	2	0	0	0	0	0	0	0	0	0	1	0	11
Duplex/TH/Quad	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Multifamily 5+	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lake County Total																		
Single Family	126	91	86	89	112	94	103	92	65	50	48	47	52	57	50	47	52	1,261
Duplex/TH/Quad	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Multifamily 5+	5	0	12	0	0	0	0	0	0	0	0	0	0	0	0	0	0	17
Duluth township																		
Single Family	15	17	15	16	18	20	10	3	9	9	8	8	9	11	12	13	14	207
Duplex/TH/Quad	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Multifamily 5+	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: City of Two Harbors; HUD; Maxfield Research and Consulting, LLC.

American Community Survey

The American Community Survey (“ACS”) is an ongoing statistical survey administered by the U.S. Census Bureau that is sent to approximately three million addresses annually. The survey gathers data previously contained only in the long form of the Decennial Census. As a result, the survey provides a more “up-to-date” portrait of demographic, economic, social, and household characteristics every year, not just every ten years. The most recent ACS highlights data collected between 2011 and 2015. All ACS surveys are subject to sampling error and uncertainty. The ACS reports margins of errors (MOEs) with estimates for most standard census geographies. The MOE is shown by reliability from low, medium to high. Due to the MOE, 2015 ACS data may have inconsistencies with previous 2010 Census data.

Tables HC-2 through HC-10 show key data from the American Community Survey for Two Harbors, Lake County and the PMA.

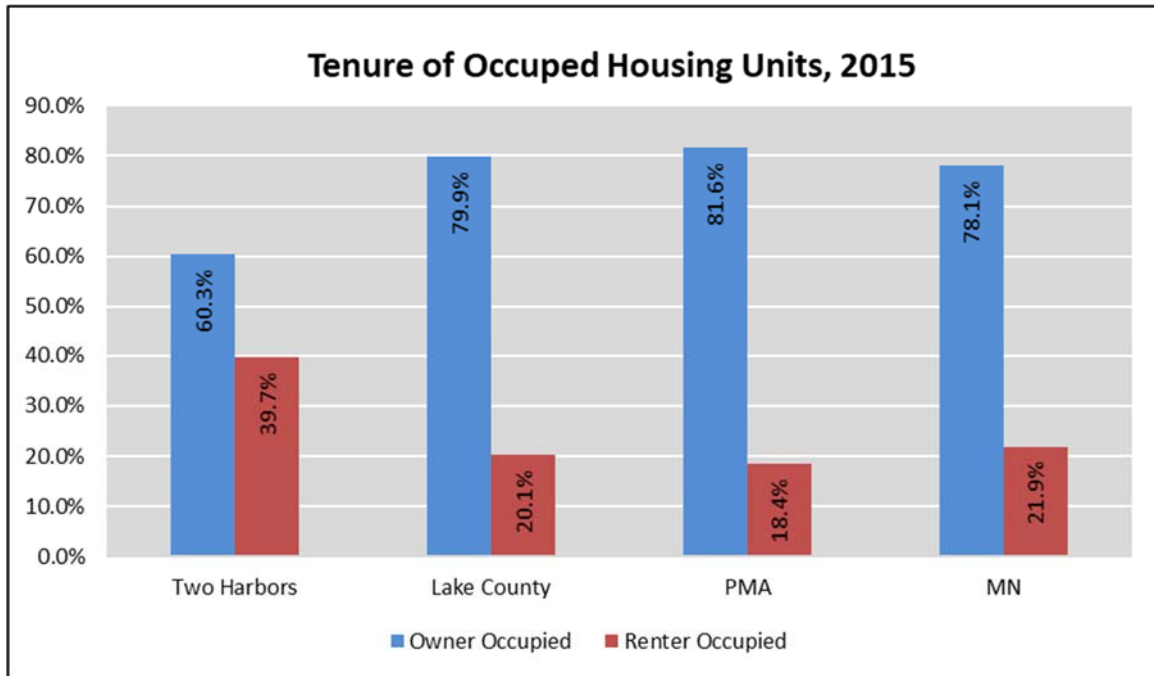
Occupied Housing Units by Tenure

Tenure is a key variable that analyzes the propensity for householders to rent or own their housing unit. Tenure is an integral statistic used by numerous governmental agencies and private sector industries to assess neighborhood stability. Table HC-2 shows the tenure by occupied housing units in 2015.

- In Two Harbors, 60.3% of the occupied housing units are owner-occupied, considerably lower than Lake County and the PMA.
- Lake County reported nearly 80% of occupied housing units as owner-occupied. This is a higher proportion than Two Harbors proper, but still lower than the PMA, in which 81.6% of occupied units were owner occupied. Two Harbors offers more options for households that want to rent their housing.

TABLE HC-2 OCCUPIED HOUSING UNITS BY TENURE PRIMARY MARKET AREA 2015							
Tenure	Two Harbors		Lake County		PMA		MN
	No.	Pct.	No.	Pct.	Pct.	Pct.	Pct.
Owner Occupied	1,024	60.3%	4,062	79.9%	4,884	81.6%	78.1%
Renter Occupied	673	39.7%	1,025	20.1%	1,101	18.4%	21.9%
Total	1,697	100.0%	5,087	100.0%	5,985	100.0%	100.0%
Sources: U.S. Census Bureau-American Community Survey; Maxfield Research and Consulting, LLC							

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



Age of Housing Stock

The following graph shows the age distribution of the housing stock based on data from the U.S. Census Bureau and the American Community Survey (5-Year estimates). Table HC-3 includes the number of housing units built in Two Harbors, Lake County, the PMA and Minnesota, prior to 1940 and during each decade since.

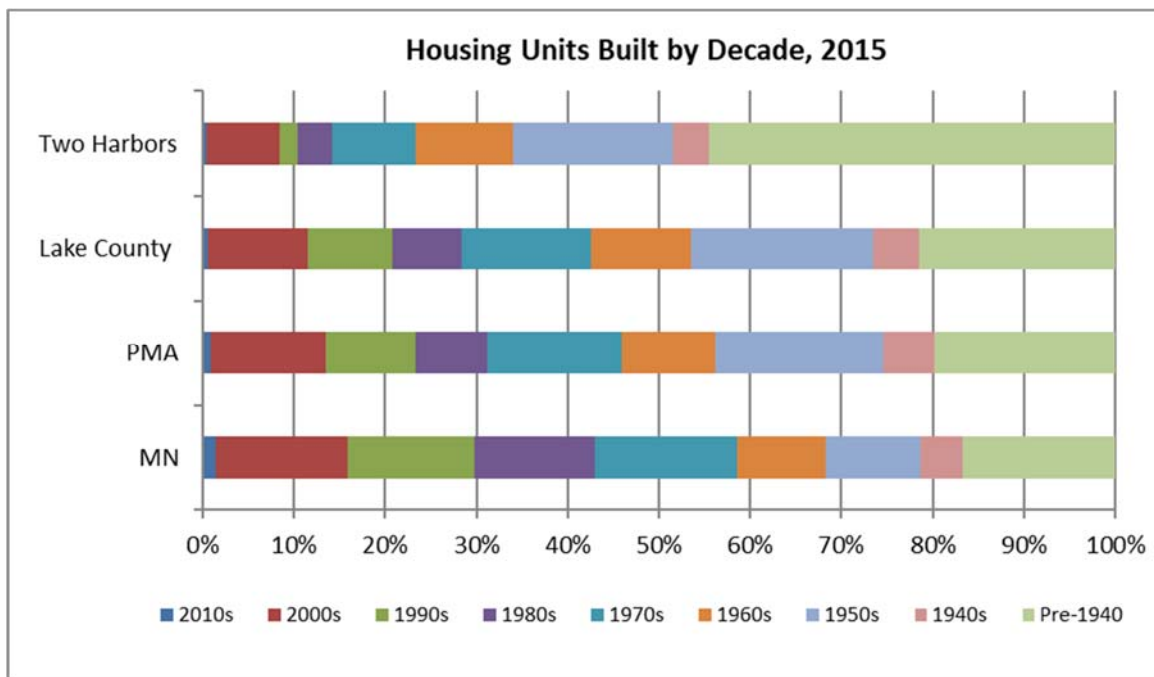
- In Two Harbors, the largest proportion of the housing stock was built before 1940 (44.5%), followed by the 1950s (17.5%) and the 1960s (10.7%).
- In Lake County and the PMA, the age of the housing stock is more varied, with the largest proportion of the housing stock built prior to 1940, 21.4% and 19.7%, respectively. The next most active decades for home construction in these geographies were in the 1950s, and the 1970s. There has been more modest construction recently, with 11.6% of Lake County homes and 12.6% of PMA homes being constructed in the 2000s.
- Overall, the housing stock in Two Harbors is older, on average, than the housing stock in the PMA, with a median year built in Two Harbors of 1946, compared to 1964 in the PMA, and 1975 in the State of Minnesota.

HOUSING CHARACTERISTICS

TABLE HC-3
AGE OF HOUSING STOCK (OCCUPIED HOUSING UNITS)
PRIMARY MARKET AREA
2015

Decade Structure Built	Two Harbors		Lake County		PMA		MN
	No.	Pct.	No.	Pct.	No.	Pct.	Pct.
2010s	6	0.4%	25	0.5%	49	0.8%	1.4%
2000s	136	8.0%	563	11.1%	754	12.6%	14.6%
1990s	34	2.0%	471	9.3%	588	9.8%	13.9%
1980s	65	3.8%	384	7.5%	473	7.9%	13.2%
1970s	154	9.1%	722	14.2%	888	14.8%	15.5%
1960s	182	10.7%	558	11.0%	607	10.1%	9.7%
1950s	297	17.5%	1,014	19.9%	1,102	18.4%	10.3%
1940s	68	4.0%	260	5.1%	342	5.7%	4.6%
Pre-1940	755	44.5%	1,090	21.4%	1,182	19.7%	16.7%
Total	1,697	100.0%	5,087	100.0%	5,985	100.0%	100.0%
Median Year Built	1946		1964		1964		1975

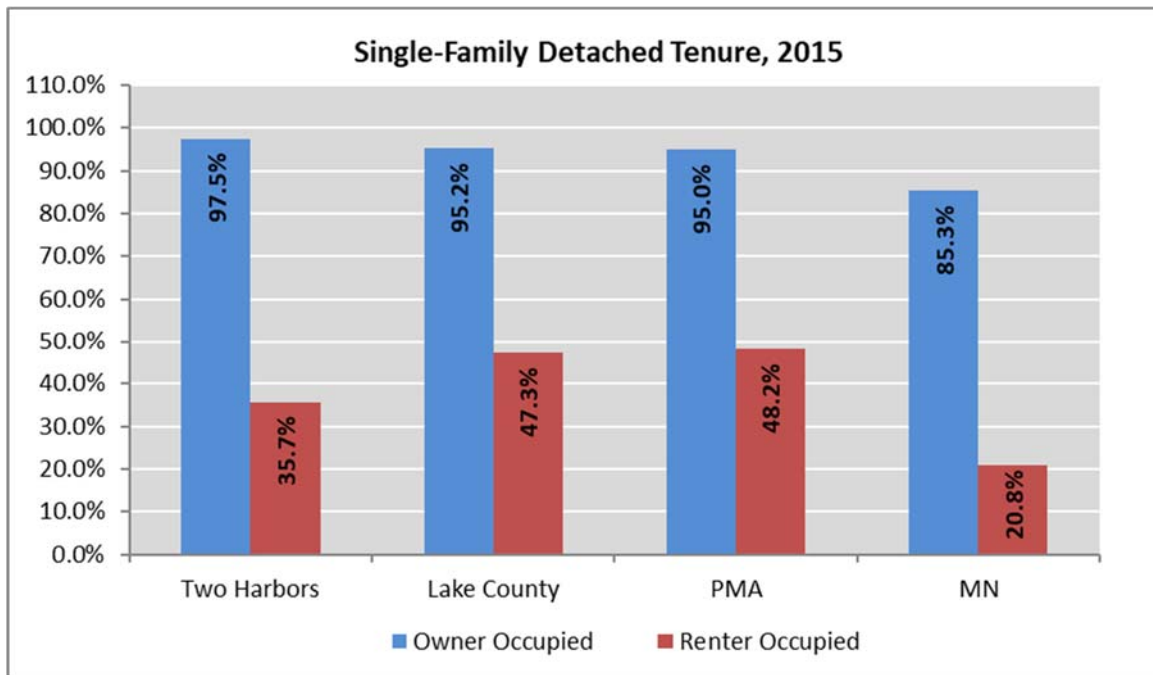
Sources: American Community Survey, 2011-2015; Maxfield Reserch and Consulting, LLC



Housing Units by Structure and Tenure

Table HC-4 shows the housing stock in the Primary Market Area by type of structure and tenure based on the 2011 to 2015 American Community Survey estimates. This information is useful in determining the composition of existing housing as it relates to home type and tenure trends.

- Single-family detached units are the dominate housing type for owner-occupied units in Two Harbors, Lake County and the PMA, representing between 95.0% and 97.5% of all owner-occupied units.
- Single-family detached units also make up a large share of the renter-occupied units across the PMA. In Two Harbors, single-family rental units comprised the plurality of rental units, 35.7%, while in the PMA, single-family homes comprised almost half of all rental units (48.8%).
- The rental housing stock trends towards smaller attached units in Two Harbors, with rental units in structures with more than one and less than 10 units comprising 34.4% of rental units.



HOUSING CHARACTERISTICS

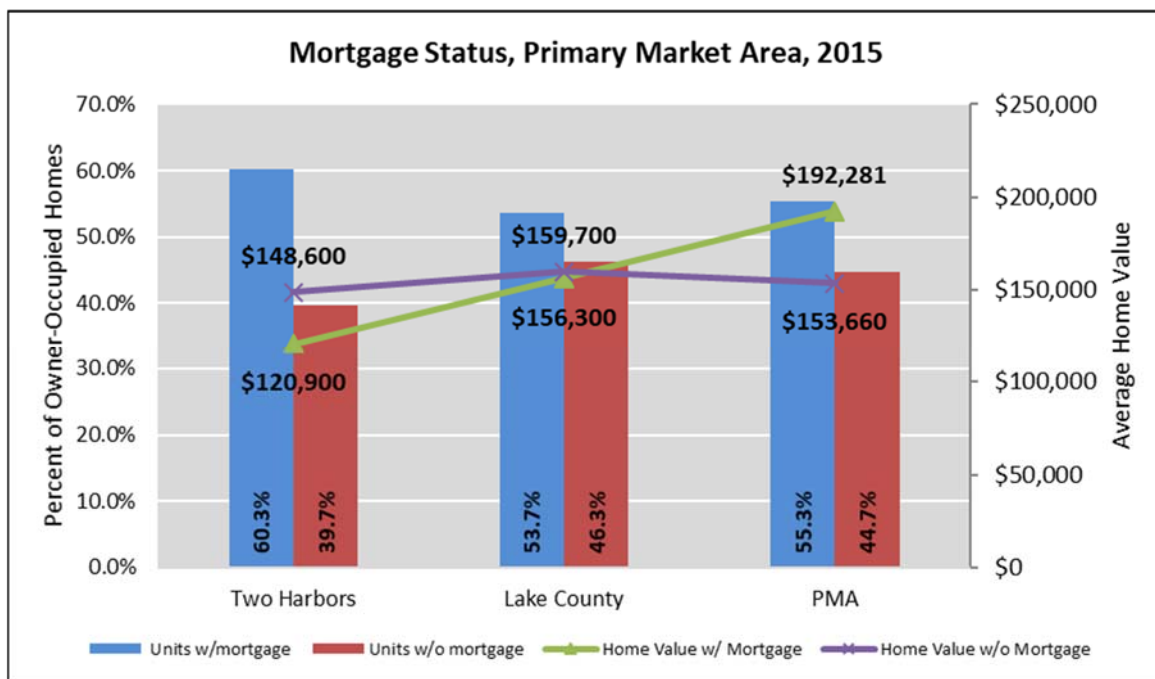
**TABLE HC-4
HOUSING UNITS BY STRUCTURE & TENURE
PRIMARY MARKET AREA
2015**

Units in Structure	Two Harbors				Lake County				PMA				State of MN	
	Owner-Occupied	Pct.	Renter-Occupied	Pct.	Owner-Occupied	Pct.	Renter-Occupied	Pct.	Owner-Occupied	Pct.	Renter-Occupied	Pct.	Owner-Occupied %	Renter-Occupied %
1, detached	998	97.5%	240	35.7%	3,868	95.2%	485	47.3%	8,495	95.0%	1,024	48.2%	85.3%	20.8%
1, attached	26	2.5%	51	7.6%	54	1.3%	67	6.5%	117	1.3%	134	6.3%	7.7%	8.3%
2	0	0.0%	54	8.0%	0	0.0%	57	5.6%	1	0.0%	114	5.4%	0.7%	6.5%
3 to 4	0	0.0%	108	16.0%	6	0.1%	110	10.7%	12	0.1%	220	10.3%	0.5%	6.1%
5 to 9	0	0.0%	70	10.4%	0	0.0%	70	6.8%	0	0.0%	148	7.0%	0.4%	6.9%
10 to 19	0	0.0%	27	4.0%	0	0.0%	51	5.0%	0	0.0%	107	5.0%	0.3%	11.8%
20 to 49	0	0.0%	72	10.7%	0	0.0%	111	10.8%	0	0.0%	222	10.4%	0.6%	16.8%
50 or more	0	0.0%	51	7.6%	0	0.0%	51	5.0%	0	0.0%	102	4.8%	1.3%	21.2%
Mobile home	0	0.0%	0	0.0%	134	3.3%	23	2.2%	321	3.6%	55	2.6%	3.4%	1.6%
Boat, RV, van, etc.	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%	0.1%
Total	1,024	100%	673	100%	4,062	100%	1,025	100%	8,946	100%	2,126	100%	100%	100%
Sources: U.S. Census Bureau - American Community Survey; Maxfield Research and Consulting, LLC														

Owner-Occupied Housing Units by Mortgage Status

Table HC-5 shows mortgage status from the American Community Survey for 2015 (5-Year estimates). Mortgage status provides information on the cost of homeownership when analyzed in conjunction with mortgage payment data. A mortgage refers to all forms of debt where the property is pledged as security for repayment of debt. A first mortgage has priority claim over any other mortgage or if it is the only mortgage. A second (and sometimes third) mortgage is called a “junior mortgage,” a home equity line of credit (HELOC) would also fall into this category. Finally, a housing unit without a mortgage is owned free and clear and is debt free.

- In Two Harbors, 60.3% of owner-occupied homes have a mortgage, compared to 53.7% of homes in Lake County and 55.3% of homes in the PMA. The State of Minnesota has a higher proportion of homes with mortgages (68.0%).
- An estimated 15% of owner-occupied homes in Two Harbors have a second mortgage, compared to 9.5% of Lake County homes and 10.0% of PMA homes. Across, Minnesota, 14.1% of homes have a second mortgage. Home equity loans were less common, accounting for 2.7% of homes in Two Harbors and 1.8% in the PMA and Lake County. However, homes with both a second mortgage and a home equity line of credit made up 12.2% of Two Harbors homes, 7.7% of Lake County homes and 8.2% of PMA homes.
- Housing units with a mortgage reported a higher median value than those without a mortgage in the PMA, while in Two Harbors and Lake County, homes without mortgages were worth more than homes with mortgages. In Two Harbors, homes without a mortgage had an average value of \$148,600, compared to \$120,900 for homes with a mortgage.



HOUSING CHARACTERISTICS

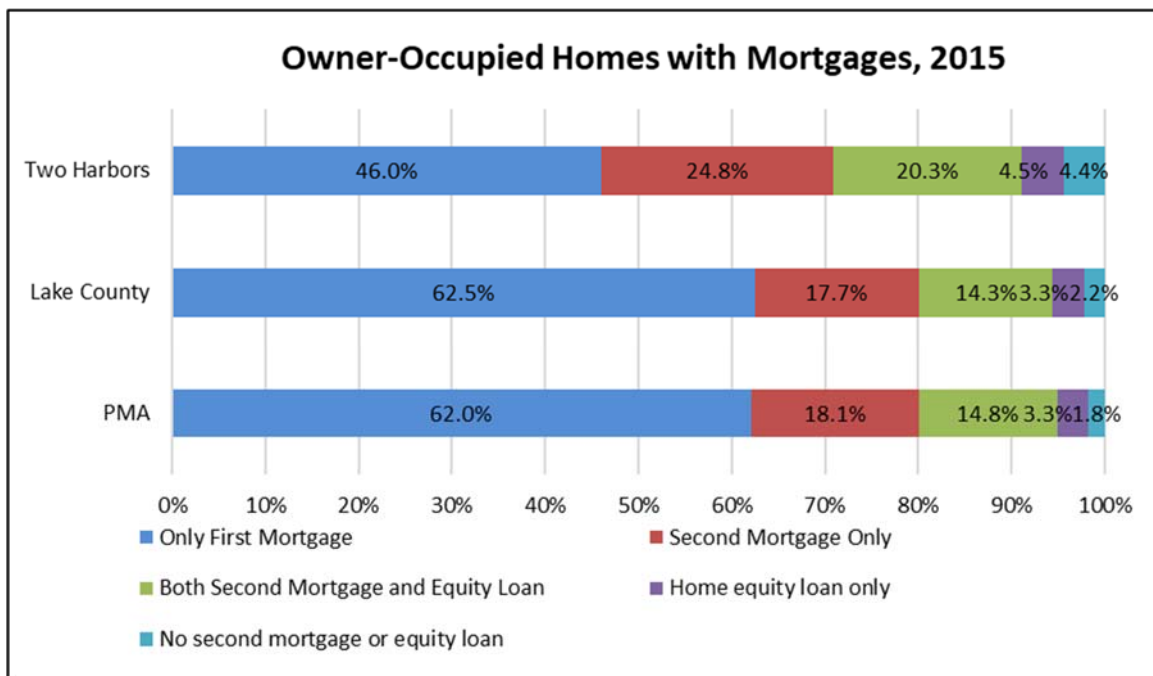
TABLE HC-5
OWNER-OCCUPIED HOUSING UNITS BY MORTGAGE STATUS
PRIMARY MARKET AREA
2015

Mortgage Status	Two Harbors		Lake County		PMA		MN
	No.	Pct.	No.	Pct.	No.	Pct.	Pct.
Housing units without a mortgage	407	39.7	1,881	46.3	2,181	44.7	32.0
Housing units with a mortgage/debt	617	60.3	2,181	53.7	2,703	55.3	68.0
<i>Second mortgage only</i>	153	14.9	385	9.5	489	10.0	14.1
<i>Home equity loan only</i>	28	2.7	73	1.8	89	1.8	3.9
<i>Both second mortgage and equity loan</i>	125	12.2	312	7.7	400	8.2	10.2
<i>No second mortgage or equity loan</i>	27	2.6	48	1.2	48	1.0	0.5
Total	1,024	100.0	4,062	100.0	4,884	100.0	100.0

Average Value by Mortgage Status

Housing units with a mortgage	\$120,900	\$156,300	\$192,281	\$194,100
Housing units without a mortgage	\$148,600	\$159,700	\$153,660	\$168,500

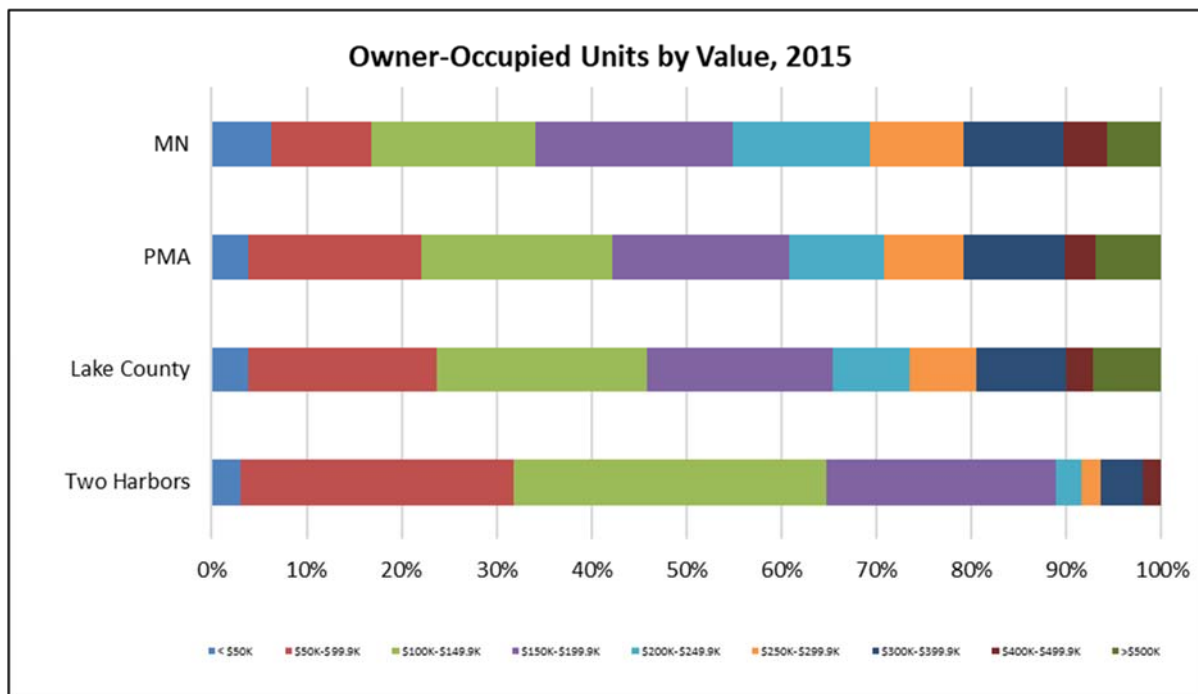
Sources: U.S. Census Bureau - American Community Survey; Maxfield Research and Consulting, LLC



Owner-Occupied Housing Units by Value

Table HC-6 presents data on housing values summarized by nine price ranges. Housing value refers to the estimated price point the property would sell if the property were for sale. For single-family and townhome properties, value includes the land and the structure. For condominium units, value refers to only the unit.

- The median home value of owner-occupied homes in Two Harbors in 2015 was \$126,600, which was 20% lower than the Lake County median value of \$157,700 and 30% lower than the PMA median value of \$181,081.
- In Two Harbors, an estimated 32% of homes were valued under \$100,000. Smaller proportions were reported in Lake County (23.7%) and the PMA (22.0%). Across Minnesota, 16.7% of homes were valued under 16.9%.
- Homes priced between \$100,000 and \$199,999 accounted for 57.1% of owner-occupied homes in Two Harbors. Again, a smaller proportion of homes in Lake County and the PMA fall within this range, 41.7% in Lake County and 38.8% in the PMA.
- In Two Harbors, 11.1% of homes were valued at \$200,000 or higher. Lake County and the PMA had a larger proportion of homes priced at \$200,000 or higher, 34.6% and 39.2%, respectively. Due to the high costs of new construction, new homes would likely be priced above \$200,000.



**TABLE HC-6
OWNER-OCCUPIED UNITS BY VALUE
PRIMARY MARKET AREA
2015**

Home Value	Two Harbors		Lake County		PMA		MN
	No.	Pct.	No.	Pct.	Pct.	Pct.	Pct.
Less than \$50,000	31	3.0	155	3.8	189	3.9	6.2
\$50,000-\$99,999	294	28.7	808	19.9	886	18.1	10.6
\$100,000-\$149,999	338	33.0	897	22.1	988	20.2	17.2
\$150,000-\$199,999	247	24.1	798	19.6	908	18.6	20.8
\$200,000-\$249,999	28	2.7	326	8.0	488	10.0	14.4
\$250,000-\$299,999	20	2.0	285	7.0	404	8.3	9.8
\$300,000-\$399,999	46	4.5	383	9.4	521	10.7	10.6
\$400,000-\$499,999	20	2.0	117	2.9	160	3.3	4.6
Greater than \$500,000	0	0.0	293	7.2	340	7.0	5.7
Total	1,024	100.0	4,062	100.0	4,884	100.0	100.0
Median Home Value	\$126,600		\$157,700		\$181,081		\$186,200
Sources: U.S. Census Bureau - American Community Survey; Maxfield Research and Consulting, LLC							

Renter-Occupied Units by Contract Rent

Table HC-7 presents information on the monthly housing costs for renters called contract rent (also known as asking rent). Contract rent is the monthly rent agreed to regardless of any utilities, furnishings, fees, or services that may be included.

- Two Harbors residents were most likely to pay between \$500 and \$749 in monthly rent, with 36.6% of renter-occupied units reporting rents in this range. The plurality of rents in Lake County and the PMA also fell in this range, at 36.1% and 35.8%, respectively.
- Nearly one-quarter of renter-occupied units in Two-Harbors charged over \$1,000 in rent. This is a higher proportion than Lake County (17.6%) and the PMA (17.1%). These units are likely single-family homes.
- Units in the very low rent range (\$0 to \$249) in all submarkets was between were the smallest part of the market in Two Harbors, Lake County and the PMA, representing between 3.5% and 5.1% of rental units.
- Housing units without payment of rent ("no cash rent") make up 8.9% of Two Harbors renters. The proportion was slightly higher in Lake County (12.7%) and the PMA (13.2%). Typically, units may be owned by a relative or friend who lives elsewhere who allow occupancy without charge. Other sources may include caretakers or ministers who may occupy a residence without charge.

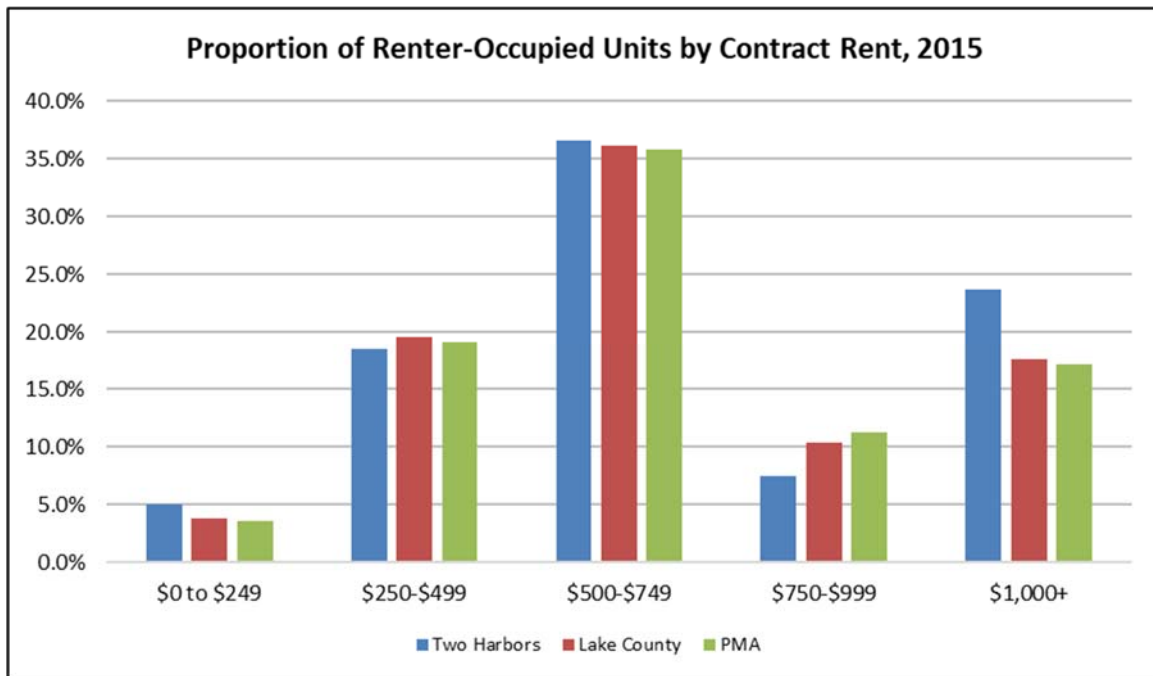


TABLE HC-7
RENTER-OCCUPIED UNITS BY CONTRACT RENT
PRIMARY MARKET AREA
2015

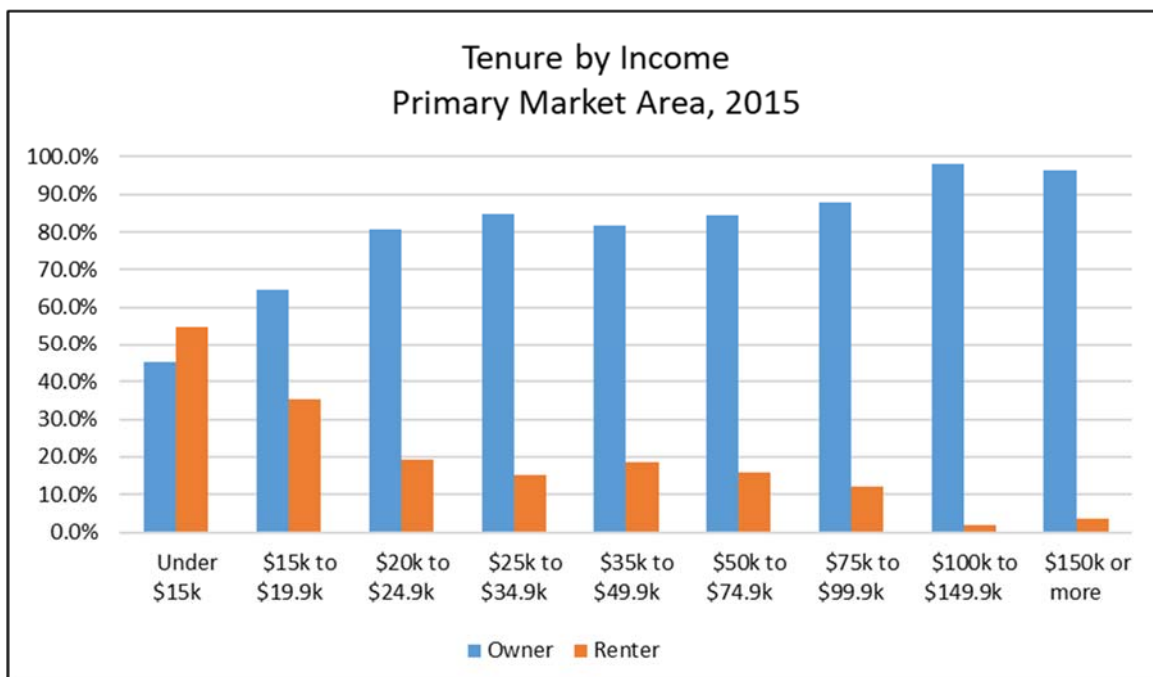
Contract Rent	Two Harbors		Lake County		PMA		MN
	No.	Pct.	No.	Pct.	No.	Pct.	Pct.
No Cash Rent	60	8.9%	130	12.7%	145	13.2%	7.9%
Cash Rent	613	91.1%	895	87.3%	956	86.8%	92.1%
\$0 to \$249	34	5.1%	39	3.8%	39	3.5%	6.8%
\$250-\$499	124	18.4%	200	19.5%	211	19.2%	30.8%
\$500-\$749	246	36.6%	370	36.1%	394	35.8%	34.4%
\$750-\$999	50	7.4%	106	10.3%	124	11.3%	12.0%
\$1,000+	159	23.6%	180	17.6%	188	17.1%	8.1%
Total	673	100.0%	1025	100.0%	1101	100.0%	100.0%
Median Contract Rent	\$629		\$621		\$642		\$759

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

Tenure by Household Income

Table HC-8 presents information on tenure by household income in Two Harbors, Lake County, the PMA. Data was obtained from the American Community Survey for years 2011-2015.

- Households in Two Harbors earning less than \$15,000 annually are very likely to be renters, with 82.0% of Two Harbors' households with incomes below \$15,000 were renters. In the PMA, 54.8% of households with incomes less than \$15,000 were renters.
- Generally, lower-income households are more likely to rent and as incomes rise, the proportion of ownership rises. This trend holds generally in the PMA, although some renters with higher incomes may be renting vacation homes.
- A portion of renter households are referred to as lifestyle renters, those who are financially able to own a home but choose to rent. Lifestyle renters typically have household incomes of \$50,000 or higher. In Two Harbors, nearly 45.7% of renters have incomes of \$50,000 or greater and a larger proportion of PMA renters have incomes of \$50,000 or higher (52.9%).
- Median incomes for renter households were about half of the median incomes of owner-occupied households in all geographies. The largest income gap reported was among owner-occupied households in the PMA (\$59,796), compared to renter households in the PMA (\$32,355), a gap of \$27,441. In Two Harbors, owner households had a median income of \$47,800, compared to renter households with a median income of \$25,673, a difference of \$22,127.



HOUSING CHARACTERISTICS

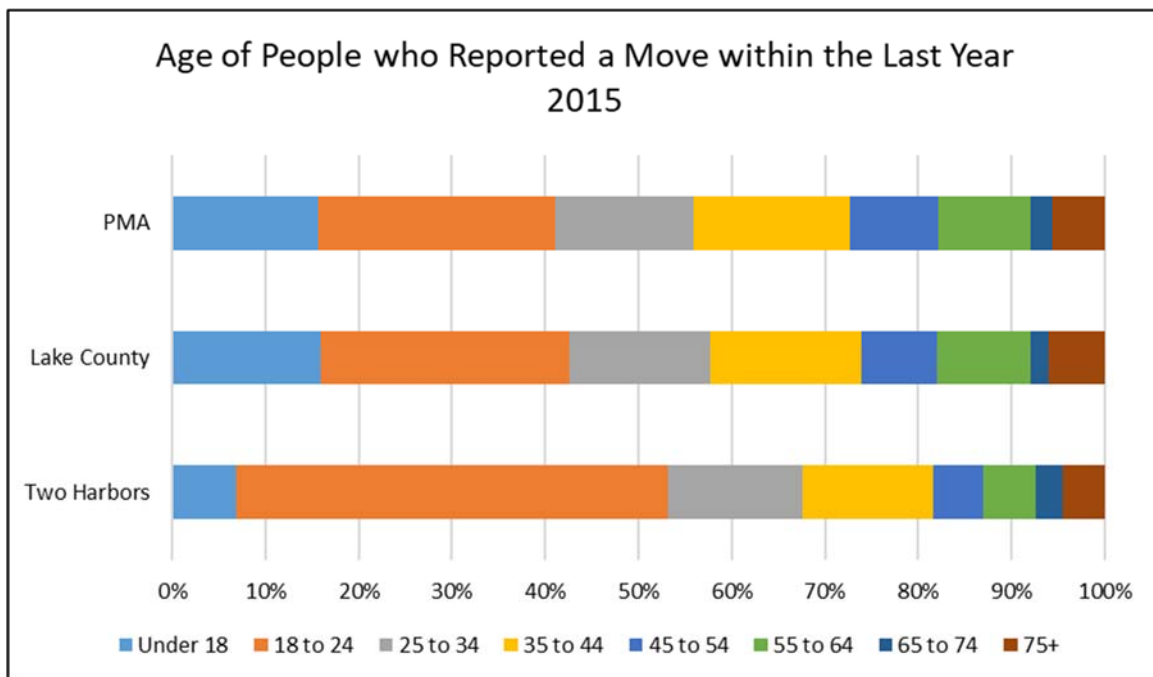
TABLE HC-8 TENURE BY HOUSEHOLD INCOME PRIMARY MARKET AREA 2015						
Income	Two Harbors		Lake County		Primary Market Area	
No. of Households	Owner	Renter	Owner	Renter	Owner	Renter
Under \$14,999	48	219	231	332	284	344
\$15,000 to \$19,999	40	77	130	85	160	88
\$20,000 to \$24,999	90	30	291	71	326	78
\$25,000 to \$34,999	166	44	492	91	551	98
\$35,000 to \$49,999	212	136	767	177	856	194
\$50,000 to \$74,999	189	129	795	166	1,011	189
\$75,000 to \$99,999	110	38	509	80	584	81
\$100,000 to \$149,999	121	0	568	9	725	15
\$150,000 or more	48	0	279	14	387	14
Total	1,024	673	4,062	1,025	4,884	1,101
Pct. of Households by Tenure						
Under \$14,999	18.0%	82.0%	41.0%	59.0%	45.2%	54.8%
\$15,000 to \$19,999	34.2%	65.8%	60.5%	39.5%	64.5%	35.5%
\$20,000 to \$24,999	75.0%	25.0%	80.4%	19.6%	80.7%	19.3%
\$25,000 to \$34,999	79.0%	21.0%	84.4%	15.6%	84.9%	15.1%
\$35,000 to \$49,999	60.9%	39.1%	81.3%	18.8%	81.5%	18.5%
\$50,000 to \$74,999	59.4%	40.6%	82.7%	17.3%	84.3%	15.8%
\$75,000 to \$99,999	74.3%	25.7%	86.4%	13.6%	87.8%	12.2%
\$100,000 to \$149,999	100.0%	0.0%	98.4%	1.6%	98.0%	2.0%
\$150,000 or more	100.0%	0.0%	95.2%	4.8%	96.5%	3.5%
Total	60.3%	39.7%	79.9%	20.1%	81.6%	18.4%
Median Income	\$47,800	\$25,673	\$53,165	\$25,942	\$59,796	\$32,355

Sources: American Community Survey, 2010-2014; Maxfield Research and Consulting, LLC

Mobility in the Past Year

Table HC-9 shows the mobility patterns of PMA residents. The information reflects the proportion of residents that reported a move in the last year at the time the ACS survey was conducted. The Table presents the estimates of mobility within the last year based on five years of data collection, 2011-2015.

- The majority of PMA residents (89.2%) did not move during the last year. Two Harbors had a higher mobility rate than the PMA, with 17.0% of residents reporting a move.
- Among PMA residents that moved, they were most likely to move within the county (53.6%). Younger cohorts are more mobile and accounted for 29.6% of moves within the same county. People who moved from a different county in the same state accounted for 23.8% of people that moved, 19.0% of moves were from a different state and only 3.6% of moves were from abroad.
- Of those who reported a move, 25.4% were between the ages of 18 and 24, 14.8% were age 25 to 34, and 16.7% were age 35 to 44. In Two Harbors, the 18 to 24 age group represented 46.4% of people who moved in Two Harbors, representing 20.3% of all reported moves in the PMA.



HOUSING CHARACTERISTICS

TABLE HC-9										
MOBILITY IN THE PAST YEAR BY AGE FOR CURRENT RESIDENCE										
PRIMARY MARKET AREA										
2015										
Age	Not Moved		Moved							
	Same House		Within Same County		Different County Same State		Different State		Abroad	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Two Harbors										
Under 18	645	94.0%	38	5.5%	0	0.0%	3	0.4%	0	0.0%
18 to 24	157	35.9%	212	48.5%	1	0.2%	67	15.3%	0	0.0%
25 to 34	396	82.0%	37	7.7%	17	3.5%	33	6.8%	0	0.0%
35 to 44	271	76.1%	74	20.8%	11	3.1%	0	0.0%	0	0.0%
45 to 54	357	91.8%	2	0.5%	8	2.1%	22	5.7%	0	0.0%
55 to 64	343	91.0%	19	5.0%	0	0.0%	15	4.0%	0	0.0%
65 to 74	291	94.2%	18	5.8%	0	0.0%	0	0.0%	0	0.0%
75+	476	94.6%	17	3.4%	10	2.0%	0	0.0%	0	0.0%
Total	2,936	83%	417	11.8%	47	1.3%	140	4.0%	0	0.0%
Lake County										
Under 18	1,663	89.7%	117	6.3%	36	1.9%	37	2.0%	0	0.0%
18 to 24	310	49.5%	215	34.3%	20	3.2%	81	12.9%	0	0.0%
25 to 34	883	83.0%	64	6.0%	54	5.1%	38	3.6%	25	2.3%
35 to 44	854	81.6%	138	13.2%	30	2.9%	10	1.0%	14	1.3%
45 to 54	1429	93.6%	11	0.7%	61	4.0%	22	1.4%	3	0.2%
55 to 64	1753	93.6%	59	3.2%	21	1.1%	39	2.1%	0	0.0%
65 to 74	1293	98.2%	20	1.5%	1	0.1%	3	0.2%	0	0.0%
75+	1246	94.6%	26	2.0%	28	2.1%	15	1.1%	2	0.2%
Total	9,431	88.8%	650	6.1%	251	2.4%	245	2.3%	44	0.4%
Primary Market Area										
Under 18	2,082	90.6%	124	5.4%	55	2.4%	37	1.6%	0	0.0%
18 to 24	426	54.8%	219	28.2%	48	6.2%	84	10.8%	0	0.0%
25 to 34	983	82.8%	82	6.9%	54	4.5%	43	3.6%	25	2.1%
35 to 44	1,030	81.7%	161	12.8%	43	3.4%	13	1.0%	14	1.1%
45 to 54	1,726	92.9%	31	1.7%	66	3.6%	25	1.3%	9	0.5%
55 to 64	2,195	94.1%	64	2.7%	31	1.3%	42	1.8%	0	0.0%
65 to 74	1,618	98.0%	26	1.6%	4	0.2%	3	0.2%	0	0.0%
75+	1,355	94.6%	32	2.2%	28	2.0%	15	1.0%	2	0.1%
Total	11,415	89.2%	739	5.8%	329	2.6%	262	2.0%	50	0.4%
Sources: U.S. Census Bureau - American Community Survey; Maxfield Research and Consulting, LLC										

Summary of Housing Characteristics

- The number of building permits issued for new residential units in the PMA continues to reflect the impact of the Great Recession. From 2000 to 2008, 81 new residential units were permitted in Two Harbors. From 2009 through 2016, there were only 15 permits issued for new residential units. Activity increased in 2016, with four single-family units permitted in the City.
- Owner-occupied, single-family detached units accounted for the largest share of housing in the PMA, over 85% of all housing units. In the County, 80.8% of housing units were owner-occupied and 95.0% of owner-occupied units were single-family detached units.
- The age of the housing stock is older in Two Harbors than the remainder of the PMA, although in general, the housing stock is older, with the plurality of units in the PMA having been built prior to 1940. The median year built in the PMA is 1964, compared to 1946 in Two Harbors.
- An estimated 60% of homes in Two Harbors carry a mortgage and homes with a mortgage reported a lower median value, \$120,900, compared to homes without a mortgage, \$148,600.
- Two Harbors' renter households were most likely to pay between \$500 and \$749 in monthly rent, with 40.1% of renter occupied units reporting rents in this range. Almost 24.6% of renter-occupied units in Two Harbors charged \$1,000 or higher in rent. In the PMA, the most common rent range was \$500 to \$749 accounting for 35.8% of rental units; units renting for \$1,000 or more accounted for 17.1% of units in the PMA.
- As incomes rise, the proportion of owner-occupied units increases also. In Two Harbors, the homeownership rate increased with income, although there are higher renter rates among households with incomes between \$35,000 and \$75,000 in Two Harbors, which suggests that there are a significant number of lifestyle renters in the City. In the PMA, the trend is smoother, with the highest proportion of renters occurring in the Under \$15,000 category, with a renter rate of 54.8%.
- The majority of Two Harbors residents (82.9%) did not move during the last year. Among those reporting a move, the majority moved from within the same county. Similarly, 89.2% of people did not move in the PMA in 2015, and among those who did move, the largest proportion moved from within the same county. The most mobile age cohort in the PMA is the 18 to 24 age cohort, with 45.2% of the population reporting a move in the last year, followed by the 35 to 44 age group, with 18.3% of the cohort reporting a move. Seniors who relocate are most likely moving to receive services.

Employment Trends

Employment characteristics are an important component in assessing housing needs in any given market area. These trends are important to consider since job growth can generally fuel household and population growth as people usually desire to live near where they work. Long commute times have encouraged households to move closer to major employment centers.

Employment Projections

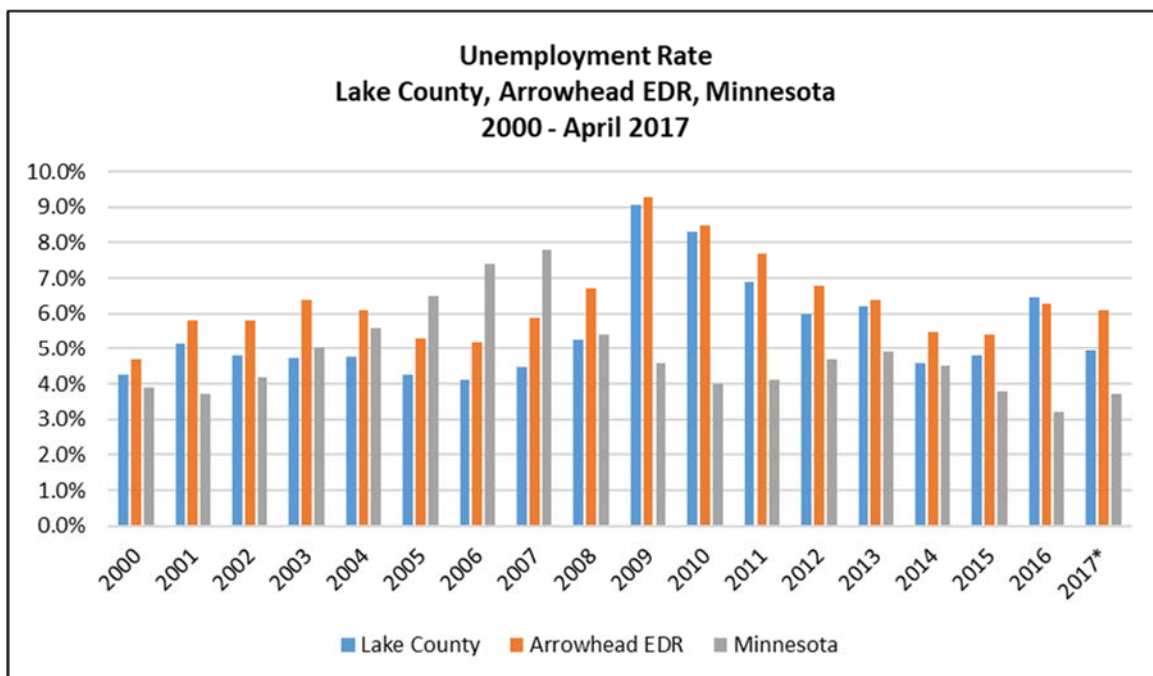
Table E-1 shows Total Employment projections from the Minnesota Department of Employment and Economic Development, which provides employment projections for the major economic development regions in the state, and the State of Minnesota. The Primary Market Area is located in Economic Development Region 3, the Arrowhead, which consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis. Total employment in the Arrowhead Region is projected to increase by 2.0% between 2014 and 2024, while employment in the State is projected to grow by 4.3%.

TABLE E-1				
EMPLOYMENT PROJECTIONS (TOTAL EMPLOYMENT)				
ECONOMIC DEVELOPMENT REGION 3 (ARROWHEAD) & STATE OF MINNESOTA				
2014 - 2024				
Area	2014	2024	No. Change	Pct. Change
Northeast MN Arrowhead	159,860	163,078	3,218	2.0%
Minnesota	3,007,000	3,137,000	130,000	4.3%
Economic Development Region 3 - Arrowhead consists of Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis Counties.				
Sources: MNDEED, Maxfield Research and Consulting, LLC				

Resident Labor Force

Table E-2 presents resident employment data for Lake County from 2000 through April 2017. Resident employment data is calculated as an annual average *and reveals the work force and number of employed persons living in the County*. Not all of these individuals however, work in Lake County. The unemployment rate for Economic Development Region 3 (Arrowhead) is also shown, along with the State of Minnesota for comparison purposes. The data is obtained from the Minnesota Department of Employment and Economic Development.

- As of April 2017, the unemployment rate in Lake County was 4.9%, below the Arrowhead EDR (6.1%) and above the State of Minnesota (3.7%).
- Between 2000 and 2017, the labor force in Lake County fluctuated between 5,112 (April 2017) and 6,279 (2001), averaging 5,891 annually in this period, with a recent trend downwards since 2013.
- The Arrowhead EDR, which includes St. Louis, Lake and Cook Counties, had an unemployment rate of 6.1% as of April 2017. Between 2000 and 2016, the Arrowhead EDR had an average unemployment rate of 6.3%.
- The effects of the national economic recession are reflected strongly in the unemployment rate for Lake County. The unemployment rate fell from 9.3% in 2009 to 6.1% as of 2017.



EMPLOYMENT TRENDS

TABLE E-2
ANNUAL AVERAGE RESIDENT EMPLOYMENT
LAKE COUNTY, ARROWHEAD EDR-3, MINNESOTA
2000 to 2017

Year	Lake County Labor Force	Lake County Employed	Lake County Unemployed	Lake County Unemp. Rate	Arrowhead Unemp. Rate	Minnesota Unemp. Rate
2000	5,932	5,680	252	4.2%	4.7%	3.9%
2001	6,279	5,954	325	5.2%	5.8%	3.7%
2002	6,114	5,820	294	4.8%	5.8%	4.2%
2003	6,068	5,781	287	4.7%	6.4%	5.0%
2004	6,057	5,768	289	4.8%	6.1%	5.6%
2005	6,089	5,829	260	4.3%	5.3%	6.5%
2006	6,078	5,829	249	4.1%	5.2%	7.4%
2007	6,131	5,856	275	4.5%	5.9%	7.8%
2008	6,169	5,843	326	5.3%	6.7%	5.4%
2009	6,195	5,634	561	9.1%	9.3%	4.6%
2010	5,798	5,316	482	8.3%	8.5%	4.0%
2011	5,814	5,414	400	6.9%	7.7%	4.1%
2012	5,828	5,478	350	6.0%	6.8%	4.7%
2013	5,769	5,411	358	6.2%	6.4%	4.9%
2014	5,659	5,399	260	4.6%	5.5%	4.5%
2015	5,568	5,300	268	4.8%	5.4%	3.8%
2016	5,373	5,026	347	6.5%	6.3%	3.2%
2017*	5,112	4,860	252	4.9%	6.1%	3.7%
Change 2011 - 2016						
No.	-441	-388	-53	-0.4%	-1.4%	-0.9%
Pct.	-7.6%	-7.2%	-13.3%	-6.1%	-18.2%	-22.0%
Economic Development Region 3 - Arrowhead consists of Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis Counties.						
*2017 is April 2017.						
Sources: MNDEED, Maxfield Research and Consulting, LLC						

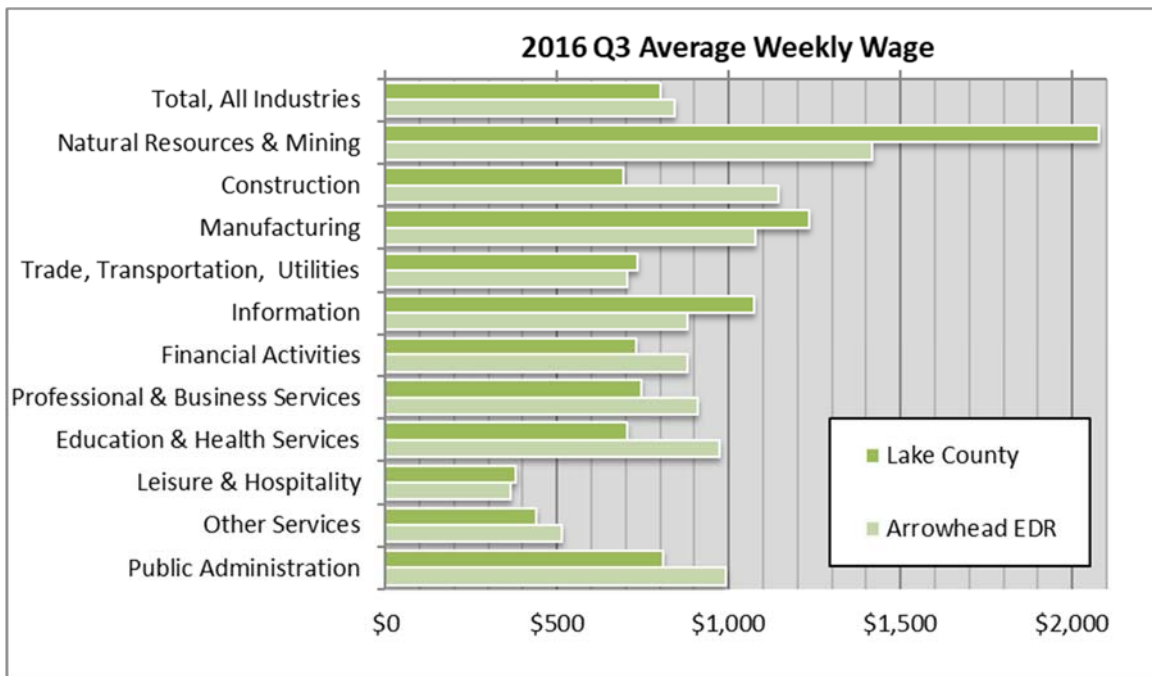
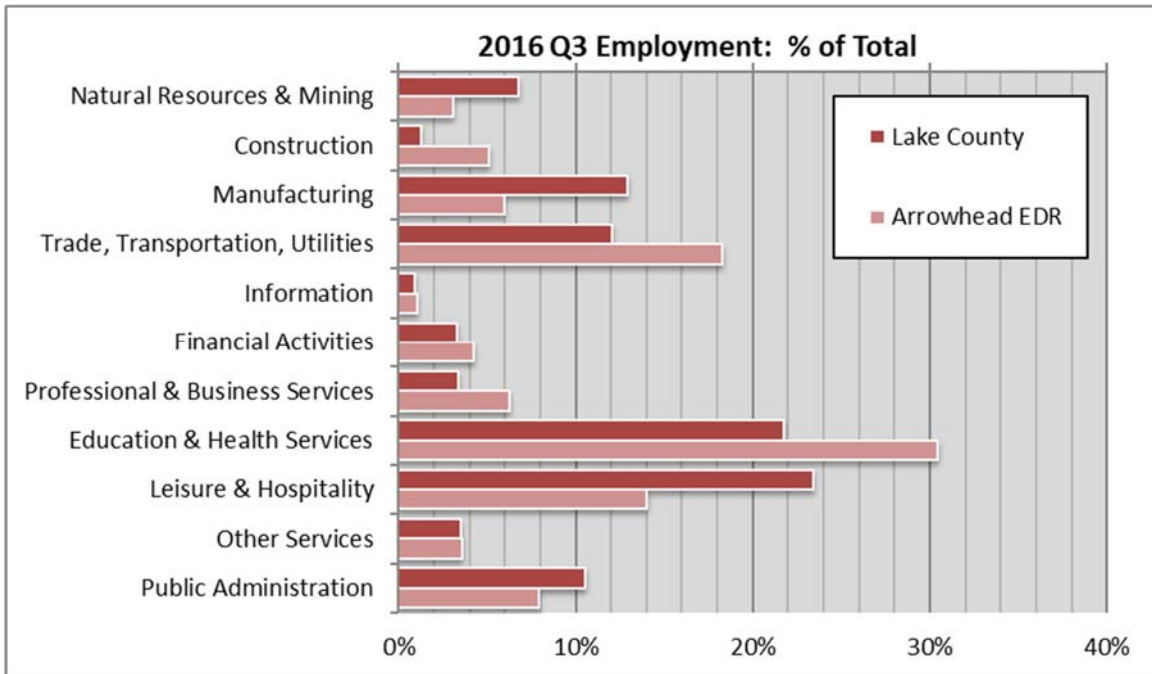
Employment and Wages by Industry

Table E-3 displays information on employment and wages in Two Harbors, Lake County and the Arrowhead Economic Development Region. The data is sourced from the Minnesota Department of Employment and Economic Development (MNDEED) for the third quarters of 2013 through 2016. All establishments covered under the Unemployment Insurance (UI) Program are required to report wage and employment statistics quarterly to MNDEED. Federal government establishments are also covered by the Quarterly Census of Employment and Wages (QCEW) program.

Certain industries in the table may not display any information which means that there is either no reported economic activity for that industry or the data has been suppressed to protect the confidentiality of cooperating employers. This generally occurs when there are too few employers or one employer comprises too much of the employment in that geography.

- Within Two Harbors, the Information sector reported the highest weekly wage, \$1,105, or approximately \$57,460 annually. The lowest average weekly wage was in the Leisure and Hospitality sector at \$361.
- The Education and Health Services Sector is the largest employment sector in Two Harbors, accounting for 24.8% of jobs in Two Harbors, with an average weekly wage of \$721.
- The Professional and Business Services sector experienced the largest proportional increase in wages between the third quarters of 2014 and 2016. Wages increased by 83.1%, a gain of \$359 per week, which brought the weekly wage to \$791 in 2016 Q3.
- Across Lake County, average weekly wages increased by 1.3%, about \$10 per week between 2014 Q3 and 2016 Q3. Wages increased in nine of the twelve Industry groups. Wages in the Information sector fell 17.8% (\$233/week).
- Wages in the Arrowhead EDR had a weekly average wage of \$843 as of 2016 Q3. Wages in the Natural Resources and Mining, Construction, and Manufacturing Sectors were all over \$1,000/week, with Natural Resources and Mining at \$1,416/week.

EMPLOYMENT TRENDS



EMPLOYMENT TRENDS

TABLE E-4 QUARTERLY CENSUS OF EMPLOYMENT AND WAGES MINNEAPOLIS & SEVEN COUNTY METRO 2014 Q3 to 2016 Q3													
Industry	2014 Q3			2015 Q3			2016 Q3			Change 2014 - 2016			
	Establish- ments	Employ- ment	Weekly Wage	Establish- ments	Employ- ment	Weekly Wage	Establish- ments	Employ- ment	Weekly Wage	Employment		Wage	
										#	%	#	%
City of Two Harbors													
Total, All Industries	144	1,896	\$575	140	1,874	\$624	143	1,888	\$706	-8	-0.4%	\$131	22.8%
Natural Resources & Mining	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Construction	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Manufacturing	5	124	\$944	7	149	\$890	7	183	\$929	59	47.6%	(\$15)	-1.6%
Trade, Transportation, Utilities	27	294	\$633	25	286	\$763	25	298	\$756	4	1.4%	\$123	19.4%
Information	3	9	\$1,721	4	12	\$1,503	4	34	\$1,105	25	3	-616	0
Financial Activities*	12	76	\$683	11	71	\$750	12	79	\$773	3	3.9%	\$90	13.2%
Professional & Business Services	13	44	\$432	11	25	\$325	12	36	\$791	-8	-18.2%	\$359	83.1%
Education & Health Services	27	467	\$640	27	474	\$668	28	468	\$721	1	0.2%	\$81	12.7%
Leisure & Hospitality	27	429	\$282	25	386	\$287	25	328	\$361	-101	-23.5%	\$79	28.0%
Other Services	16	102	\$377	17	116	\$373	17	85	\$420	-17	-16.7%	\$43	11.4%
Public Administration	5	314	\$688	5	328	\$768	5	348	\$861	34	10.8%	\$173	25.1%
Lake County													
Total, All Industries	308	4,593	\$790	302	4,493	\$795	310	4,288	\$800	-305	-6.6%	\$10	1.3%
Natural Resources & Mining	N/A	N/A	N/A	N/A	N/A	N/A	9	292	\$2,076	N/A	N/A	N/A	N/A
Construction	N/A	N/A	N/A	N/A	N/A	N/A	19	56	\$693	N/A	N/A	N/A	N/A
Manufacturing	17	506	\$1,088	18	514	\$1,102	18	553	\$1,233	47	9.3%	\$145	13.3%
Trade, Transportation, Utilities	61	558	\$661	56	540	\$733	53	516	\$735	-42	-7.5%	\$74	11.2%
Information	6	15	\$1,308	7	19	\$1,199	7	38	\$1,075	23	153.3%	(\$233)	-17.8%
Financial Activities	21	130	\$669	20	126	\$754	22	141	\$731	11	8.5%	\$62	9.3%
Professional & Business Services	23	195	\$542	23	138	\$607	24	146	\$747	-49	-25.1%	\$205	37.8%
Education & Health Services	40	803	\$646	41	843	\$660	44	933	\$704	130	16.2%	\$58	9.0%
Leisure & Hospitality	74	1,136	\$309	70	1,073	\$337	71	1,005	\$380	-131	-11.5%	\$71	23.0%
Other Services	22	122	\$363	26	156	\$410	29	152	\$438	30	24.6%	\$75	20.7%
Public Administration	14	473	\$689	14	485	\$739	14	452	\$810	-21	-4.4%	\$121	17.6%
Economic Development Region 3 - Arrowhead													
Total, All Industries	8,608	144,431	\$791	8,372	145,197	\$806	8,437	143,763	\$843	-668	-0.5%	\$52	6.6%
Natural Resources & Mining	158	5251	1612	152	4,992	\$1,242	152	4,476	\$1,416	-775	-14.8%	(\$196)	-12.2%
Construction	941	7778	1074	892	8,130	\$1,116	912	7,400	\$1,146	-378	-4.9%	\$72	6.7%
Manufacturing	340	8610	1049	333	8,682	\$1,070	339	8,565	\$1,076	-45	-0.5%	\$27	2.6%
Trade, Transportation, Utilities	2037	26536	653	1,991	26,757	\$677	1,963	26,274	\$705	-262	-1.0%	\$52	8.0%
Information	145	1651	814	136	1,615	\$790	128	1,532	\$879	-119	-7.2%	\$65	8.0%
Financial Activities	696	6271	739	682	5,977	\$840	685	6,054	\$880	-217	-3.5%	\$141	19.1%
Professional & Business Services	881	9399	855	847	9,245	\$906	840	8,979	\$909	-420	-4.5%	\$54	6.3%
Education & Health Services	1152	42671	900	1,126	43,327	\$927	1,158	43,789	\$972	1,118	2.6%	\$72	8.0%
Leisure & Hospitality	1155	20294	313	1,125	20,307	\$333	1,144	20,142	\$363	-152	-0.7%	\$50	16.0%
Other Services	772	4883	478	753	5,041	\$483	763	5,140	\$515	257	5.3%	\$37	7.7%
Public Administration	331	11083	897	335	11,120	\$929	353	11,408	\$993	325	2.9%	\$96	10.7%
Economic Development Region 3 - Arrowhead consists of Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis Counties.													
Sources: Minnesota Department of Employment and Economic Development; Maxfield Research and Consulting LLC													

Commuting Patterns

Proximity to employment is often a primary consideration when choosing where to live, since transportation costs often account for a considerable proportion of households' budgets. Table E-4 highlights the commuting patterns of workers in Two Harbors and Lake County in 2014 (the most recent data available), based on the Local Employer-Household Dynamics database (LEHD) compiled and published by the U.S. Census Bureau. Home destination is defined as where workers live who are employed in the selection area. Work destination is defined as where workers are employed who live in the selection area.

- As Table E-4 illustrates, an estimated 39.1% of workers who are employed in Two Harbors live in Two Harbors and 10.3% live in Duluth. The next largest home destinations were Silver Bay (2.6%) and Finland CDP, both of which are in Lake County. The top three residence and employment destinations are the same in Two Harbors.
- Similarly, most workers in Lake County live in Two Harbors, (25.2% of workers) and Duluth (12.9% of Lake County workers). The top three home destinations for Lake County workers were Two Harbors (25.2%), Silver Bay (12.9%) and Duluth (7.4%).
- Most Two Harbors workers travel less than 10 miles to their jobs (58.6%). An estimated 14.1% travel between 10 and 24 miles to their job, while 19.6% travel between 25 and 50 miles and 7.1% travel 50 miles or more.
- Among workers in Lake County, 36.0% commuted less than 10 miles, 8.5% commuted 10 to 24 miles, 27.1% traveled between 25 and 50 miles, while 28.4% commuted more than 50 miles.
- Workers with longer commutes may be interested in new rental or for-sale housing that is closer to their place of employment. Workers with commutes of more than 50 miles, may be workers working remotely on a regular basis or may be working from a regional location of a larger company that is based elsewhere.

EMPLOYMENT TRENDS

TABLE E-4
COMMUTING PATTERNS
TWO HARBORS AND LAKE COUNTY, MN
2014

Home Destination			Work Destination		
Two Harbors					
Place of Residence	Count	Share	Place of Employment	Count	Share
Two Harbors city, MN	683	39.1%	Two Harbors city, MN	683	35.2%
Duluth city, MN	180	10.3%	Duluth city, MN	410	21.1%
Silver Bay city, MN	45	2.6%	Silver Bay city, MN	95	4.9%
Finland CDP, MN	23	1.3%	Superior city, WI	38	2.0%
Superior city, WI	19	1.1%	Hermantown city, MN	25	1.3%
Hoyt Lakes city, MN	10	0.6%	St. Cloud city, MN	19	1.0%
Arnold CDP, MN	6	0.3%	Finland CDP, MN	16	0.8%
Hermantown city, MN	6	0.3%	Cloquet city, MN	14	0.7%
Proctor city, MN	6	0.3%	Minneapolis city, MN	13	0.7%
Chicago city, IL	4	0.2%	St. Paul city, MN	11	0.6%
All Other Locations	767	43.9%	All Other Locations	618	31.8%
Distance Traveled			Distance Traveled		
Total Primary Jobs	1,749	100.0%	Total Primary Jobs	1,942	100.0%
Less than 10 miles	1,025	58.6%	Less than 10 miles	875	45.1%
10 to 24 miles	246	14.1%	10 to 24 miles	115	5.9%
25 to 50 miles	343	19.6%	25 to 50 miles	636	32.7%
Greater than 50 miles	135	7.7%	Greater than 50 miles	316	16.3%
Lake County					
Place of Residence	Count	Share	Place of Employment	Count	Share
Two Harbors city, MN	1,125	25.2%	Two Harbors city, MN	1,248	22.8%
Silver Bay city, MN	579	12.9%	Duluth city, MN	953	17.4%
Duluth city, MN	331	7.4%	Silver Bay city, MN	872	15.9%
Babbitt city, MN	74	1.7%	Ely city, MN	101	1.8%
Beaver Bay city, MN	51	1.1%	Superior city, WI	96	1.8%
Ely city, MN	51	1.1%	Finland CDP, MN	60	1.1%
Superior city, WI	43	1.0%	Hermantown city, MN	56	1.0%
Hoyt Lakes city, MN	41	0.9%	St. Cloud city, MN	47	0.9%
Finland CDP, MN	39	0.9%	Lutsen CDP, MN	45	0.8%
Hermantown city, MN	17	0.4%	Minneapolis city, MN	44	0.8%
All Other Locations	2,122	47.4%	All Other Locations	1,952	35.7%
Distance Traveled			Distance Traveled		
Total Primary Jobs	4,473	100.0%	Total Primary Jobs	5,474	100.0%
Less than 10 miles	1,972	44.1%	Less than 10 miles	1,969	36.0%
10 to 24 miles	556	12.4%	10 to 24 miles	468	8.5%
25 to 50 miles	1,100	24.6%	25 to 50 miles	1,483	27.1%
Greater than 50 miles	845	18.9%	Greater than 50 miles	1,554	28.4%
Home Destination: Where workers live who are employed in the selection area					
Work Destination: Where workers are employed who live in the selection area					
Sources: U.S. Census Bureau Local Employment Dynamics, Maxfield Research & Consulting, LLC					

Inflow/Outflow

Table E-5 provides a summary of the inflow and outflow of workers for Two Harbors and Lake County. Outflow reflects the number of workers living in the City or County but employed outside of the jurisdiction while inflow measures the number of workers that are employed in the City or County but live outside.

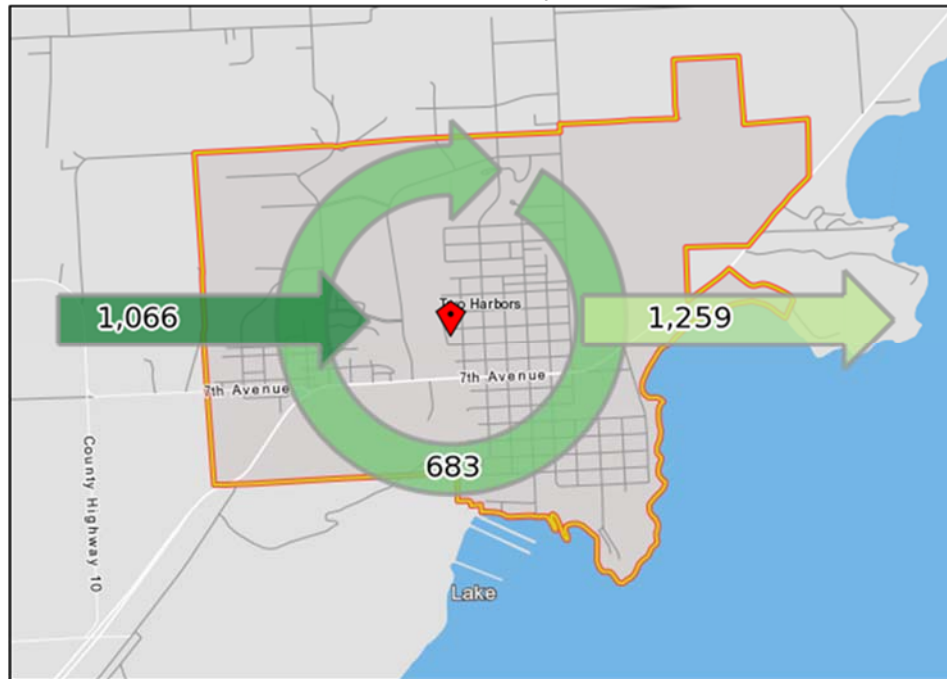
- Most of Two Harbors workers commute into Two Harbors or live and work in Two Harbors, with 1,066 commuting into the City and 683 workers living and working in the City, compared to 1,259 workers leaving the City.
- Among outflow workers, 37.6% earned over \$3,333 per month, compared to 38.4% of inflow workers who earned over \$3,333.
- Nearly equal proportions of Two Harbors inflow, outflow and interior workers are between the ages of 30 to 54 - 53.8% for inflow workers, 54.8% for outflow workers and 54.2% for interior flow.
- Similarly, most of Lake County's workforce commutes into Lake County or lives and works in the county. In 2014, 1,534 employees commuted daily to the County for work and 2,535 commuted out of the County for work. Additionally, 2,939 workers both lived and worked in the County.
- Workers commuting into the County are most likely to be between the ages 30 and 54 (51.3%) and have monthly earnings over \$3,333 (50.6%) Workers who reside and work in Lake County are most likely to be age 30 to 54 (54.3%) and have monthly earnings more than \$3,333 (38.8%).

EMPLOYMENT TRENDS

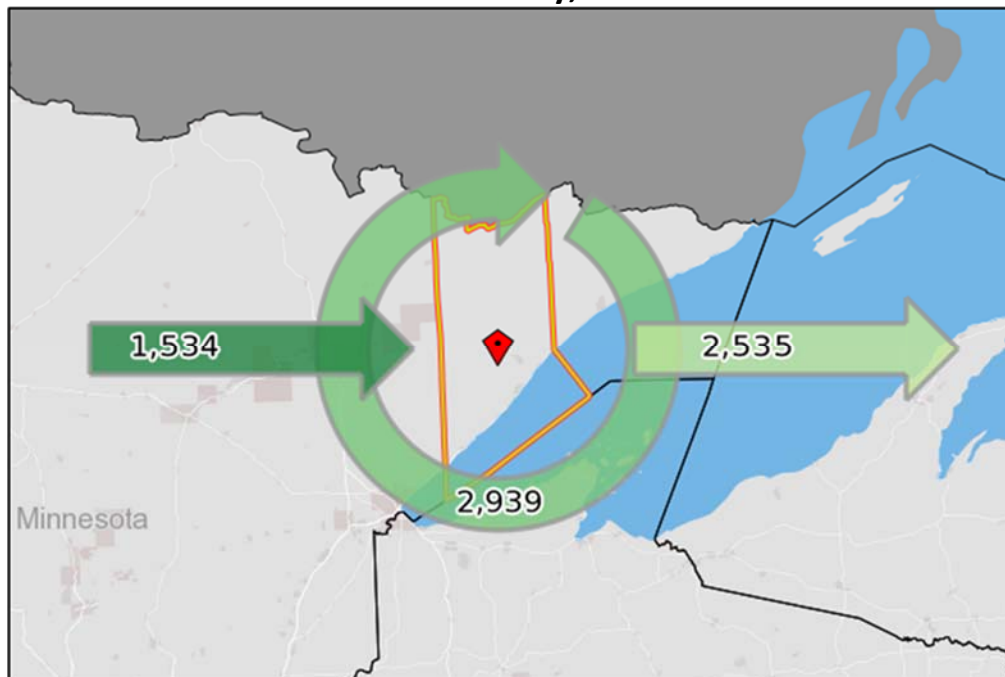
**TABLE E-5
COMMUTING INFLOW/OUTFLOW CHARACTERISTICS
TWO HARBORS AND LAKE COUNTY, MN
2014**

Two Harbors						
	Outflow		Inflow		Interior Flow	
City Total	1,259	100.0%	1,066	100.0%	683	100.0%
By Age						
Workers Age 29 or younger	339	26.9%	216	20.3%	144	21.1%
Workers Age 30 to 54	690	54.8%	574	53.8%	370	54.2%
Workers Age 55 or older	230	18.3%	276	25.9%	169	24.7%
By Monthly Wage						
Workers Earning \$1,250 per month or less	382	30.3%	339	31.8%	291	42.6%
Workers Earning \$1,251 to \$3,333 per month	404	32.1%	318	29.8%	259	37.9%
Workers Earning More than \$3,333 per month	473	37.6%	409	38.4%	133	19.5%
By Industry						
Workers in the "Goods Producing" Industry Class	300	23.8%	150	14.1%	80	11.7%
Workers in the "Trade, Transportation, and Utilities" Industry Class	181	14.4%	169	15.9%	107	15.7%
Workers in the "All Other Services" Industry Class	778	61.8%	747	70.1%	496	72.6%
Lake County						
	Outflow		Inflow		Interior Flow	
County Total	2,535	100.0%	1,534	100.0%	2,939	100.0%
By Age						
Workers Age 29 or younger	654	25.8%	370	24.1%	608	20.7%
Workers Age 30 to 54	1,238	48.8%	787	51.3%	1,597	54.3%
Workers Age 55 or older	643	25.4%	377	24.6%	734	25.0%
By Monthly Wage						
Workers Earning \$1,250 per month or less	780	30.8%	404	26.3%	968	32.9%
Workers Earning \$1,251 to \$3,333 per month	893	35.2%	354	23.1%	831	28.3%
Workers Earning More than \$3,333 per month	862	34.0%	776	50.6%	1,140	38.8%
By Industry						
Workers in the "Goods Producing" Industry Class	346	13.6%	618	40.3%	749	25.5%
Workers in the "Trade, Transportation, and Utilities" Industry Class	445	17.6%	192	12.5%	388	13.2%
Workers in the "All Other Services" Industry Class	1,744	68.8%	724	47.2%	1,802	61.3%
Sources: U.S. Census Bureau, Maxfield Research & Consulting, LLC						

**Inflow/Interior Flow/Outflow
Two Harbors, MN**



Lake County, MN



Worker Profile

Table E-6 compares characteristics of employed residents living in Lake County in 2014 with the State of Minnesota. Information on monthly earnings, age, race and ethnicity, educational attainment and job classification is provided. Key points from Table E-6 are on the following page.

TABLE E-6 RESIDENT PROFILE LAKE COUNTY 2014			
	Lake County		MN
	No.	Pct.	Pct.
Total Jobs			
Total All Jobs	5,474	100.0%	100.0%
Monthly Earnings			
\$1,250 per month or less	1,748	31.9%	25.4%
\$1,251 to \$3,333 per month	1,724	31.5%	29.9%
More than \$3,333 per month	2,002	36.6%	44.7%
Worker Ages			
Age 29 or younger	1,262	23.1%	23.8%
Age 30 to 54	2,835	51.8%	54.5%
Age 55 or older	1,377	25.2%	21.7%
Worker Race and Ethnicity			
White Alone	5,286	96.6%	89.3%
Black or African American Alone	27	0.5%	4.8%
American Indian or Alaska Native Alone	71	1.3%	0.9%
Asian Alone	38	0.7%	3.8%
Native Hawaiian or Other Pacific Islander Alone	5	0.1%	0.1%
Two or More Race Groups	47	0.9%	1.2%
Ethnicity			
Not Hispanic or Latino	5,417	99.0%	96.6%
Hispanic or Latino	57	1.0%	3.4%
Worker Educational Attainment			
Less than high school	401	7.3%	5.9%
High school or equivalent, no college	1,451	26.5%	20.8%
Some college or Associate degree	1,494	27.3%	26.1%
Bachelor's degree or advanced degree	866	15.8%	23.5%
Educational attainment not available (workers aged 29 or younger)	1,262	23.1%	23.8%
Sources: U.S. Census Bureau, Maxfield Research and Consulting, LLC			

- Lake County residents earning more than \$3,333 per month accounted for 36.6% of workers. This is less than the proportion of residents in Minnesota (44.7%). Workers between the ages of 30 to 54 accounted for 51.8% of workers, slightly lower than the proportion in the State of Minnesota (54.5%).

EMPLOYMENT TRENDS

- The proportion of workers who live in Lake County with a high school diploma (26.5%) was higher than the State of Minnesota (20.8%). Similarly, the proportion of Lake County workers with a Bachelor's degree was 15.8% compared to 23.5% in the State of Minnesota.

Major Employers

A portion of employment growth in the Two Harbors PMA will be generated by the largest employers in the Lake County. Table E-7 below lists the top employers in Lake County along with a description of their primary industry and number of employees based on data provided by ReferenceUSA, a database of businesses in the United States.

The following are key points from Table E-7:

- Most of Lake County's largest employers are in Two Harbors. The largest employer, Northshore Mining Company, is in Silver Bay, and employs 335 people. Boy Scouts of America Northern Tier High Adventure is the second largest employer in Lake County, with 200 employees. The camp is in Lake County, but the closest city is Ely, in St. Louis County, Minnesota.
- Lake County has a diverse employment base, with manufacturing firms being the most common industry sector.

TABLE E-7 MAJOR EMPLOYERS LAKE COUNTY 2017			
Employer Name	City	Industry	No. of Employees
Northshore Mining Co	Silver Bay	Mining Companies	335
Boy Scouts Of America Northern	Ely	Youth Organizations & Centers	200
Two Harbors Outpatient-Clinic	Two Harbors	Clinics	170
Labounty Manufacturing Inc	Two Harbors	Cutting Tools/Access/Measuring Dvcs (Mfr)	160
Mn Veterans Home	Silver Bay	Nursing & Convalescent Homes	140
Louisiana-Pacific Corp	Two Harbors	Building Materials	108
Kamloops At Superior Shores	Two Harbors	Resorts	100
Two Harbors Machine Shop Inc	Two Harbors	Machine Shops (Mfrs)	100
Lake View Memorial Hospital	Two Harbors	Hospitals	93
Larsmont Cottages	Two Harbors	Resorts	80
Ecumen Scenic Shores	Two Harbors	Residential Care Homes	78
Northshore Manufacturing Inc	Two Harbors	Steel-Structural (Mfrs)	75
Minnehaha Elementary	Two Harbors	Schools	70
Splashing Rock Restaurant	Two Harbors	Banquet Rooms	70
Sonju Superstore	Two Harbors	Automobile Dealers-New Cars	65
Builrite Handlers-Attachments	Two Harbors	Recycling Equipment-Manufacturers	60
Note: Data is sourced from ReferenceUSA, a database of businesses in the United States and information is considered accurate but not guaranteed.			
Sources: ReferenceUSA; Maxfield Research and Consulting, LLC			

Summary of Employment Trends

- Total employment in the Arrowhead EDR is projected to increase by 2.0% between 2014 and 2024, while employment in the State is projected to grow by 4.3%.
- As of April 2017, the unemployment rate in Lake County was 4.9%, below the Arrowhead EDR (6.1%) and above the State of Minnesota (3.7%).
- Within Two Harbors, the Information sector reported the highest weekly wage, \$1,105, or approximately \$57,460 annually as of 3rd Quarter 2016. The lowest average weekly wage was in the Leisure and Hospitality sector, at \$361 per week.
- Most Two Harbors workers travel less than 10 miles to their jobs (58.6%). About 14.1% travel between 10 and 24 miles to their job, while 19.6% travel between 25 and 50 miles and 7.1% travel 50 miles or more.
- Two Harbors is a net exporter of workers, with 1,066 commuting into the city compared to 1,259 workers leaving the city. In addition, 683 workers live and work in the City.
- The largest employer in Lake County is the North Shore Mining Company, an iron ore mining company with 335 employees. The BSA Northern Tier National High Adventure is the second largest employer in the County, with 200 employees, and the Two Harbors Outpatient Clinic is the third largest employer, with 170 employees.

Introduction

The following section of the report analyzes current market conditions for general occupancy rental housing in the Primary Market Area. Topics covered include rental housing data from the American Community Survey and detailed information on individual rental developments in the Primary Market Area. Maxfield Research and Consulting identified and surveyed larger rental properties of eight or more units in the PMA.

For the purposes of the analysis, we classified rental properties into two groups, general occupancy and senior (age-restricted). All senior properties are included in the *Senior Rental Analysis* section of this report. There are three categories of general occupancy rental properties; market rate (those without income restrictions), affordable (those receiving tax credits or some type of moderate assistance in order to keep rents affordable) and subsidized (those where the household pays a percentage of their income for housing (typically 30%) and where their adjusted gross income based on household size income cannot exceed 50% of the Area Median Household Income.

Overview of Rental Market Conditions

Maxfield Research utilized data from the American Community Survey (ACS) to summarize overall rental market conditions in Two Harbors, Lake County and the PMA. The ACS is an ongoing survey conducted by the United States Census Bureau that provides data every year rather than every ten years as presented by the Decennial Census. This data is used to provide more current information on housing.

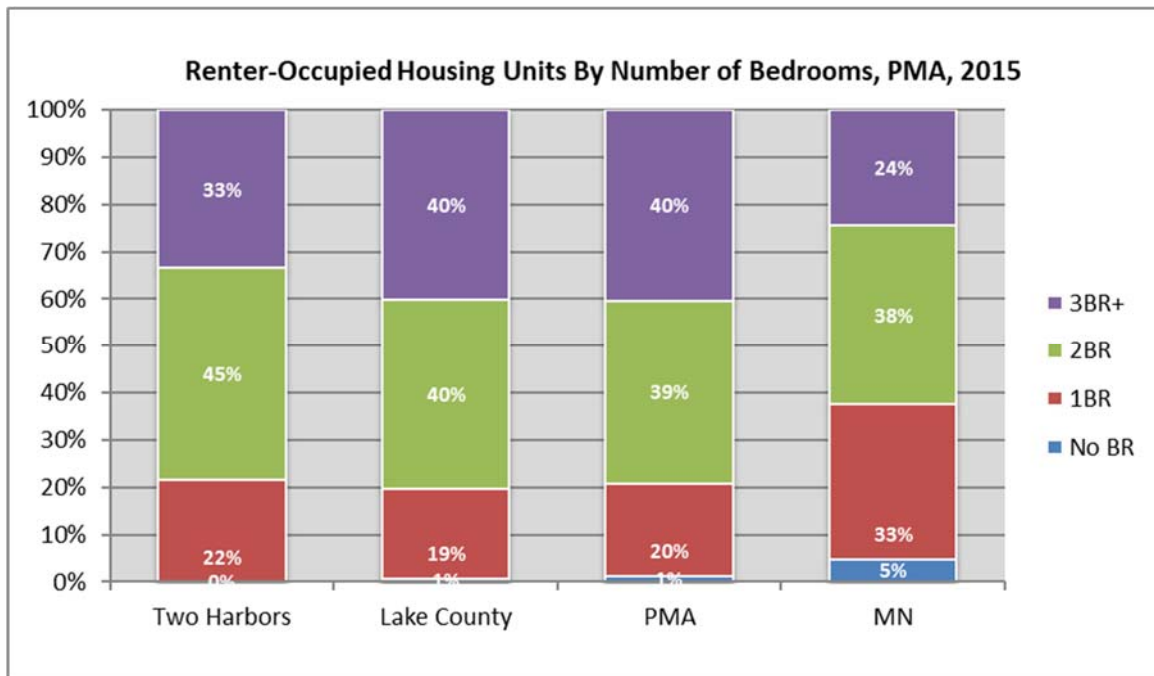
Table R-1 on the following page presents a breakdown of median gross rent and monthly gross rent ranges by number of bedrooms in renter-occupied housing units from the 2011-2015 ACS for Two Harbors, Lake County and the PMA, in comparison to Minnesota. Gross rent is defined as the amount of the contract rent plus the estimated average monthly cost of utilities (electricity, gas, and water and sewer) and fuels (oil, coal, wood, etc.) if these are paid by the renter.

- A median gross rent of \$673 was reported in Two Harbors, which was below that of Lake County (\$680) and the PMA (\$698). The PMA median rent was 17.7% less than the median gross rent reported in the State of Minnesota (\$848).
- An estimated 61% of rental units in the PMA are in Two Harbors. The most common type of rental unit in Two Harbors is a two-bedroom unit, which comprised nearly half of all units (45%) in Two Harbors and was proportionally higher than the PMA (39%). Three-bedroom units were the next most common, comprising 33% of rental units in Two Harbors and were the most common unit type in the PMA (40%).

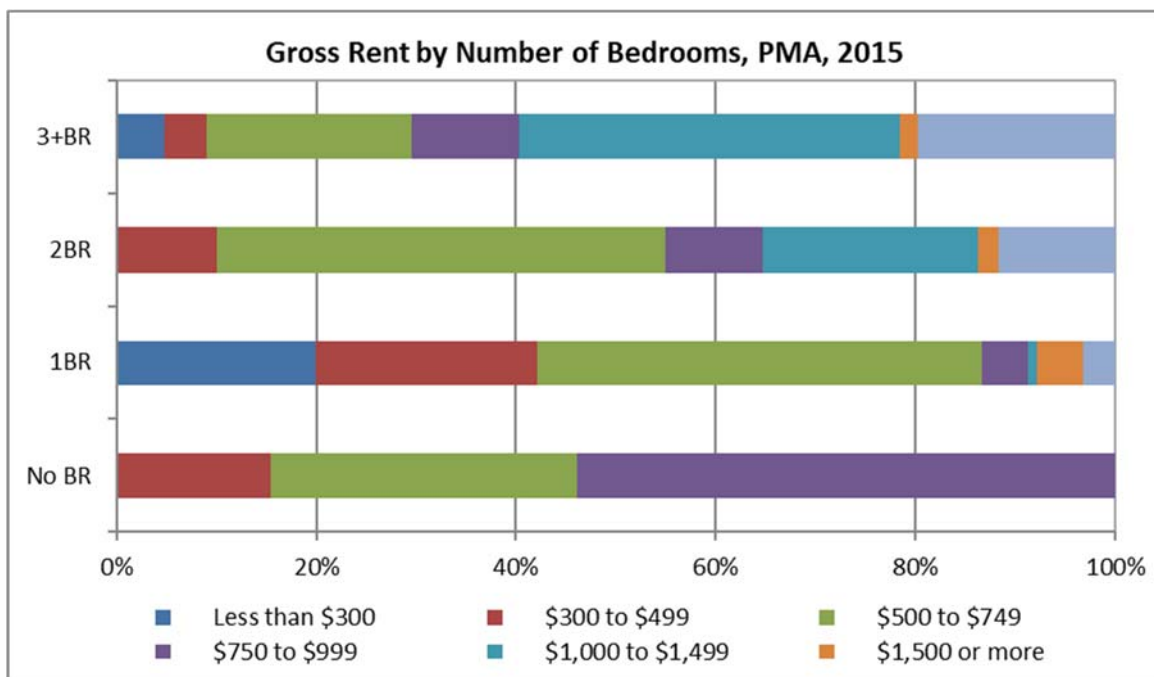
**TABLE R-1
BEDROOMS BY GROSS RENT, RENTER-OCCUPIED HOUSING UNITS
TWO HARBORS MARKET AREA
2015**

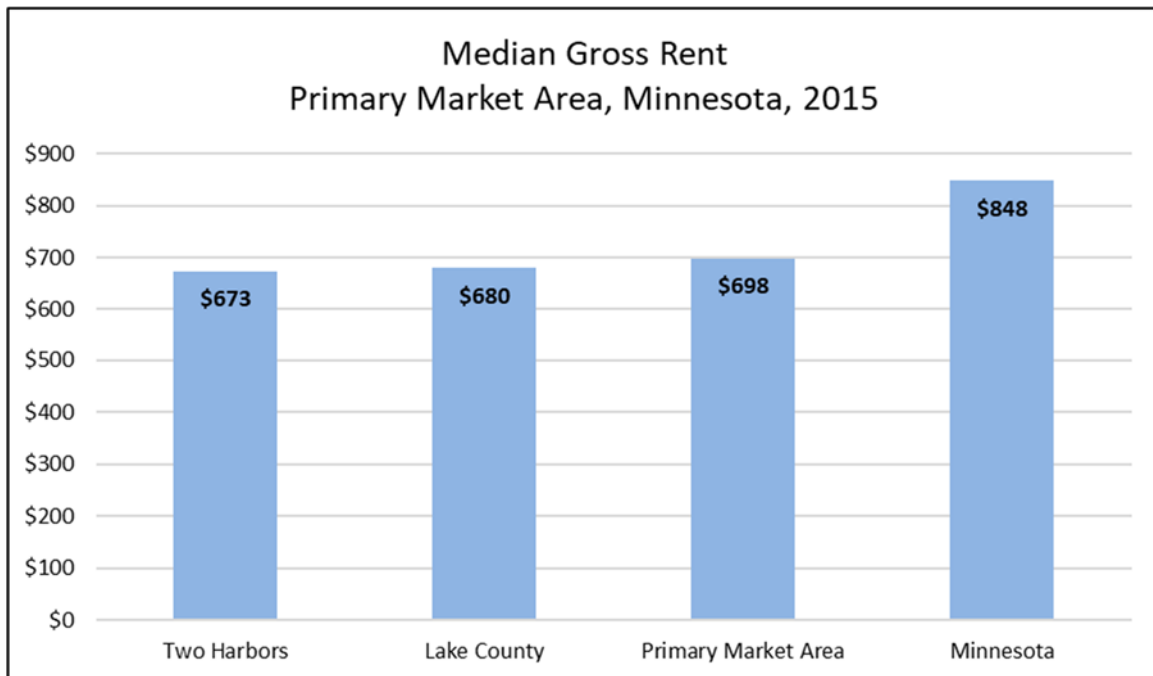
	Two Harbors		Lake County		PMA		MN
	#	% of Total	#	% of Total	#	% of Total	% of Total
Total:	673	100%	1,025	100%	1,101	100%	100%
Median Gross Rent	\$673		\$680		\$698		\$848
No Bedroom	0	0%	7	1%	13	1%	5%
Less than \$300	0	0%	0	0%	0	0%	11%
\$300 to \$499	0	0%	0	0%	2	0%	17%
\$500 to \$749	0	0%	0	0%	4	0%	40%
\$750 to \$999	0	0%	7	0%	7	0%	18%
\$1,000 to \$1,499	0	0%	0	0%	0	0%	8%
\$1,500 or more	0	0%	0	0%	0	0%	5%
No cash rent	0	0%	0	0%	0	0%	1%
1 Bedroom	145	22%	194	19%	216	20%	33%
Less than \$300	37	26%	43	22%	43	20%	13%
\$300 to \$499	43	30%	43	22%	48	22%	13%
\$500 to \$749	48	33%	85	44%	96	44%	29%
\$750 to \$999	0	0%	4	2%	10	5%	28%
\$1,000 to \$1,499	0	0%	2	1%	2	1%	12%
\$1,500 or more	10	7%	10	5%	10	5%	4%
No cash rent	7	5%	7	4%	7	3%	1%
2 Bedrooms	303	45%	413	40%	428	39%	38%
Less than \$300	0	0%	0	0%	0	0%	4%
\$300 to \$499	22	7%	43	10%	43	10%	6%
\$500 to \$749	157	52%	185	45%	192	45%	19%
\$750 to \$999	32	11%	42	10%	42	10%	31%
\$1,000 to \$1,499	75	25%	89	22%	92	21%	30%
\$1,500 or more	0	0%	7	2%	9	2%	7%
No cash rent	17	6%	47	11%	50	12%	4%
3 or More Bedrooms	225	33%	411	40%	444	40%	24%
Less than \$300	0	0%	21	5%	21	5%	2%
\$300 to \$499	13	6%	19	5%	19	4%	5%
\$500 to \$749	53	24%	88	21%	91	20%	12%
\$750 to \$999	0	0%	47	11%	48	11%	15%
\$1,000 to \$1,499	123	55%	160	39%	169	38%	31%
\$1,500 or more	0	0%	0	0%	8	2%	23%
No cash rent	36	16%	76	18%	88	20%	11%

Sources: American Community Survey; Maxfield Research and Consulting, LLC



- In Two Harbors, most monthly rents ranged from \$300 to \$499 (38.3% of units) and 29.4% of units had rents between \$750 and \$999. In the PMA, the most common rent range was \$300 to \$499, (34.8% of units), followed by the \$750 to \$999 range (23.9%).
- Units with no cash rent, which are often owned by a friend or family member, owned by a charitable organization, or are part of a subsidized rental program, represented 8.9% of rental units in Two Harbors and a larger proportion of units in the PMA (13.2%).





General-Occupancy Rental Properties

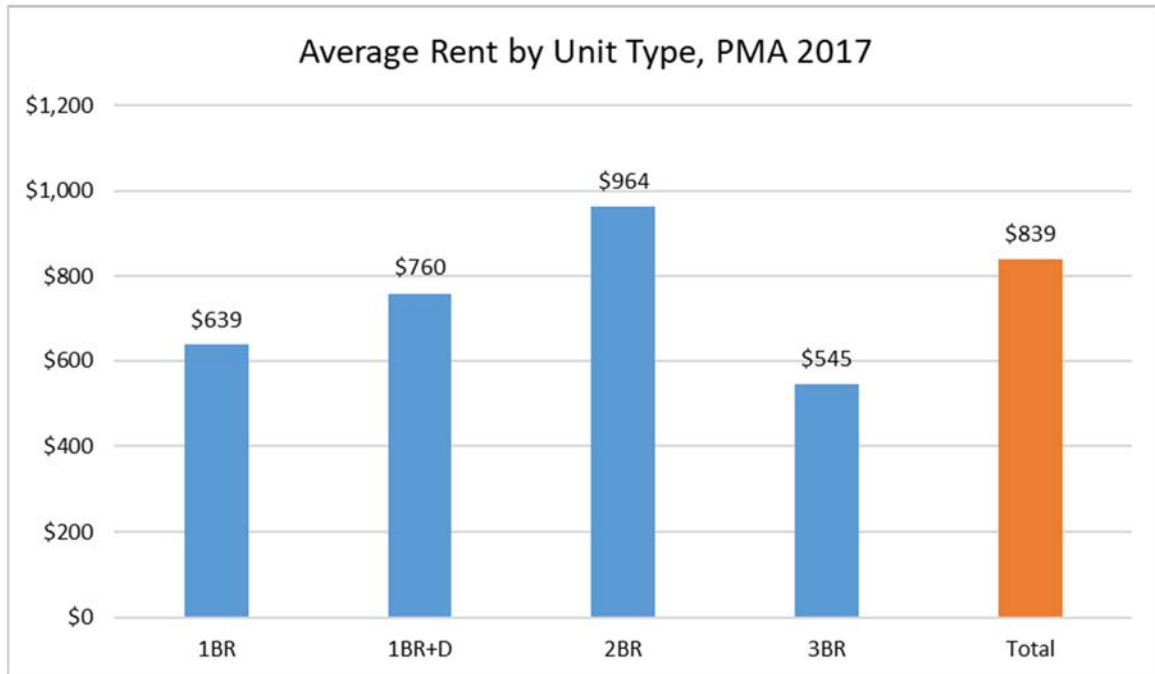
Analysis of the Primary Market Area's general occupancy rental market included a survey of six market rate apartment properties (8 units and larger) and three affordable/subsidized communities during June and July 2017. These properties represent a combined total of 235 units, including 129 market rate units and 108 affordable/subsidized units. General occupancy units accounted for 66% of surveyed units.

At the time of the survey, two market rate units and no affordable/subsidized units were vacant. As a result, market rate general occupancy units had a vacancy rate of 1.6% and affordable/subsidized units had a vacancy rate of 0.0%. The overall vacancy rate in the PMA for all property types was 0.9%. Vacancy rates were based on properties where total units and vacancies were obtained during the survey. These vacancy rates are lower than the industry standard of 5% vacancy for a stabilized market rate rental market, which promotes competitive rates, ensures adequate choice, and allows for unit turnover. Affordable and subsidized units have an equilibrium vacancy rate of 2.0%.

Table R-2 summarizes information on market rate properties, Table R-3 provides a summary of unit type, vacancies and rent pricing for market rate properties. Table R-4 inventories affordable and subsidized properties.

Market Rate

- Overall, six market rate properties with a combined 129 units were surveyed. These units had a vacancy rate of 1.6%. This is less than the equilibrium vacancy rate of 5.0% for market rate units and suggests there is pent-up demand for market rate rental units.
- Two-bedroom units accounted for the majority of market rate units in the PMA. The unit breakout by unit type is summarized below.
 - One-bedroom units: 35 | 26.7%
 - One-bedroom with den units: 8 | 6.1%
 - Two-bedroom units: 80 | 61.1%
 - Three-bedroom units: 8 | 6.1%
- The following are the monthly rent ranges and average rent for each unit type:
 - One-bedroom units: \$550 to \$699 | Avg. \$639
 - One-bedroom with Den units: \$760 to \$760 | Avg. \$760
 - Two-bedroom units: \$550 to \$1,125 | Avg. \$964
 - Three-bedroom units: \$545 | Avg. \$545
- The higher end of the rent ranges for two bedroom units is at Vermillion Homes, which are larger townhome units.
- One- and two-bedroom units are the most common unit types in the PMA. These units rented for averages of \$1.06 and \$1.07 per square foot, respectively. Three-bedroom units, of which there were only eight in the survey, rented for an average of \$0.68 per square foot.



RENTAL MARKET ANALYSIS

TABLE R-2
MARKET RATE GENERAL OCCUPANCY RENTAL PROPERTIES
TWO HARBORS
JUNE 2017

Building Name/Address	Year Built	Total Units	Vacant Units	Unit Mix	Monthly Rents	Unit Sizes (Sq. Ft.)	Description/Comments
Vermillion Homes Laura Lane Two Harbors	1999/2002	48	0	48 - 2BR	\$1,115 - \$1,125	1,000	Managed by Vermillion Homes. Townhome units, w/ attached garage, small patio, in unit washer and dryer. Heat, water and sewer are included in rent.
Silverpointe Apartments 101 Banks Blvd Silver Bay	1996	25	2	9 - 1BR 8 - 1BR+D 8 - 2BR	\$665 \$760 \$825	N/A N/A N/A	Managed by DW Jones, owned by Lake County Off street parking, controlled access, community patio and garden, community room with kitchen, common laundry room.
Agate Bay Apartments 530 1st Ave Two Harbors	1924	17	0	12 - 1BR 5 - 2BR	\$550 \$715	N/A N/A	Managed by Bachand Group. Most tenants are very long term. Resident pays electric.
Marks Drive Apartments 23 Marks Drive Silver Bay	1977	16	0	8 - 2BR 8 - 3BR	\$550 \$545	600 800	Managed by Van House Services. Tenants are a mix of elderly, young singles, and families.
Tower Apartments 710 and 712 3rd ave Two Harbors	1976	11	0	7 - 1BR 6 - 2BR	\$699 \$799	600 750	Managed by Long Ventures, LLC. All utilities are included except electric. Tenants are a good mix of elderly, singles, and young families. Previously a church. Parsonage was also converted to rental units.
Wakeya Apartments 120 4th ave Two Harbors	1960s	12	0	7 - 1BR 5 - 2BR	\$699 \$799	600 750	Managed by Long Ventures, LLC. All utilities are included except electric. Tenants are a good mix of elderly, singles, and young families. Previously a resort. Some of the suite rooms are larger.
Total/Vacant Units		129	2				
Vacancy Rate		1.6%					
Source: Maxfield Research and Consulting, LLC							

RENTAL MARKET ANALYSIS

- The majority of the properties surveyed offer common laundry facilities on-site or have washer/dryer hook-ups in the units. It is also common for properties to include heat, water, sewer and trash in the monthly rent.

TABLE R-3 MARKET RATE RENT SUMMARY PRIMARY MARKET AREA JUNE/JULY 2017							
Monthly Rents							
Unit Type	Unit Mix Pct.	Size Low High		Avg. Size	Rent Range Low High		Avg. Rent/ Sq.Ft.
1BR	26.7%	600 - 600		600	\$550 - \$699		\$639
1BR+D	6.1%	N/A - N/A		N/A	\$760 - \$760		\$760
2BR	61.1%	600 - 1,000		911	\$550 - \$1,125		\$964
3BR	6.1%	800 - 800		800	\$545 - \$545		\$545
Total	100.0%	600	1,000	852	\$545	\$1,125	\$839
Notes: If unit sizes were not known, those units are omitted from average size and rent per square foot calculations.							
Sources: Maxfield Research and Consulting, LLC							

Affordable/Subsidized

- There are three affordable/subsidized properties in the PMA, all located in Two Harbors. These properties provide 106 units of affordable/subsidized rental product.
- The affordable/subsidized properties offer a high proportion of one-bedroom (59.3%) and two-bedroom (27.8%) units. Only 13.0% of the affordable units were three-bedroom units.
- Among affordable properties, there was a vacancy rate of 0.0% or no units were available at the time of the survey. Properties may keep waiting lists for specific unit types based on the qualifications of the renter household. Property managers reported that any vacancies are likely to be filled quickly through existing waiting lists.
- All the affordable apartment developments offered common laundry facilities either on-site or in the unit. They are likely to offer a community play area.
- Trash, sewer and water were included in the rent at most of the surveyed properties; a few also include heat/gas in the rent.

RENTAL MARKET ANALYSIS

TABLE R-4 AFFORDABLE/SUBSIDIZED GENERAL OCCUPANCY RENTAL PROPERTIES TWO HARBORS JUNE 2017								
Building Name/Address	Year Built	Total Units	Vacant Units	Unit Mix	Monthly Rents	Unit Sizes (Sq. Ft.)	Description/Comments	
Subsidized Rental Housing								
Rustic Creek Townhomes 1425 9th Ave Two Harbors	1981	40	0	26 - 2BR 14 - 3BR	30% AGI \$621 30% AGI \$747	650 800	Section 8. Garage, washer and dryer hook-ups, air conditioning, playground, extra storage Two 2BRs units are handicap accessible units. Waiting list for 2BR units.	
Lakeview Apartments 318 4th Ave Two Harbors	1924	10	0	8 - 1BR 2 - 2BR	30% AGI \$450 30% AGI \$500	400 550	Managed by Lake County HRA as of July 1st, 2017. Tenant pays electric and water. Two units are currently being rehabbed.	
Bayview Terrace 505 1st Avenue Two Harbors	1968	58	0	56 - 1BR 2 - 2BR	30% AGI \$467 30% AGI \$572	700 900	Section 8. Preference is given to seniors. Laundry room, community room, activity room, library. All utilities included in rent. Tenants pays for AC, Cable TV, Telephone. Managed by Two Harbors HRA.	
		108 0	0.0%					
Sources: Maxfield Research and Consulting, LLC								

General Occupancy Projects in the Primary Market Area

The following are photographs of select general occupancy rental projects in the PMA:



Wakeya Apartments in Two Harbors



Agate Bay Apartments in Two Harbors



Vermillion Homes in Two Harbors



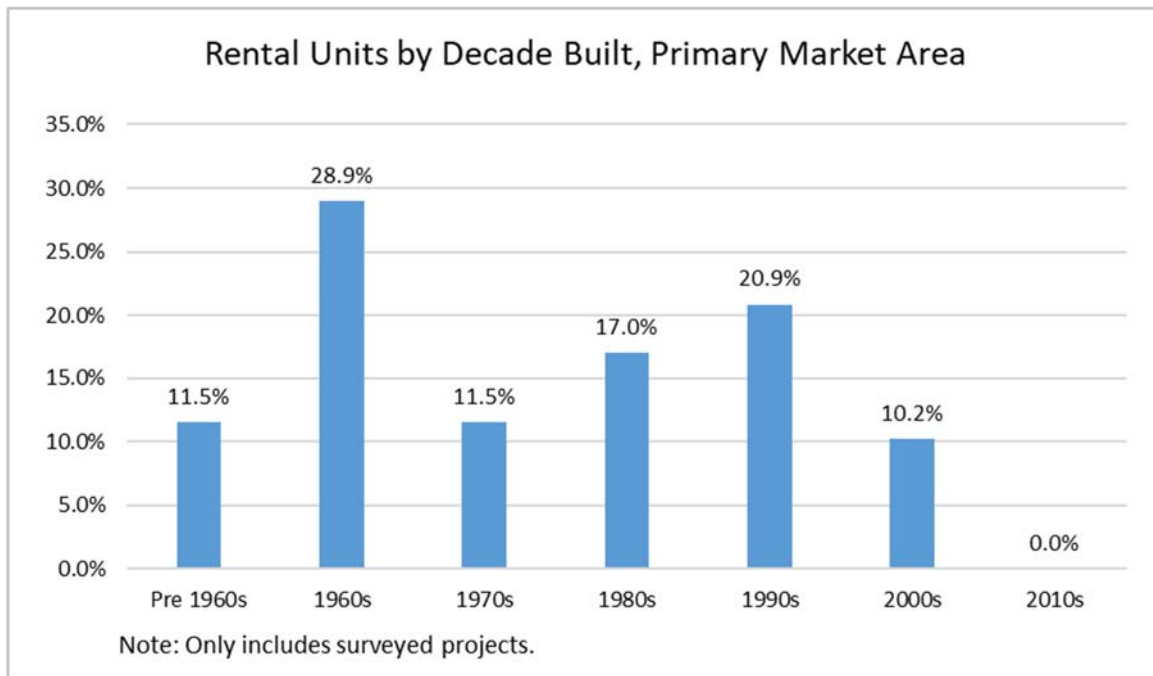
Marks Drive Apartments in Silver Bay



Rustic Creek in Two Harbors



Lakeside Apartments in Two Harbors



As the chart above shows, the plurality of rental units surveyed were built in the 1960s, with the next most active decade being the 1990s.

Planned and Proposed Housing Projects

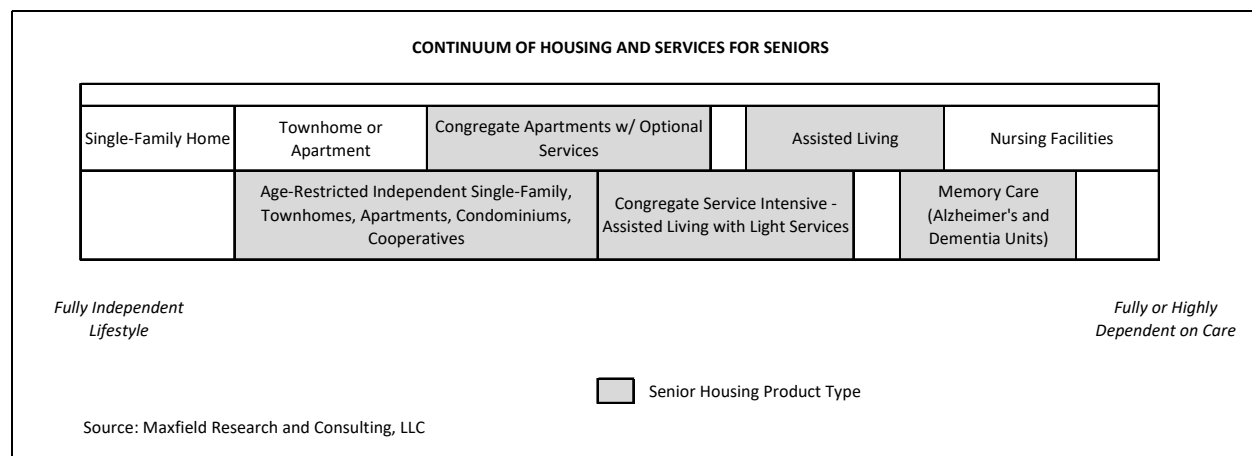
Maxfield Research interviewed planning staff members in communities in the Primary Market Area in order to identify housing developments under construction, planned, or pending. At the time of this study, there are no developments under construction projects in progress and no planned or pending housing developments.

Introduction

This section provides an assessment of the market support for senior housing (active adult, congregate, assisted living, and memory care) in the Primary Market Area. An overview of the demographic and economic characteristics of the senior population in the PMA is presented along with an inventory of existing and pending senior housing developments in the PMA. Demand for senior housing is calculated based on demographic, economic and competitive factors that would impact demand for additional senior housing units in the PMA. Our assessment concludes with an estimation of the proportion of PMA demand that could be captured by senior housing communities located in Two Harbors.

Senior Housing Defined

Senior housing is a concept that generally refers to the integrated delivery of housing and services to seniors. However, as Figure 1 illustrates, senior housing embodies a wide variety of product types across the service-delivery spectrum. Products range from independent apartments and/or townhomes with virtually no services on one end, to highly specialized, service-intensive assisted living units or housing geared for people with dementia-related illnesses (termed "memory care") on the other end of the spectrum. In general, independent senior housing attracts people age 65 and over while assisted living typically attracts people age 80 and older who need assistance with activities of daily living (ADLs). For analytical purposes, Maxfield Research Inc. classifies market rate senior housing into five categories based on the level and type of services offered:



- Active Adult properties (or independent living without services available) are similar to a general-occupancy building, in that they offer virtually no services but have age-restrictions (typically 55 or 62 or older). Residents are generally age 70 or older if in an apartment-style building. Organized entertainment, activities and occasionally a transportation program represent the extent of services typically available at these properties. Because of the lack of services, active adult properties generally do not command the rent premiums of more

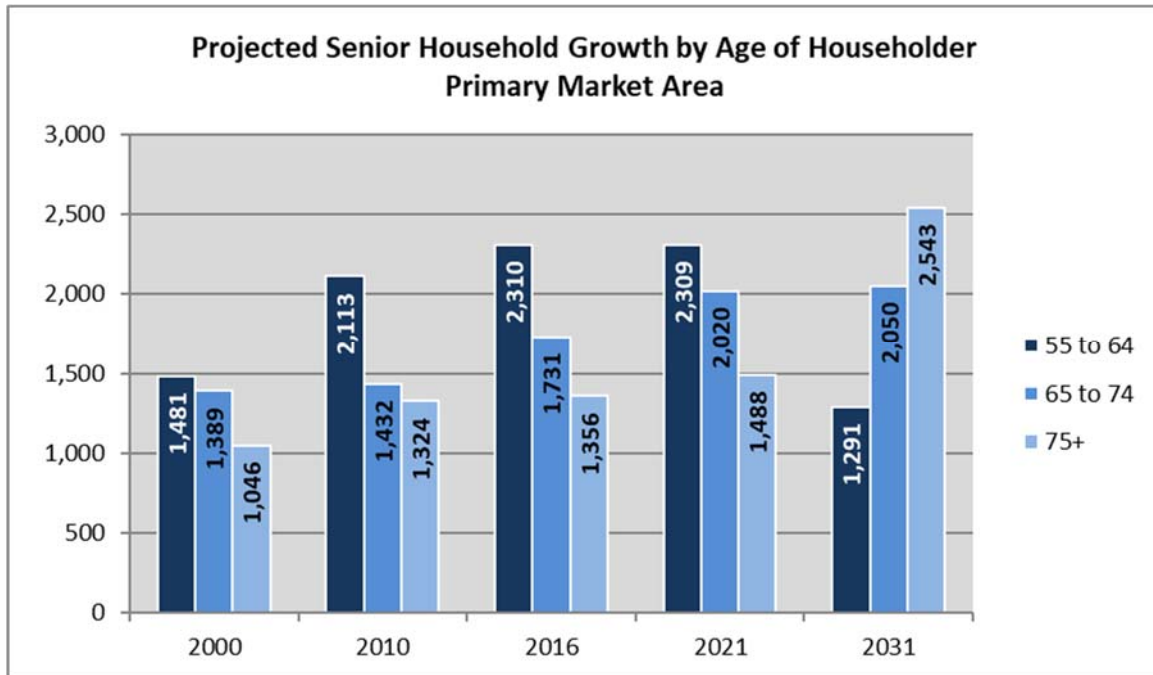
service-enriched senior housing. Active adult properties can have a rental or owner-occupied (condominium or cooperative) format.

- Congregate properties (or independent living with services available) offer support services such as meals and/or housekeeping, either on an optional basis or a limited amount included in the rents. These properties often dedicate a larger share of the overall building area to common areas, in part, because the units are smaller than in adult housing and in part to encourage socialization among residents. Congregate properties attract a slightly older target market than adult housing, typically seniors age 75 or older. Rents are also above those of the active adult buildings. Sponsorship by a nursing home, hospital or other health care organization is common.
- Assisted Living properties come in a variety of forms, but the target market for most is generally the same: very frail seniors, typically age 80 or older (but can be much younger, depending on their particular health situation), who are in need of extensive support services and personal care assistance. Absent an assisted living option, these seniors would otherwise need to move to a nursing facility. At a minimum, assisted living properties include two meals per day and weekly housekeeping in the monthly fee, with the availability of a third meal and personal care (either included in the monthly fee or for an additional cost). Assisted living properties also have either staff on duty 24 hours per day or at least 24-hour emergency response.
- Memory Care properties, designed specifically for persons suffering from Alzheimer's disease or other dementias, is one of the newest trends in senior housing. Properties consist mostly of suite-style or studio units or occasionally one-bedroom apartment-style units, and large amounts of communal areas for activities and programming. In addition, staff typically undergoes specialized training in the care of this population. Because of the greater amount of individualized personal care required by residents, staffing ratios are much higher than traditional assisted living and thus, the costs of care are also higher. Unlike conventional assisted living, however, which addresses housing needs almost exclusively for widows or widowers, a higher proportion of persons afflicted with Alzheimer's disease are in two-person households. That means the decision to move a spouse into a memory care facility involves the caregiver's concern of incurring the costs of health care at a special facility while continuing to maintain their home.

Older Adult (Age 55+) Population and Household Trends

The Demographic Analysis section of this study presented general demographic characteristics of the Primary Market Area's population. The following points summarize key findings from that section as they pertain to the older adult population in the PMA.

- Between 2016 and 2021, the fastest growing proportion of the population is projected to be those age 65 to 74, which are anticipated to experience a 41.1% increase in population, an addition of 588 people. Between 2021 and 2031, the 55 to 64 cohort is projected to contract by 44.1%, as the less populous “baby bust” generation ages into this age group.

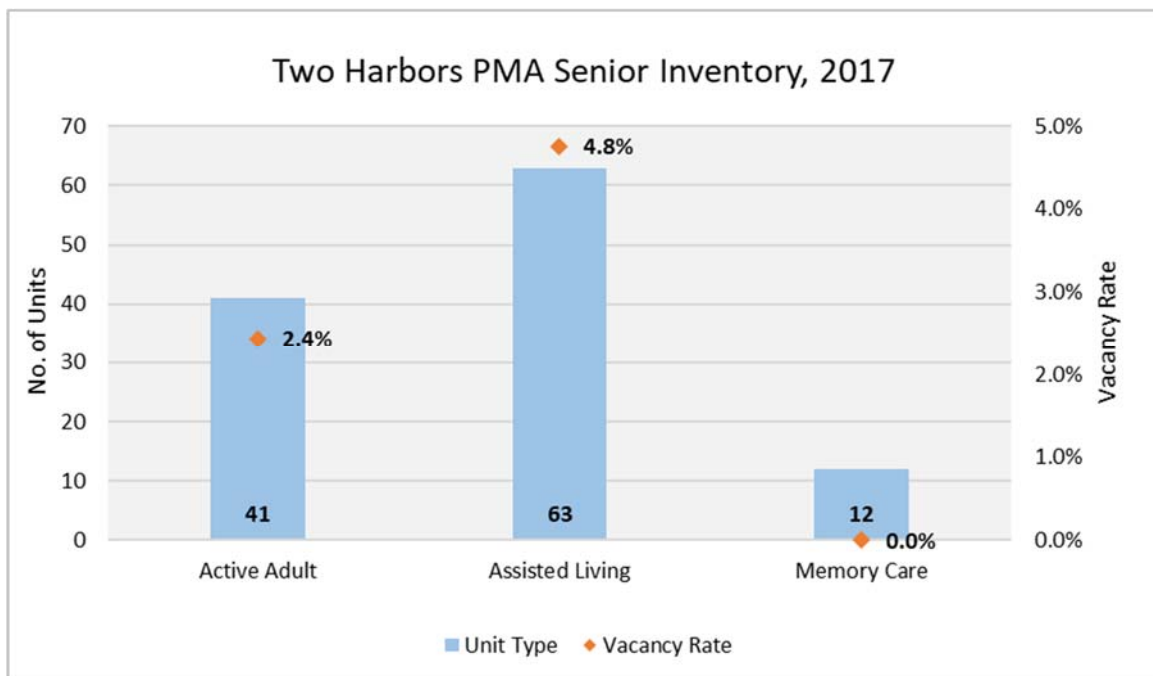


- The primary market for service-enhanced housing is senior households age 75 and older. While individuals in their 50s and 60s typically do not comprise the market base for service-enhanced senior housing, they often have elderly parents to whom they provide support when they decide to relocate to senior housing. Since elderly parents typically prefer to be near their adult caregivers, growth in the older adult age cohort (age 55 to 64) generally results in additional demand for service-enriched products, and may result in increased demand for active adult rentals or ownership.
- Homeownership information lends insight into the number of households that may still have homes to sell and could potentially supplement their incomes from the sales of their homes to support monthly fees for alternative housing.
- The Primary Market Area maintains high rates of homeownership in the older adult age cohorts. The homeownership rate in 2015 was 93.2% for age 55 to 64 households. Seniors typically begin to consider moving into senior housing alternatives or more convenient housing such as apartment buildings or twin homes in their early to mid-70s. This movement pattern is demonstrated by the drop in homeownership between the 65 to 74 age cohort (91.2%) and the 75+ age cohort (82.9%).

- With a homeownership rate of 87.2% for all households over the age of 65, a large number of residents would be able to use the proceeds from the sales of their homes toward senior housing alternatives. The resale of single-family homes would allow additional senior households to qualify for market rate housing products, since equity from the home sale could be used as supplemental income for alternative housing. These considerations are factored into demand calculations.
- Based on the 2016 median sale price for single-family homes in the Primary Market Area (\$149,000), a senior household could generate about \$2,000 of additional income annually (about \$292 per month), if they invested in an income-producing account (2.3% interest rate) after accounting for marketing costs and/or real estate commissions (6.0% of home sale price).

Supply of Senior Housing in the Two Harbors Market Area

As of July 2016, Maxfield Research identified three senior housing developments in the Primary Market Area. Combined, these properties contain 116 units. One of the properties is subsidized, while the remaining two are market rate. Table S-1 inventories these properties and shows information for properties by service-level. Information in the table includes year built, number of units, unit mix, number of vacant units, rents and general comments about each project. Table S-3 features and amenities for senior properties in the PMA.



The following are key points from the survey of senior housing.

- Subsidized senior housing offers affordable rents to qualified lower income seniors and handicapped/disabled persons. Typically, rents are tied to residents' incomes and based on 30% of adjusted gross income (AGI), or a rent that is below the fair market rent. For those households meeting the age and income qualifications, subsidized senior housing is usually the most affordable rental option available.
- Harbor Point, located at 101 3rd Avenue in Two Harbors, is a Section 8 senior property and is the only income-and age- restricted one in Two Harbors. All but four of the units have one-bedroom. At the time of the survey, there was one vacant unit, for a vacancy rate of 2.4%, which is slightly above the equilibrium vacancy rate of 2.0% for deep-subsidy rental units. Units have an occupancy restriction, so a two-bedroom unit cannot be rented by a one-person household unless there are extenuating circumstances. Amenities include a community room, library, controlled access, off street parking and laundry room.
- At Harbor Point, rent is 30% of a resident's income, which is subject to income limits. The maximum income limit for a one-person household at 50% of the area median income is \$22,900 and a two-person household is \$26,150.
- There were two market rate senior properties in the PMA, Ecumen Scenic Shores, and Care-free Living – Silver Bay, located at 36 Bell Circle in Silver Bay. Together, they have 63 assisted living units and 12 memory care units.
- Ecumen Scenic Shores is a 41-unit assisted living facility located at 402 13th Avenue in Two Harbors. Amenities and services include continental breakfast, lunch or dinner, weekly housekeeping, customized "Live 2 B Healthy" programs, assorted wellness programs, scheduled transportation, personalized health care service plan, medication management and administration, comfort checks.
- Market rate properties include all utilities in the rent, except for telephone and offer three meals daily. Wellness programs and activities are also scheduled, as is transportation to shopping and outings.

SENIOR HOUSING ANALYSIS

TABLE S-1 SENIOR HOUSING PROPERTIES PRIMARY MARKET AREA JUNE 2017							
Building Name/Address	Year Built	Total Units	Vacant Units	Unit Mix	Monthly Rents	Unit Sizes (Sq. Ft.)	Description/Comments
Active Adult - Affordable Subsidized							
Harbor Point 101 3rd Avenue Two Harbors	1978	41	1	37 - 1BR 4 - 2BR	30% of Income 30% of Income	548 727	Age 62+. Income Restrictions. Laundry Room, community room, library, controlled access, off street parking. Tenant pays electric. 40 people on waiting list for 1BR units, no waiting list for 2BR unit. Vacant unit is a 2BR.
Total Units/Vacancies		41	1				
Vacancy Rate		2.4%					
Assisted Living							
Ecumen Scenic Shores 402 13th Ave Two Harbors	2001/2011	41	2	25 - 1BR 4 - 1BR+D 12 - 2BR	\$2,779 - \$3,126 \$3,347 \$3,257	510 - 784 964 795	Amenities include three meals daily, weekly housekeeping, health and wellness programs, 24-hour staffing, personalized care plan, scheduled transportation, medication management, licensed nurse visits. All utilities included in rent, except phone.
Carefree Living Silver Bay - AL 36 Bell Circle Silver Bay	2010	22	1	18 - Eff 4 - 1BR	\$2,890 \$3,080	361 - 368 509	Most residents are from Lake County, and a few are from Cook County. All utilities are included in rent, except telephone. Accepts Elderly Waivers and CADI. Three meals daily, housekeeping, laundry,
Total Units/Vacancies		63	3				
Vacancy Rate		4.8%					
Memory Care							
Carefree Living Silver Bay - MC 36 Bell Circle Silver Bay	2010	12	0	8 - Comp'n 4 - Private	\$2,830 \$3,030	361 307 - 308	Most residents are from Lake County, and a few are from Cook County. All utilities are included in rent, except telephone. Two people are on the waiting list for Memory Care units. Accepts Elderly Waivers and CADI
Total Units/Vacancies		12	0				
Vacancy Rate		0.0%					
Source: Maxfield Research and Consulting, LLC							

Primary Market Area Senior Housing Properties

The following are photographs of the senior housing facilities in the Primary Market Area:



Harbor Point – Two Harbors



Ecumen Scenic Shores – Two Harbors



Carefree Living – Silver Bay

SENIOR HOUSING ANALYSIS

TABLE S-3 SENIOR LIVING FACILITIES FEATURES/AMENITIES/UTILITIES PRIMARY MARKET AREA JULY 2017																			
Projects																			
	Air Conditioning	Refrigerator	Microwave	Dishwasher	Washer/Dryer	Walk-In Closet	Patio/Balcony	Community Room	Laundry Facility	Elevator	Fitness Center	Storage	Walking Trail	Heat/Gas	Electricity	Water/Sewer	Trash	Cable	High Speed Internet
Adult/Few Services																			
Harbor Point	X	X	X	X	C			X	X					x	x	X	X		X OS
Assisted Living																			
Ecumen Scenic Shores	X				X			X	X	X				X	X	X	X	X	X OS
Carefree Living - Silver Bay	X				X			X	X					X	X	X	X	X	X OS
Memory Care																			
Carefree Living - Silver Bay	X				X			X	X					X	X	X	X	X	X OS
X = Available/Included; S = Some; UG = Heated Underground; AG = Attached Garage; DG = Detached Garage; C = Common																			
Sources: Maxfield Research and Consulting, LLC																			

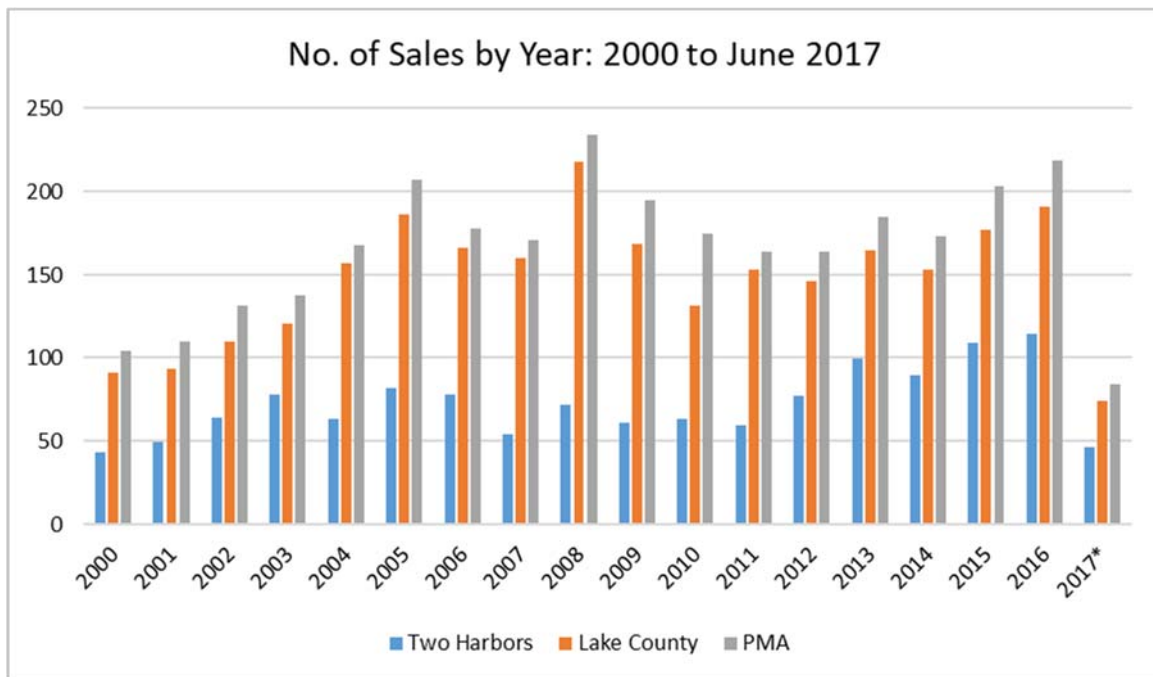
Introduction

Maxfield Research and Consulting analyzed the for-sale housing market in Two Harbors and the Primary Market Area by collecting data on single-family and multifamily home sales and active listings, identifying active subdivisions and pending for-sale developments and conducting interviews with local real estate professionals, builders, developers and planning officials.

Home Resales in the Primary Market Area

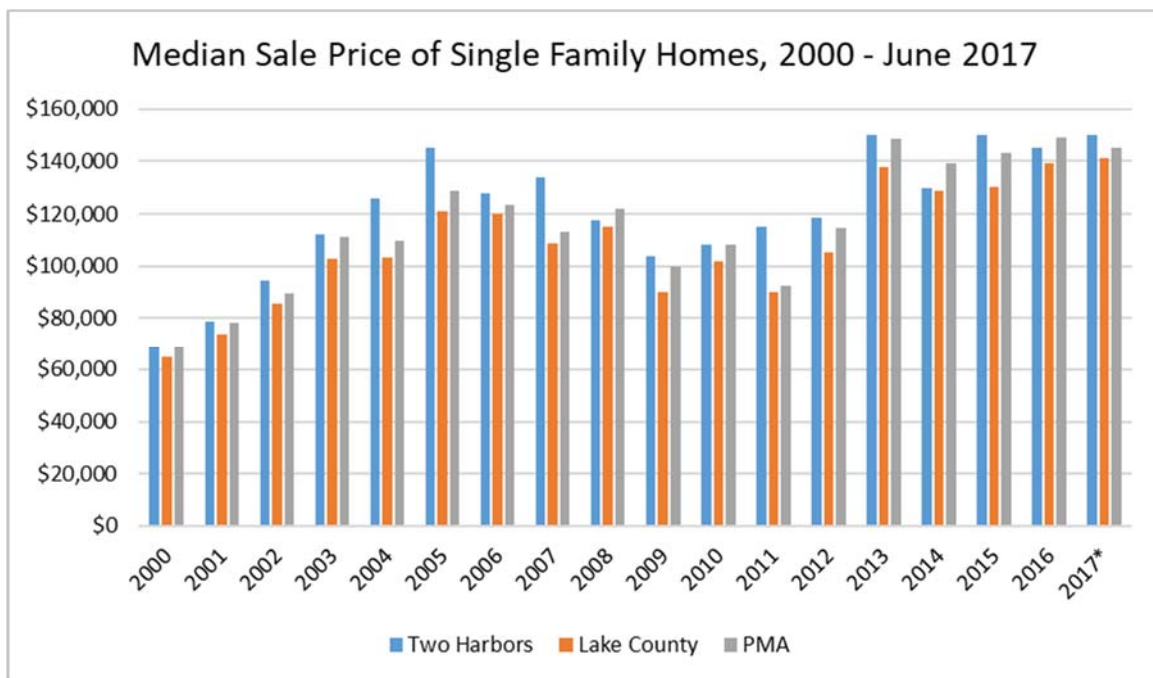
Table FS-1 presents home resale data on single-family and multifamily housing in Two Harbors and the Primary Market Area from 2000 through June 2017. The data was obtained from the Duluth Area Association of Realtors and shows the annual number of sales and median sales prices for Two Harbors, Lake County, and the PMA. The table includes only single family residential transactions and excludes agricultural dwellings. The following are key points observed from analysis of the data.

- Since 2000, there has been an average of 73 residential sales per year in Two Harbors, 152 per year in Lake County and 171 per year in the PMA.
- Sales activity in Two Harbors has been the highest recently, with 109 sales in 2015 and 115 sales in 2016, which is 44% higher than the 10-year average sales activity of 80 sales per year. Sales activity is trending up in the PMA as of 2015 (203 sales) and 2016 (219 sales), which is above the 10-year average of 188 sales per year.



FOR-SALE MARKET ANALYSIS

- The median sales price in Two Harbors was \$145,000 in 2016, down \$5,000 from the 2015 median sales price in 2015, but was still \$41,000 higher than the local low sales price of \$104,000 in 2009 and was 14.0% higher than the 10-year average median sales price of \$127,210.
- The 2016 median sales price in the PMA was \$149,000, the highest it has been since 2000, and is an increase of \$6,000 from the 2015 median sales price. The 2016 median sales price is 21.2% higher than the 10-year average median sales price in the PMA of \$122,970.
- The effect of the Great Recession can be seen in Two Harbors, Lake County, and the PMA, and is illustrated in the chart below. Home prices fell to below 2003 prices in 2009 through 2011, and despite some fluctuations, have been trending up in Two Harbors and the PMA, as home prices have recovered to pre-recession levels.



- The sizes of homes sold in Two Harbors have been trending higher, with 2000 single-family resales in Two Harbors having an average of 1,234 square feet. By 2016, homes sold averaged 1,611 square feet, an increase of 30.5%. The price per square foot also increased substantially, increasing 53.2% during this period, from \$72.65 per square foot to \$111.28 per square foot. The PMA trend is similar, with home sizes increasing from an average 1,276 square feet in 2000 to an average of 1,647 in 2016, an increase of 29.1%. The price per square foot increased by roughly the same margin as in Two Harbors, a 52.6% increase from \$76.98 in 2000 to \$117.43 in 2016.

FOR-SALE MARKET ANALYSIS

- Days on Market (DOM) is a useful statistic for measuring the velocity of sales. Typically, homes are listed for between 60 and 90 days before selling in a healthy market. Prior to the recession (2007 and earlier), homes in Two Harbors sold in an average of 70 days, compared to an average of 127 days from 2008 onward. In the PMA, prerecession DOM was 79 days, compared to 168 days from 2008 onward.

TABLE FS-1 SINGLE FAMILY RESALES TWO HARBORS, LAKE COUNTY, PMA 2000 - June 2017							
Two Harbors							
Year	No of Sales	Average Sale Price	Median Sale Price	Average DOM	Median Year Built	Average Sq. Ft.	Average Price/ Sq. Ft.
Jun-17	46	\$182,841	\$150,000	129	1958	1,671	\$109.42
2016	115	\$170,680	\$145,000	136	1952	1,690	\$100.99
2015	109	\$166,890	\$150,000	111	1953	1,616	\$103.27
2014	89	\$164,934	\$130,000	129	1955	1,700	\$97.02
2013	99	\$167,484	\$150,000	126	1957	1,717	\$97.54
2012	77	\$142,307	\$118,700	139	1954	1,512	\$94.12
2011	59	\$113,859	\$115,000	130	1952	1,647	\$69.13
2010	63	\$142,238	\$108,000	132	1952	1,397	\$101.82
2009	61	\$148,190	\$104,000	119	1950	1,396	\$106.15
2008	72	\$151,087	\$117,500	124	1953	1,498	\$100.86
2007	54	\$160,453	\$133,900	87	1953	1,563	\$102.66
2006	78	\$156,079	\$127,950	66	1949	1,503	\$103.84
2005	82	\$183,480	\$145,000	82	1949	1,528	\$120.08
2004	63	\$168,446	\$126,000	59	1952	1,467	\$114.82
2003	78	\$134,681	\$112,000	62	1947	1,611	\$83.60
2002	64	\$104,659	\$94,250	61	1944	1,469	\$71.25
2001	49	\$98,134	\$78,500	65	1948	1,549	\$63.35
2000	43	\$92,071	\$69,000	75	1949	1,296	\$71.04
Lake County							
Year	No of Sales	Average Sale Price	Median Sale Price	Average DOM	Median Year Built	Average Sq. Ft.	Average Price/ Sq. Ft.
Jun-17	74	\$159,745	\$141,250	167	1961	1,544	\$103.46
2016	191	\$179,274	\$139,000	137	1961	1,611	\$111.28
2015	177	\$155,811	\$130,500	149	1960	1,504	\$103.60
2014	153	\$176,684	\$129,000	148	1960	1,621	\$109.00
2013	165	\$163,721	\$138,000	453	1956	1,426	\$114.81
2012	146	\$129,792	\$105,050	175	1956	1,426	\$91.02
2011	153	\$105,079	\$89,900	138	1956	1,414	\$74.31
2010	132	\$142,801	\$102,000	132	1954	1,356	\$105.31
2009	169	\$139,313	\$89,900	120	1954	1,386	\$100.51
2008	218	\$162,040	\$115,000	137	1957	1,458	\$111.14
2007	160	\$179,450	\$108,500	96	1956	1,439	\$124.70
2006	166	\$139,311	\$120,000	76	1954	1,386	\$100.51
2005	186	\$163,424	\$121,225	77	1954	1,390	\$117.57
2004	157	\$137,974	\$103,400	92	1954	1,383	\$99.76
2003	121	\$127,447	\$103,000	74	1954	1,513	\$84.23
2002	110	\$93,605	\$85,500	75	1954	1,287	\$72.73
2001	93	\$90,264	\$74,000	78	1953	1,411	\$63.97
2000	91	\$89,656	\$65,000	75	1955	1,234	\$72.65
Continued							

Table FS-1 (Continued) Primary Market Area							
Year	No of Sales	Average Sale Price	Median Sale Price	Average DOM	Median Year Built	Average Sq. Ft.	Average Price/ Sq. Ft.
Jun-17	84	\$167,394	\$145,000	150	1961	1,519	\$110.20
2016	219	\$193,414	\$149,000	128	1962	1,647	\$117.43
2015	203	\$164,237	\$143,000	135	1964	1,512	\$108.62
2014	173	\$184,387	\$139,000	141	1962	1,676	\$110.02
2013	185	\$169,945	\$148,500	411	1963	1,628	\$104.39
2012	164	\$137,113	\$114,500	168	1960	1,465	\$93.59
2011	164	\$120,240	\$92,500	145	1956	1,440	\$83.50
2010	175	\$149,949	\$108,000	131	1957	1,384	\$108.34
2009	195	\$154,269	\$99,900	121	1957	1,433	\$107.65
2008	234	\$166,853	\$122,000	133	1957	1,481	\$112.66
2007	171	\$183,529	\$113,300	95	1956	1,484	\$123.67
2006	178	\$147,693	\$123,350	75	1954	1,394	\$105.95
2005	207	\$173,028	\$129,000	82	1954	1,455	\$118.92
2004	168	\$145,470	\$109,500	90	1954	1,427	\$101.94
2003	138	\$143,557	\$110,950	71	1954	1,526	\$94.07
2002	132	\$109,020	\$89,450	72	1954	1,404	\$77.65
2001	110	\$101,739	\$78,250	77	1954	1,459	\$69.73
2000	104	\$98,224	\$68,750	72	1956	1,276	\$76.98

Sources: Duluth Area Association of Realtors; Maxfield Research and Consulting, LLC

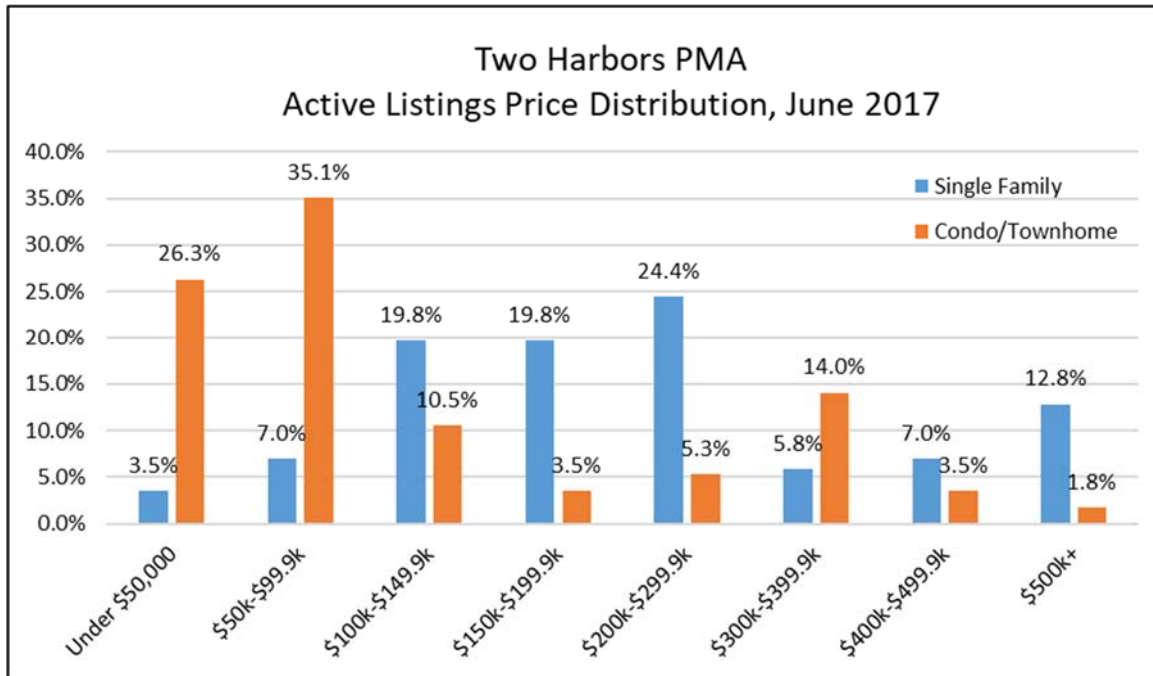
Current Supply of Homes on the Market

To more closely examine the current market for available owner-occupied housing in the Two Harbors PMA, we reviewed the current supply of homes on the market (listed for sale), with information on these homes and condos listed on Table FS-2. Table FS-3 shows homes currently listed for sale in the Two Harbors PMA distributed into eight price ranges. The listings were obtained in June 2017 from various Realtor websites.

- As of June 2017, there were 86 single family homes and 57 condo/townhomes listed for sale in the Two Harbors Market Area.
- The median list price in the PMA for a single-family home was \$202,400. The median sale price is generally a more accurate indicator of housing values in a community than the average sale price. Average sale prices can be easily skewed by a few very high-priced or low-priced home sales in any given year, whereas the median sale price better represents the pricing of a majority of homes in a given market.
- Based on a median list price of \$202,400 for the PMA, the income required to afford a home at this price would be between \$58,000 and \$67,000, based on the standard of 3.0 to 3.5 times the median income (and assuming these households do not have a high level of debt). A household with significantly more equity (in an existing home and/or savings) could afford a higher priced home. An estimated 49% of PMA households have annual incomes at or above \$58,000.

TABLE FS-2 ACTIVE LISTINGS TWO HARBORS AREA JUNE 2017		
	<u>Single Family</u>	<u>Condo/Townhome</u>
No. of Listings	86	57
Median List Price	\$202,400	\$62,000
Avg. No. Bedrooms	2.8	2.2
Avg. No. Bathrooms	1.8	2.2
Avg. Square Feet	1,855	1,460
Avg. Price/SQFT	\$109.09	\$42.48
Median Year Built	1966	1993
Note: Condo listings are typically for either a 1/8th share, which is one week every two months.		
Sources: DAAR; Maxfield Research and Consulting, LLC		

- The price distribution of listed homes is diverse, with about 10% of homes priced under \$100,000, 40% between \$100,000 and \$200,000, 24% between \$200,000 and \$300,000 and 25% over \$300,000.
- According to Realtors in the area, entry level homes are priced between \$100,000 and \$150,000 (about 20% of listings), move-up homes are priced between \$150,000 and \$200,000 (about 20% of listings), and executive homes start at about \$275,000 (about 25% of listings were this price or higher).
- Condos accounted for about 40% of listings for Two Harbors on realtor.com. The majority of condo listings were for partial shares in a vacation unit, typically a 1/8th share, which would give the owner access to the property for six weeks per year, or one week every other month. Because the list price of condo units was for a fractional share of the property, the price distribution shown on the following page is based on the list prices, not the total price of the unit. Whole units were typically listed for between \$280,000 and \$550,000.

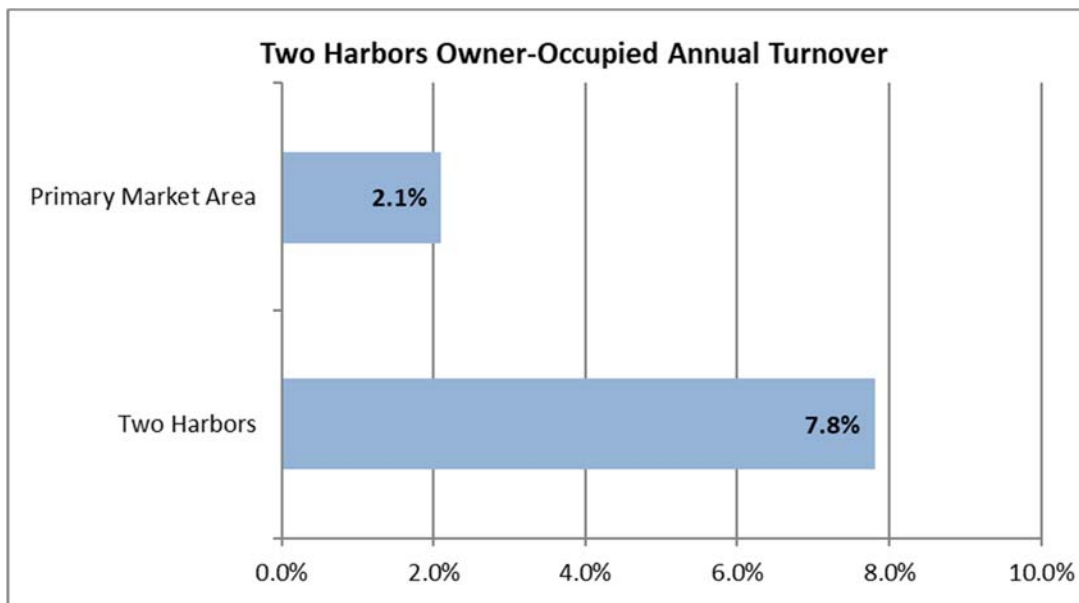


Owner-occupied Turnover

Table FS-3 illustrates existing home turnover as a percentage of owner occupied units in Two Harbors and the Primary Market Area. Resales are based on historic transaction volume between 2006 and 2016 as obtained from the Duluth Area Association of Realtors. Owner-occupied housing units are sourced to the American Community Survey as of 2015.

As displayed in the table, approximately 7.8% of Two Harbor's owner-occupied housing stock is sold annually. The turnover rate in the PMA is 2.1%, which is much lower than Two Harbors. Subtracting out Two Harbor's housing stock and average annual resales results in a turnover rate of 1.4%. Typically, we find owner-occupied turnover ranges from 3% at the low-end to 8% at the high-end in many non-metro communities throughout the Midwest.

TABLE FS-3 OWNER-OCCUPIED TURNOVER Primary Market Area			
Submarket	Owner-occupied Housing Units ¹	Resales Annual Avg. ²	Turnover Pct.
Two Harbors	1,024	80	7.8%
Primary Market Area	8,946	188	2.1%
¹ Owner-occupied housing units in 2015			
² Annual average of resales between 2007 and 2016			
³ Franklin County includes townships in resale average.			
Source: U.S. Census Bureau, Maxfield Research and Consulting, LLC			



Actively Marketing Subdivisions

Table FS-4 identifies newer subdivisions with available lots in Two Harbors and Silver Bay. The table identifies the number of lots, available lots, typical lot sizes, and assessed and marketing values for lots and homes. Please note that the table does not include scattered, infill lots. Key points from the table follow.

- There are 15 vacant lots in Two Harbors, located in the Hidden Springs and Harbor Hills subdivisions. Both subdivisions were platted before the recession and neither sold out before the market dropped off. Homes have steadily developed since the recession and of the 44 total lots, only 15 remain. Lots sizes in these subdivisions range from 0.19 acres to 0.60 acres. Lot prices range from \$20,000 to about \$30,000.

TABLE FS-4 ACTIVE FOR-SALE SINGLE-FAMILY DEVELOPMENTS LAKE COUNTY JULY 2017									
Development	Year Platted	Total Lots	Available Lots	Lot Sizes		Lot Prices		Home Prices	
				Min	Max	Min	Max	Min	Max
Two Harbors									
Hidden Springs	2007	18	5 <i>Average:</i>	8,470 - 26,150 <i>11,600</i>		\$20,000 - \$25,000		\$300,000 - \$350,000	
Harbor Hills	2006	26	10 <i>Average:</i>	9,000 - 16,150 <i>11,100</i>		\$20,000 - \$25,000		\$275,000 - \$375,000	
Silver Bay									
The Frederickson Add.	2008	6	5 <i>Average:</i>	38,768 - 57,064 <i>N/A</i>		\$25,000 - \$30,000 <i>N/A</i>		N/A	
Ramsdells Addition	2010	8	7 <i>Average:</i>	5.0 Acres - 8.8 Acres <i>5.83 acres</i>		N/A		N/A	
Source: Maxfield Research, Inc.									

Housing Stock in the PMA

The following are photographs of the housing stock in the PMA.



A typical single-family home in the PMA



A typical single-family home in the PMA



A typical single-family home in the PMA



A typical single-family home in the PMA



Newer construction in Two Harbors



Newer construction in Two Harbors

Realtor Interviews

Maxfield Research and Consulting interviewed real estate agents, city officials, and other professionals familiar with Two Harbors' owner-occupied market to solicit their impressions of the for-sale housing market throughout the PMA. Key points are summarized by topic as follows.

Market Overview

- Realtors believe that there is currently a good mix of price points of homes listed and that most buyers can find a home that they like at the right price; the market however, for entry-level homes is very tight.
- Entry level homes in Two Harbors start at about \$100,000 to \$150,000, and vary somewhat depending on the prospective buyer's income. Move-up homes are priced from about \$150,000 to \$200,000 and Executive level homes start at about \$275,000 or higher.
- There are currently fewer listings than area Realtors would prefer and there is an overall shortage of homes for-sale on the market.
- The market of prospective home buyers is very diverse. Young families want to move into town because of good schools; older families are looking to move into town to be closer to services and amenities; there is a large portion of buyers looking for vacation or seasonal homes.
- Those from out of town prefer homes below Seventh Avenue (Highway 61) , while people from Lake County generally prefer to be above Seventh Avenue.
- Realtors feel that there is plenty of pent-up demand for new housing, the problem is that there are no developers that are willing to build spec homes.
- There was some concern that prices in Two Harbors are increasing too rapidly and those interviewed were concerned that the local market is losing the ability to support year-over-year increases in prices and that locals might be priced out of the market by home buyers from out of the area.

Planned and Proposed For-Sale Housing Developments

Maxfield Research interviewed planning staff members in communities in the PMA to identify housing developments under construction, planned, or pending. There are currently no development plans for additional for-sale housing products in the PMA.

Introduction

Affordable housing is a term that has various definitions according to different people, but it is fundamentally the ability to buy or rent based on local housing costs. According to the U.S. Department of Housing and Urban Development (HUD), the definition of affordability is for a household to pay no more than 30% of its annual income on housing (including utilities). Households who pay more than 30% of their income for housing (either rent or mortgage) are considered cost-burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care.

Generally, housing that is income-restricted to households earning at or below 80% of Area Median Income (AMI) is considered affordable. However, many individual properties have income restrictions set anywhere from 30% to 80% of AMI. Rent is not based on income but instead is a contract amount that is affordable to households within the specific income restriction segment. Moderate-income housing, often referred to as “workforce housing,” refers to both rental and ownership housing. Therefore, the definition is broadly defined as housing that is income-restricted to households earning between 50% and 120% AMI. Figure 1 below summarizes income ranges by definition.

FIGURE 1 AREA MEDIAN INCOME (AMI) DEFINITIONS	
Definition	AMI Range
Extremely Low Income	0% - 30%
Very Low Income	31% - 50%
Low Income	51% - 80%
Moderate Income Workforce Housing	80% - 120%
Note: Lake County 4-person AMI = \$65,300 (2017)	

Naturally-Occurring Affordable Housing (i.e. Unsubsidized Affordable)

Although affordable housing is typically associated with an income-restricted property, there are other housing units in communities that indirectly provide affordable housing. Housing units that were not developed or designated with income guidelines (i.e. assisted), but are more affordable than other units in a community are considered “naturally-occurring” or “unsubsidized affordable” units. This rental supply is available through the private market, versus assisted housing programs through various governmental agencies. Property values on these units are lower based on a combination of factors, such as: age of structure/housing stock, location, condition, size, functionally obsolete, school district, current market conditions, etc. Because of these factors, housing costs tend to be lower.

According to the *Joint Center for Housing Studies of Harvard University*, the privately unsubsidized housing stock supplies three times as many low-cost affordable units than assisted projects nationwide. Unlike assisted rental developments, most unsubsidized affordable units are scattered across small properties (one to four unit structures) or in older multifamily structures. Many of these older developments may be vulnerable to redevelopment due to their age, modest rents, and deferred maintenance.

Because many of these housing units have affordable rents, project-based and private housing markets cannot be easily separated. Some households (typically those with household incomes of 50% to 60% AMI) income-qualify for both market rate and project-based affordable housing.

Based on the review of Two Harbors' housing stock and the inventory of rental properties; we find a substantial portion of the housing stock would be classified as naturally-occurring affordable housing.

Rent and Income Limits

Table HA-1 shows the maximum allowable incomes by household size to qualify for affordable housing and maximum gross rents that can be charged by bedroom size in the PMA. These incomes are published and revised annually by the Minnesota Housing and based on the date the project was placed into service. Fair market rent is the amount needed to pay gross monthly rent at modest rental housing in a given area. Fair market rents are used as the standard by which local housing authorities consider the availability of private market units to be considered for potential availability through the Housing Choice Voucher Program. This table is used as a basis for determining the payment standard amount used to calculate the maximum monthly subsidy for families at financially assisted housing.

Table HA-2 shows the maximum rents by household size and AMI based on income limits illustrated in Table HA-1. The rents on Table HA-2 are based on HUD's allocation that monthly rents should not exceed 30% of income. In addition, the table reflects maximum household size based on HUD guidelines of number of persons per unit. For each additional bedroom, the maximum household size increases by two persons.

HOUSING AFFORDABILITY

**TABLE HA-1
MHFA/HUD INCOME AND RENT LIMITS
LAKE COUNTY- 2017**

	Income Limits by Household Size							
	1 pph	2 phh	3 phh	4 phh	5 phh	6 phh	7 phh	8 phh
30% of median	\$13,740	\$15,690	\$17,640	\$19,590	\$21,180	\$22,740	\$24,300	\$25,860
50% of median	\$22,900	\$26,150	\$29,400	\$32,650	\$35,300	\$37,900	\$40,500	\$43,100
60% of median	\$27,480	\$31,380	\$35,280	\$39,180	\$42,360	\$45,480	\$48,600	\$51,720
80% of median	\$36,640	\$41,840	\$47,040	\$52,240	\$56,480	\$60,640	\$64,800	\$68,960
100% of median	\$45,800	\$52,300	\$58,800	\$65,300	\$70,600	\$75,800	\$81,000	\$86,200
120% of median	\$54,960	\$62,760	\$70,560	\$78,360	\$84,720	\$90,960	\$97,200	\$103,440
	Maximum Gross Rent							
	EFF	1BR	2BR	3BR	4BR			
30% of median	\$343	\$392	\$441	\$489	\$529			
50% of median	\$572	\$653	\$735	\$816	\$882			
60% of median	\$687	\$784	\$882	\$979	\$1,059			
80% of median	\$916	\$1,046	\$1,176	\$1,306	\$1,412			
100% of median	\$1,145	\$1,307	\$1,470	\$1,632	\$1,765			
120% of median	\$1,374	\$1,569	\$1,764	\$1,959	\$2,118			
	Fair Market Rent							
	EFF	1BR	2BR	3BR	4BR			
Fair Market Rent	\$465	\$546	\$726	\$908	\$1,001			

Sources: HUD, Novogradac, Maxfield Research and Consulting LLC

HOUSING AFFORDABILITY

TABLE HA-2
MAXIMUM RENT BASED ON HOUSEHOLD SIZE AND AREA MEDIAN INCOME
LAKE COUNTY - 2017

Unit Type ¹	HHD Size		Maximum Rent Based on Household Size (@30% of Income)											
	Min	Max	30%		50%		60%		80%		100%		120%	
			Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.
Studio	1	1	\$344 - \$344		\$573 - \$573		\$687 - \$687		\$916 - \$916		\$1,145 - \$1,145		\$1,374 - \$1,374	
1BR	1	2	\$344 - \$392		\$573 - \$654		\$687 - \$785		\$916 - \$1,046		\$1,145 - \$1,308		\$1,374 - \$1,569	
2BR	2	4	\$392 - \$490		\$654 - \$816		\$785 - \$980		\$1,046 - \$1,306		\$1,308 - \$1,633		\$1,569 - \$1,959	
3BR	3	6	\$441 - \$569		\$735 - \$948		\$882 - \$1,137		\$1,176 - \$1,516		\$1,470 - \$1,895		\$1,764 - \$2,274	
4BR	4	8	\$490 - \$647		\$816 - \$1,078		\$980 - \$1,293		\$1,306 - \$1,724		\$1,633 - \$2,155		\$1,959 - \$2,586	
¹ One-bedroom plus den and two-bedroom plus den units are classified as 1BR and 2BR units, respectively. To be classified as a bedroom, a den must have a window and closet.														
Note: Lake County 4-person AMI = \$65,300 (2017)														
Sources: HUD, Novogradac, Maxfield Research and Consulting, LLC														

Housing Cost Burden

Table HA-3 shows the number and percent of owner and renter households in Two Harbors, Lake County, the PMA, and the State of Minnesota that pay 30% or more of their gross income for housing. This information was compiled from the American Community Survey 2015 estimates. The Federal standard for affordability is 30% of income for housing costs. Without a separate break out for households that pay 35% or more, there are likely a number of households that elect to pay slightly more than 30% of their gross income to select the housing that they choose. Moderately cost-burdened is defined as households paying between 30% and 49% of their income to housing; while severely cost-burdened is defined as households paying 50% or more of their income for housing.

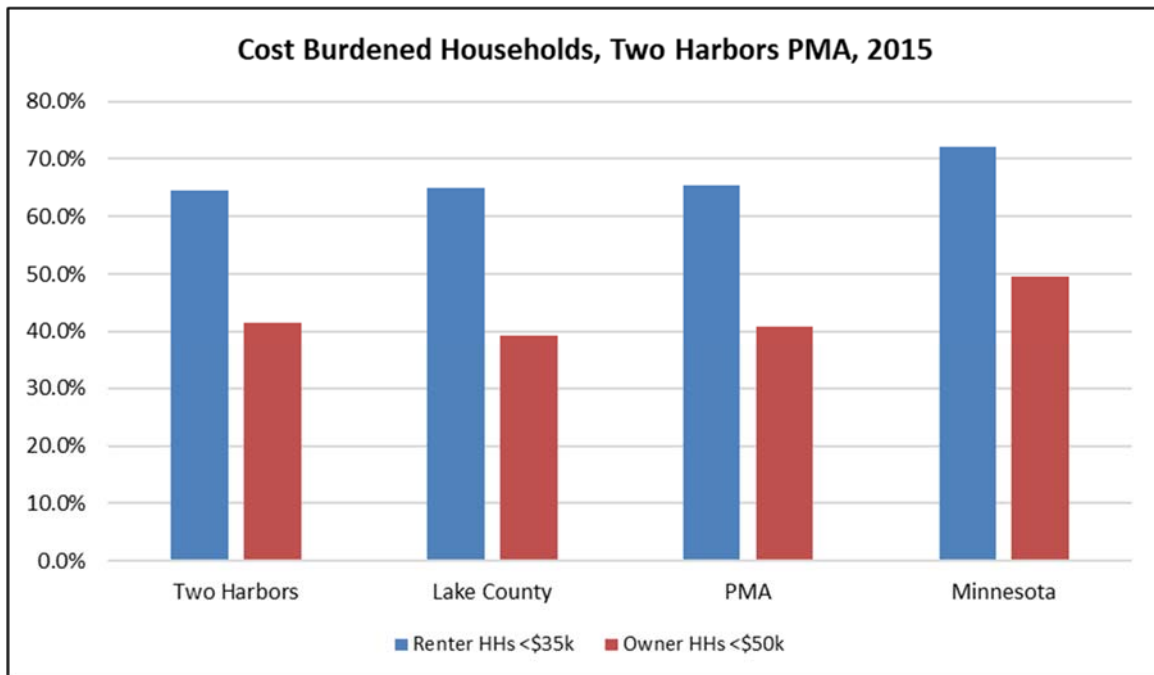
Higher-income households that are cost-burdened may have the option of moving to lower priced housing, but lower-income households often do not. The figures focus on owner households with incomes below \$50,000 and renter households with incomes below \$35,000.

Key findings from Table HA-3 follow.

- In the PMA, 22.1% of owner households and 39.8% of renter households are considered cost-burdened. In Two Harbors, 23.0% of all owner households are cost-burdened and 36.8% of renter households are cost-burdened. Relative to the State of Minnesota, the total proportion of cost-burdened owner households is similar (22.0% of Minnesota owner households are cost-burdened).
- Among owner households earning less than \$50,000, 40.8% were cost-burdened in the PMA, compared to 41.5% in Two Harbors and 49.6% in Minnesota.
- Renter household are more likely to be cost-burdened in Two Harbors, the PMA and the State of Minnesota compared to owner households. In the PMA, 39.8% of renter households were cost-burdened, compared to 36.8% of Two Harbors renter households and 45.3% of Minnesota renter households.
- Renter households with incomes less than \$35,000 per year are more likely to be cost-burdened, with 64.6% of Two Harbors' renters with incomes below \$35,000 per year considered cost-burdened, 65.3% of PMA renters and 72.1% of Minnesota renters.

HOUSING AFFORDABILITY

TABLE HA-3 HOUSING COST BURDEN TWO HARBORS PRIMARY MARKET AREA 2015								
Community	Two Harbors		Lake County		PMA		Minnesota	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Owner Households								
All Owner Households	1,024		4,062		4,884		1,522,618	
Cost Burden 30% or greater	236	23.0%	892	22.0%	1,080	22.1%	334,738	22.0%
Owner Households w/ incomes <\$50,000	556		1,911		2,177		450,483	
Cost Burden 30% or greater	231	41.5%	752	39.4%	889	40.8%	223,625	49.6%
Renter Households								
All Renter Households	673		1,025		1,101		602,127	
Cost Burden 30% or greater	248	36.8%	402	39.2%	438	39.8%	272,894	45.3%
Renter Households w/ incomes <\$35,000	370		579		608		316,969	
Cost Burden 30% or greater	239	64.6%	376	64.9%	397	65.3%	228,441	72.1%
Median Contract Rent ¹	\$673		\$680		\$698		\$848	
¹ Median Contract Rent 2015								
Note: Calculations exclude households not computed.								
Sources: American Community Survey 2015 estimates; Maxfield Research and Consulting LLC								



Housing Vouchers

In addition to subsidized apartments, “tenant-based” subsidies like *Housing Choice Vouchers*, can help lower income households afford market-rate rental housing. The tenant-based subsidy is funded by the Department of Housing and Urban Development (HUD) and is managed by the Lake County Housing and Redevelopment Authority. Under the Housing Choice Voucher program (also referred to as Section 8) qualified households are issued a voucher that the household can take to an apartment that has rent levels with Payment Standards. The household then pays approximately 30% of their adjusted gross income for rent and utilities, and the Federal government pays the remainder of the rent to the landlord. The maximum income limit to be eligible for a Housing Choice Voucher is 50% AMI based on household size, as shown in Table HA-1.

The Lake County HRA does not administer housing choice vouchers, the housing choice voucher program is administered by the Arrowhead Economic Opportunity Agency. All vouchers granted to the AEOA are currently in use in St. Louis County. Lake County HRA staff commented that they were currently looking into rehabilitating Lakeview Apartments and reconfiguring floor plans, which could increase the number of units from 10 to potentially 13. Staff said that the HRA is also looking into building a new rental building, likely mixed income, although this is in the very preliminary stages and no site location or estimate on unit counts could be provided.

Housing Costs as Percentage of Household Income

Housing costs are generally considered affordable at 30% of a households’ adjusted gross income. Table HA-5 on the following page illustrates key housing metrics based on housing costs and household incomes in the Primary Market Area. The table estimates the percentage of PMA householders that can afford rental and for-sale housing based on a 30% allocation of income to housing. Housing costs are based on the PMA average.

The housing affordability calculations assume the following:

For-Sale Housing

- 10% down payment with good credit score
- Closing costs rolled into mortgage
- 30-year mortgage at 4.625% interest rate
- Private mortgage insurance (equity of less than 20%)
- Homeowners insurance for single-family homes and association dues for townhomes
- Owner household income per 2015 ACS

Rental Housing

- Background check on tenant to ensure credit history

HOUSING AFFORDABILITY

- 30% allocation of income
- Renter household income per 2015 ACS

Because of the down payment requirement and strict underwriting criteria for a mortgage, not all households will meet the income qualifications as outlined above.

- The median income of all PMA households in 2016 was estimated at \$54,621. However, the median income varies by tenure. According to the 2015 American Community Survey, the median income of a homeowner was \$59,796 compared to \$32,355 for renters.
- According to conversations with local Realtors, entry level homes are priced between \$100,000 and \$150,000, move-up homes are priced between \$150,000 and \$200,000 and executive homes are priced at \$275,000 and above. For the calculations shown on Table HA-4, we averaged the price ranges. Entry level homes are calculated at \$125,000, move-up homes at \$175,000, and executive homes at \$275,000. Multifamily ownership units (that are not fractional ownership vacation homes) are not as prevalent in the PMA, but are less expensive than single-family homes.
- Approximately 71.4% of all households and 73.1% of owner households could afford to purchase an entry-level home in Two Harbors (\$125,000). When adjusting for move-up buyers (\$175,000) about 57.6% of all households and 56.9% of owner households would income qualify. Declines between the proportions of the general population and the owner population able to purchase homes reflects the high ownership rate in the PMA as well as the significant difference in median owner and renter household incomes.
- About 79.9% of existing renter households can afford to rent a one-bedroom unit in the PMA (\$650/month). The percentage of renter income-qualified households decreases to 67.3% that can afford an existing three-bedroom unit (\$975/month). After adjusting for new construction rental housing, the percentage of renters that are income-qualified decreases. An estimated 74.2% of renters can afford a new market rate one-bedroom unit while 66.3% can afford a new two-bedroom unit.

HOUSING AFFORDABILITY

TABLE HA-4						
TWO HARBORS HOUSING AFFORDABILITY - BASED ON HOUSEHOLD INCOME						
For-Sale (Assumes 10% down payment and good credit)						
	Single-Family			Townhome/Twinhome		
	Entry-Level	Move-Up	Executive	Entry-Level	Move-Up	Executive
Price of House	\$125,000	\$175,000	\$275,000	\$100,000	\$150,000	\$200,000
Pct. Down Payment	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Total Down Payment Amt.	\$12,500	\$17,500	\$27,500	\$10,000	\$15,000	\$20,000
Estimated Closing Costs (rolled into mortgage)	\$3,750	\$5,250	\$8,250	\$3,000	\$4,500	\$6,000
Cost of Loan	\$116,250	\$162,750	\$255,750	\$93,000	\$139,500	\$186,000
Interest Rate	4.625%	4.625%	4.625%	4.625%	4.625%	4.625%
Number of Pmts.	360	360	360	360	360	360
Monthly Payment (P & I)	-\$598	-\$837	-\$1,315	-\$478	-\$717	-\$956
(plus) Prop. Tax	-\$181	-\$254	-\$399	-\$145	-\$218	-\$290
(plus) HO Insurance/Assoc. Fee for TH	-\$42	-\$58	-\$92	-\$100	-\$100	-\$100
(plus) PMI/MIP (less than 20%)	-\$50	-\$71	-\$111	-\$40	-\$60	-\$81
Subtotal monthly costs	-\$871	-\$1,219	-\$1,916	-\$763	-\$1,095	-\$1,427
Housing Costs as % of Income	30%	30%	30%	30%	30%	30%
Minimum Income Required	\$34,839	\$48,775	\$76,646	\$30,538	\$43,807	\$57,076
Pct. of ALL PMA HHDS who can afford ¹	71.4%	57.6%	31.6%	63.0%	62.5%	49.6%
No. of PMA HHDS who can afford ¹	4,276	3,447	1,891	3,773	3,743	2,970
Pct. of PMA owner HHDS who can afford ²	73.1%	56.9%	33.9%	63.2%	56.1%	54.5%
No. of PMA owner HHDS who can afford ²	3,572	2,777	1,658	3,089	2,742	2,663
No. of PMA owner HHDS who cannot afford ²	1,312	2,107	3,226	1,795	2,142	2,221
Rental (Market Rate)						
	Existing Rental			New Construction Rental		
	1BR	2BR	3BR	1BR	2BR	3BR
Monthly Rent	\$650	\$975	\$1,050	\$800	\$1,000	\$1,250
Annual Rent	\$7,800	\$11,700	\$12,600	\$9,600	\$12,000	\$15,000
Housing Costs as % of Income	30%	30%	30%	30%	30%	30%
Minimum Income Required	\$26,000	\$39,000	\$42,000	\$32,000	\$40,000	\$50,000
Pct. of ALL PMA HHDS who can afford ¹	79.9%	67.3%	64.3%	74.2%	66.3%	56.4%
No. of PMA HHDS who can afford ¹	4,783	4,029	3,850	4,439	3,969	3,374
Pct. of PMA renter HHDS who can afford ²	52.8%	40.1%	36.6%	47.4%	38.9%	27.2%
No. of PMA renter HHDS who can afford ²	581	441	402	522	428	299
No. of PMA renter HHDS who cannot afford ²	520	660	699	579	673	802
¹ Based on 2017 household income for ALL households						
² Based on 2015 ACS household income by tenure (i.e. owner and renter incomes. Owner incomes = \$59,796 vs. renter incomes = \$32,355)						
Source: Maxfield Research & Consulting, LLC						

Introduction

Previous sections of this study analyzed the existing housing supply and the growth and demographic characteristics of the population and household base in the Primary Market Area. This section of the report presents estimates of housing demand in the County from 2016 to 2031.

Demographic Profile and Housing Demand

The demographic profile of a community affects housing demand and the types of housing that are needed. The housing life-cycle stages are:

1. *Entry-level householders*
 - Often prefer to rent basic, inexpensive apartments
 - Usually singles or couples in their early 20's without children
 - Will often "double-up" with roommates in apartment setting
2. *First-time homebuyers and move-up renters*
 - Often prefer to purchase modestly-priced single-family homes or rent more upscale apartments
 - Usually married or cohabiting couples, in their mid-20's or 30's, some with children, but most are without children
3. *Move-up homebuyers*
 - Typically prefer to purchase newer, larger, and therefore more expensive single-family homes
 - Typically families with children where householders are in their late 30's to 40's
4. *Empty-nesters (persons whose children have grown and left home) and never-nesters (persons who never have children)*
 - Prefer owning but will consider renting their housing
 - Some will move to alternative lower-maintenance housing products
 - Generally couples in their 50's or 60's
5. *Younger independent seniors*
 - Prefer owning but will consider renting their housing
 - Will often move (at least part of the year) to retirement havens in the Sunbelt and desire to reduce their responsibilities for upkeep and maintenance
 - Generally in their late 60's or 70's

6. *Older seniors*

- May need to move out of their single-family home due to physical and/or health constraints or a desire to reduce their responsibilities for upkeep and maintenance
- Generally single females (widows) in their mid-70's or older

Demand for housing can come from several sources including: household growth, changes in housing preferences, and replacement need. Household growth necessitates building new housing unless there is enough desirable vacant housing available to absorb the increase in households. Demand is also affected by shifting demographic factors such as the aging of the population, which dictates the type of housing preferred. New housing to meet replacement need is required, even in the absence of household growth, when existing units no longer meet the needs of the population and when renovation is not feasible because the structure is physically or functionally obsolete.

The graphics on the following pages provide greater detail of various housing types supported in each housing life cycle. Information on square footage, average bedrooms/bathrooms, and lot size is provided on the later graphic.

Housing Demand Overview

The previous sections of this assessment focused on demographic and economic factors driving demand for housing in the Primary Market Area. In this section, we utilize findings from the economic and demographic analysis to calculate demand for new general occupancy housing units in the PMA. In addition, we calculate the demand that Two Harbors could potentially capture from the PMA.

Housing markets are driven by a range of supply and demand factors that vary by location, demographic trends and current market conditions. The following bullet points outline several key variables that drive housing demand.

HOUSING DEMAND ANALYSIS

DEMOGRAPHICS & HOUSING DEMAND							
Age Cohort	Student Housing	Rental Housing	1st-time Home Buyer	Move-up Home Buyer	2nd Home Buyer	Empty Nester/ Downsider	Senior Housing
18-24	18 - 24						
25-29		18-34					
30-34			25-39				
35-39				30-49			
40-44							
45-49							
50-54					40-64		
55-59							
60-64						55-74	
65-69		65-79					
70-74							
75-79							
80-84							
85+							55+ & 65+

Source: Maxfield Research & Consulting, LLC

HOUSING DEMAND ANALYSIS

TYPICAL HOUSING TYPE CHARACTERISTICS				
	Housing Types	Target Market/ Demographic	Unit/Home Characteristics	Lot Sizes/ Units Per Acre ¹
For-Sale Housing	Entry-level single-family	First-time buyers: Families, couples w/no children, some singles	1,200 to 2,200 sq. ft. 2-4 BR 2 BA	80'+ wide lot 2.5-3.0 DU/Acre
	Move-up single-family	Step-up buyers: Families, couples w/no children	2,000 sq. ft.+ 3-4 BR 2-3 BA	80'+ wide lot 2.5-3.0 DU/Acre
	Executive single-family	Step-up buyers: Families, couples w/no children	2,500 sq. ft.+ 3-4 BR 2-3 BA	100'+ wide lot 1.5-2.0 DU/Acre
	Small-lot single-family	First-time & move-down buyers: Families, couples w/no children, empty nesters, retirees	1,700 to 2,500 sq. ft. 3-4 BR 2-3 BA	40' to 60' wide lot 5.0-8.0 DU/Acre
	Entry-level townhomes	First-time buyers: Singles, couples w/no children	1,200 to 1,600 sq. ft. 2-3 BR 1.5BA+	6.0-12.0 DU/Acre
	Move-up townhomes	First-time & step-up buyers: Singles, couples, some families, empty-nesters	1,400 to 2,000 sq. ft. 2-3 BR 2BA+	6.0-8.0 DU/Acre
	Executive townhomes/twinhomes	Step-up buyers: Empty-nesters, retirees	2,000+ sq. ft. 3 BR+ 2BA+	4.0-6.0 DU/Acre
	Detached Townhome	Step-up buyers: Empty-nesters, retirees, some families	2,000+ sq. ft. 3 BR+ 2BA+	4.0-6.0 DU/Acre
	Condominiums	First-time & step-up buyers: Singles, couples, empty-nesters, retirees	800 to 1,700 sq. ft. 1-2 BR 1-2 BA	Low-rise: 18.0-24.0 DU/Acre Mid-rise: 25.0+ DU/Acre Hi-rise: 75.0+ DU/Acre
Rental Housing	Apartment-style rental housing	Singles, couples, single-parents, some families, seniors	675 to 1,250 sq. ft. 1-3 BR 1-2 BA	Low-rise: 18.0-24.0 DU/Acre Mid-rise: 25.0+ DU/Acre Hi-rise: 75.0+ DU/Acre
	Townhome-style rental housing	Single-parents, families w/children, empty nesters	900 to 1,700 sq. ft. 2-4 BR 2BA	8.0-12.0 DU/Acre
	Student rental housing	College students, mostly undergraduates	550 to 1,400 sq. ft. 1-4BR 1-2 BA	Low-rise: 18.0-24.0 DU/Acre Mid-rise: 25.0+ DU/Acre Hi-rise: 50.0+ DU/Acre
Both	Senior housing	Retirees, Seniors	550 to 1,500 sq. ft. Suites - 2BR 1-2 BA	Varies considerably based on senior product type

¹ Dwelling units(DU) per acre expressed in net acreage (minus right-of-way)

Source: Maxfield Research & Consulting, LLC

Demographics

Demographics are major influences that drive housing demand. Household growth and formations are critical (natural growth, immigration, etc.), as well as household types, size, age of householders, incomes, etc.

Economy & Job Growth

The economy and housing market are intertwined; the health of the housing market affects the broader economy and vice versa. Housing market growth depends on job growth (or the prospect of); stable jobs encourage families and drive household formation. Lack of job growth

leads to slow or diminishing household growth, which in-turn relates to reduced housing demand. Additionally, low income growth results in fewer move-up buyers which results in diminished housing turnover across all income brackets.

Consumer Choice/Preferences

A variety of factors contribute to consumer choice and preferences. Many times a change in family status is the primary factor for a change in housing type (i.e. growing families, empty-nest families, etc.). However, housing demand is also generated from the turnover of existing households who decide to move for a range of reasons. Some households may want to move-up, downsize, change their tenure status (i.e. owner to renter or vice versa), or simply move to a new location.

Supply (Existing Housing Stock)

The stock of existing housing plays a crucial component in the demand for new housing. There are a variety of unique household types and styles, not all of which are desirable to today's consumers. The age of the housing stock is an important component for housing demand, as communities with aging housing stocks typically have higher demand for remodeling services, replacement new construction, or new home construction as the current inventory does not provide the supply that consumers seek.

Pent-up demand may also exist if supply is unavailable as some householders may postpone a move until new housing product becomes available.

Housing Finance

Household income is the fundamental measure that dictates what a householder can afford to pay for housing costs. According to the U.S. Department of Housing and Urban Development (HUD), the definition of affordability is for a household to pay no more than 30% of its annual income on housing (including utilities). Families who pay more than 30% of their income for housing (either rent or mortgage) are considered cost-burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care.

Mobility

Demand is somewhat fluid between markets and will be impacted by development activity in nearby areas, including other communities outside the PMA. Demand given may be lower or higher if proposed and/or planned developments move forward.

For-Sale Housing Market Demand Analysis

Table HD-1 presents demand calculations for general occupancy for-sale housing in the Two Harbors PMA between 2016 and 2031. The analysis identifies potential demand for general occupancy for-sale housing that is generated from new households and turnover households. The following points summarize the findings.

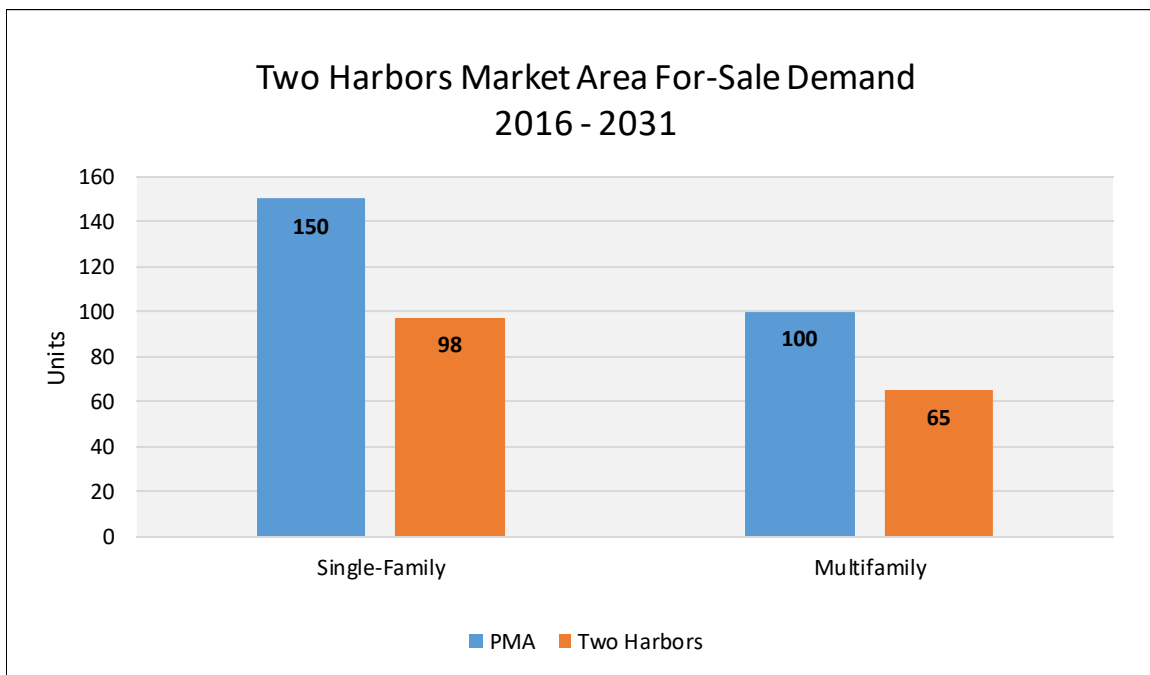
- Because the 65 and older cohort is typically not a target market for new general occupancy for-sale housing, we limit demand from household growth to only those households under the age of 65. According to our projections, the PMA is expected to decline in households under age 65 between 2016 and 2031. All growth in the PMA is anticipated to be in senior age cohorts.
- Based on household tenure data from the US Census, we expect that 68.9% of the demand will be for owner-occupied housing units. Because there is no household growth projected from households under the age of 65, there is no demand from household formations.
- As of 2016, there were an estimated 3,807 owner households under age 65 in the PMA. Based on household turnover data from the 2015 American Community Survey, we estimate that 49.3% of the under-65 owner households will experience turnover between 2016 and 2031. This estimate results in anticipated turnover of 1,877 existing households by 2031.
- We estimate the percent of existing owner households turning over that would prefer to purchase new housing. Throughout the United States, approximately 8% of all home sales were for new homes over the past three years while slightly over 5% of Midwest sales were for new homes. Considering the older age of the PMA's housing stock, we estimate that 10% of the households turning over will desire new housing. This estimate results in demand from existing households for 188 new residential units in the PMA between 2016 and 2031.

HOUSING DEMAND ANALYSIS

TABLE DMD-1 DEMAND FOR ADDITIONAL FOR-SALE HOUSING PRIMARY MARKET AREA 2016 to 2031		
	Primary Market Area	
DEMAND FROM NEW HOUSEHOLD GROWTH		
Household growth under age 65, 2016 to 2031	0	
(times) % propensity to own ¹	68.9%	
(Equals) Demand from new household growth	0	
DEMAND FROM EXISTING HOUSEHOLDS		
Total owner households under age 65, 2016	3,807	
(times) % of owner turnover 2016-2031 ²	49.3%	
(times) % desiring new owner housing	10.0%	
(Equals) Demand from existing households	188	
TOTAL MARKET DEMAND		
Total demand from new HH growth and turnover	188	
(Plus) Demand from outside Primary Market Area (25%)	25.0%	
(Equals) Total demand potential for ownership housing	250	
Proportion Single-family vs. Multifamily	60%	40%
No. of Single-family vs. Multifamily Units	150	100
Percent Capturable in Two Harbors (70%)	65%	
No. of Units Capturable in Two Harbors between 2016 and 2021	98	65
¹ Based on percent owner households under age 65 in 2015		
² Based on household turnover and mobility data (2015 American Community Survey, Five Year Estimates)		
³ Includes twinhomes, townhomes, detached townhomes, condos, etc.		
Source: Maxfield Research and Consulting LLC		

HOUSING DEMAND ANALYSIS

- Next, we estimate that a portion of the total demand for new for-sale units in Two Harbors will come from people currently living outside of the Primary Market Area. Adding demand from outside the PMA to the existing demand potential results in a total estimated demand for 250 for-sale housing units by 2031.
- Based on land available, building trends, the existing housing stock, and demographic shifts (increasing older adult population), we project that 60% of the for-sale owners in the PMA will prefer traditional single-family product types while the remaining 40% will prefer a maintenance-free multi-family product (i.e. twin homes, townhomes, detached townhomes or condominiums). This results in demand for 150 single-family units and 100 multifamily units in the PMA to 2031.
- Two Harbors will be able to capture a large portion of demand in the PMA, 65%, which calculates to 98 single family units and 65 multifamily units between 2016 and 2031.



Rental Housing Demand Analysis

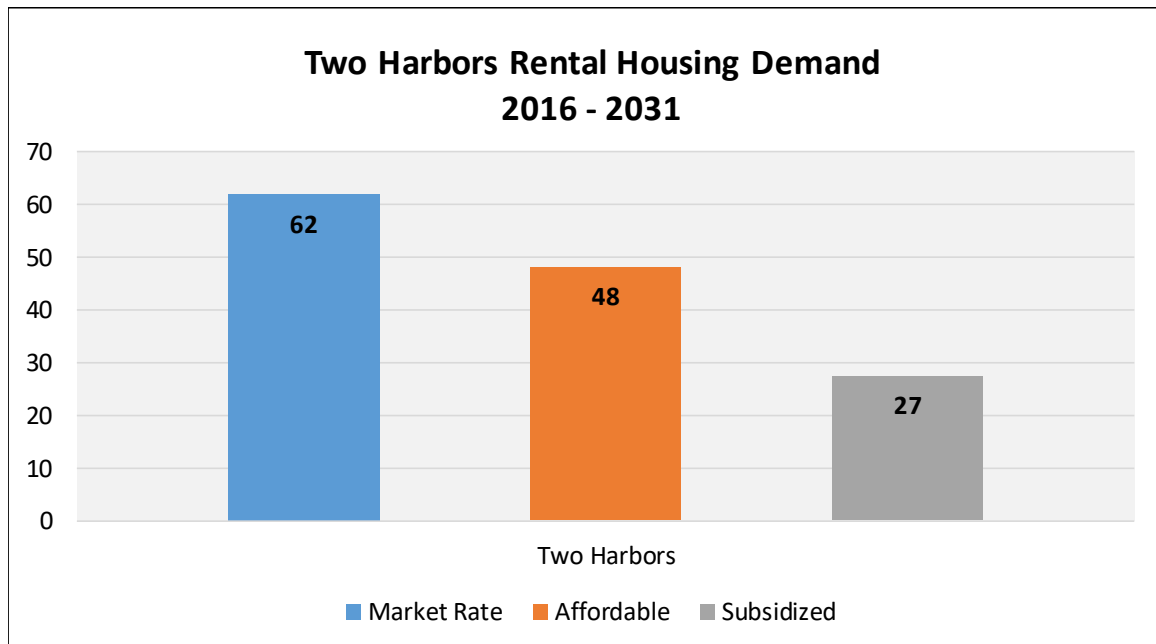
Tables DMD-2 presents a calculation of market rate general occupancy rental housing demand for the Two Harbors Primary Market Area. This analysis identifies potential demand for rental housing that is generated from both new households and turnover households.

- According to our projections, the PMA household base is expected to decrease in households under age 65 between 2016 and 2031. Because the 65 and older cohort is typically not a target market for new general-occupancy market rate rental housing, we limit demand from household growth to only those households under the age of 65, however, if there is no senior product, a portion may choose rental.
- We identify the percentage of households that are likely to rent their housing based on 2015 tenure data. The propensity to rent for households less than age 65 is 21.1%. After adjusting household growth by renters, there is no organic growth to 2031 for renter households in the PMA.
- Secondly, we calculate demand from existing households under age 65 in the Primary Market Area that could be expected to turnover between 2016 and 2031. As of 2016, there are 848 renter households under age 65 in the PMA. Based on household turnover data from the 2015 American Community Survey, we estimate that 93.5% of these under-65 renter households will experience turnover between 2016 and 2031.
- We then estimate the percent of existing renter households turning over that would prefer to rent in a new rental development. Considering the age of the PMA's housing stock, we estimate that 20% of the households turning over in the PMA will desire new rental housing. This estimate results in demand from existing households for 159 new residential rental units between 2016 and 2031.
- Given that there is no estimated demand from household growth, demand from turnover results in total demand in the PMA for 159 rental units between 2016 and 2031.
- We estimate that 25% of the total demand for new rental housing units in the PMA will come from people currently living outside of the PMA. As a result, we find demand for 211 renter households based on household growth and existing households alone between 2016 and 2031.
- Like for-sale housing, Two Harbors is the largest draw in the PMA, but it will not capture 100% of excess demand in the Market Area. To account for this we apply a 65% capture rate to Two Harbors. This results in 137 units of rental housing demand being capturable Two Harbors between 2016 and 2031.

TABLE DMD-2 DEMAND FOR ADDITIONAL RENTAL HOUSING TWO HARBORS MARKET AREA 2016 to 2031	
	Primary Market Area
DEMAND FROM NEW HOUSEHOLD GROWTH	
Household growth under age 65, 2016 to 2021	0
(times) % propensity to rent ¹	21.1%
(Equals) Number of pentential renter hhds from new HH growth	0
(Equals) Demand from new household growth	0
DEMAND FROM EXISTING HOUSEHOLDS	
Total renter households under age 65, 2016	848
(times) % of renter turnover 2016-2031 ²	93.5%
(times) % desiring new rental housing	20.0%
(Equals) Demand from existing households	159
TOTAL MARKET DEMAND	
Total demand from new HH growth and turnover	159
(Plus) Demand from outside Primary Market Area	25.0%
(Equals) Total demand potential for rental housing	211
(Times) Percent Capturable in Two Harbors (70%)	65%
(Equals) Number of Units Capturable in Two Harbors	137
	Two Harbors
Percent Market Rate ³	45%
Number	62
Percent Affordable ³	35%
Number	48
Percent Subsidized ³	20%
Number	27
¹ Based on percent renter households under age 65 in 2015 ² Based on household turnover and mobility data (2015 American Community Survey, Five Year Estimates) ³ Based on the pricing of current rental product and household incomes of area renters (i.e. exludes owner incomes)	
Source: Maxfield Research and Consulting LLC	

HOUSING DEMAND ANALYSIS

- Based on a review of renter household incomes and sizes and monthly rents at existing properties, we estimate that 45% of the total demand will be for market rate housing. To 2031, demand exists for 62 market rate rental units in Two Harbors.
- We estimate that 35% (48 units to 2031) of the total demand in Two Harbors will be for affordable housing and 20% (27 units to 2031) will be for subsidized housing.



Senior Housing Demand Analysis

Tables DMD-3 through DMD-7 shows demand calculations for senior housing in the Two Harbors Market Area in 2016 to 2031. Demand methodology employed by Maxfield Research and Consulting, LLC utilizes capture and penetration rates that blend national senior housing trends with local market characteristics, preferences and patterns. The demand calculations consider the following target market segments for each product types:

Market Rate Active Adult Rental and Ownership Housing: Target market based includes age 55+ older adult and senior households who could dedicate 40% of their income to housing with incomes of \$35,000 or more and senior homeowners with incomes between \$30,000 and \$34,999.

Affordable/Subsidized Independent Housing: Target market based includes age 55+ older adult and senior households with incomes of \$35,000 or less. Households are typically required to pay 30% of their income as rent in affordable or subsidized senior housing.

Independent (Congregate) Housing: Target market base includes age 65+ seniors who would be financially able to pay for housing and service costs associated with independent housing. Income-ranges considered capable of paying for independent living are the same as for active adult housing. Households typically dedicate a higher proportion of income (65%) to pay for additional services.

Assisted Living Housing: Target market base includes older seniors (age 75+) who would be financially able to pay for private pay assisted living housing (incomes of \$40,000 or more and some homeowners with incomes below \$40,000). Households typically dedicate 85% to 95% of income to

Memory Care Housing: Target market base includes age 65+ seniors who would be financially able to pay for housing and service costs associated with memory care housing. Income ranges considered capable of paying for memory care housing (\$60,000 or more, and 25% of homeowner households with incomes under \$60,000) are higher than other service levels due to the increased cost of care. Households dedicate 90% to 100% of incomes and may receive assistance from family members.

Existing senior housing units are subtracted from overall demand for each product type.

CONCLUSIONS AND RECOMMENDATIONS

**TABLE DMD-3
ACTIVE ADULT HOUSING DEMAND
PRIMARY MARKET AREA
2016 & 2031**

	2016			2031		
	Age of Householder			Age of Householder		
	55-64	65-74	75+	55-64	65-74	75+
# of Households w/ Incomes of >\$35,000 ¹	1,066	710	396	544	691	497
# of Households w/ Incomes of \$25,000 to \$34,999 ¹	+ 103	123	126	+ 45	116	177
(times) Homeownership Rate	x 93%	91%	83%	x 93%	91%	83%
(equals) Total Potential Market Base	= 1,162	822	501	= 586	797	644
(times) Potential Capture Rate	x 0.5%	7.5%	15.0%	x 0.5%	7.5%	15.0%
(equals) Potential Demand	= 6	62	75	= 3	60	97
Potential Demand from PMA Residents	= 143			= 159		
(plus) Demand from Outside Market Area (25%)	+ 48			+ 53		
(equals) Total Demand Potential	= 190			= 212		
(minus) Existing and Pending Adult/Few Services Units ²	- 0			- 0		
(equals) Excess Demand Potential	190			212		
(times) Percent capturable by Two Harbors	x 65%			x 65%		
(equals) # of units supportable in Two Harbors	= 124			= 138		
(times) Percent Owner-Occupied	x 50%			x 50%		
(equals) Demand for Owner- Occupied Active Adult	= 62			= 69		
(times) Percent Renter-Occupied	x 50%			x 50%		
(equals) Demand for Owner- Occupied Active Adult	= 62			= 69		

¹ 2016 calculations define income-qualified households as all households with incomes greater than \$35,000 and owner households with incomes between \$25,000 and \$34,999. In 2031, calculations include households with incomes greater than \$50,000 and owner households with incomes between \$40,000 and \$49,999.

² Existing and pending are deducted at market equilibrium, or 95% occupancy.

Source: Maxfield Research and Consulting, LLC

CONCLUSIONS AND RECOMMENDATIONS

TABLE DMD-4 DEMAND FOR SUBSIDIZED/AFFORDABLE SENIOR HOUSING PRIMARY MARKET AREA 2016 & 2031		
	2016	2031
Primary Market Area		
Households age 55-64	1,377	752
(times) % income qualified ¹	19.9%	18.6%
(times) potential capture rate	0.5%	0.5%
Households age 65-74	1,050	1,222
(times) % income qualified ¹	28.1%	29.1%
(times) potential capture rate	7.5%	7.5%
Households age 75+	865	1,599
(times) % income qualified ¹	48.9%	52.3%
(times) potential capture rate	15.0%	15.0%
(Equals) Demand potential from PMA	87	153
(plus) Demand from Outside PMA)	25%	25%
(Equals) total Demand Potential	116	204
Percent Subsidized	60%	60%
Number	70	122
(minus) Existing and Pending Subsidized Units ³	39	39
(equals) Total Subsidized Demand Potential	31	83
(times) Percent capturable in Two Harbors	65%	65%
(equals) # of units supportable in Two Harbors	20	54
Percent Affordable	40%	40%
Number	46	81
(minus) Existing and Pending Affordable Units ³	0	0
(equals) Total Affordable Demand Potential	46	81
(times) Percent capturable in Two Harbors	65%	65%
(equals) # of units supportable in Two Harbors	30	53
¹ Based on households earning \$31,380 (80% AMI) and under in 2016. Households earning \$34,987 and under in 2021. Proportion of subsidized units is based on number of households with incomes below 50% AMI (\$26,150) compared to Households with incomes of 80% AMI. ² Existing and pending units are deducted at market equilibrium (95% occupancy).		
Source: Maxfield Research and Consulting LLC		

CONCLUSIONS AND RECOMMENDATIONS

TABLE DMD-5				
MARKET RATE INDEPENDENT LIVING RENTAL HOUSING DEMAND				
PRIMARY MARKET AREA				
2016 & 2031				
	2016		2031	
	Age of Householder		Age of Householder	
	65-74	75+	65-74	75+
# of Households w/ Incomes of >\$35,000 ¹	710	396	691	497
# of Households w/ Incomes of \$30,000 to \$34,999 ¹	+ 62	63	+ 58	88
(times) Homeownership Rate	x 91%	83%	x 91%	83%
(equals) Total Potential Market Base	= 766	448	= 744	571
(times) Potential Capture Rate ²	x 1.5%	13.5%	x 1.5%	13.5%
(equals) Potential Demand	= 11	+ 61	= 11	+ 77
Potential Demand from PMA Residents	= 72		= 88	
(plus) Demand from Outside Market Area (20%)	+ 18		+ 22	
(equals) Total Demand Potential	= 90		= 110	
(minus) Existing and Pending Congregate Units ³	- 0		- 0	
(equals) Excess Congregate Demand Potential	= 90		= 110	
(times) Percent Capturable by Two Harbors	x 65%		x 65%	
(equals) Demand capturable by Site	= 59		= 72	

¹ 2016 calculations define income-qualified households as all households with incomes greater than \$35,000 and owner households with incomes between \$30,000 and \$34,999. In 2031, calculations include households with incomes greater than \$50,000 and owner households with incomes between \$45,000 and \$49,999.

² The potential capture rate is derived from data from the Summary Health Statistics for the U.S. Population: National Health Interview Survey, 2008 by the U.S. Department of Health and Human Services. The capture rate used is the percentage of seniors needing assistance with IADLs, but not ADLs (seniors needing assistance with ADLs typically need assistance with multiple IADLs and are primary candidates for service-intensive assisted living).

³ Competitive units include congregate units at 95% occupancy (market equilibrium).

Source: Maxfield Research and Consulting, LLC.

CONCLUSIONS AND RECOMMENDATIONS

TABLE DMD-6 MARKET RATE ASSISTED LIVING DEMAND PRIMARY MARKET AREA 2016 & 2031						
Age group	2016			2031		
	People	Percent Needing Assistance ¹	Number Needing Assistance ¹	People	Percent Needing Assistance ¹	Number Needing Assistance ¹
75 - 79	542	25.5%	138	1,138	25.5%	290
80 - 84	411	33.6%	138	752	33.6%	253
85+	403	51.6%	208	654	51.6%	337
Total	1,356		484	2,543		880
Percent Income-Qualified²			59%			54%
Total potential market			288			475
(times) Percent living alone		x	43%		x	43%
(equals) Age/income-qualified singles needing assistance		=	124		=	205
(plus) Proportion of demand from couples (12%) ³		+	17		+	28
(equals) Total age/income-qualified market needing assistance		=	141		=	233
(times) Potential penetration rate ⁴		x	40%		+	40%
(equals) Potential demand from PMA residents		=	57		=	93
(plus) Proportion from outside the PMA (20%)		+	14		+	23
(equals) Total potential assisted living demand		=	71		=	117
(minus) Existing market rate assisted living units ⁵		-	50		-	50
(equals) Total excess market rate assisted living demand		=	21		=	67
(times) Percent Capturable in Two Harbors (70%)		x	65%		x	65%
(equals) Demand capturable in Two Harbors		=	14		=	43
¹ The percentage of seniors unable to perform or having difficulty with ADLs, based on the publication Health, United States, 1999 Health and Aging Chartbook, conducted by the Centers for Disease Control and Prevention and the National Center for Health Statistics. ² Includes households with incomes of \$40,000 or more (who could afford monthly rents of \$2,800+ per month) plus 40% of estimated owner households with incomes below \$40,000 (who will spend down assets, including home-equity, in order to live in assisted living housing). ³ The 2009 Overview of Assisted Living (a collaborative project of AAHSA, ASHA, ALFA, NCAL & NIC) found that 12% of assisted living residents are ⁴ We estimate that 60% of the qualified market needing assistance with ADLs could either remain in their homes or reside at less advanced senior housing with the assistance of a family member or home health care, or would need greater care provided in a skilled care facility. ⁵ Existing and pending units at 93% occupancy. We exclude 15% of units to account for seniors utilizing public subsidy. Source: Maxfield Research and Consulting, LLC						

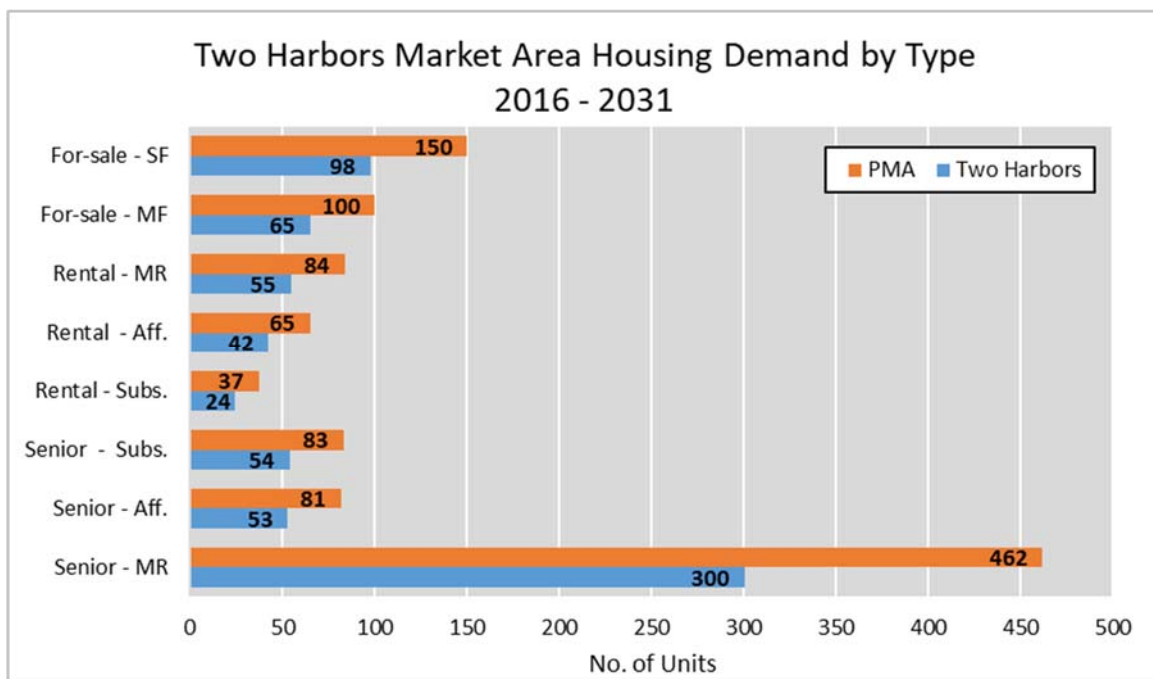
CONCLUSIONS AND RECOMMENDATIONS

TABLE DMD-7 MARKET RATE MEMORY CARE DEMAND PRIMARY MARKET AREA 2016 & 2031		
	2016	2031
65 to 74 Population	1,731	2,050
(times) Dementia Incidence Rate ¹	x <u>2%</u>	x <u>2%</u>
(equals) Estimated Age 65 to 74 Pop. with Dementia	= 35	= 41
75 to 84 Population	953	1,889
(times) Dementia Incidence Rate ¹	x <u>19%</u>	x <u>19%</u>
(equals) Estimated Age 75 to 84 Pop. with Dementia	= 181	= 359
85+ Population	403	654
(times) Dementia Incidence Rate ¹	x <u>42%</u>	x <u>42%</u>
(equals) Estimated Age 85+ Pop. with Dementia	= 169	= 274
(equals) Total Senior Population with Dementia	= 385	= 674
(times) Percent Income/Asset-Qualified ²	x <u>46%</u>	x <u>39%</u>
(equals) Total Income-Qualified Market Base	= 175	= 262
(times) Percent Needing Specialized Memory Care Assistance	x <u>25%</u>	x <u>25%</u>
(equals) Total Need for Dementia Care	= 44	= 65
(plus) Demand from Outside the PMA (20%)	+ <u>11</u>	+ <u>16</u>
Total Demand for Memory Care Units	= 55	= 82
(minus) Existing and Pending Memory Care Units ³	- <u>9</u>	- <u>9</u>
(equals) Excess PMA Demand Potential	= 45	= 72
(times) Percent Capturable by Two Harbors (70%)	x 65%	x 65%
(equals) Demand capturable by Two Harbors	= 29	= 47
¹ Alzheimer's Association: Alzheimer's Disease Facts & Figures (2007) ² Includes seniors with income at \$60,000 or above (\$65,000 in 2020) plus 25% of homeowners with incomes below this threshold (who will spend down assets, including home-equity, in order to live in memory care housing). ³ Existing memory care units at 7% vacancy rate. We exclude 20% of units to account for seniors utilizing public subsidy. Source: Maxfield Research and Consulting, LLC		

Two Harbors Market Area Demand Summary

The housing demand calculations in Tables HD-1 through HD-7 indicate that between 2016 and 2031, 250 for-sale housing units, 187 rental units and 695 senior units would be needed in the Two Harbors Market Area to satisfy the housing demand for current and future residents. Summary demand tables for general occupancy and senior housing are broken down by submarket in Tables CR-1 and CR-2.

We recommend maintaining a single-family lot supply of at least three years to provide adequate consumer choice but not prolonged developer carrying costs. On average, five new single-family units were built annually between 2000 and 2015 (see *Table HC-1*), in Two Harbors. Two Harbors has 16 vacant developed lots in subdivisions. Excluding infill lots, this equates a three-year supply, which is adequate in the short term, but new lots will be needed in the future (2020 and beyond). New lots should be developed at a variety of price points in several locations. Lot absorption should be monitored. In addition, existing lots in the more fully-developed areas of town (in-fill) lots could also be used to support new housing. Developed lots may also be redeveloped with new housing if the existing housing is considered as sub-standard or functionally obsolete and ripe for replacement.



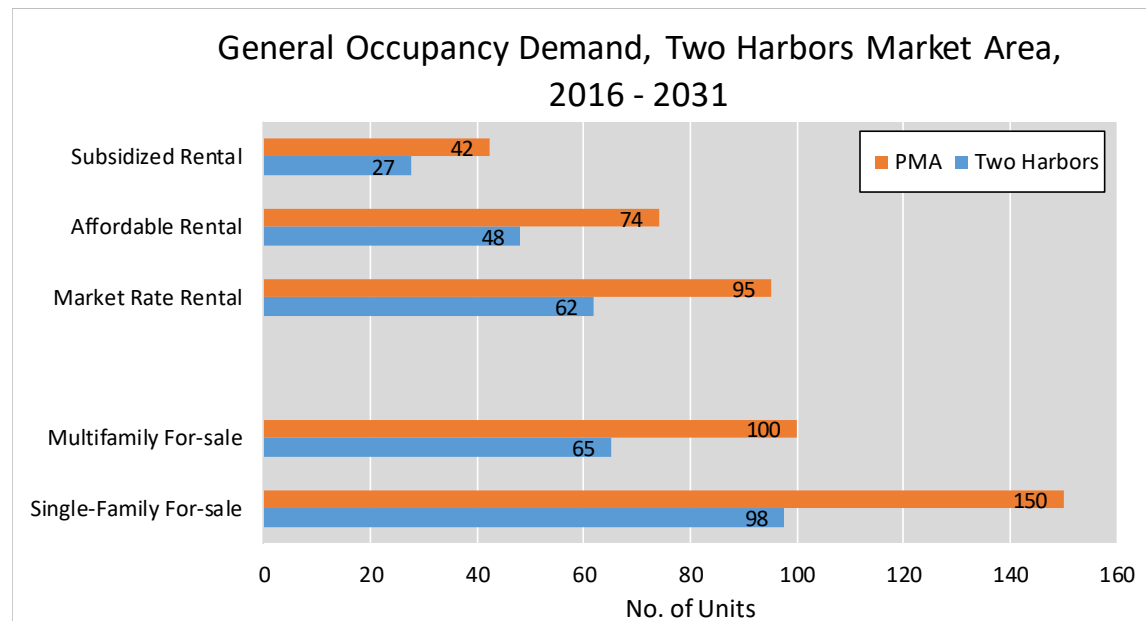
There is a 1.6% vacancy rate in the existing general-occupancy rental market in the PMA. Because the vacancy rate is below market equilibrium (5%) and there are no planned or pending projects, additional market rate rental units would likely be well-received. With a tight rental market, we find the current supply of rental units inadequate in the short-term to satisfy turnover of existing households. Demand was identified for 131 general-occupancy rental units in the Two Harbors to 2031, 72 units of which would be market rate.

CONCLUSIONS AND RECOMMENDATIONS

TABLE CR-1
GENERAL OCCUPANCY EXCESS DEMAND SUMMARY
TWO HARBORS MARKET AREA
2016 to 2031

2016 to 2031							
	FOR-SALE			RENTAL			
	Single-family	Multifamily	Total	Market Rate	Affordable	Subsidized	Total
Two Harbors	98	65	163	62	48	27	137
Primary Market Area	150	100	250	95	74	42	211

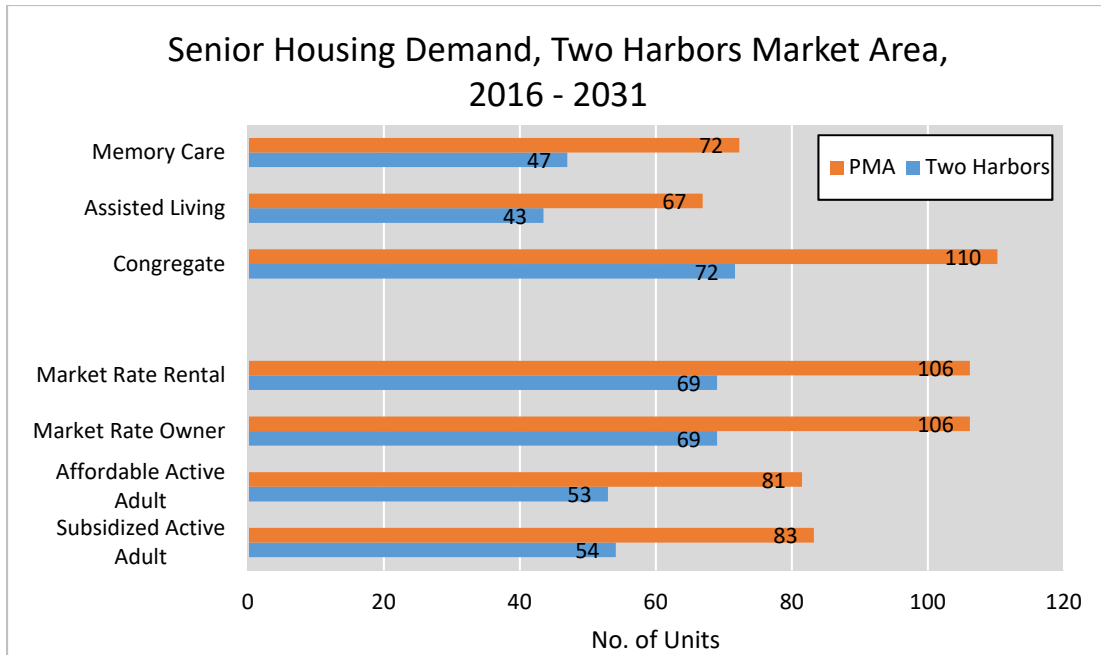
Sources: Maxfield Research & Consulting, LLC



CONCLUSIONS AND RECOMMENDATIONS

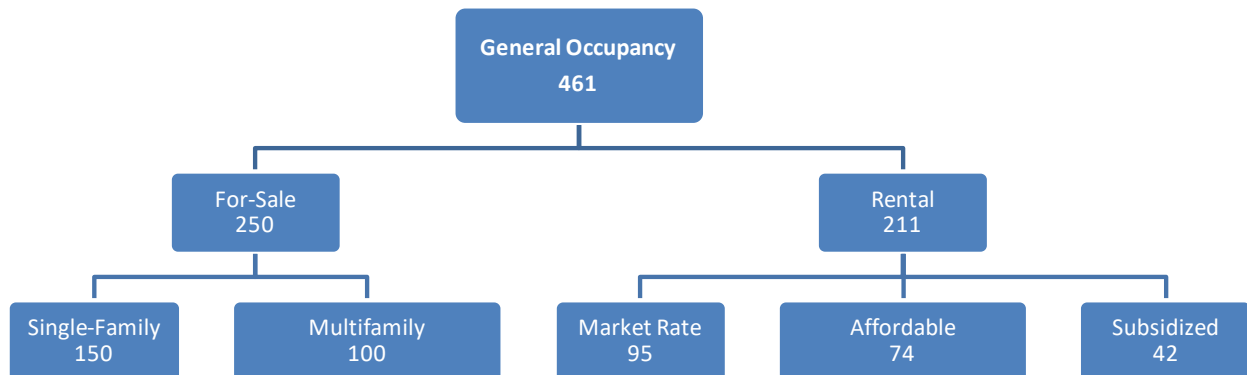
**TABLE CR-2
SENIOR HOUSING EXCESS DEMAND SUMMARY
TWO HARBORS MARKET AREA
2016 to 2031**

2016								
	ACTIVE ADULT					SERVICE-ENHANCED**		
	Subsidized Rental	Affordable Rental	MR Owner	MR Rental	Total	Congregate	Assisted Living	Memory Care Total
Two Harbors	20	30	62	62	174	59	14	29
Primary Market Area	31	46	95	95	267	90	21	45
2031								
	ACTIVE ADULT					SERVICE-ENHANCED**		
	Subsidized Rental	Affordable Rental	MR Owner	MR Rental	Total	Congregate	Assisted Living	Memory Care Total
Two Harbors	54	53	69	69	245	72	43	47
Primary Market Area	83	81	106	106	377	110	67	72
** Service-enhanced demand is calculated for private pay seniors only; additional demand could be captured if Elderly Waiver and other sources of non-private payment sources are permitted.								
Sources: Maxfield Research & Consulting, LLC								

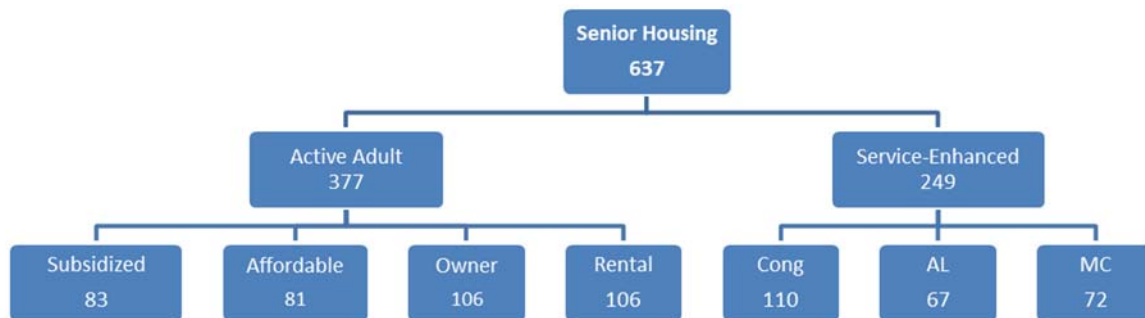


Finally, there is exceptionally strong senior housing demand in the Two Harbors Market Area due to the aging of the population and growing baby boom generation. Across the PMA, demand exists for 627 senior housing units to 2031, accounting for an estimated 60% of all housing demand in the Two Harbors Market Area.

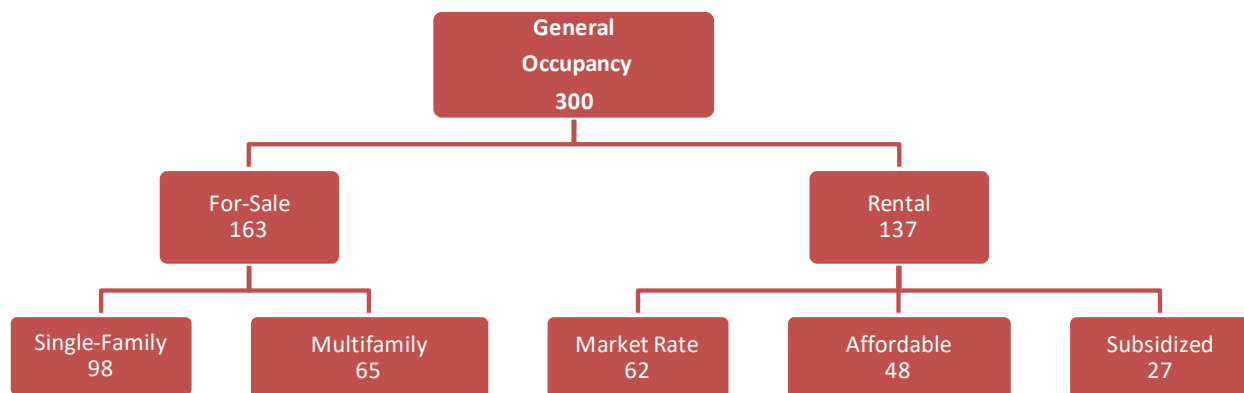
Primary Market Area Projected General Occupancy Demand, 2016 – 2031



Primary Market Area Projected Senior Demand, 2016 – 2031



Two Harbors Projected General Occupancy Demand, 2016 – 2031



Two Harbors Projected Senior Demand, 2016 – 2031



Two Harbors– Summary of Demographic and Housing Condition Findings

Key demographic and housing market findings for Two Harbors from the housing study are highlighted on the following page. For comparison, figures are also shown for the PMA.

Demographic and Housing Characteristics Summary		
	Two Harbors	Primary Market Area
Demographics		
Population (2016 & 2031)	3,786 3,825	13,248 13,175
Pct. Population Under 18 (2016 & 2031)	21.3% N/A	19.2% 18.5%
Pct. Population 65+ (2016 & 2031)	22.5% N/A	23.3% 37.0%
Median Age (2016 & 2021)	43 42	49 50
Households (2016 & 2031)	1,653 1,678	5,724 5,728
Household Growth (2016 & 2031)	31	18
Avg. HH Size (2016 & 2031)	2.29 2.28	2.31 2.30
Median Household Income (2016)	\$44,853	\$54,621
Homeownership Rate (2015)	60.3%	81.6%
Housing Characteristics		
Number of single-family units permitted (2010-2016)	13	428
Number of multifamily units permitted (2010-2016)	0	0
Median age of housing stock (2015)	1946	1964
Housing stock built before 1950	823 48%	1,224 22%
Housing stock built between 1950 and 1990	698 41%	3,070 54%
Housing stock built after 1990	176 10%	1,391 24%
Employment		
		Arrowhead EDR
Total Employees (2016 Q3)	1,888	143,763
Average Annual Wage (2016 Q3)	\$36,712	\$43,836
For-Sale Housing		
Median resale price of existing homes (2016)	\$145,000	\$149,000
Median list price of actively marketing homes (June/July, 2016)	\$199,900	\$202,400
Owner-occupied one-unit structures (2015)	998 97.5%	8,495 95.0%
Median home value of owner-occupied units (2015)	\$126,600	\$181,081
General Occupancy Rental Housing		
Renter-occupied one-unit structures (2014)	240 35.7%	1,024 48.2%
Renter-occupied 10+ unit structures (2014)	150 22.3%	431 20.3%
Median contract rent for renter-occupied units (2014)	\$673	\$698
Senior Housing		
Distribution of senior housing by type		
Affordable/Subsidized Active Adult	41 / 50.0%	41 / 35.3%
Market Rate Active Adult	0 / 0.0%	0 / 0.0%
Congregate	0 / 0.0%	0 / 0.0%
Assisted Living	41 / 50.0%	63 / 54.3%
Memory Care	0 / 0.0%	12 / 10.3%
Sources: American Community Survey, HUD, MNDEED, Maxfield Research and Consulting, LLC		

Two Harbors Recommendations

Two Harbors is the Lake County seat and also the population center, accounting for 34.7% of the county population in 2016 and 28.6% of the PMA's population. By 2031, Two Harbors is anticipated to account for 39.4% of Lake County's population and 29.0% of the PMA's population as rural Lake County's population ages and seniors relocate to the larger cities to be closer to services and amenities. Similarly, the household base in Two Harbors is expected to expand slightly from 2016 to 2031 (1.5%), while households in Lake County, are expected to decline by - 11.6% during this period.

Two Harbors is projected to be able to capture about 65% of all housing demand or 636 units. Two Harbors is also aging and senior housing demand is strongest as it accounts for 61% of all housing demand to 2031. An estimated 39% of the demand is targeting general-occupancy housing products which are rather evenly distributed between for-sale product and rental product.

For-Sale Housing: To 2031, we estimate demand for an additional 98 single family homes in the city of Two Harbors, and 65 multifamily homes. With 16 vacant lots in the City and an average of 4.5 single-family building permits issued annually, on average, over the past 10 years, the current lot supply should be sufficient until 2020. After 2020, new lots would be needed to keep up with additional demand. According to conversations with local Realtors, there is significant demand for new single-family housing in Two Harbors, but the demand is not being supplied by local builders who tend to specialize in high-end custom homes. This, combined with relatively scarce parcels of developable land, due to the prevalence of wetlands in the area, serve to make single-family development advance more slowly. A public private partnership to assist in developing vacant lots might be a good option that would help to keep lot costs low enough to attract potential builders who are looking to develop move-up rather than executive priced homes.

Multifamily ownership homes are also in very high demand in Two Harbors, especially among empty nesters who have different housing needs than families with children. Vermillion Homes, the largest rental housing development in Two Harbors, has 48 units spread across eight, six-plex homes on Laura Lane. These units are very popular with seniors and given the limited supply of this housing product and the strong demand shown for both multifamily ownership housing and market rate age-restricted ownership housing, we estimate that a new townhome development, with 60 units split between general occupancy multistory homes (35 units) and age-restricted single-level homes (25 units) would be well-received in the marketplace.

Rental Housing: There is significant demand for market rate general occupancy rental units, as well as affordable and subsidized rental housing in Two Harbors. To 2031, there is demand for 62 market rate units, 48 affordable units and 27 subsidized units.

RECOMMENDATIONS AND CONCLUSIONS

The vacancy rate for market rate general occupancy rental housing was 1.6% at the time of the survey, indicating that there was significant pent up demand. Property managers remarked that when units become vacant, they typically fill them within one day. A new market rate property might be difficult to develop in Two Harbors given that the average rent per square foot is \$0.98, although most of the market rate rental housing stock is over 20 years old. New market rate projects in Duluth typically have an average rent per square foot of \$1.50 or higher. We recommend that a new project in Two Harbors be more modest, with average rents of \$1.15 to \$1.20 per square foot.

In recent history, subsidized units (which require residents to have incomes at or below 50% of the Area Median Income) are nearly impossible to develop. Among subsidized properties, there were no vacant units and many had waiting lists for most unit types. There are no LIHTC properties in Lake County and no USDA Rural Development properties, a form of subsidized housing more prevalent outside of metropolitan areas. With demand for 47 units of affordable housing to 2031 in the PMA, of which 33 units could be captured in Two Harbors, it is likely that a project could be feasible. We recommend Rural Development funding as it could accommodate affordable and subsidized demand within the same property, due to Rural Development's rental assistance program which provides for additional rent assistance for units that are occupied by very low-income households. The rental assistance remains with the unit.

A project with 50 market rate units, 20 affordable units (at 60% of AMI) and 10 subsidized units at 50% AMI would be able satisfy a portion of excess general occupancy demand in Two Harbors.

Senior Housing: There is currently unmet demand for 31 units of senior subsidized rental housing in the Primary Market Area, of which Two Harbors could potentially capture 65%, or 20 units in 2016, increasing to 54 units in 2031. There is currently one subsidized senior project, Harbor Point, which has 41 units, all of which are occupied, and there is a waiting list for one-bedroom units. Bayview Terrace is a 58-unit subsidized housing project managed by the Two Harbors HRA, and while it is technically general occupancy, preference is given to seniors. There were no vacant units at the time of our survey and the waiting list was about two years long.

There is demand for 62 affordable rental units in the PMA in 2016, increasing to 104 units by 2031. Again, Two Harbors can capture a significant portion of this demand, about 43 units in 2016 and 73 units in 2031. There are no senior affordable housing properties currently in Two Harbors or the PMA. A 30-unit development would satisfy a portion of the demand in Two Harbors to 2031 and would free-up some single-family homes for younger families.

In 2016, there was demand for 190 active adult (age 55+) units in the PMA, increasing to 212 by 2031. Maxfield Research believes that seniors interested in market rate active adult housing would likely be split evenly between those preferring ownership options and those preferring rental options, which leads to 95 units of each in 2017 and 106 units of each in 2031. Two Harbors can likely capture 65% of this demand, or 62 units of ownership, 62 units of rental in 2016,

RECOMMENDATIONS AND CONCLUSIONS

increasing to 69 units each in 2031. Realtors expressed that there was a definite lack of single-level living options for seniors, and Vermillion Homes on Laura Lane is a very popular six-plex neighborhood that attracts many seniors. Additional housing product that is age-restricted and offers seniors a home with a lawn and garage, but with an association to take care of lawncare and snow removal is likely to be well-received in the marketplace. Maxfield Research recommends a 35-unit active adult senior project with a mix of ownership and rental units to meet demand through the first half of the 2020s, and depending on how well that project is received, additional housing could be developed.

Service-enhanced senior housing is more readily available than active adult housing in the PMA and Two Harbors. Maxfield Research inventoried two, market rate service-based senior housing developments, Ecumen Scenic Shores in Two Harbors and Carefree Living in Silver Bay, which have a combined 75 units, 63 of which are assisted living, with the remaining 12 units of memory care at Carefree Living in Silver Bay. Among assisted living units, there were three vacancies, a vacancy rate of 4.8%. This is below the equilibrium vacancy rate of 7.0% for assisted living units, but not as low as the vacancy rates for active adult senior housing. There were no vacant memory care units at the time of our survey.

Maxfield Research estimates that there is excess demand for 156 units of service-enhanced senior housing in the PMA in 2016, rising to 249 units in 2031. The strongest demand is for independent living, which comprises 90 of the 156 units in 2016, and 110 units of the total 249 units in 2031. This not surprising, as demand calculations for service enhanced senior living subtract out existing units, and there are no congregate units in the PMA. Two Harbors can capture a portion of excess demand in the PMA, which breaks out to 59 units of independent living demand, 14 units of assisted living and 29 units of memory care in 2016, increasing to 72 units of congregate demand, 43 units of assisted living and 47 units of memory care by 2031.

Given the current amount of excess demand capturable in Two Harbors in 2016, and the aging of the population by 2031, there is enough demand to support additional service enhanced senior housing, particularly at the independent service level, where residents typically need light assistance but are largely independent. A concept called “catered living”, allows for independent living and assisted living, where seniors who are still very independent can have some amenities typically provided by independent living, such as housekeeping, a daily meal, and some assistance with managing medications, with the ability to age in place as additional services are needed. A 50-unit development that offered single-level living with a continuum of care available would likely be well-received in the market.

Assisted Living and Memory Care demand is somewhat satisfied in the near term in Two Harbors, but demand is anticipated to increase significantly through the next decade. If other senior housing products are well-received, additional assisted living and memory care units be supported later.

Development Timeline

Based on the findings of our analysis and demand calculations, Tables CR-1 and CR-2 provided a summary of housing demand in Two Harbors and the PMA to 2031. Demand exists in Two Harbors for a variety of product types. However, many of the housing types are in demand from the existing population base due to changes in family status, aging, lack of supply, and housing types that are desired as household needs change. The following section summarizes housing concepts and housing types that will be in demand from various target markets. Not all housing types will be needed immediately and demand illustrated in Tables CR-1 and CR-2 may not directly coincide with housing development due to a variety of factors (i.e. economies of scale, infrastructure capacity, land availability, etc.).

Due to the largely rural nature of the PMA and declining populations and household sizes, it will be especially difficult to develop any multifamily housing products in rural Lake County due to the density and economies of scale needed to be financially viable. Therefore, the lesser populated communities will experience additional challenges as the population continues to age and resident needs change, and Two Harbors is likely to serve as the center of multifamily development for the PMA in the future. Table CR-3 outlines development timelines and a suggested number of units that could be developed during each time period to support projected demand. For the period 2021-2031, if demand remains strong, additional units could be considered for senior housing products and general occupancy rental housing.

Because of the strong growth in the population over age 55, there will be strong demand for low-maintenance and association-maintained housing products, for-sale and rental. In fact, nearly all of population growth over the next fifteen years is within the 65+ demographic, further driving the need for housing products to serve this age group.

There is immediate demand for nearly all housing products, with the exception for assisted living and memory care senior housing, which has been developed more recently. New single-family homes are needed immediately, especially at entry level and move-up price points, as well as age-restricted housing. Executive level home demand is satisfied in the short term, as the current development is custom built. A townhome development would be well received in the market in the short term as well, at both entry-level and move-up price points.

It is possible that developments in the short term could be targeted to several potential markets. A mixed-income general occupancy rental project could have a mix of market rate, affordable and subsidized units, which could be developed in the next few years, and depending on the success of the project and its reception by the community, additional projects could be constructed.

Similarly, a mixed-income senior project split between market rate ownership, rental, and affordable rental units could satisfy a portion of demand in the near term, and depending on the success of the project, additional units could be developed.

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TABLE CR-3
HOUSING RECOMMENDATIONS DEVELOPMENT TIMEFRAME
2017 to 2031

Housing Type/Program	Purchase Price/ Monthly Rent Range	Two Harbors	
		17-'20	21-'31
For-Sale Housing			
Single-family - (New lots needed/may be infill or redevelopment)		15	83
Single-family - (Promote existing lots)		x	
Single-family by Price			
Entry-Level	>\$175,000	10	27
Move-up	\$175,000 - \$275,000	5	41
Executive	\$275,000+		15
Twinhomes/Townhomes/Condos			
Entry-level	>\$150,000	10	15
Move-up	\$150,000+	15	25
General Occupancy Rental Housing			
Market Rate Traditional	\$650/1BR - \$1000/3BR	20	22
Market Rate Townhomes	\$900/2BR - \$1050/3BR	10	10
Affordable/Subsidized	Per Income Guidelines	30	45
Senior Housing			
Market Rate			
Active Adult - For-Sale Coop	\$50,000+ (plus monthly fee)	0	38
Active Adult - Rental	\$650 - \$1,000	30	30
Independent Living	\$1,500 - \$2,000	0	20
Assisted Living	\$2,700/EFF - \$3,700/2BR		25
Memory Care	\$3,500 - \$4,500		12
Alternative Concept:			
Catered Living	\$1,500+	0	65
Affordable Senior Housing			
Active Adult	Per Income Guidelines	35	50
Housing Programs			
Demolition Programs			x
Renovation Programs			x
Code Enforcement			x
Tax Abatement			x
Developer\Builder Incentives			x
Source: Maxfield Research & Consulting, LLC			

Challenges and Opportunities

This section of the report details challenges and opportunities for Two Harbors that might be encountered that could affect new housing development. They are wide ranging, and may have a large or small impact.

Table CR-1 identified and recommended housing types that would satisfy the housing needs in the Primary Market Area and Two Harbors over the next fifteen years. The following were identified as the greatest challenges and opportunities for developing the recommended housing types (in no particular order - alphabetically).

- **Affordability.** Based on current home prices, about 71.4% of Two Harbors householders could afford to purchase an entry-level resale home priced at \$125,000 in 2017. Similarly, most householders (79.9%) can also afford the average market rate rent for a one-bedroom apartment in Two Harbors (\$650/month rent). Because of the pricing of the existing housing stock, most of the rental and for-sale properties in Two Harbors are considered naturally occurring affordable housing. Because home prices are relatively affordable compared to the wages and household incomes in Two Harbors, some householders who would normally not consider purchasing may do so earlier since the cost to own an entry-level home is on-par with rental housing costs.

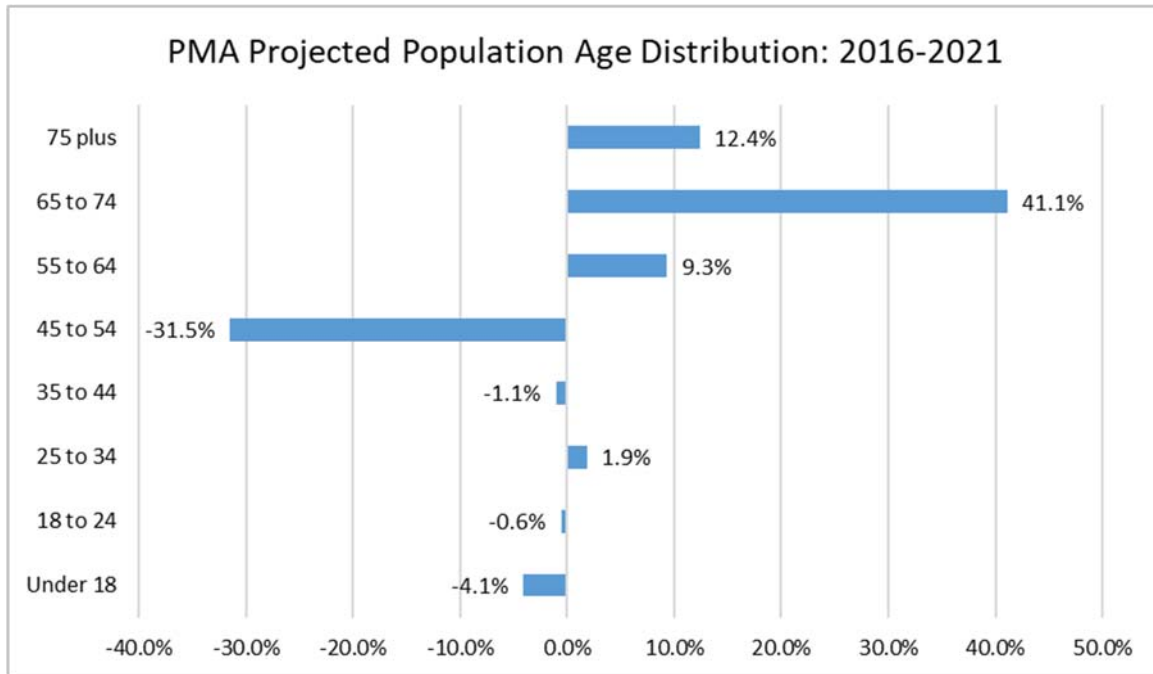
Finally, most of the existing market rate rental properties in Two Harbors have lower rents than the established fair market rents. Therefore, the market rate rents are lower than what a new affordable tax credit project may charge. As a result, it could be very difficult to develop a tax credit project with higher rents than the existing market rate rental developments in Two Harbors.

The chart on the following page compares the costs of homeownership to rentals given today's housing costs based on a 30% allocation of income to housing. However, not all householders have credit scores and/or down payments that would qualify them to purchase for-sale housing.

CONCLUSIONS AND RECOMMENDATIONS

TABLE HA-4 TWO HARBORS HOUSING AFFORDABILITY - BASED ON HOUSEHOLD INCOME						
For-Sale (Assumes 10% down payment and good credit)						
	Single-Family			Townhome/Twinhome		
	Entry-Level	Move-Up	Executive	Entry-Level	Move-Up	Executive
Price of House	\$125,000	\$175,000	\$275,000	\$100,000	\$150,000	\$200,000
Pct. Down Payment	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Total Down Payment Amt.	\$12,500	\$17,500	\$27,500	\$10,000	\$15,000	\$20,000
Estimated Closing Costs (rolled into mortgage)	\$3,750	\$5,250	\$8,250	\$3,000	\$4,500	\$6,000
Cost of Loan	\$116,250	\$162,750	\$255,750	\$93,000	\$139,500	\$186,000
Interest Rate	4.625%	4.625%	4.625%	4.625%	4.625%	4.625%
Number of Pmts.	360	360	360	360	360	360
Monthly Payment (P & I)	-\$598	-\$837	-\$1,315	-\$478	-\$717	-\$956
(plus) Prop. Tax	-\$181	-\$254	-\$399	-\$145	-\$218	-\$290
(plus) HO Insurance/Assoc. Fee for TH	-\$42	-\$58	-\$92	-\$100	-\$100	-\$100
(plus) PMI/MIP (less than 20%)	-\$50	-\$71	-\$111	-\$40	-\$60	-\$81
Subtotal monthly costs	-\$871	-\$1,219	-\$1,916	-\$763	-\$1,095	-\$1,427
Housing Costs as % of Income	30%	30%	30%	30%	30%	30%
Minimum Income Required	\$34,839	\$48,775	\$76,646	\$30,538	\$43,807	\$57,076
Pct. of ALL PMA HHDS who can afford ¹	71.4%	57.6%	31.6%	63.0%	62.5%	49.6%
No. of PMA HHDS who can afford ¹	4,276	3,447	1,891	3,773	3,743	2,970
Pct. of PMA owner HHDS who can afford ²	73.1%	56.9%	33.9%	63.2%	56.1%	54.5%
No. of PMA owner HHDS who can afford ²	3,572	2,777	1,658	3,089	2,742	2,663
No. of PMA owner HHDS who cannot afford ²	1,312	2,107	3,226	1,795	2,142	2,221
Rental (Market Rate)						
	Existing Rental			New Construction Rental		
	1BR	2BR	3BR	1BR	2BR	3BR
Monthly Rent	\$650	\$975	\$1,050	\$800	\$1,000	\$1,250
Annual Rent	\$7,800	\$11,700	\$12,600	\$9,600	\$12,000	\$15,000
Housing Costs as % of Income	30%	30%	30%	30%	30%	30%
Minimum Income Required	\$26,000	\$39,000	\$42,000	\$32,000	\$40,000	\$50,000
Pct. of ALL PMA HHDS who can afford ¹	79.9%	67.3%	64.3%	74.2%	66.3%	56.4%
No. of PMA HHDS who can afford ¹	4,783	4,029	3,850	4,439	3,969	3,374
Pct. of PMA renter HHDS who can afford ²	52.8%	40.1%	36.6%	47.4%	38.9%	27.2%
No. of PMA renter HHDS who can afford ²	581	441	402	522	428	299
No. of PMA renter HHDS who cannot afford ²	520	660	699	579	673	802
¹ Based on 2017 household income for ALL households						
² Based on 2015 ACS household income by tenure (i.e. owner and renter incomes. Owner incomes = \$59,796 vs. renter incomes = \$32,355)						
Source: Maxfield Research & Consulting, LLC						

- Aging Population.** As illustrated in Table D-2, the Primary Market Area's population is expected to remain roughly stable, with significant growth projected in the 65+ population (12.1% growth through 2021). In addition, Table D-10 shows the PMA homeownership rate among seniors 65+ is 87.2%. High homeownership rates among seniors indicate there could be lack of senior housing options, or simply that many seniors prefer to live in their home and age in place. Aging in place tends to be higher in rural vs. urban settings as many rural seniors do not view senior housing as an alternative retirement destination but a supportive living option only when they can no longer live independently. Rural areas also tend to have seniors more resistant to change. Because of the rising population of older adults, demand for alternative maintenance-free housing products should be rising. In addition, demand for home health care services and home remodeling programs to assist seniors with retrofitting their existing homes should also increase.



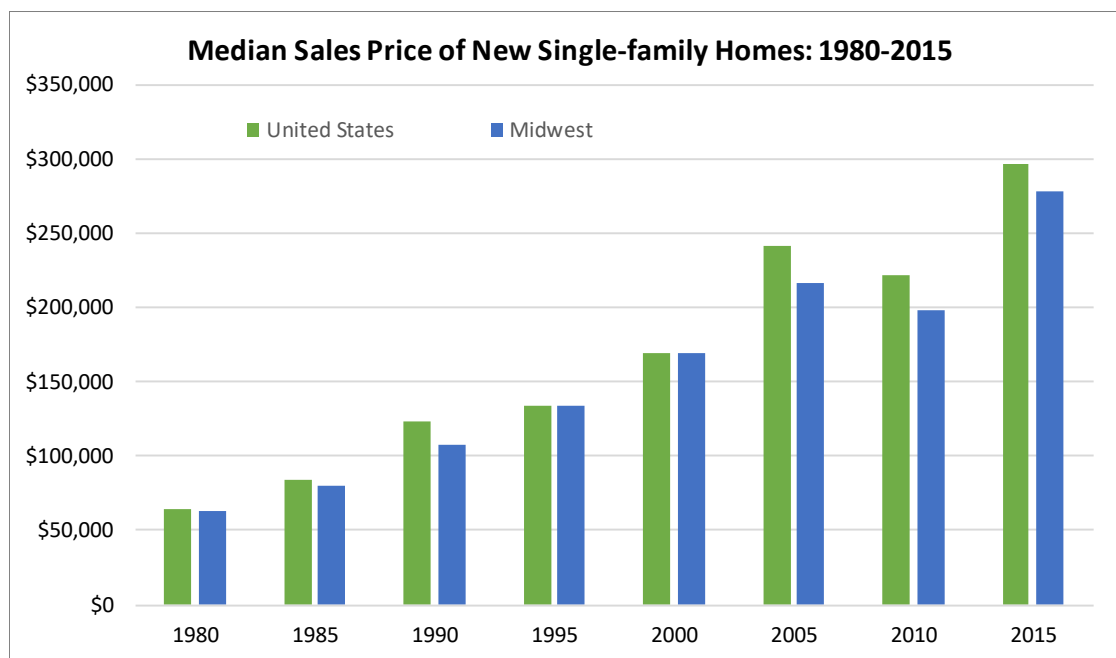
- **Builder/Developer/Construction Labor Force.** Table E-3 showed that Lake County has about 56 jobs in the construction industry. However, the construction field includes all construction-related jobs and is not representative of the new home market for residential housing. According to our research and interviews; we received several comments on the lack of labor in the construction industry in the PMA. Because of the low supply of contractors and inability to increase economies of scale, construction costs in the county are considered to be higher due to labor shortages and higher infrastructure costs.
- **Code Enforcement.** Most local governments have housing codes to ensure safe and habitable housing in their communities. Code enforcement is important as it protects the safety and welfare of residents, maintains/increases property values, reduces vandalism, and overall increases the attractiveness of the community which should result in continued reinvestment and development. Most residents support code compliance as a means to protect their home investment and their property value.

Based on our windshield survey of housing stock across Two Harbors, there are substandard housing units scattered throughout neighborhoods in Two Harbors. Although most homes in the city are well taken care for, a few blocks have homes that have deferred maintenance issues. Examples of exterior deferred maintenance may include peeling paint, broken windows, damaged siding or chimneys, poor foundation, or other signs of negligence. Interior conditions may include plumbing and heating problems, electrical issues, damaged walls or flooring, unsanitary conditions, among others. In addition to deferred maintenance issues, nuisance concerns include tall grass and weeds, rubbish and garbage, junk cars, or other items not suitable for outdoor use.

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Two Harbors, Lake County, and the Arrowhead Economic Opportunity Agency may also want to consider targeted acquisition within redevelopment areas in Two Harbors where dilapidated housing units exist. Many cities acquire abandoned, tax delinquent, and vacant problem properties and make them available to not-for-profit and for profit developers. Through these efforts properties are returned to tax producing properties while improving neighborhood aesthetics and assisting in community economic development efforts (See *Demolition* below).

- **Construction & Development Costs.** The cost to build and develop new single-family housing has increased significantly over the past decade and since the Great Recession. New construction pricing peaked last decade between 2005 and 2007 before falling during the recession. Pricing in nearly every market across the United States decreased between 2008 and 2011 before escalating again in 2012. However, since the Great Recession it has become increasingly difficult for builders to construct entry-level new homes due to several constraints – rising land costs, rising material and labor costs, lack of construction labor, and increasing regulation and entitlement fees. Thus, affordable new construction homes have become rare as builders are unable to pencil-out modestly priced new construction. However, there is strong demand in Two Harbors for homes priced under \$175,000 should builders provide a product that could be delivered to the market at this price point.



According to the National Association of Home Builders/Wells Fargo builder sentiment index, the lack of qualified labor and subcontractors is the top issue with builders today. Other key issues for builders' today is the lack of buildable lots, excessive relations in many market, and rising mortgage interest rates and home price appreciation. Together these issues are raising the cost of new construction and putting upward pressure on the retail price of homes.

CONCLUSIONS AND RECOMMENDATIONS

Many newly constructed homes in Two Harbors have been ranch or rambler style homes, with one level. Many buyers prefer this housing type as it allows householders to age in place and they have a high resale value. However, ranch style homes typically require a larger lot width resulting in increased land premiums. Furthermore, ranch style homes require larger foundations, expanded roofing system, and electrical and plumbing systems that are more expensive than a two-story home. Ranch or rambler homes can command a new construction premium from about 20% to 30%; thereby furthermore driving up the cost of new construction.

- **Developers Lot Carrying Costs.** Land development and entitlement carries a large financial risk for builders and/or investors. Prior to the Great Recession developing land was considered a profitable side of the housing business. However, today land development continues to be dominated by larger builders that can absorb the lot inventory more easily than smaller builders or land developers. Even in larger metropolitan areas the private land developers are becoming rarer as larger builders control the lot supply. Due to raw land costs, entitlements, and the cost to develop infrastructure, developers will be cautious given the lot price they could achieve. Prolonged carrying costs due to slow lot absorption are deterrents for builders and developers who must absorb project development costs until the lots are sold.

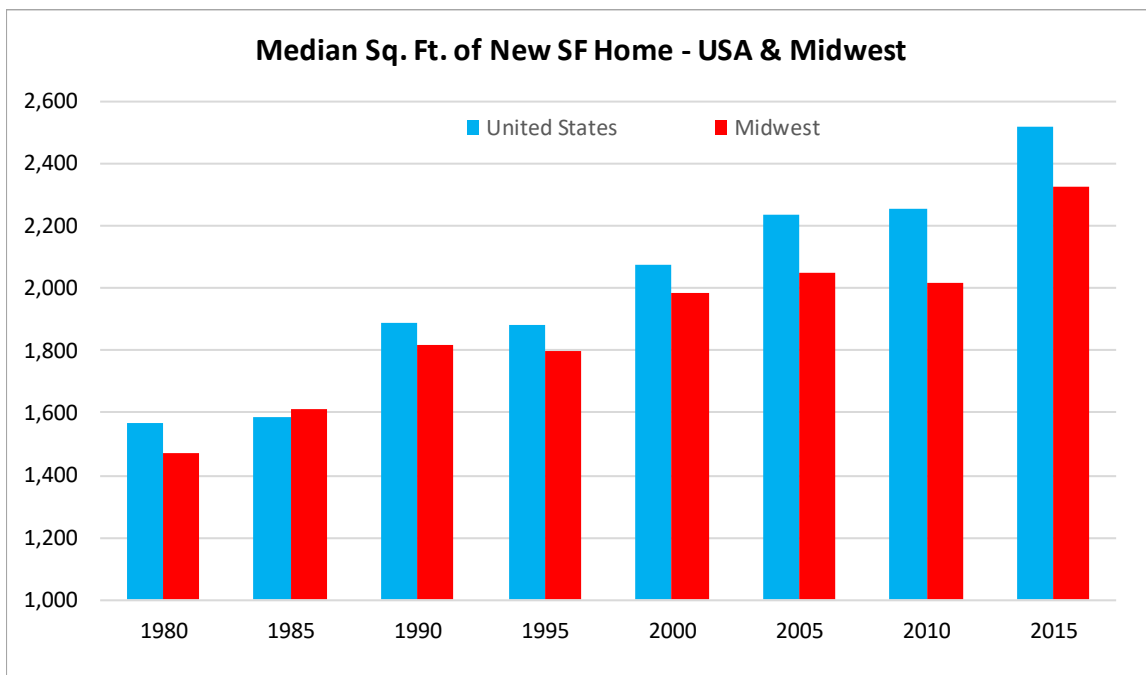
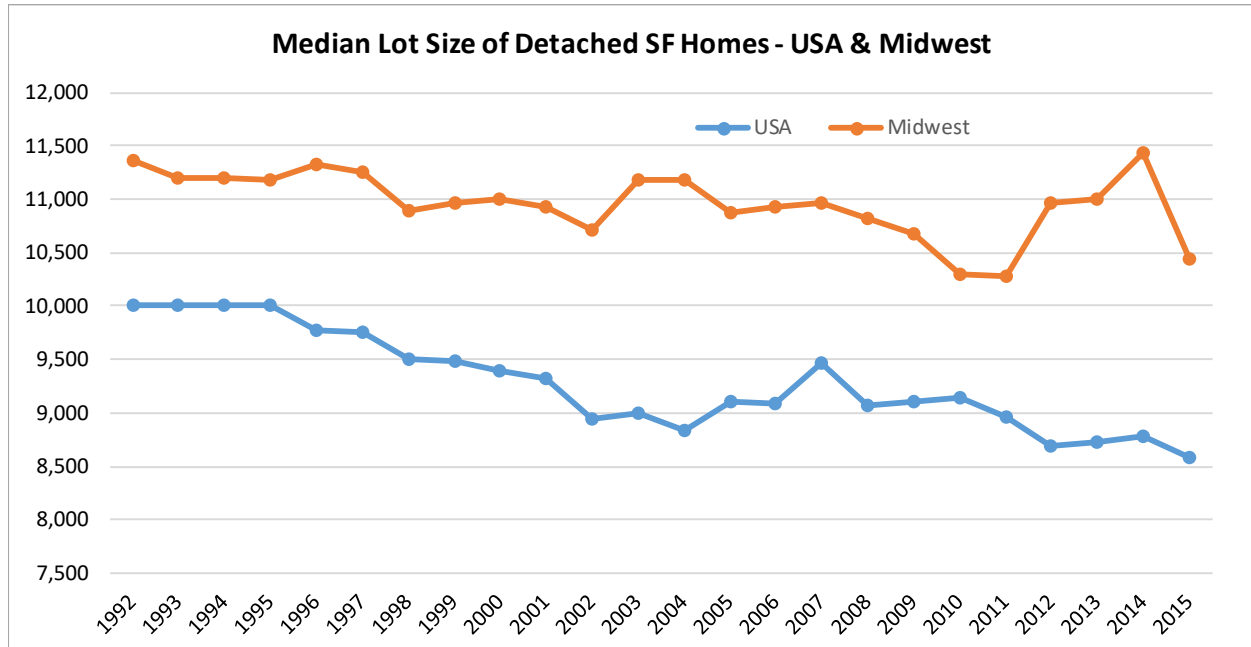
Our interviews with Realtors found that most subdivisions take years to sell out while lot prices are typically held steady during the build-out. During this time, developers continue to pay property taxes and financing costs on the improved lots. Given the historical absorption of lots in Two Harbors; many subdivisions can take up to a decade or longer to complete. As a result, the land development business is not a lucrative business for real estate investors and future lot development may require a private-public partnership to bring down infrastructure costs. The chart below shows the average lot cost across the country compared to the retail sales price of the home.

- **Lot Size & Home Style Preference.** As illustrated in the chart on the following page, the median lot size of a new single-family detached home in the United States sold in 2015 dropped to its smallest size since the Census Bureau has been tracking lot sizes. Median lot sizes have dropped below 8,600 square feet, down about 10% since 2010. Lot sizes have decreased in part due to increasing lot prices and rising regulatory and infrastructure costs (i.e. curb and gutter, streets, etc.). As a result, builders have reduced lot sizes in an effort to increase density and absorb higher land development costs across more units.

Local Realtors also stressed the desire for ranch or rambler style homes in Two Harbors. Buyers desire this product type as the lack of stairs allows home owners to “age in place” and they have a strong resale value in the local market. However, ranch style homes require a larger lot width and have higher construction costs. Two-story homes cost less per square foot due to foundation and roof costs; as well as more efficient HVAC costs. Ranch style homes are, on average, at least +25% more to construct due to the larger footprint.

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A split-level or bi-level home usually has the lowest construction costs on a per square foot basis. The foundations in these homes are minimized as they have partial basements as the foundation size is significantly lower than a traditional two-story home. Although this product type could be developed more affordably; buyers may not gravitate to this product if they desire the ranch style and one-level living.



CONCLUSIONS AND RECOMMENDATIONS

- **Multifamily Development Costs.** It will be challenging to construct new market rate multifamily product given achievable rents and development costs. Per the *Rental Housing Section* of the report, the average rents in Two Harbors are low and average about \$0.98 per square foot. Maxfield Research finds in most rural communities the average rent per square foot can easily exceed \$1.10 to \$1.20 per square foot to cover the total project and development costs. Development costs of this scale will likely require rents per square foot significantly higher than the existing product in Two Harbors. Based on these costs, it will be difficult to develop stand-alone multifamily housing structures by the private sector based on achievable rents. As a result, a private-public partnership or other financing programs will likely be required to spur development (i.e. tax abatement, TIF, etc.).
- **Renovation of Existing Housing Stock (both owner and rental).** As illustrated in the *Housing Characteristics* section of this report, the median year built of all housing in Two Harbors was 1946 (71 years old in 2017). About 45% of Two Harbors housing stock was built pre-1940, with the next highest decade in the 1950s (17.5%). Only 8% of Two Harbor's housing stock was built since 2000. Because of the older housing stock, many housing units in Two Harbors become affordable through a combination of factors such age of structure, condition, square footage, functional obsolescence, etc. Housing units that are older with low rents or low market values are considered "naturally occurring affordable housing" as the property values on these units are low (see *Affordability* above).

Maxfield Research & Consulting, LLC conducted a windshield survey of homes throughout Two Harbors and found most of the homes were in adequate to good condition; but there were several older homes with significant deferred maintenance. In many cases, there would be one to two homes in a neighborhood with significant deferred maintenance while all the other homes were well-maintained. Since Two Harbors housing stock is older, the demand for remodeling and replacement and demolition needs will continue to increase as today's consumer's desire updated features and amenities. Realtors commented on the desire for "turn-key or move in ready" homes. The AEOA has housing rehabilitation programs that will enhance the existing housing stock, and have been well received in Two Harbors. In addition, we recommend Two Harbors consider purchasing dilapidated housing structures and infill lots and reposition the land for future development while enhancing neighborhoods from the removal of substandard housing.

- **Shadow Rental Inventory (i.e. Single-Family Rentals).** Shadow rentals are generally considered nontraditional rentals that were previously owner-occupied single-family homes, townhomes, etc. In Two Harbors it is estimated about 35% of the entire rental universe is located in traditional, single-family homes. A large percentage of renters have sought out single-family homes versus traditional multifamily rental developments; in part because of the lack of rental housing development in the county as well as the need from families desiring larger rentals.

Constructing Residential Units with SIPs (Structured Insulated Panels)

Structural Insulated Panels (SIPs) are a high-performance system for residential and light commercial construction. The panels consist of an insulating foam core sandwiched between two structural facings, typically oriented over strand board (OSB). SIPs are manufactured under factory-controlled conditions and can be fabricated to fit nearly any building design. The result is a building system that is extremely strong, energy efficient and cost effective.

Building with SIPs generally costs the same as building with wood frame construction when you factor in the labor savings resulting from shorter construction time and less jobsite waste. Other savings are realized because smaller heating and cooling systems are required with SIP Construction.

Below is a link to an independent analysis completed by Reed Construction Data/RS Means, the leading cost consultant and supplier of construction cost data information in North America. In 2007, Reed Construction Data/RS Means conducted an independent third-party analysis for BASF Corporation, one of the largest multi-national chemical companies in the world which supplies adhesives to join the foam to the OSB, resins in the OSB and the foam core used in the construction of the SIPs. The objective of the research was to evaluate the installation time and cost associated with SIPs, compared with conventional framing comprised of 2 x 6 framing and Oriented Strand Board (OSB) sheathing to which thermal insulation and an air barrier are added. SIPs are load-bearing components that form the structural exterior wall assemblies. A Time & Motion study was completed.

<http://www.sips.org/downloads/rsmeanssipscoststudyreportjan2007.pdf>

A copy of the report in PDF format is provided separately with this report should the link expire or not work correctly.

Examples of Recent Multifamily Construction Using SIPs

Grand Terrace Apartments, a 48-unit, three-story rental building was recently constructed in the City of Worthington, MN using SIPs construction. The materials attached in the Appendix show that the building and the units meet or exceed the Energy Star requirements and effect heating and cooling cost savings as well as pollution reduction through the SIPs construction process and ongoing operation of the building.

The cost to construct these units was \$94 per square foot using SIPs construction. The builder was Southwest Minnesota Housing Partnership. Comparative costs to construct this building using a traditional construction method is much higher, above \$125 per square foot.

Grand Terrace Apartments is an LIHTC (Low-Income Housing Tax Credit) development that offers a mix of one-, two- and three-bedroom units. The property also accepts Section 8 vouchers. Heat, water, sewer and trash removal are included in the monthly rent. Residents pay

CONCLUSIONS AND RECOMMENDATIONS

electric. A household's income is restricted to no more than 60% of the Area Median Household Income adjusted for family size. Rent levels are set however, at no more than 50% of Area Median Household Income.

Rental Townhomes

SW Minnesota Housing Partnership also developed a series of rental townhomes in Storm Lake, Iowa (**10th Street Townhomes**). A photograph of the townhomes is shown on a following page. The property features two-, three- and four-bedroom townhomes with rents restricted to 50% or less of the Area Median Household Income adjusted for household size. Unit sizes range from 1,746 square feet for a two-bedroom unit to 2,025 square feet for a four-bedroom unit. All townhomes feature a single-car attached garage. Rent levels range from \$482 per month for a two-bedroom unit to \$781 per month for a four-bedroom unit. Rent includes sewer, water and trash removal. The tenant is responsible for the heat and electricity. There are 42 units in four-plex and six-plex structures. The property was financed through the Iowa Housing Authority's Low-Income Housing Tax Credit program. Residents can earn no more than 50% of the area's Median Household Income adjusted for family size.

Cost for these units ranged from \$140,000 to \$145,000 with no lot or infrastructure costs included.

Single-Family Residential

SW Minnesota Housing Partnership also is developing single-family spec homes in southwestern Minnesota using floor plans that range in size from 936 square feet with an unfinished basement to 2,200 square feet with an attached double-car garage. Alternate housing designs may be used. These spec homes are being developed on lots in Worthington in the Morning View Subdivision – 2nd Addition. Pricing ranges from \$196,499 with an income restriction to \$221,200 without an income restriction. Homes are also being developed in New Ulm and St. Peter, similar to those being developed in Worthington.

Cost without the lot or infrastructure is estimated at between \$184,000 to \$193,000 based on the design for the single-family homes in Worthington. Again, alternate designs may be developed to fit buyers' and marketplace needs. Lower-priced homes in other communities would have lower development costs.

Pricing in New Ulm in ***Milford Heights*** is as follows: 1,116 square feet - \$152,900

Pricing in ***Traverse Green*** in St. Peter is as follows: 936 square feet w/unfinished basement for expansion;
\$194,000 (income-restricted price)
\$203,500 (market rate)

Photos of the homes are shown below and on the following pages:

CONCLUSIONS AND RECOMMENDATIONS

Milford Heights – New Ulm



Traverse Green – St. Peter, MN



CONCLUSIONS AND RECOMMENDATIONS

Morning View – 2nd Addition – Worthington, MN



Grand Terrace Apartments – Worthington, MN



10th Street Townhomes – Rental in Storm Lake, IA



APPENDIX

Definitions

Absorption Period – The period of time necessary for newly constructed or renovated properties to achieve the stabilized level of occupancy. The absorption period begins when the first certificate of occupancy is issued and ends when the last unit to reach the stabilized level of occupancy has signed a lease.

Absorption Rate – The average number of units rented each month during the absorption period.

Active adult (or independent living without services available) - Active Adult properties are similar to a general-occupancy apartment building, in that they offer virtually no services but have age-restrictions (typically 55 or 62 or older). Organized activities and occasionally a transportation program are usually all that are available at these properties. Because of the lack of services, active adult properties typically do not command the rent premiums of more service-enriched senior housing.

Adjusted Gross Income “AGI” – Income from taxable sources (including wages, interest, capital gains, income from retirement accounts, etc.) adjusted to account for specific deductions (i.e. contributions to retirement accounts, unreimbursed business and medical expenses, alimony, etc.).

Affordable housing – The general definition of affordability is for a household to pay no more than 30% of their income for housing. For purposes of this study we define affordable housing that is income-restricted to households earning at or below 80% AMI, though individual properties can have income-restrictions set at 40%, 50%, 60% or 80% AMI. Rent is not based on income but instead is a contract amount that is affordable to households within the specific income restriction segment. It is essentially housing affordable to low or very low-income tenants.

The term affordable housing is not a general term or reference used to describe the price of housing in Two Harbors, or any respective City, County, or market area.

Amenity – Tangible or intangible benefits offered to a tenant in the form of common area amenities or in-unit amenities. Typical in-unit amenities include dishwashers, washer/dryers, walk-in showers and closets and upgraded kitchen finishes. Typical common area amenities include detached or attached garage parking, community room, fitness center and an outdoor patio or grill/picnic area.

Area Median Income “AMI” – AMI is the midpoint in the income distribution within a specific geographic area. By definition, 50% of households earn less than the median income and 50% earn more. The U.S. Department of Housing and Urban Development (HUD) calculates AMI annually and adjustments are made for family size.

Assisted Living – Assisted Living properties come in a variety of forms, but the target market for most is generally the same: very frail seniors, typically age 80 or older (but can be much

younger, depending on their particular health situation), who are in need of extensive support services and personal care assistance. Absent an assisted living option, these seniors would otherwise need to move to a nursing facility. At a minimum, assisted living properties include two meals per day and weekly housekeeping in the monthly fee, with the availability of a third meal and personal care (either included in the monthly fee or for an additional cost). Assisted living properties also have either staff on duty 24 hours per day or at least 24-hour emergency response.

Building Permit – Building permits track housing starts and the number of housing units authorized to be built by the local governing authority. Most jurisdictions require building permits for new construction, major renovations, as well as other building improvements. Building permits ensure that all the work meets applicable building and safety rules and is typically required to be completed by a licensed professional. Once the building is complete and meets the inspector's satisfaction, the jurisdiction will issue a "CO" or "Certificate of Occupancy." Building permits are a key barometer for the health of the housing market and are often a leading indicator in the rest of the economy as it has a major impact on consumer spending.

Capture Rate – The percentage of age, size, and income-qualified renter households in a given area or "Market Area" that the property must capture to fill the units. The capture rate is calculated by dividing the total number of units at the property by the total number of age, size and income-qualified renter households in the designated area.

Comparable Property – A property that is representative of the rental housing choices of the designated area or "Market Area" that is similar in construction, size, amenities, location and/or age.

Concession – Discount or incentives given to a prospective tenant to induce signature of a lease. Concessions typically are in the form of reduced rent or free rent for a specific lease term, or free amenities, which are normally charged separately, such as parking.

Congregate (or independent living with services available) – Congregate properties offer support services such as meals and/or housekeeping, either on an optional basis or a limited amount included in the rents. These properties typically dedicate a larger share of the overall building area to common areas, in part, because the units are smaller than in adult housing and in part to encourage socialization among residents. Congregate properties attract a slightly older target market than adult housing, typically seniors age 75 or older. Rents are also above those of the active adult buildings, even excluding the services.

Contract Rent – The actual monthly rent payable by the tenant, including any rent subsidy paid on behalf of the tenant, to the owner, inclusive of all terms of the lease.

Demand – The total number of households that would potentially move into a proposed new or renovated housing project. These households must be of appropriate age, income, tenure and

size for a specific proposed development. Components vary and can include, but are not limited to: turnover, people living in substandard conditions, rent over-burdened households, income-qualified households and age of householder. Demand is project specific.

Detached housing – a freestanding dwelling unit, most often single-family homes, situated on its own lot.

Effective Rents – Contract rent less applicable concessions.

Elderly or Senior Housing – Housing where all the units in the property are restricted for occupancy by persons age 62 years or better, or at least 80% of the units in each building are restricted for occupancy by households where at least one household member is 55 years of age or better and the housing is designed with amenities, facilities and services to meet the needs of senior citizens.

Extremely low-income – person or household with incomes below 30% of Area Median Income, adjusted for respective household size.

Fair Market Rent – Estimates established by HUD of the Gross Rents needed to obtain modest rental units in acceptable conditions in a specific geographic area. The amount of rental income a given property would command if it were open for leasing at any given moment and/or the amount derived based on market conditions that is needed to pay gross monthly rent at modest rental housing in a given area. This figure is used as a basis for determining the payment standard amount used to calculate the maximum monthly subsidy for families on at financially assisted housing.

Fair Market Rent – Lake County 2017

Fair Market Rent					
	EFF	1BR	2BR	3BR	4BR
Fair Market Rent	\$465	\$546	\$726	\$908	\$1,001

Foreclosure – A legal process in which a lender or financial institute attempts to recover the balance of a loan from a borrower who has stopped making payments to the lender by using the sale of the house as collateral for the loan.

Great Recession – Global economic decline beginning in December 2007 and ended in June 2009 with the official recovery beginning shortly thereafter. The Great Recession was initially sparked by the collapse of the United States housing bubble, which caused the values of securities tied to United States real estate pricing to plummet, damaging financial institutions globally. The Great Recession led to worldwide austerity, high levels of household debt, trade imbalances, high unemployment and limited prospects for global growth.

Gross Rent – The monthly housing cost to a tenant which equals the Contract Rent provided for in the lease, plus the estimated cost of all utilities paid by tenants.

**Gross Rent
Lake County – 2017**

	Maximum Gross Rent				
	EFF	1BR	2BR	3BR	4BR
30% of median	\$343	\$392	\$441	\$489	\$529
50% of median	\$572	\$653	\$735	\$816	\$882
60% of median	\$687	\$784	\$882	\$979	\$1,059
80% of median	\$916	\$1,046	\$1,176	\$1,306	\$1,412
100% of median	\$1,145	\$1,307	\$1,470	\$1,632	\$1,765
120% of median	\$1,374	\$1,569	\$1,764	\$1,959	\$2,118

Household – All persons who occupy a housing unit, including occupants of a single-family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

Household Trends – Changes in the number of households for any particular areas over a measurable period of time, which is a function of new households formations, changes in average household size, and net migration.

Housing Choice Voucher Program – The federal government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. A family that is issued a housing voucher is responsible for finding a suitable housing unit of the family's choice where the owner agrees to rent under the program. Housing choice vouchers are administered locally by public housing agencies. They receive federal funds from the U.S. Department of Housing and Urban Development (HUD) to administer the voucher program. A housing subsidy is paid to the landlord directly by the public housing agency on behalf of the participating family. The family then pays the difference between the actual rent charged by the landlord and the amount subsidized by the program.

Housing unit – House, apartment, mobile home, or group of rooms used as a separate living quarters by a single household.

HUD Project-Based Section 8 – A federal government program that provides rental housing for very low-income families, the elderly, and the disabled in privately owned and managed rental units. The owner reserves some or all of the units in a building in return for a Federal government guarantee to make up the difference between the tenant's contribution and the rent. A tenant who leaves a subsidized project will lose access to the project-based subsidy.

HUD Section 202 Program – Federal program that provides direct capital assistance and operating or rental assistance to finance housing designed for occupancy by elder household who have incomes not exceeding 50% of Area Median Income.

HUD Section 811 Program – Federal program that provides direct capital assistance and operating or rental assistance to finance housing designed for occupancy of persons with disabilities who have incomes not exceeding 50% Area Median Income.

HUD Section 236 Program – Federal program that provides interest reduction payments for loans which finance housing targeted to households with income not exceeding 80% Area Median Income who pay rent equal to the greater or market rate or 30% of their adjusted income.

Income limits – Maximum households income by a designed geographic area, adjusted for household size and expressed as a percentage of the Area Median Income, for the purpose of establishing an upper limit for eligibility for a specific housing program. See Income-qualifications.

	Income Limits by Household Size							
	1 pph	2 phh	3 phh	4 phh	5 phh	6 phh	7 phh	8 phh
30% of median	\$13,740	\$15,690	\$17,640	\$19,590	\$21,180	\$22,740	\$24,300	\$25,860
50% of median	\$22,900	\$26,150	\$29,400	\$32,650	\$35,300	\$37,900	\$40,500	\$43,100
60% of median	\$27,480	\$31,380	\$35,280	\$39,180	\$42,360	\$45,480	\$48,600	\$51,720
80% of median	\$36,640	\$41,840	\$47,040	\$52,240	\$56,480	\$60,640	\$64,800	\$68,960
100% of median	\$45,800	\$52,300	\$58,800	\$65,300	\$70,600	\$75,800	\$81,000	\$86,200
120% of median	\$54,960	\$62,760	\$70,560	\$78,360	\$84,720	\$90,960	\$97,200	\$103,440

Inflow/Outflow – The Inflow/Outflow Analysis generates results showing the count and characteristics of worker flows in to, out of, and within the defined geographic area.

Low-Income – Person or household with gross household incomes below 80% of Area Median Income, adjusted for household size.

Low-Income Housing Tax Credit – A program aimed to generate equity for investment in affordable rental housing authorized pursuant to Section 42 of the Internal Revenue Code. The program requires that a certain percentage of units built be restricted for occupancy to households earning 60% or less of Area Median Income, and rents on these units be restricted accordingly.

Market analysis – The study of real estate market conditions for a specific type of property, geographic area or proposed (re)development.

Market rent – The rent that an apartment, without rent or income restrictions or rent subsidies, would command in a given area or “Market Area” considering its location, features and amenities.

Market study – A comprehensive study of a specific proposal including a review of the housing market in a defined market or geography. Project specific market studies are often used by developers, property managers or government entities to determine the appropriateness of a proposed development, whereas market specific market studies are used to determine what house needs, if any, existing within a specific geography.

Market rate rental housing – Housing that does not have any income-restrictions. Some properties will have income guidelines, which are minimum annual incomes required in order to reside at the property.

Median Rent/Home Price – The median refers to the price point where half of the rents/homes are priced above the point, and half are priced below it. The median is a more accurate gauge of housing costs as averages tend to skew prices at the high and low end of the market.

Memory Care – Memory Care properties, designed specifically for persons suffering from Alzheimer’s disease or other dementias, is one of the newest trends in senior housing. Properties consist mostly of suite-style or studio units or occasionally one-bedroom apartment-style units, and large amounts of communal areas for activities and programming. In addition, staff typically undergoes specialized training in the care of this population. Because of the greater amount of individualized personal care required by residents, staffing ratios are much higher than traditional assisted living and thus, the costs of care are also higher. Unlike conventional assisted living, however, which deals almost exclusively with widows or widowers, a higher proportion of persons afflicted with Alzheimer’s disease are in two-person households. That means the decision to move a spouse into a memory care facility involves the caregiver’s concern of incurring the costs of health care at a special facility while continuing to maintain their home.

Migration – The movement of households and/or people into or out of an area.

Mixed-income property – An apartment property contained either both income-restricted and unrestricted units or units restricted at two or more income limits.

Mobility – The ease at which people move from one location to another.

Moderate Income – Person or household with gross household income between 80% and 120% of the Area Median Income, adjusted for household size.

Multifamily – Properties and structures that contain more than two housing units.

Naturally Occurring Affordable Housing – Although affordable housing is typically associated with an income-restricted property, there are other housing units in communities that indirectly provide affordable housing. Housing units that were not developed or designated with income guidelines (i.e. assisted) yet are more affordable than other units in a community are considered “naturally-occurring” or “unsubsidized affordable” units. This rental supply is available through the private market, versus assisted housing programs through various governmental agencies. Property values on these units are lower based on a combination of factors, such as: age of structure/housing stock, location, condition, size, functionally obsolete, school district, etc.

Net Income – Income earned after payroll withholdings such as state and federal income taxes, social security, as well as retirement savings and health insurance.

Net Worth – The difference between assets and liabilities, or the total value of assets after the debt is subtracted.

Pent-up demand – A market in which there is a scarcity of supply and as such, vacancy rates are very low or non-existent.

Population – All people living in a geographic area.

Population Density – The population of an area divided by the number of square miles of land area.

Population Trends – Changes in population levels for a particular geographic area over a specific period of time – a function of the level of births, deaths, and in/out migration.

Project-Based rent assistance – Rental assistance from any source that is allocated to the property or a specific number of units in the property and is available to each income eligible tenant of the property or an assisted unit.

Redevelopment – The redesign, rehabilitation or expansion of existing properties.

Rent burden – gross rent divided by adjusted monthly household income.

Restricted rent – The rent charged under the restriction of a specific housing program or subsidy.

Saturation – The point at which there is no longer demand to support additional market rate, affordable/subsidized, rental, for-sale, or senior housing units. Saturation usually refers to a particular segment of a specific market.

Senior Housing – The term “senior housing” refers to any housing development that is restricted to people age 55 or older. Today, senior housing includes an entire spectrum of housing alternatives. Maxfield Research Inc. classifies senior housing into four categories based on

the level of support services. The four categories are: Active Adult, Congregate, Assisted Living and Memory Care.

Short Sale – A sale of real estate in which the net proceeds from selling the property do not cover the sellers' mortgage obligations. The difference is forgiven by the lender, or other arrangements are made with the lender to settle the remainder of the debt.

Single-family home – A dwelling unit, either attached or detached, designed for use by one household and with direct street access. It does not share heating facilities or other essential electrical, mechanical or building facilities with another dwelling.

Stabilized level of occupancy – The underwritten or actual number of occupied units that a property is expected to maintain after the initial lease-up period.

Subsidized housing – Housing that is income-restricted to households earning at or below 30% AMI. Rent is generally based on income, with the household contributing 30% of their adjusted gross income toward rent. Also referred to as extremely low income housing.

Subsidy – Monthly income received by a tenant or by an owner on behalf of a tenant to pay the difference between the apartment's contract/market rate rent and the amount paid by the tenant toward rent.

Substandard conditions – Housing conditions that are conventionally considered unacceptable and can be defined in terms of lacking plumbing facilities, one or more major mechanical or electrical system malfunctions, or overcrowded conditions.

Target population – The market segment or segments of the given population a development would appeal or cater to.

Tenant – One who rents real property from another individual or rental company.

Tenant-paid utilities – The cost of utilities, excluding cable, telephone, or internet necessary for the habitation of a dwelling unit, which are paid by said tenant.

Tenure – The distinction between owner-occupied and renter-occupied housing units.

Turnover – A measure of movement of residents into and out of a geographic location.

Turnover period – An estimate of the number of housing units in a geographic location as a percentage of the total house units that will likely change occupants in any one year.

Unrestricted units – Units that are not subject to any income or rent restrictions.

Vacancy period – The amount of time an apartment remains vacant and is available on the market for rent.

Workforce housing – Housing that is income-restricted to households earning between 80% and 120% AMI. Also referred to as moderate-income housing.

Zoning – Classification and regulation of land use by local governments according to use categories (zones); often also includes density designations and limitations.