

CLOQUET/SCANLON HOUSING STUDY

A comprehensive study of the housing conditions and needs in the cities of Cloquet and Scanlon, MN



Prepared for:
City of Cloquet, MN
City of Scanlon, MN

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Executive Summary

Introduction

The Cities of Cloquet and Scanlon are at the center of an economically active area in northeastern Carlton County. Located approximately 20 miles west of Duluth, the cities are part of a larger metropolitan area but retain a strong identity as a distinct and vibrant community. While each community has experienced steady growth for a number of decades, City leaders desire to maintain Cloquet and Scanlon's high quality of life, which is pursuant to the availability of quality housing of all types.

Demographic Analysis

Between 2000 and 2010, the combined population of Cloquet and Scanlon increased by about 1,100 persons, which is the largest increase since the 1970s. Based on projections prepared by the Minnesota State Demographic Center, forecasted population growth, however, is anticipated slow considerably over the next 20 years and average about 300 persons each decade. The most notable growth is expected among the baby-boom generation (ages 45-64 in 2010) and the millennial generation (ages 18-34 in 2010).

Cloquet and Scanlon's households are also projected to experience modest but steady growth over the next 20 years. The aging of older baby-boomers into their retirement years is expected to fuel much of the projected household growth, most of which will be low-maintenance types of housing or independent forms of senior housing. However, younger households will place pressure on the market for entry-level, owner-occupied homes as well as rental apartments for families.

Economic Analysis

Cloquet and Scanlon have a stable and diverse economic base with strong employment in the manufacturing, hospitality, and public administration sectors. Although manufacturing jobs tend to pay well in Cloquet, most other industry sectors tend to pay slightly below regional averages. Some growing sectors, such as hospitality, retail, and information, wages tend to be quite low and have increased the demand for more affordable housing.

Characteristics of the Housing Stock

Although there is a wide variety of housing types and ages in Cloquet and Scanlon, both communities are characterized by a significant amount of older, smaller housing stock that is difficult to maintain its marketability without costly upgrades and repairs. Nearly 50% of the housing stock is more 50 years old.

Over the past ten years, Cloquet has added 385 new housing units. Counter to historic trends -- 80% of the housing units in Cloquet/Scanlon are detached single-family homes -- the majority of recent development has been multifamily housing, a significant portion of which has been senior housing.

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Based on data provided by the Carlton County assessor, there are approximately 540 single-family properties in Cloquet and Scanlon that do not have homestead status and may likely be rented. These non-homesteaded properties tend to be concentrated in the older sections of Cloquet and Scanlon. However, they appear to be evenly distributed throughout the older neighborhoods and any relevant concentrations are on a block by block basis.

Although Cloquet/Scanlon have many older, smaller homes and have developed a variety multifamily housing in recent years, there remains a persistent housing cost burden for many households. As of 2011, well over half of the Cloquet/Scanlon households with incomes under \$50,000 per year pay more than 30% of their income toward housing. According to the Department of Housing and Urban Development (HUD), this is a significant proportion that prevents households from spending on other necessary goods and services, such as food, healthcare, and transportation.

For-Sale Market Analysis

Owned housing accounts for the bulk of Cloquet/Scanlon's housing stock. Like most markets, the recent housing bust has profoundly impacted the Cloquet/Scanlon for-sale market. The median sales price peaked in 2008 and then dropped -13% by 2012. However, current indicators suggest that prices are now starting to increase once again.

Relative to other submarkets in the Duluth area, Cloquet/Scanlon has a lower median sales price. However, this is largely due to the number of older, smaller homes that drag the overall median price downward. Among newer, larger homes, pricing is consistent with other communities though slightly lower than what one might find closer to the heart of Duluth.

There have been two recent subdivisions, Jolicouer Trails and Otter Creek, developed in Cloquet over the past 10 years. Both developments are located outside of the urban service area and have generally targeted an upscale market with larger lots and home prices above \$300,000. Sales were initially strong in the developments but slowed down dramatically during the housing bust and have yet to pick-up once again.

In addition to the recent subdivisions, Cloquet has a significant number of buildable vacant residential lots scattered throughout the City. According to data from the Carlton County Assessor and the City of Cloquet, there are over 600 lots that meet this definition. Although not all of these lots are available to be developed, this does represent a significant supply.

Rental Market Analysis

While a wide variety of age groups and household types live in rental units in Cloquet and Scanlon, rental housing predominantly serves two age groups: young adults (18 to 34 years) and seniors (65 years and older). Two general types of rental housing exist in the marketplace: general-occupancy and senior (age-restricted). Within these types we separated out market rate properties and properties that restrict tenancy to low- and moderate-income households.

General-occupancy units make up the largest portion of Cloquet/Scanlon's rental housing supply with 628 total units. A survey of properties with eight or more units revealed that the rental market is currently

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very tight (98% occupied). Growth in low-wage industries and the number of young households has fueled demand.

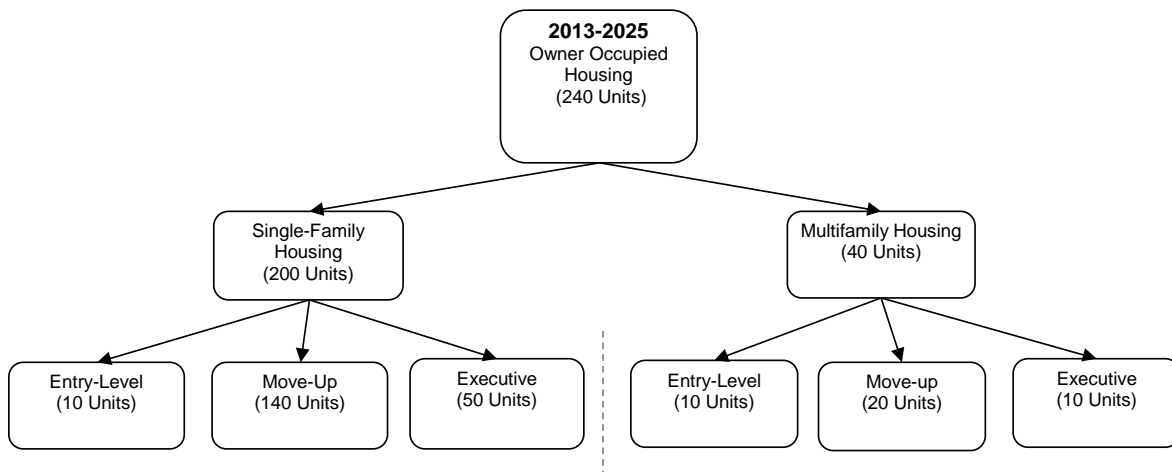
Age-restricted (i.e. senior) rental housing is also an important component of the rental market in Cloquet/Scanlon. A survey of six independent living properties with a total of 229 units revealed 100% occupancy. Among the six assisted living and memory care properties, which have a combined total of 214 units, occupancy was at 93.5%, which is high given the rate of turnover at the types of facilities.

Housing Growth Potential

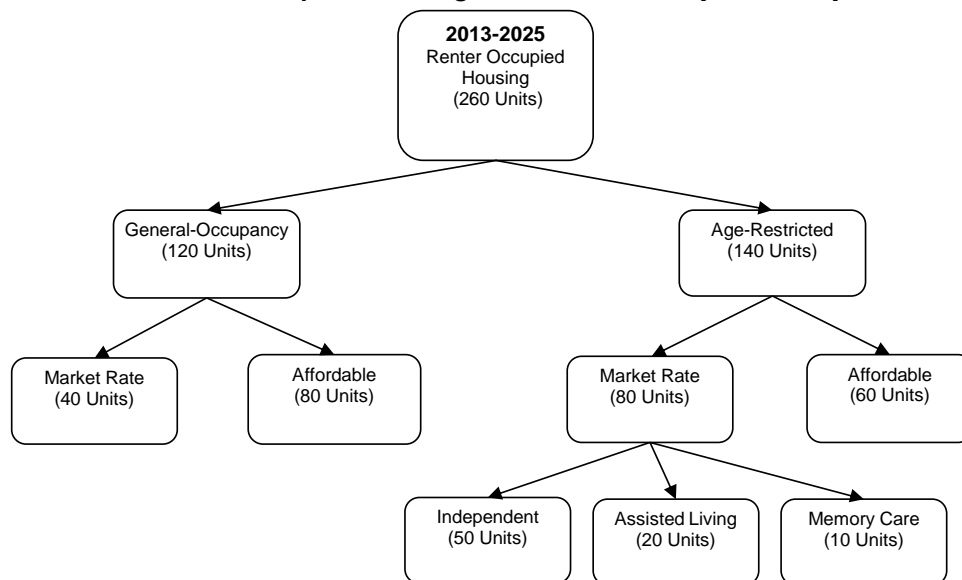
We believe that Cloquet/Scanlon has the potential to develop approximately 500 new housing units between 2013 and 2025. We estimate that roughly 50% of the units will be owner-occupied (240 homes), with rental housing making up the remaining 50% (260 units). The flow charts below detail the breakdown of projected growth by housing type.

Please note these figures are conservative estimates based on development trends and generalized housing types. It is possible that a new development or project (e.g. a continuum of care senior housing campus) that is well-designed and managed may attract an unanticipated number of new residents from outside the Cloquet area, which would result in an increase in household growth above and beyond what is projected in this report.

Owner-Occupied Housing Growth Potential (New Units)



Renter-Occupied Housing Growth Potential (New Units)



Conclusions and Recommendations

Cloquet/Scanlon is a desirable community to a wide variety of households and persons of all ages. It has numerous strengths, such as a stable economy, reputation for quality schools, small town character, and easy access to many of the region's recreational amenities, that attract buyers and renters. However, the community has a legacy of many older homes located on streets with aging infrastructure that no longer meet the preferences of today's market.

In order to retain long-time residents, attract newcomers, and continue to maintain community institutions, we recommend that the Cloquet/Scanlon bear in mind some guiding principles:

- Work with property owners to combine small vacant lots within the urban service area to make existing properties more marketable.
- Strategically extend municipal services into areas with numerous vacant residential lots.
- Improve aging infrastructure (e.g., sidewalks, roadway surfaces, and street lights) to help support the marketability of existing homes in older neighborhoods.
- Encourage homeownership.
- Encourage a diverse mix of housing styles.
- Focus on developing owner housing that young families can obtain.
- Reinvest in the City's existing housing stock to help maintain community stability and keep long-time residents.

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1.0 Introduction

1.1 STUDY PURPOSE

The Cities of Cloquet and Scanlon are at the center of an economically active area in northeastern Carlton County. Located approximately 20 miles west of Duluth, the cities are part of a larger metropolitan area but retain a strong identity as a distinct and vibrant community. City leaders desire to maintain Cloquet and Scanlon's high quality of life while pursuing development or redevelopment opportunities that will help serve both existing and new residents.

The Cloquet Economic Development Authority retained Stantec to analyze and report on housing market conditions in Cloquet and Scanlon and to project housing growth potential in the community through 2025.

1.2 REPORT ORGANIZATION

The report is organized according to the analytical steps needed to complete the study. This report contains:

- A detailed review of key demographic and economic indicators that affect housing demand;
- An assessment of current housing conditions in Cloquet and Scanlon;
- An analysis of the current and projected markets for various types of owner-occupied and renter-occupied housing in Cloquet/Scanlon;
- Projections of housing growth potential in Cloquet/Scanlon through 2030; and
- Conclusions and recommendations for Cloquet/Scanlon to consider when making decisions on how to accommodate the projected growth.

1.3 DATA RESOURCES

This study represents a compilation of data gathered from various sources, including the properties surveyed, local records, and interviews with local officials, real estate professionals, and major employers, as well as secondary demographic material. Although Stantec judges these sources to be reliable, it is impossible to authenticate all data. The analyst does not guarantee the data and assumes no liability for any errors in fact, analysis, or judgment. The secondary data used in this study are the most recent available at the time of the report preparation.

The objective of this report is to gather, analyze, and present as many market components as reasonably possible within the time constraints agreed upon. The conclusions contained in this report are based on the best judgments of the analysts; Stantec makes no guarantees or assurances that the projections or conclusions will be realized as stated. It is Stantec's function to provide our best effort in data aggregation, and to express opinions based on our evaluation.

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It should be noted that the findings presented in this report should not be used to determine the market feasibility of any single development or project. The study is designed to be a broad analysis of the entire Cloquet/Scanlon housing market and is intended to guide planning efforts. Due to the broad nature of the analysis, many of the assumptions used to project housing growth and demand are conservative and do not take into consideration the unique circumstances surrounding individual projects.

The research for this report was conducted in September, October, and November of 2013.

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Demographic Analysis
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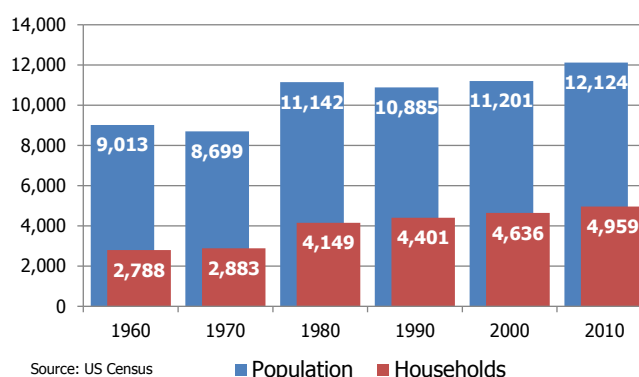
2.0 Demographic Analysis

This section examines key demographic factors that underlie the need for various types of housing in Cloquet and Scanlon. The U.S. Census and the Minnesota State Demographer served as the primary sources for the analysis. Other secondary sources were utilized in the preparation of demographic projections and are noted in the tables and graphics.

2.1 HISTORIC POPULATION AND HOUSEHOLD GROWTH TRENDS

Figures 1 and 2 present historic population and household growth trends for Cloquet and Scanlon, respectively. Since 1960, Cloquet has added on average about 620 persons and 430 households per decade. Although growth over the long term has been consistent, there have been periods of especially strong growth (e.g., 1970s) balanced by periods of slow growth or even slight declines (e.g., 1960s and the 1980s). As of 2010, Cloquet's population was just over 12,100 with a household base of nearly 5,000.

Figure 1: Cloquet Population and Households 1960-2010



Since 1960, Scanlon has lost population but has gained households. This is largely due to an aging of the population in which shrinking household sizes mask the effect of household growth. Over the last decade, however, there was a significant increase in both population and households. This was due primarily to the construction of new senior housing which allowed for transition of many houses from older households to younger households, many with children.

Figure 2: Scanlon Population and Households 1960-2010

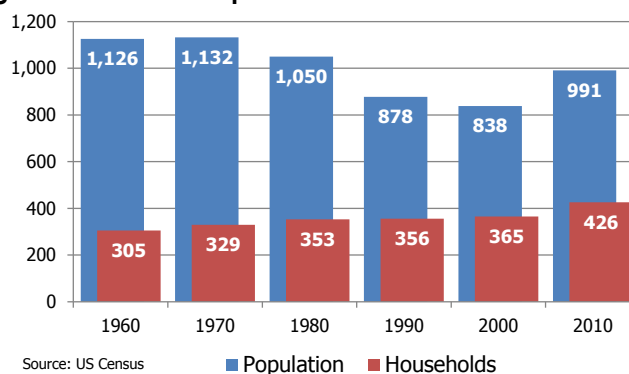
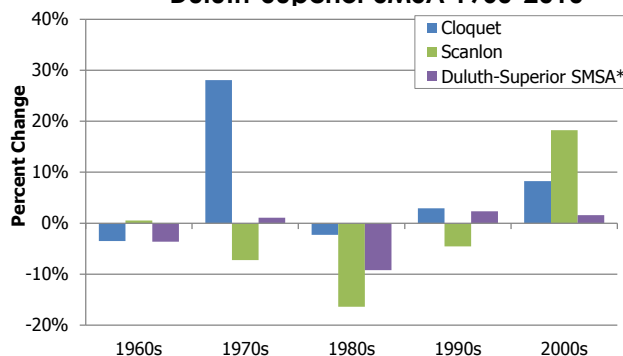


Figure 3 compares the rate of population growth since the 1960s in Cloquet and Scanlon to the Duluth-Superior Metro Area, which encompasses much of northeastern Minnesota and a portion of northwestern Wisconsin. Over the last five decades, population change in Cloquet and Scanlon has generally mirrored that of the broader region. However, important exceptions include the 1970s when population

Figure 3: Population Growth Rates for Cloquet, Scanlon, Duluth-Superior SMSA 1960-2010



* Census defined metropolitan area as of 2010; includes Carlton and St. Louis counties in Minnesota, and Douglas County in Wisconsin.
Source: US Census

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growth in Cloquet vastly exceeded that of the region and the 2010s when the rate of growth in both Cloquet and Scanlon well exceeded the region's growth rate. This indicates that population growth in Cloquet and Scanlon is generally tied to larger economic trends impacting the entire region, but that short-term, local circumstances have exhibited strong impacts as well.

American Indian Population

A detailed breakdown of the racial and ethnic structure of Cloquet's population is not a part of this study. However, it is important to address the potential housing needs of Fond du Lac band members because a substantial part of the City of Cloquet is within the Fond du Lac Reservation and the Fond du Lac band is a major employer and provider of housing in the community.

Between 2000 and 2010, the number of American Indian households in Cloquet increased by 145, which was nearly half of all household growth in Cloquet during this time. Many American Indian households are drawn to Cloquet for employment opportunities and the availability of housing and social services through the Fond du Lac band. However, the Fond du Lac band does not provide housing for all of its local members. As a result, many are dependent on the local private housing market to meet their housing needs.

Therefore, as the Fond du Lac band continues to grow and attract new residents, both American Indian and non-American Indian, to the Cloquet area, it will be important to pay attention to how these trends impact local housing need. Subsequent sections of this report more fully address the effect of employment and housing available through the Fond du Lac band.

2.2 FUTURE POPULATION AND HOUSEHOLD GROWTH TRENDS

Table 1 presents future population and household projections for Cloquet, Scanlon, and many of the surrounding cities and townships in northeastern Carlton and southeastern St. Louis counties. Forecasts for the State of Minnesota, Carlton and St. Louis counties, as well as Douglas County in Wisconsin are presented for comparison purposes as well. These three counties comprise the Duluth-Superior metropolitan area according to the U. S. Census Bureau. The projections are through 2030 and are based on estimates and forecasts from the Minnesota State Demographer. It should be noted that future forecasts prepared at the state level are strongly tied to historic trends and only minimally factor in the potential for growth based on increased economic activity at the local level. In communities, such as Cloquet, significant expansions at one or two key employers can have a dramatic impact on growth and the demand for housing. Key findings from the table are as follows:

- Cloquet is projected to increase by 380 persons and 37 households over the next two decades. This is a modest rate of increase relative to the state, the metro region, and several neighboring communities.
- Scanlon is projected to add over 230 persons and nearly 90 households over the next two decades. However, this is strongly predicated on the ability of new land being made available for development (or redevelopment) since much of Scanlon is already developed.
- The surrounding communities with the strongest projected growth through 2030 include Duluth, Hermantown, and Thomson township (Esko). These three communities combined are anticipated

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to capture between 85-90% of all household growth in the area during this time, which translates to roughly 2,600 households in each decade.

- After several decades of slow or declining growth, the Duluth region, which includes Cloquet and Scanlon, is projected to have a sustained period of population and household growth over the next two decades. However, the projected household growth rate of approximately 6% per decade for the region is still well below the statewide projected growth rate of 10-12%.

Table 1: Population and Household Projections 2010-2030

Population						Numeric Change		Percent Change	
Geography	2010	2015	2020	2025	2030	'10-'20	'20-'30	'10-'20	'20-'30
Cloquet	12,124	12,183	12,290	12,397	12,504	166	214	1.4%	1.8%
Scanlon	991	1,060	1,099	1,161	1,224	108	125	10.8%	11.8%
Thomson twp	5,003	5,155	5,358	5,550	5,742	355	385	7.1%	7.5%
Twin Lakes Twp	2,108	2,032	2,175	2,212	2,250	67	75	3.2%	3.7%
Carlton	862	846	860	861	862	-2	2	-0.2%	0.2%
Thomson city	159	140	154	151	148	-5	-6	-3.4%	-4.3%
Silver Brook twp	648	644	640	634	629	-8	-12	-1.2%	-1.8%
Wrenshall	399	493	465	497	529	66	64	16.6%	12.9%
Duluth	86,265	87,552	88,927	90,047	91,168	2,662	2,241	3.1%	2.6%
Hermantown	9,414	10,642	12,016	13,480	14,944	2,602	2,927	27.6%	27.5%
Proctor	3,057	3,212	3,402	3,582	3,762	345	361	11.3%	11.2%
Midway twp	1,399	1,389	1,337	1,281	1,225	-62	-113	-4.4%	-8.1%
Study Area Total	122,429	125,350	128,722	131,854	134,985	6,293	6,263	5.1%	5.0%
Carlton County	35,386	36,233	37,325	38,459	39,592	1,939	2,267	5.5%	6.3%
St. Louis County	200,226	201,110	202,370	203,864	205,357	2,144	2,987	1.1%	1.5%
Douglas County, WI	44,159	44,899	45,785	46,198	46,611	1,626	826	3.7%	1.8%
Minnesota	5,303,925	5,525,224	5,772,258	5,977,282	6,182,306	468,333	410,048	8.8%	7.4%

Households						Numeric Change		Percent Change	
Geography	2010	2015	2020	2025	2030	'10-'20	'20-'30	'10-'20	'20-'30
Cloquet	4,959	5,050	4,968	4,983	4,997	9	28	0.2%	0.6%
Scanlon	426	454	466	489	513	40	46	9.4%	10.3%
Thomson twp	1,828	1,949	2,047	2,172	2,298	219	252	12.0%	12.9%
Twin Lakes Twp	788	793	855	894	934	67	78	8.5%	9.9%
Carlton	337	347	348	355	362	11	14	3.4%	4.0%
Thomson city	73	70	78	81	84	5	6	7.1%	8.6%
Silver Brook twp	244	251	267	280	294	23	27	9.4%	10.7%
Wrenshall city	154	187	193	216	238	39	45	25.5%	23.8%
Duluth	35,705	36,816	37,306	38,039	38,772	1,601	1,466	4.5%	4.0%
Hermantown	3,355	3,814	4,173	4,616	5,060	818	887	24.4%	23.3%
Proctor	1,268	1,358	1,396	1,461	1,527	128	132	10.1%	9.7%
Midway twp	541	585	612	650	687	71	75	13.2%	12.8%
Study Area Total	49,678	51,673	52,710	54,238	55,766	3,032	3,055	6.1%	5.9%
Carlton County	13,538	14,042	14,264	14,695	15,126	726	862	5.4%	6.1%
St. Louis County	84,783	88,434	90,421	93,192	95,963	5,638	5,542	6.6%	6.3%
Douglas County, WI	18,555	19,189	19,729	20,128	20,393	1,174	664	6.3%	3.5%
Minnesota	2,087,227	2,217,100	2,339,934	2,451,013	2,562,091	252,707	222,157	12.1%	10.0%

Sources: US Census; Minnesota State Demographer; Wisconsin Department of Administration; Stantec

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Demographic Analysis
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2.3 HISTORIC DEMOGRAPHIC TRENDS

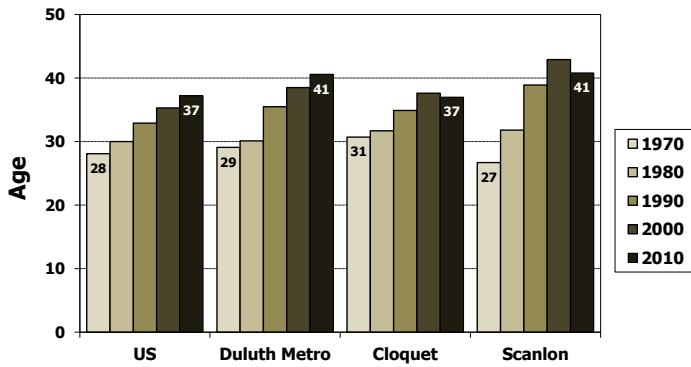
Although future growth is the primary determinant of housing demand in Cloquet and Scanlon, it is also important to understand how long range demographic trends have been affecting demand over the past 40 years because many of these trends will likely continue into the future. Figures 4 through 8 illustrate 40-year trends related to population age, household size, household type, homeownership, and income. The following are key findings from the figures.

- **Median Age:** Since 1970, the median age of the population has increased significantly at the local, regional, and national levels. Counter to national and regional trends, however, Cloquet and Scanlon both experienced a slight drop in their median age over the last decade. The age profile of the population has important ramifications on the market for housing. Younger persons have significantly different demands than older persons when it comes to housing types, including size of unit, layouts, features, amenities, pricing, tenure, and location.
- **Household Size:** Household size declined sharply between 1970 and 1980 as the youngest baby boomers moved out of their parent's homes and started new households (Figure 3). Since 1980, household size has continued to drop, though not as sharp as during the 1970s. Changes in household size can impact housing markets in a variety of ways. For example, fewer individuals in a household decrease the need for overall space, both inside and outside the unit. Conversely, increasing household size results in pressure on the space needs of the unit. Without the ability to expand through additions, many households may need to relocate to meet their housing needs even if they would prefer to stay in the community they are located in.
- **Household Type:** Household types have dramatically changed since 1970. In the last 40+ years, as the population has aged, the percentage of households defined as married couples with children has significantly decreased (Figure 4) while the percentage of single-parent families and single-person households has increased. This drop has been especially acute in Scanlon where the decline in the percentage of married couples with children went from 50% of all households in 1970 to only 18% of all households in 2010. Changing household types influence housing by affecting the styles and layouts of units. For example, families with children prefer housing with private yards, if affordable, along with bedrooms on separate levels from the main living areas. In contrast, households without children often prefer one-level living in which bedrooms are on the same level as the living area.
- **Homeownership:** Homeownership in Cloquet and the region has historically been slightly above the national rate. Despite a higher rate of homeownership in Cloquet and the region, the rate of homeownership has been on the decline for several decades. Traditionally, high rates of homeownership are indicative of a more stable population that remains in the community for long periods of time. However, structural change in the for-sale housing market due to the recent bust is making homeownership less attractive. This may result in more long-term or "lifestyle" renters who choose to not own their housing, though they may have the means to do so.
- **Income:** Median incomes in the region, including Cloquet and Scanlon, are generally below the US median. However, relative to the US median, incomes in the region have risen each of the last two decades. Income is important because it directly relates to the ability of area residents to afford housing, particularly new forms of housing.

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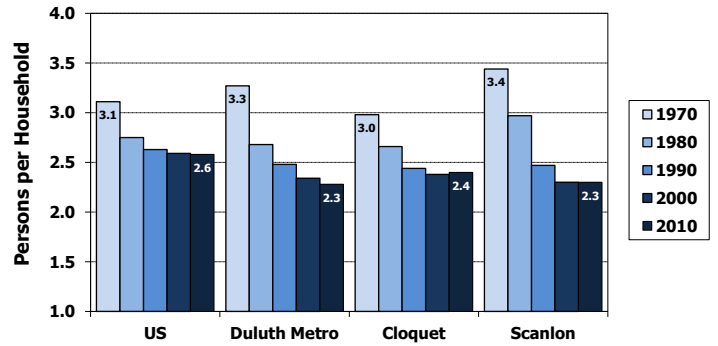
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Figure 2: Median Age



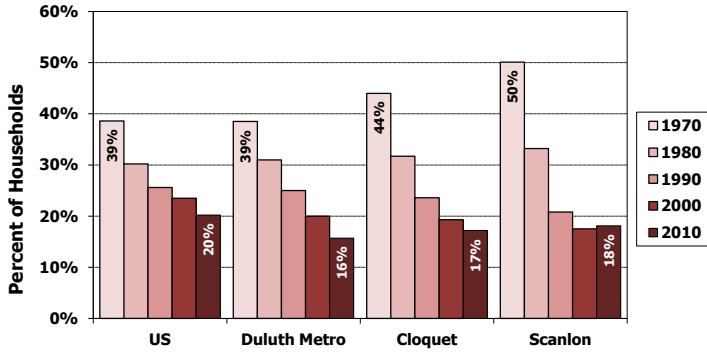
Source: U.S. Census

Figure 3: Household Size



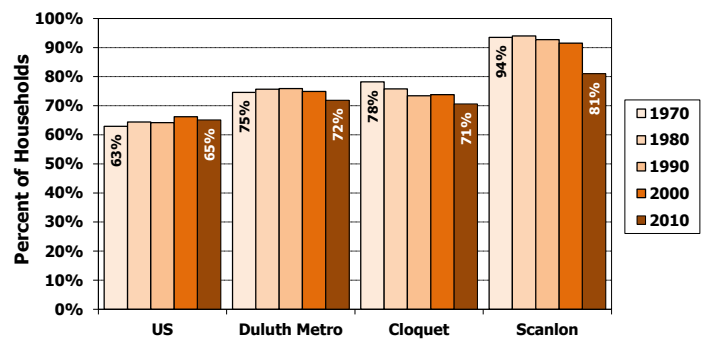
Source: U.S. Census

Figure 4: Married Couples with Children



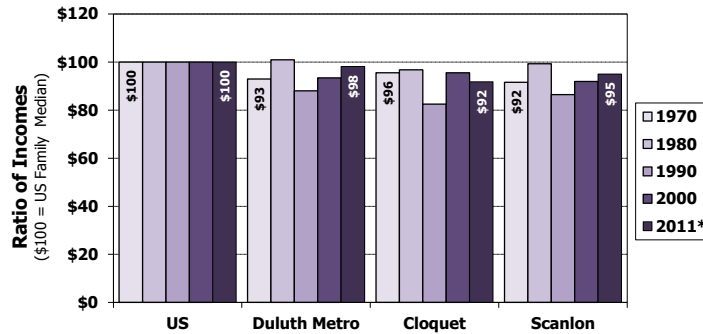
Source: U.S. Census

Figure 5: Homeownership Rate



Source: U.S. Census

Figure 6: Median Family Incomes (\$100 = US Median Family Income)



Source: U.S. Census
* 2009 data is from the 2007-2011 US Census American Community Survey

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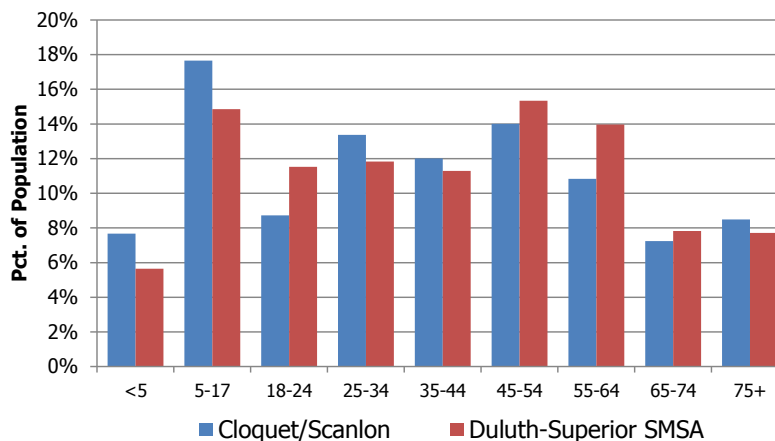
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2.4 AGE DISTRIBUTION

Given the importance of a community's age profile on the need for housing, Table 2 on the following page presents historic and projected data on the age breakdown of the combined population for Cloquet and Scanlon as well as the Duluth-Superior metropolitan area. Below are key findings from the table:

- Compared to the broader region, Cloquet and Scanlon currently have higher concentrations of its population in the under 5, 6-17, and 25-44 age groups (Figure 7). This suggests that Cloquet and Scanlon appear to be attracting and/or retaining more families with young children than many of its neighboring communities.
- Cloquet and Scanlon also have a slightly higher percentage of persons age 75 and older compared to the broader region. This suggests that housing options appear to be available for older residents to remain in Cloquet and Scanlon if they so desire.
- Between 2000 and 2010, the age groups in Cloquet and Scanlon that increased the most in population were the under 5, 25-34, 45-54, and 55-64 categories. This likely increased demand for two particular types of housing: 1) entry-level housing (i.e., rentals and first-time buyers); and 2) move-up housing, especially product with single-level living.
- Over the next 10 years, the age groups that are forecasted to increase the most are 5-17, 35-44, and 65-74. This will likely increase demand for slightly larger homes for families with children and maintenance-free living for younger retirees.
- Strong increases in demand for more service-enriched forms of senior housing (e.g., assisted living) won't likely occur until after 2020 when the 75 and older population begins to increase significantly. Until then, demand for this type of housing will be driven mostly by pent-up need.

Figure 7: 2010 Age Distribution of the Population



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Table 2: Age Distribution of the Population 2000-2030

Age Group	2000	2010	Projection		Change					
			2020	2030	2000-2010		2010-2020		2020-2030	
					No.	Pct.	No.	Pct.	No.	Pct.
Cloquet/Scanlon										
Under 5	748	1,006	909	903	258	34.5	-97	-9.7	-5	-0.6
5 to 17	2,306	2,316	2,545	2,427	10	0.4	229	9.9	-118	-4.6
18 to 24	1,001	1,145	1,031	1,209	144	14.4	-114	-9.9	178	17.2
25 to 34	1,443	1,753	1,662	1,641	310	21.5	-91	-5.2	-21	-1.3
35 to 44	1,857	1,575	1,807	1,736	-282	-15.2	232	14.7	-71	-3.9
45 to 54	1,545	1,837	1,538	1,771	292	18.9	-299	-16.3	233	15.1
55 to 64	1,051	1,420	1,601	1,360	369	35.1	181	12.7	-241	-15.0
65 to 74	994	950	1,255	1,418	-44	-4.4	305	32.1	163	13.0
75+	1,094	1,113	1,039	1,262	19	1.7	-74	-6.6	222	21.4
Total	12,039	13,115	13,388	13,727	1,076	8.9	273	2.1	339	2.5
Percentage of Population										
Under 5	6.2	7.7	6.8	6.6	---	1.5	---	-0.9	---	-0.2
5 to 17	19.2	17.7	19.0	17.7	---	-1.5	---	1.4	---	-1.3
18 to 24	8.3	8.7	7.7	8.8	---	0.4	---	-1.0	---	1.1
25 to 34	12.0	13.4	12.4	12.0	---	1.4	---	-1.0	---	-0.5
35 to 44	15.4	12.0	13.5	12.6	---	-3.4	---	1.5	---	-0.9
45 to 54	12.8	14.0	11.5	12.9	---	1.2	---	-2.5	---	1.4
55 to 64	8.7	10.8	12.0	9.9	---	2.1	---	1.1	---	-2.0
65 to 74	8.3	7.2	9.4	10.3	---	-1.0	---	2.1	---	1.0
75+	9.1	8.5	7.8	9.2	---	-0.6	---	-0.7	---	1.4
Total	100.0	100.0	100.0	100.0	---	0.0	---	0.0	---	0.0
Duluth-Superior SMSA										
Under 5	14,860	15,815	15,508	15,852	955	6.4	-307	-1.9	344	2.2
5 to 17	48,203	41,573	43,781	43,973	-6,630	-13.8	2,208	5.3	191	0.4
18 to 24	29,642	32,243	27,070	29,383	2,601	8.8	-5,173	-16.0	2,313	8.5
25 to 34	30,493	33,089	34,545	31,615	2,596	8.5	1,456	4.4	-2,930	-8.5
35 to 44	42,630	31,573	35,021	36,950	-11,057	-25.9	3,448	10.9	1,930	5.5
45 to 54	41,076	42,911	31,813	35,343	1,835	4.5	-11,098	-25.9	3,530	11.1
55 to 64	25,233	39,073	40,873	30,383	13,840	54.8	1,800	4.6	-10,491	-25.7
65 to 74	20,593	21,906	34,292	35,944	1,313	6.4	12,386	56.5	1,651	4.8
75+	22,756	21,588	22,577	32,118	-1,168	-5.1	989	4.6	9,541	42.3
Total	275,486	279,771	285,480	291,560	4,285	1.6	5,709	2.0	6,080	2.1
Percentage of Population										
Under 5	5.4	5.7	5.4	5.4	---	0.3	---	-0.2	---	0.0
5 to 17	17.5	14.9	15.3	15.1	---	-2.6	---	0.5	---	-0.3
18 to 24	10.8	11.5	9.5	10.1	---	0.8	---	-2.0	---	0.6
25 to 34	11.1	11.8	12.1	10.8	---	0.8	---	0.3	---	-1.3
35 to 44	15.5	11.3	12.3	12.7	---	-4.2	---	1.0	---	0.4
45 to 54	14.9	15.3	11.1	12.1	---	0.4	---	-4.2	---	1.0
55 to 64	9.2	14.0	14.3	10.4	---	4.8	---	0.4	---	-3.9
65 to 74	7.5	7.8	12.0	12.3	---	0.4	---	4.2	---	0.3
75+	8.3	7.7	7.9	11.0	---	-0.5	---	0.2	---	3.1
Total	100.0	100.0	100.0	100.0	---	0.0	---	0.0	---	0.0

Sources: US Census; Minnesota State Demographer; Wisconsin Department of Administration; Stantec

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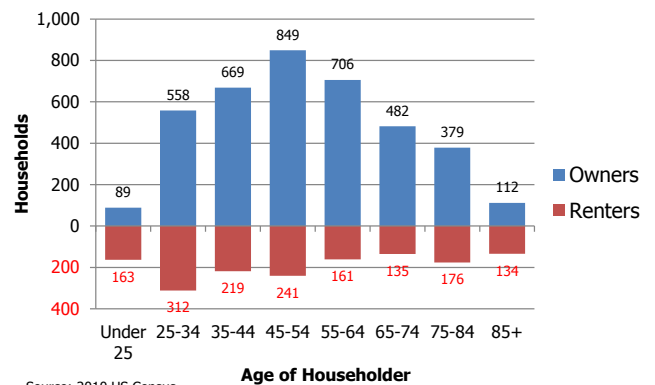
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2.5 HOUSEHOLD TENURE

Table 3 presents data on households by age and tenure (i.e., owner versus renter). Household tenure is strongly associated with age, but major economic change and government policies can influence tenure as well. The following are key findings from the table:

- In general, homeownership is very low among the youngest households and then increases substantially until it peaks among those ages 55 to 64 and then declines once again (Figure 8).
- Although the overall homeownership rate has increased steadily during the latter half of the 20th century, the rate declined from 2000 to 2010, which was largely the result of the recent recession. Due to bank foreclosures, many housing units during the recession transitioned from owner-occupied to renter-occupied.
- Every age group in Cloquet and Scanlon, except those under 25, experienced a drop in homeownership during the last decade.
- At the regional level, the drop in homeownership hit the 35-44 and 45-54 age groups the hardest. However, in Cloquet and Scanlon, the drop in homeownership hit the 65-74 and 75+ age groups the hardest.

Figure 8: Cloquet/Scanlon Household Tenure by Age 2010



Source: 2010 US Census

Table 3: Household Tenure by Age 2000 and 2010

Age Group	2000			2010			Change 2000-2010		
	Rent	Own	% Own	Rent	Own	% Own	Rent	Own	% Own
<i>Cloquet/Scanlon</i>									
Under 25	167	79	32.1%	163	89	35.3%	-4	10	3.2%
25-34	266	483	64.5%	312	558	64.1%	46	75	-0.3%
35-44	239	840	77.8%	219	669	75.3%	-20	-171	-2.5%
45-54	146	757	83.8%	241	849	77.9%	95	92	-5.9%
55-64	83	540	86.7%	161	706	81.4%	78	166	-5.2%
65-74	122	525	81.1%	135	482	78.1%	13	-43	-3.0%
75-84	140	427	75.3%	176	379	68.3%	36	-48	-7.0%
85+	84	103	55.1%	134	112	45.5%	50	9	-9.6%
Total	1,247	3,754	75.1%	1,541	3,844	71.4%	294	90	-3.7%
<i>Duluth-Superior SMSA</i>									
Under 25	5,500	1,352	19.7%	5,800	1,158	16.6%	300	-194	-3.1%
25-34	5,951	9,157	60.6%	6,999	8,918	56.0%	1,048	-239	-4.6%
35-44	4,681	18,658	79.9%	4,314	12,626	74.5%	-367	-6,032	-5.4%
45-54	3,399	20,472	85.8%	4,888	19,486	79.9%	1,489	-986	-5.8%
55-64	2,007	12,975	86.6%	3,651	20,063	84.6%	1,644	7,088	-2.0%
65-74	2,062	11,135	84.4%	2,372	11,654	83.1%	310	519	-1.3%
75-84	3,029	8,309	73.3%	2,555	7,587	74.8%	-474	-722	1.5%
85+	1,566	2,238	58.8%	2,229	2,576	53.6%	663	338	-5.2%
Total	28,195	84,296	74.9%	32,808	84,068	71.9%	4,613	-228	-3.0%

Source: US Census

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2.6 HOUSEHOLD TYPE

Table 4 presents detailed information on the breakdown of households by types for Cloquet/Scanlon and the Duluth-Superior metropolitan area. Shifting household structures can impact the need for various housing products. The following are key findings from the table:

- Compared to the broader metropolitan region, Cloquet and Scanlon have a substantially higher proportion of single-parent families and a substantially lower proportion of married couples without children (i.e., empty nesters). The proportion of all other household types appears to be relatively similar. (See Figure 9)
- Single person households are the largest household type in Cloquet and Scanlon accounting for nearly one-third of all households. The next highest household type is married couples without children at just over one-quarter of all households.
- Other family and roommate households experienced the largest percentage increases between 2000 and 2010. The growth of these household types is likely the result of the economic impact of the recent recession and the need among households to combine their living situations in order to afford housing.
- At the regional level, married couples with children decline significantly between 2000 and 2010 (nearly 19%); so much so that all other household types increased their relative size. In Cloquet and Scanlon, married couples with children also experienced a decline, but it was nowhere near the decline region wide.

Figure 9: Distribution of Household Types 2010

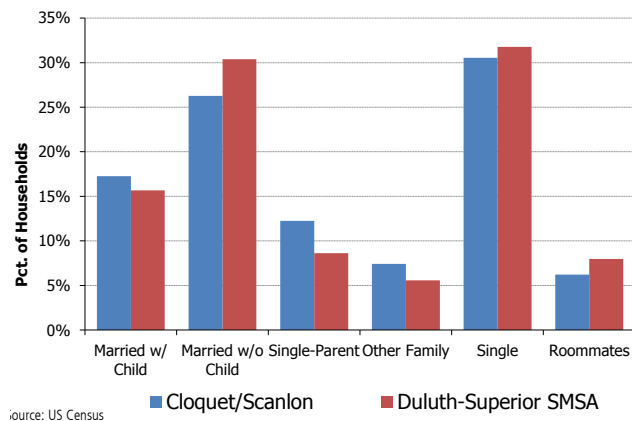


Table 4: Household Type 2000 and 2010

Household Type	2000		2010		Change		Distribution			
	Number	Percent	Number	Percent	Number	Percent	2000	2010	Change	
<i>Cloquet/Scanlon</i>										
Married with children	960	19.2	930	17.3	-30	-3.1	19.2	17.3	-1.9	
Married without children	1,431	28.6	1,415	26.3	-16	-1.1	28.6	26.3	-2.3	
Single-parent family	559	11.2	660	12.3	101	18.1	11.2	12.3	1.1	
Other family*	265	5.3	400	7.4	135	50.9	5.3	7.4	2.1	
Single	1,535	30.7	1,645	30.5	110	7.2	30.7	30.5	-0.1	
Roommate	251	5.0	335	6.2	84	33.5	5.0	6.2	1.2	
Total Households	5,001	100.0	5,385	100.0	384	7.7	100.0	100.0	0.0	
<i>Duluth-Superior SMSA</i>										
Married with children	22,520	20.0	18,321	15.7	-4,199	-18.6	20.0	15.7	-4.3	
Married without children	33,744	30.0	35,503	30.4	1,759	5.2	30.0	30.4	0.4	
Single-parent family	9,442	8.4	10,081	8.6	639	6.8	8.4	8.6	0.2	
Other family*	5,354	4.8	6,522	5.6	1,168	21.8	4.8	5.6	0.8	
Single	34,263	30.5	37,122	31.8	2,859	8.3	30.5	31.8	1.3	
Roommate	7,168	6.4	9,327	8.0	2,159	30.1	6.4	8.0	1.6	
Total Households	112,491	100.0	116,876	100.0	4,385	3.9	100.0	100.0	0.0	

* Other Family households can consist of households with adult siblings, parents with adult children, or householders with parents

Source: US Census

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2.7 HOUSEHOLD INCOME

Table 5 presents data on household income for Cloquet and Scanlon and the Duluth-Superior metropolitan area. Key findings from the table are as follows:

- The median income for all households in Cloquet and Scanlon is roughly equivalent to that of the broader region. As of 2011, it was just over \$46,500, whereas it was about \$46,200 for the region.
- The overall median income for Cloquet and Scanlon increased 26.6% between 2000 and 2011. This was a slightly higher rate of change than what occurred in the region.
- The age group with the highest median income was the 45 to 64 category at about \$57,500 per year. This age group typically includes persons in their peak earning years.
- Households under age 25 have the lowest median incomes, which for Cloquet and Scanlon were about \$11,800 per year in 2011. This is roughly half the median of the same age group region wide. Although this suggests that wages at Cloquet area jobs are likely very low relative to the region, this is difficult to determine without better information. For example, in 2000 the difference in median incomes between Cloquet and the broader region for this age group were minimal. In all likelihood the difference may be the result significant statistical fluctuations that can result from small sample sizes.
- The situation among the youngest age groups notwithstanding, it appears as if income across most age groups is very similar to the broader region and has been increasing at a similar rate as well.

Figure 10: Median Household Income by Age 2011

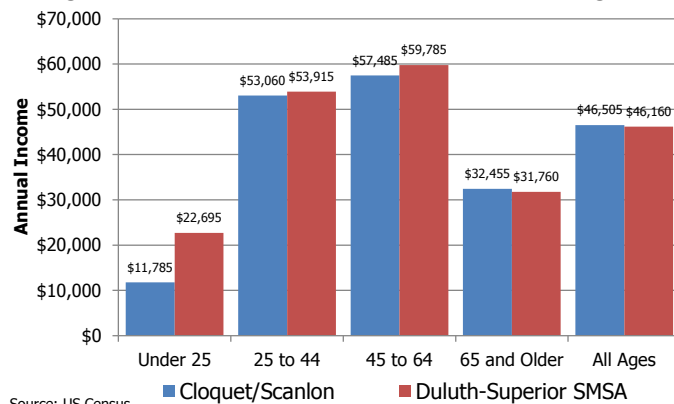


Table 5: Median Household Income by Age 2000 & 2011

Age Group	Cloquet/Scanlon			Duluth-Superior SMSA		
	2000	2011	Change	2000	2011	Change
Households under 25	\$19,485	\$11,785	-39.5%	\$19,535	\$22,695	16.2%
Households 25-44	\$43,660	\$53,060	21.5%	\$41,490	\$53,915	29.9%
Households 45-64	\$55,985	\$57,485	2.7%	\$49,390	\$59,785	21.0%
Households 65+	\$20,320	\$32,455	59.7%	\$23,040	\$31,760	37.8%
All Households	\$36,720	\$46,505	26.6%	\$36,625	\$46,160	26.0%

Source: US Census: 2000 Census; 2007-2011 American Community Survey

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3.0 Economic Analysis

This section examines key economic factors that underlie the need for various types of housing in Cloquet and Scanlon. The U.S. Census, in particular the Longitudinal Employer-Household Dynamics dataset (LEHD), and the Minnesota Department of Employment and Economic Development served as the primary sources of data for the analysis. Interviews with major employers in the area were also a key source of information.

3.1 EMPLOYMENT

Employment growth is an important indicator of housing need within a community. However, a detailed analysis of the employment base by industry along with their associated wages can help reveal which types of housing may be most in need.

Table 6 and Figure 11 present employment data by industry for northeastern Carlton County and the broader Duluth-Superior metropolitan area. The data in Table 6 is from 2002 and 2011 in order to illustrate growth patterns by industry that includes a period of time both before and after the recent recession. The following are key findings from the table:

- Between 2002 and 2011, northeastern Carlton County, which includes Cloquet and Scanlon, experienced a 5.9% increase in total employment, which was slightly more than the 5.3% increase for the broader metro area.
- Industry sectors that experienced the most employment growth between 2002 and 2011 in northeastern Carlton County were Public Administration, Health Care, Information, Retail Trade, and Leisure and Hospitality. These sectors tend to have lower wages compared to other sectors. For example, the Leisure and Hospitality sector, which accounts for 16% of all jobs in northeastern Carlton County has an annual average wage of \$16,700. Growth in this and other lower wage industries places pressure on the demand for more affordable types of housing. In the broader metro area, the biggest increases were by far in the Health Care sector.
- The Manufacturing sector in northeastern Carlton County experienced the most significant employment losses between 2002 and 2011. Although this sector also declined significantly throughout the metro area, the biggest losses in the region came in the Financial Services sector.
- Overall, annual wages for jobs located in northeastern Carlton County tend to be about 10% lower than overall wages in the metro area. This is largely due to the fact that most sectors have lower wages in northeastern Carlton County than in other parts of the region. However, sectors in northeastern Carlton County that have higher wages relative to the region are Manufacturing, Construction, and Leisure and Hospitality.

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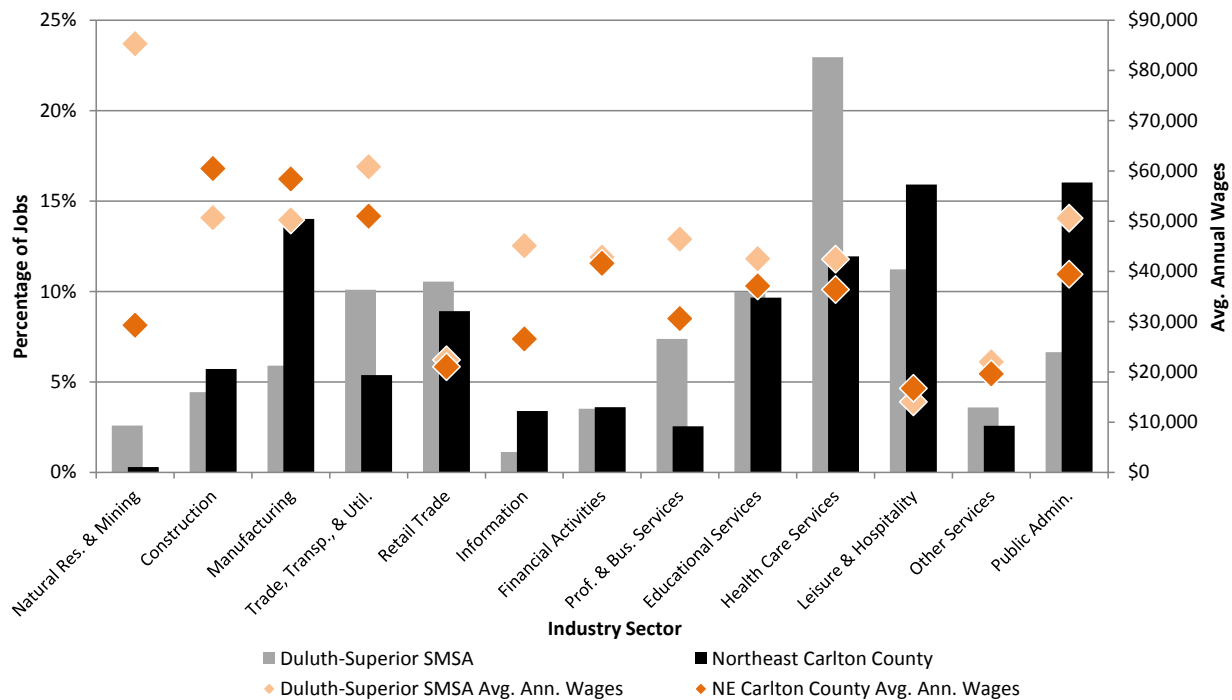
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Table 6: Employment Change and Wages by Industry

NAICS Industry Sector	Northeast Carlton County Jobs				Duluth-Superior SMSA Jobs				2011 Dist. of Jobs		2011 Avg. Ann. Wages	
	2002	2011	'02-'11 Change	'02-'11 Pct. Chg.	2002	2011	'02-'11 Change	'02-'11 Pct. Chg.	Northeast Carlton County	Duluth-Superior SMSA	Northeast Carlton County	Duluth-Superior SMSA
Natural Res. & Mining	43	30	-13	-30.2%	4,167	3,307	-860	-20.6%	0.3%	2.6%	\$29,300	\$85,300
Construction	630	587	-43	-6.8%	5,297	5,669	372	7.0%	5.7%	4.4%	\$60,450	\$50,700
Manufacturing	2,382	1,438	-944	-39.6%	9,135	7,536	-1,599	-17.5%	14.0%	5.9%	\$58,400	\$50,200
Trade, Transp., & Util.	558	552	-6	-1.1%	13,723	12,897	-826	-6.0%	5.4%	10.1%	\$51,000	\$60,800
Retail Trade	615	915	300	48.8%	12,218	13,459	1,241	10.2%	8.9%	10.5%	\$21,000	\$22,400
Information	45	348	303	673.3%	2,320	1,440	-880	-37.9%	3.4%	1.1%	\$26,520	\$45,100
Financial Activities	396	370	-26	-6.6%	9,761	4,486	-5,275	-54.0%	3.6%	3.5%	\$41,600	\$42,800
Prof. & Bus. Services	346	262	-84	-24.3%	7,636	9,428	1,792	23.5%	2.6%	7.4%	\$30,600	\$46,400
Educational Services	1,012	991	-21	-2.1%	12,679	12,738	59	0.5%	9.7%	10.0%	\$37,100	\$42,500
Health Care Services	835	1,226	391	46.8%	19,753	29,306	9,553	48.4%	11.9%	23.0%	\$36,400	\$42,400
Leisure & Hospitality	1,374	1,633	259	18.9%	13,110	14,335	1,225	9.3%	15.9%	11.2%	\$16,700	\$14,000
Other Services	250	265	15	6.0%	3,827	4,576	749	19.6%	2.6%	3.6%	\$19,600	\$22,000
Public Admin.	1,206	1,644	438	36.3%	7,560	8,479	919	12.2%	16.0%	6.6%	\$39,400	\$50,600
Total	9,692	10,261	569	5.9%	121,186	127,656	6,470	5.3%	100.0%	100.0%	\$35,900	\$39,800

Sources: US Census, Longitudinal Employer-Household Dynamics data set; Minnesota Department of Employment and Economic Development, Quarterly Census of Employers and Wages; Stantec

Figure 11: 2011 Distribution of Employment by Industry and Annual Wages



Sources: US Census, Longitudinal Employer-Household Dynamics data set; Minnesota Department of Employment and Economic Development, Quarterly Census of Employers and Wages; Stantec

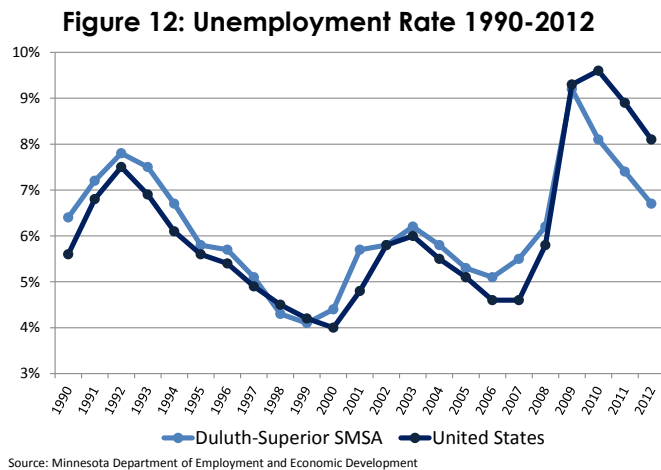
CLOQUET/SCANLON HOUSING STUDY

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3.2 UNEMPLOYMENT

The unemployment rate in a region can provide insight into the health of the economy and the resulting potential demands on housing. Figure 12 presents data on the unemployment rate for the Duluth-Superior metropolitan area and the United States from 1990 to 2012.

According to the figure, the economy of the local region appears to be closely tied to that of the nation. The unemployment rate for each area has generally been within 1% point of each other over the past 20+ years, which spans several periods of boom and bust growth. The exception has been the last three years in which the unemployment rate in the Duluth region has been falling at a much faster rate coming out of the most recent recession than compared to the nation as a whole.



Declining unemployment signifies a strengthening market for employment, which generally results in increasing wages as employers compete for qualified labor. Rising wages is good for most households as they typically have more funds available for housing. However, without a commensurate increase in supply, increased levels of employment with rising wages can place inflationary pressure on the local housing market and may result in a counterintuitive situation in which some households are unable to afford available housing in the local market.

3.3 COMMUTE PATTERNS

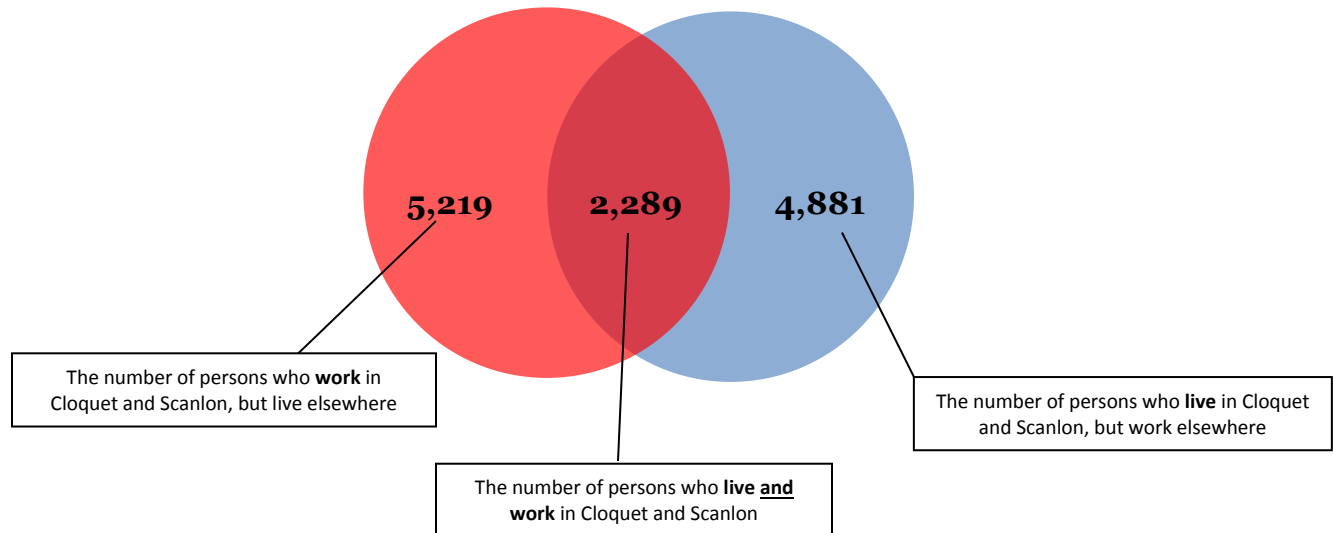
Commute patterns of local residents and workers are important because the lack of available housing can both cause and be a symptom of excessively long commute trips, which for low-income households in particular can be a financial burden.

Figure 13 depicts data taken from the U.S. Census's Longitudinal Employer-Household Dynamics dataset. It shows the daily inflow and outflow of residents and workers in Cloquet and Scanlon. The red circle is the number of persons (5,219) who commute into Cloquet or Scanlon for work but live outside of either community. The dark red area is the number of people (2,289) who live *and* work in Cloquet or Scanlon. The blue circle is the number of Cloquet and Scanlon residents (4,881) who commute outside of the community for work. According to this dataset, Cloquet is an important employment center as it attracts more workers to the community for work than those who commute elsewhere.

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Figure 13: Commute Patterns of Cloquet/Scanlon Residents and Workers



Source: U.S. Census, Longitudinal Employer-Household Dynamics (LEHD) data set

3.3.1 Inflows

Of the roughly 5,200 people that commute into Cloquet/Scanlon for work, about one-third or 3,500 people come from within 25 miles. Although Duluth and its environs account for the majority of these commuters, there is a substantial number that come from other directions as well. A significant number of commuters (roughly 1,200), however, commute more than 50 miles to Cloquet for work. Given such long commutes, this group may be motivated by better housing choices elsewhere and would consider Cloquet or Scanlon if more options were available.

3.3.2 Outflows

Of the 4,900 people who live in Cloquet and Scanlon that commute to other communities for work, about 60% of those are to jobs within a 25-mile radius. The majority of these regional commuters are going to workplaces in the City of Duluth. The remaining 40% of this group, about 2,000, commute to jobs that are more than 50 miles from Cloquet or Scanlon. Interestingly, these long distance commuters are heavily skewed to the south and toward the Twin Cities region.

3.4 EMPLOYER INTERVIEWS

In terms of economic development and business expansion, housing is no longer a “quality of life” issue. Rather, it has become a critical factor among employers when considering where to locate, and their ability to grow their businesses. Business growth is almost always accompanied by job growth, which, in turn, results in demand for housing units to accommodate new workers. Therefore, communities that do not have an adequate supply of housing units that are affordable to workers and appropriate for their needs and preferences are at a significant disadvantage.

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Stantec interviewed several of the major employers in and near Cloquet to better understand their perspective on the ability of the local housing stock to meet their workforce needs. Major employers are a key driver of the local economy and if they are unable to attract or retain key personnel due to a lack of affordable or quality housing, this can have deleterious effects on the community.

Black Bear Casino

The biggest concern for Black Bear Casino employees, according to Don Weisen, HR Director, is the high cost of rental housing – apartments and houses alike. Workers who come from Duluth, Superior, Hinckley or other places find the cost of housing prohibitive. Many positions at the casino have starting pay of \$8 to \$10 an hour and most people cannot find housing in a price range supported by that kind of pay. As a result many try to stay where they are and commute – from Duluth, Superior, Two Harbors, Moose Lake and other places – sometimes 30 to 40 miles away. This can result in employees showing up late for work, considering the distance. Others will live with relatives in the area, if they have them.

Mr. Weisen believes the critical need is for one-, two-, and three-bedroom apartments or condos in the low to medium price range. Jobs are posted all the time at the casino and often the first question from applicants is if there is affordable housing nearby. Available rental housing in the area might typically cost \$700-750/month, plus utilities (gas, electricity, water) of \$100 or more per month. The need is for housing that would cost \$500-600/month, utilities included.

Black Bear Casino is on the reservation and Mr. Weisen is familiar with other reservations in the Upper Midwest with similar experiences – Fond du Lac, Wisconsin and Fort Berthold, North Dakota – who have built apartments to meet the demand.

Black Bear Casino employs 890 people, according to Mr. Weisen. This is up from 710 four years ago. There is typically a seasonal surge to employment – a summer peak, then down in the fall and winter, then back up in the spring. He has not seen that in the last couple years. Employment levels have stayed constant this fall.

About 8%-10% of Black Bear's employees are American Indian who live on the reservation. Another 30% are Native, but live off the reservation.

Community Memorial Hospital

Hospital HR Director Cory Glad did not have specific anecdotes from employees about housing but did offer his experience renting a home when he came to Cloquet four years ago. Expecting to pay about \$1,000/month, he found nothing. When a house became available he rented it on the spot, paying about \$1,500/month. He says that housing is not something that has come to his attention from employees.

Wages for most hospital staff average about \$30,000/year, so employees need to have access to housing that is affordable for that salary range.

Employment at Community Memorial Hospital peaked a few years ago and is down slightly to 425 employees today. About 10% of employees live 20 or more miles away, some in Wisconsin.

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Sappi

Diane Norkunas, the HR Director, hasn't heard of any problems with housing costs or availability from Sappi employees. She said they have a company that assists new hires get settled, including with housing, and it doesn't seem to be an issue in the Cloquet area.

Sappi has about 730 employees at the Cloquet site in a variety of jobs – mill, production, maintenance, supply operations, management, etc. Total employment varies depending on the various projects they have going on. They put in a new liquid pulp operation in June 2013 which involved significant hiring, but she does not envision any big hires in the near future.

Representatives from other major employers in Cloquet were contacted as well, but were unable to respond before the completion of the study.

CLOQUET/SCANLON HOUSING STUDY

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4.0 Characteristics of the Housing Stock

Cloquet and Scanlon contain a wide variety of housing styles and products. While historic parts of town contain homes dating from the early 20th century, recent and current building trends are creating a new character of housing along the City's edges. This section characterizes the housing stock of Cloquet and Scanlon by reviewing structure types, age of structures, housing cost burdens of households, and recent building trends.

4.1 HOUSING STRUCTURE TYPES

Structure type relates to the number of individual housing units within a single structure or building. This can be an important characteristic of the local housing stock because the density of housing types can sometimes be related to affordability and the ability to deliver needed services to households with mobility impairments. Table 7 presents data on housing units by structure type for Cloquet/Scanlon and the Duluth-Superior metropolitan area. Below are key findings from the table:

- Detached single-family housing is by far the most prevalent structure type in Cloquet/Scanlon and throughout the region. Nearly 80% of all housing units in Cloquet/Scanlon are detached single-family homes. Ample supply of land, which helps keep land prices low, can sometimes contribute to higher numbers of single-family homes.
- Among the attached and multifamily structure types, no single building size tends to be dominant in Cloquet/Scanlon.

Table 7: Housing Structure Types 2011

Structure Type	Cloquet/ Scanlon	Duluth SMSA	Cloquet/ Scanlon	Duluth SMSA
1, detached unit	4,595	104,745	78.7%	74.3%
1, attached unit	131	2,408	2.2%	1.7%
2 units	102	6,530	1.7%	4.6%
3 or 4 units	156	4,237	2.7%	3.0%
5 to 9 units	138	3,415	2.4%	2.4%
10 to 19 units	204	3,318	3.5%	2.4%
20 to 49 units	166	4,685	2.8%	3.3%
50 or more	140	4,590	2.4%	3.3%
Mobile Home	203	7,034	3.5%	5.0%
Boat, RV, Van, etc.	0	46	0.0%	0%
Total Units	5,835	141,008	100%	100%

Sources: US Census, American Community Survey 2007-2011

4.2 AGE OF HOUSING STOCK

The age of the housing stock can also impact the need for housing in a community. For example, a ready supply of older homes can often be a source of entry level housing for first time homebuyers or low income households. However, older homes can be costly to maintain and if maintenance is deferred too long can become unmarketable due to code violations or poor condition. Furthermore, older homes that are not regularly updated and modernized can risk becoming obsolete despite good maintenance simply because it does not have features desired by today's market. Table 8 presents data on the number of housing units by year built for Cloquet Scanlon, and the Duluth metropolitan area. Below are key findings:

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- Nearly 50% of the housing stock in Cloquet/Scanlon and throughout the region is more than 50 years old. Housing that is more than 50 years old typically requires significant investments into building elements such as the roof, HVAC, electrical/plumbing, and appliances in order to keep the unit up to code, energy efficient, and marketable.
- Roughly 20% of the housing stock in Cloquet/Scanlon is less than 20 years old. These units generally will not require significant investment for a number of years due to their newer condition. However, less than 1/5 of the housing stock falls into this category.
- The remaining 30-35% of the housing stock is between 20 and 50 years old. Although much of this housing may still meet many of the needs of today's market, most of these homes are beginning to hit the part of their lifespan in which they will begin needing major maintenance or updating to remain marketable.

Table 8: Housing Units by Year Built, 2011

Year Built	Cloquet/ Scanlon	Duluth SMSA	--- Distribution ---	
			Cloquet/ Scanlon	Duluth SMSA
2005-present	200	4,587	3.4%	3.3%
2000-2004	395	8,977	6.8%	6.4%
1990-1999	615	12,934	10.5%	9.2%
1980-1989	509	10,591	8.7%	7.5%
1970-1979	770	21,152	13.2%	15.0%
1960-1969	616	11,987	10.6%	8.5%
1950-1959	869	18,916	14.9%	13.4%
1940-1949	481	11,280	8.2%	8.0%
Pre-1940	1,380	40,584	23.7%	28.8%
Total Units	5,835	141,008	100%	100%

Source: US Census, American Community Survey 2007-2011

4.3 HOUSING COST BURDEN

Rent burden is the proportion of household income spent toward housing and utilities. When lower income households spend more than 30% of their income toward rent and utilities this burden is considered excessive because it begins to limit the money available for other essentials such as food, clothing, transportation, and healthcare. Table 9 presents the number and percentage of Cloquet/Scanlon and metro area households broken down by percentage of income spent on housing by annual income and tenure. Important findings include the following:

- There are over 1,600 households in Cloquet/Scanlon with incomes less than \$50,000 per year that pay more than 30% of their income on housing. Therefore, roughly 30% of all Cloquet/Scanlon households experience a fairly high degree of housing cost burden.
- The burden of housing costs is not unique to renters. According to the table, 833 owner households in Cloquet/Scanlon, which is nearly 50% of those with annual incomes less than \$50,000, pay more than 30% of their income on housing as well.

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Table 9: Housing Costs as Percentage of Household Income by Tenure

Housing Costs as a % of Household Income	Owner-Occupied HHs			Renter-Occupied HHs			All Households		
	Ann Inc <\$50k	Ann Inc \$50k+	Total	Ann Inc <\$50k	Ann Inc \$50k+	Total	Ann Inc <\$50k	Ann Inc \$50k+	Total
Cloquet/Scanlon: Number of Households									
Less than 20.0 percent	522	1,475	1,997	182	266	448	704	1,741	2,445
20.0 to 29.9 percent	352	531	883	186	34	220	538	565	1,103
30.0 percent or more	833	227	1,060	799	33	832	1,632	260	1,892
Total	1,707	2,233	3,940	1,167	333	1,500	2,874	2,566	5,440
<i>Cloquet/Scanlon: Percentage of Households</i>									
Less than 20.0 percent	30.6%	66.1%	50.7%	15.6%	79.9%	29.9%	24.5%	67.8%	44.9%
20.0 to 29.9 percent	20.6%	23.8%	22.4%	15.9%	10.2%	14.7%	18.7%	22.0%	20.3%
30.0 percent or more	48.8%	10.2%	26.9%	68.5%	9.9%	55.5%	56.8%	10.1%	34.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Duluth SMSA: Number of Households									
Less than 20.0 percent	11,955	33,674	45,629	3,611	3,689	7,300	15,566	37,363	52,929
20.0 to 29.9 percent	7,653	11,560	19,213	6,262	947	7,209	13,915	12,507	26,422
30.0 percent or more	15,561	5,165	20,726	16,226	312	16,538	31,787	5,477	37,264
Total	35,169	50,399	85,568	26,099	4,948	31,047	61,268	55,347	116,615
<i>Duluth SMSA: Percentage of Households</i>									
Less than 20.0 percent	34.0%	66.8%	53.3%	13.8%	74.6%	23.5%	25.4%	67.5%	45.4%
20.0 to 29.9 percent	21.8%	22.9%	22.5%	24.0%	19.1%	23.2%	22.7%	22.6%	22.7%
30.0 percent or more	44.2%	10.2%	24.2%	62.2%	6.3%	53.3%	51.9%	9.9%	32.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: US Census, 2007-2011 American Community Survey

4.4 RESIDENTIAL CONSTRUCTION ACTIVITY

The construction of new housing is important because it accommodates growth, allows for the replacement of obsolete or substandard units, and provides choice in the marketplace. Table 10 and Figure 14 present data from the City of Cloquet on the number of housing units that have been permitted for construction since 2003. The following are key findings from the table:

- Since 2003, Cloquet has permitted the construction of 385 new housing units. This is an annual average of 35 units per year.
- During the 10-year period, more multifamily/duplex units have been constructed than single-family units. This is a departure from Cloquet's historical pattern in which the split has been 80/20 in favor of single-family units.
- There was a sharp slowdown in single-family construction that began in 2006 and bottomed out in 2011. This was largely the result of the bursting of the housing bubble and subsequent recession. In 2003 and 2004, single-family construction peaked at 26 units per year and then hit a low of two units in 2011. Although single-family construction is picking up slightly from its low point, it is still well below the rate of construction experienced during the early 2000s.

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- Within the single-family housing type, there is an important subsector of manufactured housing that accounts for about 20% of all new single-family homes constructed.

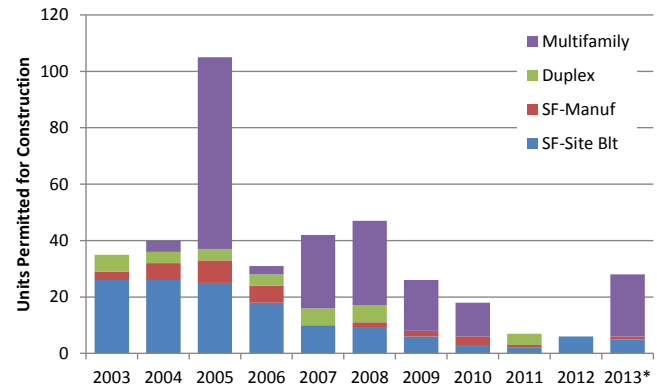
Table 10: Housing Units Permitted for Construction by Type, City of Cloquet 2003-2013*

Year	Single-Family		Duplex	Multi-family	Total
	Site Built	Manuf.			
2003	26	3	6	0	35
2004	26	6	4	4	40
2005	25	8	4	68	105
2006	18	6	4	3	31
2007	10	0	6	26	42
2008	9	2	6	30	47
2009	6	2	0	18	26
2010	3	3	0	12	18
2011	2	1	4	0	7
2012	6	0	0	0	6
2013*	5	1	0	22	28
'03-'13 Total	136	32	34	183	385
<i>Ann. Avg.</i>	<i>12</i>	<i>3</i>	<i>3</i>	<i>17</i>	<i>35</i>

* Through August

Source: City of Cloquet

Figure 14: Housing Units Permitted for Construction by Type City of Cloquet 2003-2013



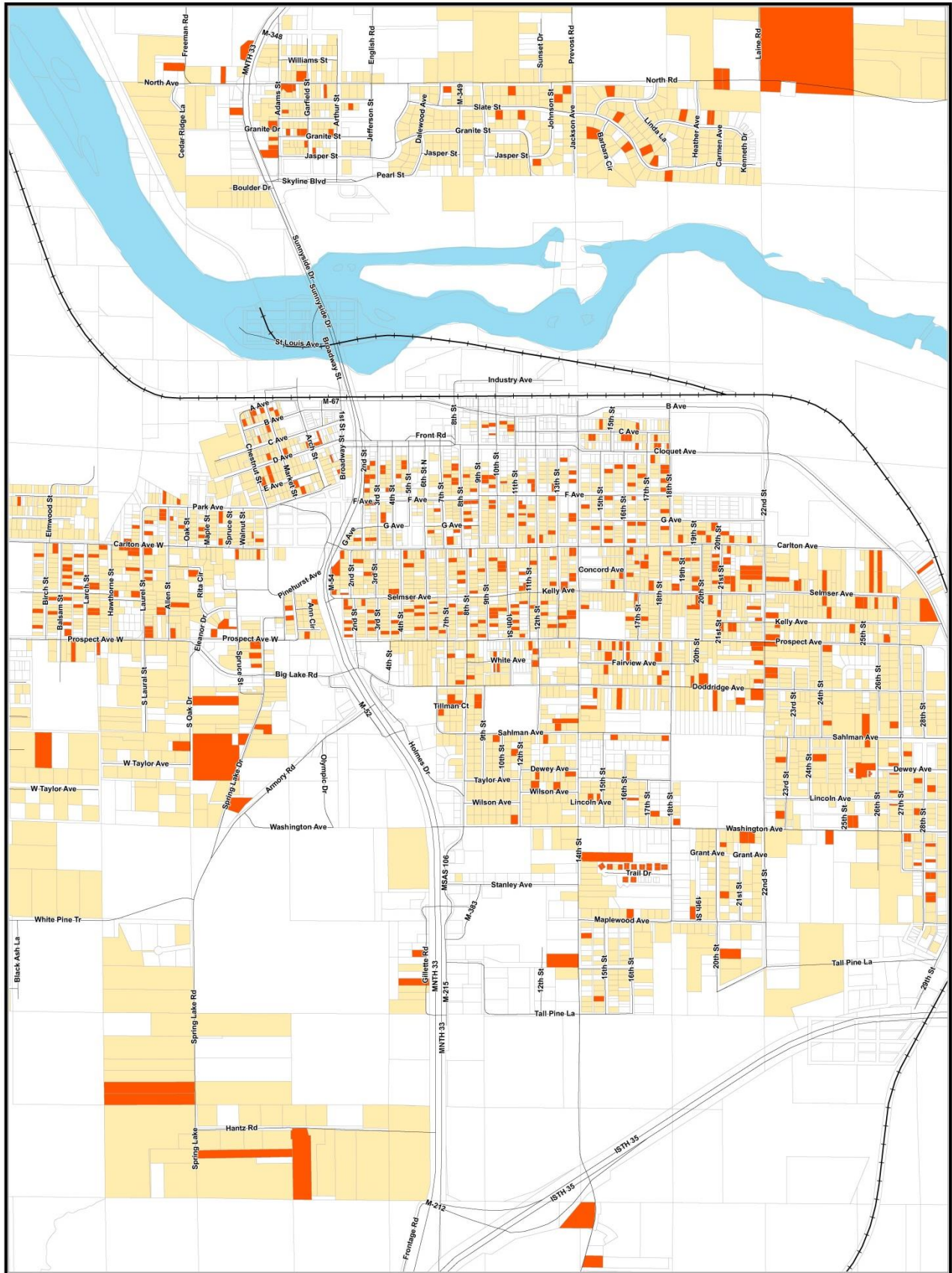
Source: City of Cloquet

4.5 HOMESTEAD STATUS

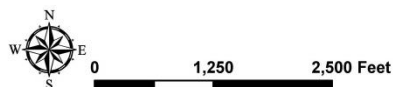
It was noted in the demographics section of this report that the number of renter households in Cloquet and Scanlon increased by nearly 300 between 2000 and 2010. However, there were only about 200 rental units built during this time. Therefore, this suggests that about 100 single-family homes likely shifted from being owner-occupied to renter-occupied during this time as well. Because single-family properties tend to accommodate any fluctuations in the market with respect to broad changes in tenure, it is important to understand where, if any, concentrations of rental single-family housing may exist.

Because the City of Cloquet does not currently have a rental licensure program, it is difficult to fully understand how many single-family properties are actually being rented. However, analysis of the homestead status of single-family properties can provide some insight as to the probable scale of the condition and the geographic distribution of such properties. In order for a property to have “homestead” status, which grants the owner a property tax savings, it must be the primary residence of the owner. Therefore, properties that are “not homesteaded” are often rented. It is important to keep in mind, however, that not all “non-homesteaded” properties are rented because some may be second homes of the owner or the owners may have never submitted the appropriate documentation to achieve “homestead” status even though they may be qualified to do so.

According to data provided by the Carlton County assessor for the Cities of Cloquet and Scanlon, there are a total of approximately 4,300 single-family properties in the two cities, of which 12.6% or 540 are considered “not homestead”. The following map displays where within the most built up portions of Cloquet and Scanlon these properties are located.



Cloquet / Scanlon Single Family Property Homestead Status



- Homestead
- Not Homestead

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Although the above map of homestead status does not show the entire City of Cloquet, it does account for more than 90% of all non-homesteaded single-family properties. Therefore, one key finding to conclude from the map is that non-homesteaded properties tend to concentrate in the older sections of Cloquet versus the newer sections that are located outside of this map. With that being said, though, within these older areas there does not appear to be a significant degree of concentration within any particular neighborhood or set of blocks. Certainly, some blocks have a higher proportion of non-homestead properties than others. However, this dynamic appears to occur on a block by block basis and not related to any particular area or neighborhood.

4.6 HOUSING CONDITIONS

Housing conditions in Cloquet were assessed based on a staff-led tour of city neighborhoods in conjunction with a review of data provided by the Carlton County Assessor regarding property ages and assessed values. The following are key findings from the assessment:

- Cloquet and Scanlon have approximately 2,300 housing units that are more than 60 years old. Older properties are scattered throughout both cities, but are most concentrated in three areas: 1) the West End, which are the blocks located just west of Highway 33 and south of the St. Louis River; 2) the area east of Highway 33 and north of Prospect Avenue; and 3) the Sunnyside area north of the St. Louis River and immediately east of Highway 33.
- Cloquet has an important historical legacy from the 1918 fire that still impacts the housing market today. In rebuilding after the fire, many homes were hastily rebuilt in order to help residents get back to normalcy as soon possible. Unfortunately, many of these homes, though intended to be modest temporary structures 100 years ago, remain an important component of the housing stock. According to records from the Carlton County Assessor, Cloquet has 612 homes that were built in either 1919 or 1920. This is a remarkable 15% of all single-family homes in Cloquet. Although many of these homes have certainly been well maintained and cared for over the years, their marketability, not to mention their habitability, becomes an increasingly important issue over time.
- According to the County Assessors records, 524 homes or 13% of the single-family housing stock in Cloquet/Scanlon would be considered very small by today's standards. These homes have either one bedroom or are less than 800 square feet in size. Such small single-family homes, no matter the condition, are often very difficult to resell because they do not meet the needs of today's households without costly upgrades. Moreover, if the lot they are located on does not have the space for additions, this makes the likelihood of resell that much less.
- Although Cloquet and Scanlon have a high percentage of older homes, which are often costly and challenging to upkeep, especially for the elderly, there are no neighborhoods or districts that have an unusually high concentration of problem houses. The neighborhood that comes closest to having a critical mass of deferred properties would be the blocks immediately adjacent to the West End commercial district, especially the blocks along Avenue A fronting the railroad tracks and the industrial uses along the St. Louis River. However, this is a small area and many of the

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nearby residential blocks adjacent to this district contain many of Cloquet's more architecturally significant older homes and properties that continue to be well maintained to this day.

- Although no neighborhood has a critical mass of problem homes with maintenance issues, there are a number of older neighborhoods that have visibly aging street infrastructure and streetscapes. Although it is beyond the control of a single property owner to repair or upgrade public spaces, poor sidewalk or roadway conditions and lack of streetlighting or appropriately scaled street lights can have a significant impact on the quality and character of a neighborhood's homes.
- Despite Cloquet and Scanlon's prevalence of older homes and neighborhoods, there are a number of newer neighborhoods in several different parts of the City. North of the St. Louis River, the Erickson Acres neighborhood has many newer homes. West of Highway 33, there are newer neighborhoods west of Spring Lake Road along Taylor Avenue and White Pine Trail. There are also areas of newer development along the Interstate 35 frontage road and the new Otter Creek subdivision. South and east of Interstate 35 near the City's southern border, there is a concentration of newer homes as well. This area, however, also contains a number of older properties that are not connected to municipal sewer and water. Typically, older properties at non-rural densities tend to be connected to municipal sewer and water. This area, therefore, should be monitored closely as older septic and well systems that fail can require costly fixes, especially if municipal sewer and water needs to be brought into the area in order to correct any ground water problems.

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For-Sale Market Analysis
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5.0 For-Sale Market Analysis

As shown previously in the review of household tenure, owner-occupied housing comprises the bulk of Cloquet/Scanlon housing stock. This section of the report reviews recent and current sales trends in owned housing, including pricing, sales volume, and how Cloquet and Scanlon's trends compare with surrounding communities. This section also contains a detailed analysis of active and pending owner-occupied housing developments in the community.

5.1 HOUSING MARKET SALES ACTIVITY AND ASSOCIATED TRENDS

Housing sales statistics from the Multiple Listing Service (MLS) were analyzed for Cloquet/Scanlon since 2008. While the MLS does not track data on sales of new housing units (which are often sold directly from developer to buyer, eliminating the need for brokers), the MLS accounts for the vast majority of sales in any given market and is the most accurate source available to study trends in volume and pricing.

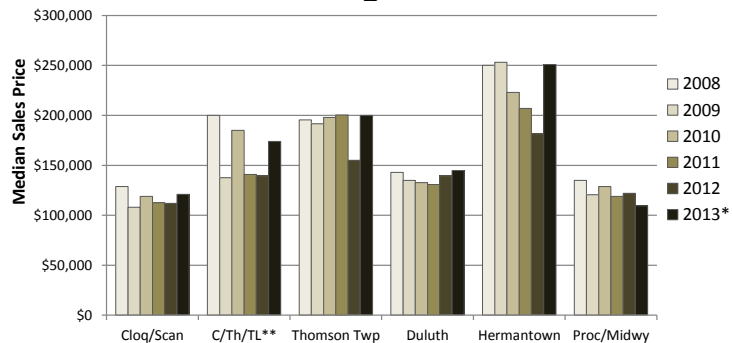
For comparison purposes, information from the surrounding communities to the south (Carlton, Thomson, and Twin Lakes township), immediately to the east (Thomson township, aka Esko), and further to the east (Proctor/Midway, Hermantown, and Duluth) were also analyzed.

The period between 2009 and 2011 marks the bottom of a national housing bust that began in the mid-2000s when lax lending standards inflated demand for housing and created a market bubble of overbuilding and overpricing. The housing bubble, however, did not impact all communities equally.

Table 11 presents data on median sales price, number of sales, average year built, and average square feet of homes sold. Figure 15 graphically depicts price trends between 2008 and 2013. The following are key findings from the data:

- The median sales price in Cloquet/Scanlon bottomed out in 2009 when it was \$109,000. Through the first three quarters of 2013, the median sales price is \$121,000. This indicates that after several years of price declines there is upward pressure on pricing.
- The number of sales is increasing as well. After bottoming out in 2009 at 129 sales, the first three quarters of 2013 is already at 195 sales and likely to eclipse the highest number of sales in any given year since 2008.
- Cloquet/Scanlon contains more older, smaller homes than other local markets. The average age of home sold in Cloquet/Scanlon is nearly 60 years. Duluth is the

Figure 15: Median Sales Price Cloquet/Scanlon and Surrounding Communities



* January through October
** Includes Carlton (city), Thomson (village), and Twin Lakes twp
Source: Duluth Area Association of Realtors: MLS

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only other local market dominated by even older homes. The average size of a home sold in Cloquet/Scanlon is a little more than 1,500 square feet. This is as much as 500 square feet smaller than several other local markets.

- Among the communities analyzed, Cloquet/Scanlon is one of the more affordable housing markets. In particular, adjacent rural communities, such as Esko and Twin Lakes township, which tend to consist of bigger, newer homes on much larger lots than what is typically available in Cloquet/Scanlon, have a median sales prices that is anywhere between \$50,000 and \$60,000 more than Cloquet/Scanlon.
- Duluth has a big impact on the local market. It accounts for over 70% of all sales in an area that includes northeastern Carlton and southeastern St. Louis counties. Therefore, as changes occur in the Duluth market, such as rising prices, this likely has ripple effects throughout the region.

Table 11: For-Sale Housing Statistics 2008-2013*

Area	2008	2009	2010	2011	2012	2013*
<i>Median Sales Price</i>						
Cloquet/Scanlon	\$128,700	\$108,000	\$119,000	\$112,500	\$112,000	\$121,000
Carlton/Thomson/Twin Lakes twp	\$200,000	\$137,500	\$185,000	\$140,900	\$139,500	\$173,975
Thomson twp/Esko	\$195,500	\$191,500	\$198,000	\$200,500	\$155,000	\$199,900
Duluth	\$143,000	\$135,000	\$132,700	\$130,900	\$139,350	\$144,700
Hermantown	\$250,000	\$253,200	\$222,900	\$207,000	\$181,450	\$251,000
Proctor/Midway	\$135,000	\$120,500	\$128,850	\$119,000	\$122,000	\$109,500
<i>Number of Sales</i>						
Cloquet/Scanlon	176	197	153	129	195	195
Carlton/Thomson/Twin Lakes twp	35	26	37	35	21	26
Thomson twp/Esko	51	59	46	52	63	45
Duluth	965	1,101	932	974	1,078	1,028
Hermantown	89	76	86	95	74	93
Proctor/Midway	55	67	44	50	55	56
<i>Average Year Built</i>						
Cloquet/Scanlon	1955	1944	1956	1950	1952	1956
Carlton/Thomson/Twin Lakes twp	1977	1971	1962	1979	1970	1970
Thomson twp/Esko	1977	1979	1982	1979	1974	1978
Duluth	1946	1943	1946	1945	1950	1947
Hermantown	1982	1985	1979	1982	1976	1981
Proctor/Midway	1955	1950	1962	1959	1953	1959
<i>Average Square Feet</i>						
Cloquet/Scanlon	1,558	1,427	1,568	1,480	1,558	1,596
Carlton/Thomson/Twin Lakes twp	1,819	1,573	1,870	1,673	1,608	1,912
Thomson twp/Esko	1,706	2,079	2,074	2,043	1,833	2,056
Duluth	1,595	1,572	1,605	1,660	1,711	1,685
Hermantown	2,173	2,223	2,068	2,195	2,042	2,280
Proctor/Midway	1,346	1,411	1,595	1,555	1,457	1,560

* January through October

Source: Duluth Area Association of Realtors: Regional Multiple Listing Service (RMLS)

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5.2 RECENT/ACTIVE SINGLE-FAMILY SUBDIVISIONS

Stantec researched active single-family subdivisions to learn about the supply of available single-family lots for development. Based on data from the City of Cloquet, there has been very little single-family subdivision development in recent years. This is likely due to the recession which dramatically slowed all types of development in the region.

The two most recent single-family subdivisions are the Otter Creek and Jolicouer Trails developments. Table 12 is a brief summary of the two subdivisions, which is followed by a brief description of each as well.

Table 12: Recent/Active Cloquet Single-Family Subdivisions

Recent/Active Subdivisions	Year Developed	Total Lots	Built Lots	Vacant Lots	Average Lot Size	Average Home Value	Absorption per Year
Jolicouer Trails Phase II	2004	26	6	20	2.5	\$326,000	1
Otter Creek Phase I	2004	25	12	13	1.7	\$240,000	1
Total/Average		51	18	33	2.1	\$283,000	2

Source: City of Cloquet; Stantec

Jolicouer Trails is located in the western part of Cloquet off of White Pine Trail and is adjacent to the Fond du Lac Reservation. The subdivision is not served by municipal sewer or water. The first phase of Jolicouer Trails was developed in the 1990s and consisted of 10 lots about two acres in size situated along White Pine Trail. Once Phase I was mostly sold, Phase II was then developed in 2004 with 26 lots located just south of White Pine Trail, which required the construction of several new roads. About half of the Phase II lots have been sold, but only six lots have been built on. The slow rate of absorption has been due to the recent recession, but also has been due in part to a court case involving members of the partnership that developed the subdivision. The average home value in Phase II is \$326,000. This is a price point that is at or near the top of newly constructed homes in Cloquet. Therefore, market demand is somewhat limited by the overall size of the market that can or is willing to pay over \$300,000 on housing.

Otter Creek is located near the southern border of Cloquet just west of Interstate 35. The subdivision is not served by municipal sewer or water. Otter Creek is envisioned to be a multi-phase development on 160 acres with 77 total lots. Phase I with 25 lots was developed in 2004. The typical lot size is a little over 1 ½ acres. To date, 19 lots have been sold, but only 12 have been built on. Activity was strongest in the first few years of the development prior to the recession when absorption was about four lots per year. Since the recession, absorption was slowed to about one lot per year. The average home value in Otter Creek is about \$240,000. Although the original preliminary plat for the development included subsequent phases, the developer currently has no immediate plans to develop additional phases.

5.3 OVERALL LOT SUPPLY

In the previous section it was revealed that Cloquet and Scanlon have 33 vacant lots remaining in recent/active single-family subdivisions. However, the majority of new home construction in Cloquet since 2003 has occurred outside of these active subdivisions on infill lots located throughout the City.

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Therefore, in order to better understand the overall supply of lots that could be available for new single-family construction, a map was generated using both City of Cloquet and Carlton County Assessor data that displays where vacant lots are located that meet the following criteria: 1) zoned residential; 2) less than 2.5 acres; 3) have a minimum of 3,000 square feet of buildable land after accounting for wetlands. Please keep in mind, however, that not all of these lots are available for development due to a variety of reasons. For example, many of them are likely owned by owners of adjacent lots with homes on them who consider the vacant lots part of the same property. Nonetheless, the data helps provide a sense of scale of the potential supply of lots by size and availability of municipal sewer and water.

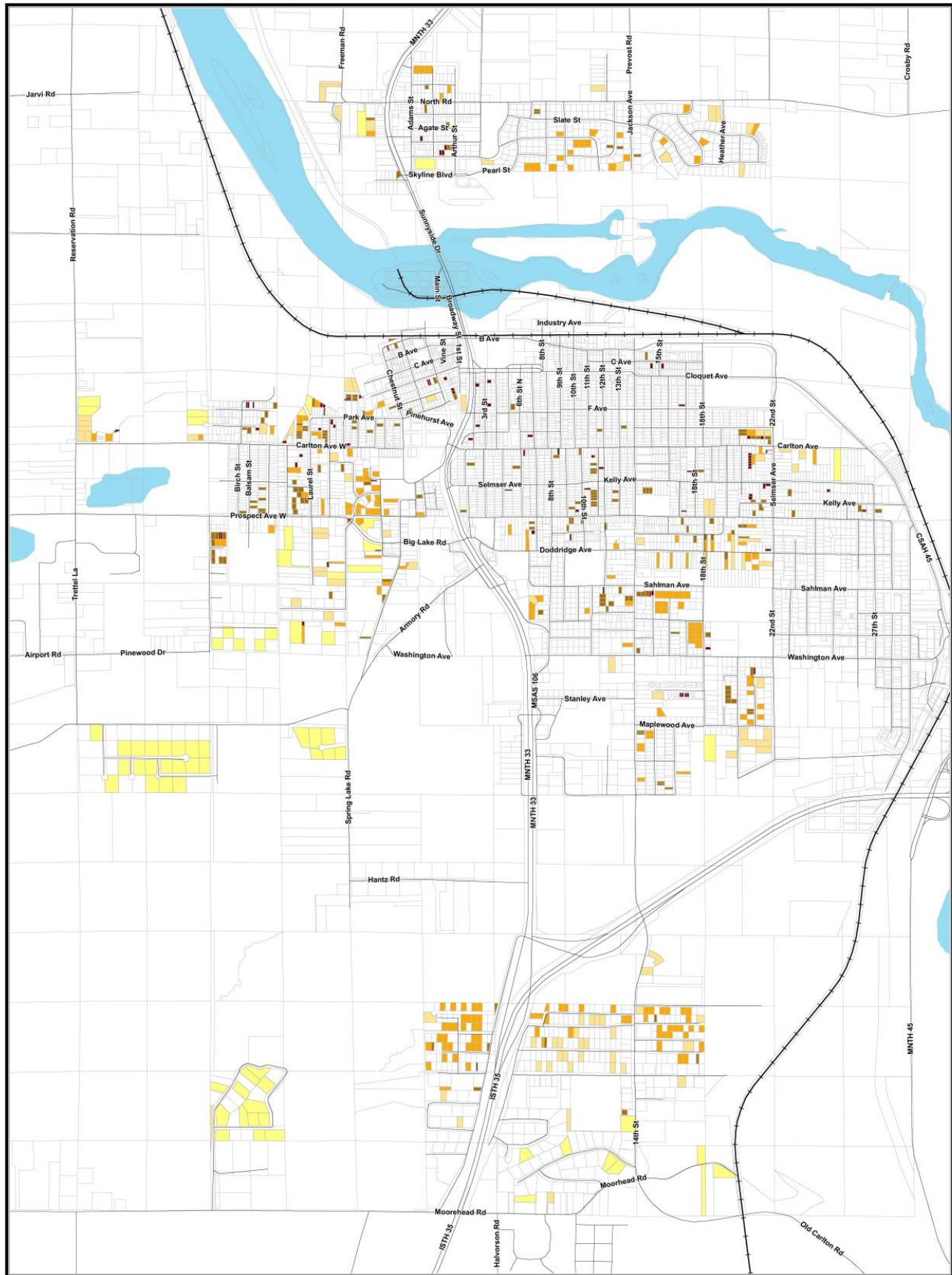
Table 13 presents data on the number of vacant residential lots in Cloquet by size and availability of municipal sewer and water. The following are key findings.

- Not surprisingly almost all of the vacant residential lots smaller than 10,000 square feet have access to municipal sewer and water. Most of these lots are scattered throughout the older portions of Cloquet. Lots typically under 7,500 square feet are too small to build the types of new homes desired by today's market. Therefore, most of these lots are not ideal infill lots that would be expected to accommodate future growth and demand for single-family housing unless lots could be combined. However, there are only a few small collections of lots where this is the case.
- Lots sized between 10,000 and 20,000 square feet are generally considered to be a prime lot size for the majority of the market looking to build new single-family residential. Cloquet has a little more than 200 vacant lots that meet this definition. However, a significant number (74) are located outside of the urban service area and do not have municipal sewer and water. Small lots with septic systems have very little land available should a septic system fail. Therefore, these lots tend to be less marketable than those with municipal services.
- Lots sized between 1/2-acre and 1 acre are found equally within and outside of the urban service area. However, these lots are often very challenging to service because municipal services are expensive to provide due to the wide distances between homes, yet septic systems still have little additional acreage should a failure occur.
- Larger lots, those between 1 acre and 2.5 acres are almost entirely located outside the urban service area. Most of the new subdivision development has consisted of larger lots without municipal services.

Table 13: Inventory of Vacant Residential Lots in Cloquet by Lot Size and Availability of Services

Lot Size	Vacant Lots with Municipal Sewer and Water	Vacant Lots without Municipal Sewer and Water	Total Vacant Lots
Less than 5,000 sq ft	77	3	80
5,000 to 9,999 sq ft	151	15	166
10,000 to 19,999 sq ft	135	74	209
20,000 sq ft to 1 acre	48	42	90
1 acre to 2.5 acres	8	65	73
Total	419	199	618

Source: Carlton County Assessor; City of Cloquet; and Stantec



Inventory of Vacant Single Family Lots



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5.4 REALTOR/DEVELOPER INTERVIEWS

Stantec interviewed Realtors and developers familiar with the Cloquet/Scanlon for-sale housing market to solicit their impressions of the condition of the market and the demand for various housing types at various price points. Below is a summary of key comments and insights from the interviews:

- The Cloquet/Scanlon housing market has begun to improve after experiencing several years of price declines and slower than normal sales. However, the market still appears to be fragile as consumer confidence remains low and susceptible to shocks such as the recent Federal government shutdown.
- The schools, particularly at the high school level, have a good reputation and have continued to invest in athletics and other programming. This makes Cloquet/Scanlon especially attractive to families with children.
- Cloquet/Scanlon has a stable economy with good jobs (e.g., Sappi's recent expansion) that supports demand for a variety of housing types. The stable economy and size of the market also supports a good mix of retail that meets the needs of most people, which helps attract households as well, though an even more diverse mix of retail could help attract even more households.
- The wave of foreclosures from the recent recession negatively impacted Cloquet/Scanlon, but not nearly as much as other nearby communities, which were much more impacted by the wave of foreclosures (e.g., Duluth, the Iron Range, and Pine County).
- First time home buyers, those typically looking for homes between \$100,000 and \$150,000, are having a hard time entering the market because too many homes priced in the lower range of the bracket require significant and costly improvements, which make them functionally too expensive. At the upper end of the bracket, the supply has become very tight. As a result, entry-level buyers are being priced out due to low supply of move-in ready homes.
- Homes that are priced one-step above entry-level prices (i.e., those between \$150,000 and \$200,000) are in short supply as well, placing additional pressure on entry-level and lower-income buyers.
- The market for move-up (\$200,000-\$300,000) or upper bracket homes (\$300,000+) is slower than the bulk of the housing market. This is somewhat due to adequate supply, but is also a byproduct of the recent recession in which new construction during this period was unable to compete on price with existing homes that dropped in price. Although the recession resulted in price declines among existing homes, the costs of new construction remained at similar levels. Therefore, relatively speaking, new construction was unable to compete based on value with the area's existing move-up and upper bracket homes.
- The recent lifting of certain covenants in the Erickson Acres subdivision allowing manufactured homes are allowed to be placed on vacant lots has somewhat impacted the local housing market.

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For a period of time, there were a number of new manufactured homes placed in Erickson Acres that were between \$150,000 and \$200,000 and were generally below the cost of site-built homes.

5.5 FORECLOSURES

Notwithstanding the personal hardship many households endure when experiencing a home foreclosure, foreclosures taken en masse can also have a major impact on housing markets as well. Sharp increases in the number of foreclosed properties can flood housing markets with substandard housing, which can depress values. Table 14 and Figure 16 present data on the number and rate of home foreclosures in Carlton and St. Louis Counties as well as the State of Minnesota since 2005. The following are key findings from the data:

- Home foreclosures began to increase significantly beginning in 2006. They first peaked in 2008 then declined in 2009 to only peak again in 2010 or 2011 before declining once again.
- It is projected that there will be just under 100 foreclosures in Carlton County in 2013. This will be the second year in a row of declines and the lowest number since 2009.
- Although foreclosures are declining in Carlton County, they are still about twice the rate of pre-recession levels from 2005 or 2006.
- Since foreclosures began to significantly increase in 2006, Carlton County has had a rate slightly higher than that of St. Louis County. Compared to the State, however, both Carlton and St. Louis counties had substantially lower rates between 2006 and 2012. It was only in 2013 that the statewide foreclosure rate has finally come more in line with Carlton and St. Louis counties.

Table 14: Home Foreclosures 2005-2013

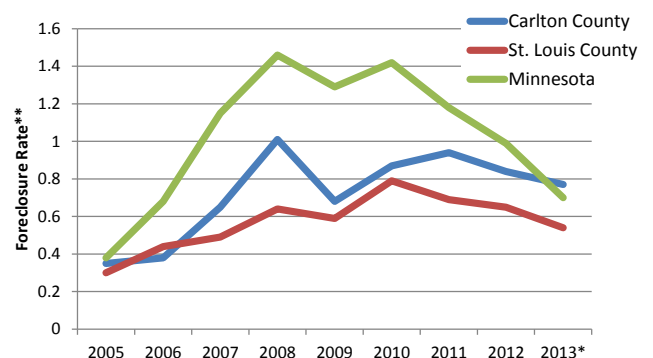
Year	Carlton County		St. Louis County		Minnesota	
	No.	Rate**	No.	Rate**	No.	Rate**
2005	41	0.35	219	0.3	6,472	0.38
2006	46	0.38	319	0.44	11,907	0.68
2007	79	0.65	359	0.49	20,398	1.15
2008	124	1.01	476	0.64	26,251	1.46
2009	84	0.68	441	0.59	23,092	1.29
2010	107	0.87	591	0.79	25,673	1.42
2011	116	0.94	516	0.69	21,298	1.18
2012	104	0.84	483	0.65	17,895	0.99
2013*	96	0.77	406	0.54	12,820	0.7

* Projected

** Foreclosures as a percent of total residential parcels

Source: www.HousingLink.org: Foreclosures in Minnesota: A Report Based on County Sheriff's Sale Data

Figure 16: Home Foreclosure Rates 2005-2013*



*Projected

** Foreclosures as a percent of total residential parcels

Source: www.HousingLink.org: Foreclosures in Minnesota: A Report Based on County Sheriff's Sale Data

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5.6 MANUFACTURED HOUSING PARKS

Stantec researched the availability of manufactured homes in Cloquet. Traditionally, research shows that manufactured housing usually serve as an alternative to permanent housing, and during times of housing scarcity, the number of such homes usually rises.

The only manufactured home park in the Cloquet area is Sunnyside Estates. Sunnyside Estates consists of a total of 86 pads. Currently, only 4 pads are vacant (less than 5%). The park does not rent actual homes nor do they allow home owners to rent their homes. The pads the homes sit on rent for \$260 per month for a smaller lot and \$285 per month for a larger lot. Although the trend in recent years has been toward wider homes, the age of the park and the size of lots means that most of the homes in the park are traditional “single-wide” structures. There is no dominant demographic profile of residents that live in the park (e.g., seniors). There is a variety of household types including families with children, seniors, and singles.

6.0 Multifamily Rental Market Analysis

Cloquet's multifamily rental market accommodates a wide variety of households. Rental housing may offer a lower-cost housing alternative for lower-income family households or a lifestyle housing choice for single people of all ages. By and large, though, rental housing in Cloquet predominantly serves two age groups: young adults (18 to 29 years) and older seniors (75 years and older).

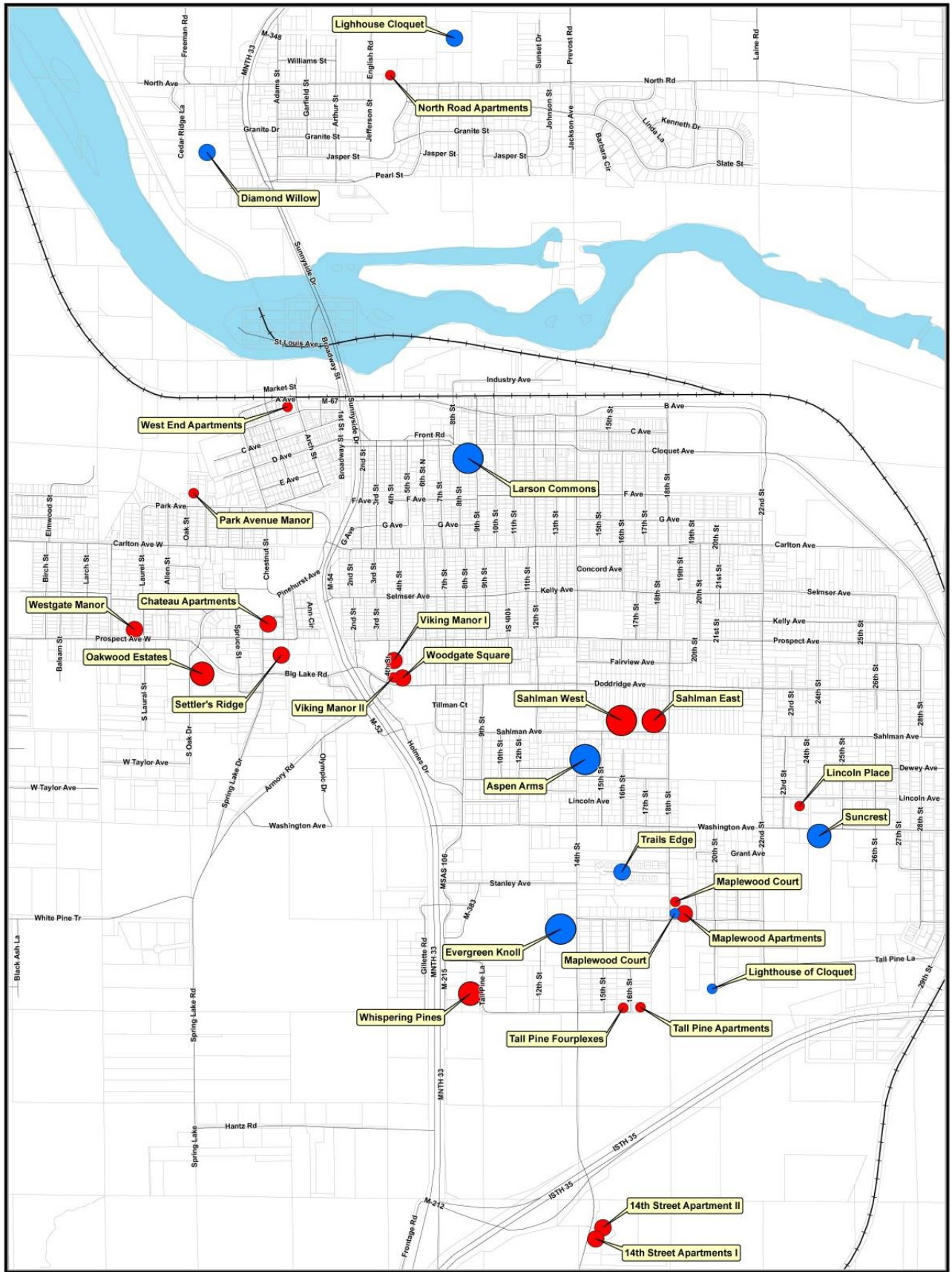
We briefly analyzed the general distribution of rental units in Cloquet through the review of household tenure data in the Demographic Analysis and Characteristics of the Housing Stock sections earlier in this report. This section looks in more detail at current trends within the local rental market.

We interviewed rental managers and/or rental property owners at all complexes with at least 8 units in Cloquet in October and early November 2013. Managers and owners were asked to provide information on current unit types, unit occupancy rates, and rents. In total, we surveyed 1,071 units at 29 rental complexes throughout Cloquet and Scanlon.

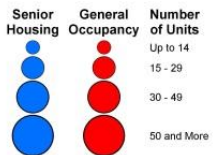
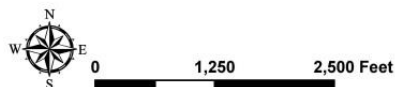
Based on differing restrictions at each of the complexes, we separated them into one of two categories: general-occupancy (no age restrictions) or senior (age-restricted, generally 55 and older or 62 and older). Within the general-occupancy properties, complexes were further separated into subsets based on the presence of income restrictions: market-rate (no income restrictions) or income-restricted¹. Among the age-restricted properties, complexes were further restricted based on the level of services provided.

The map on the following page shows the locations of multifamily rental properties surveyed. The red circles show general-occupancy properties, while the blue circles show age-restricted or senior properties. Graduated circle sizes relate to the number of units at each development, with the larger circles indicating complexes with a greater number of units.

¹ Income-restrictions can vary substantially depending on the type of program that provides financial assistance and the target population. Generally, income restrictions are designed to assist households whose income falls into one of three categories: 1) "low" income households, where the household earns between 50% and 80% of the area median income (AMI); 2) "very low" income households, where the household earns between 30% and 50% of AMI; and 3) "extremely low" income households, where the household earns 30% or less of AMI (Source: Housing Minnesota website). In 2013, the Minnesota Housing Finance Agency, which allocates many of the funds to assist the development and/or preservation of housing affordable to low-income households, used a median income of \$62,300 to determine income guidelines in Carlton County. For example, a family of four that earned \$18,690 or less is considered extremely low-income because their income would be 30% or less of AMI. However, depending on the program providing financial assistance, the dollar amount that translates to 30%, 50%, or 80% of AMI can change according to the number of dependents in the household. Therefore, for a single-person to be considered extremely low income they must earn an annual income of \$13,110 or less.



Cloquet / Scanlon Rental Properties



November 22, 2013



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The following subsections present key findings from our review of Cloquet/Scanlon's rental housing market.

6.1 GENERAL OCCUPANCY MULTIFAMILY RENTAL MARKET CHARACTERISTICS

General-occupancy multifamily units make up the largest portion of Cloquet's rental housing supply. We surveyed 627 general-occupancy multifamily units, split between 21 different properties. Of the 627 units, 229 (37%) were market-rate units and 398 (63%) were income-restricted units. Table 15 presents data on each of the properties profiled.

Table 15: Cloquet/Scanlon General-Occupancy Multifamily Properties

Project Name	Address	City	Year Built	Total Units	Units by Type				Vacant Units				Monthly Rent				
					Stu	1BR	2BR	3BR	Stu	1BR	2BR	3BR	Studio	1BR	2BR	3BR	
Income-Restricted (Deep Subsidy)¹																	
Maplewood Court II*	1318 & 1322 18th St	Cloquet	1993	11	2	9			0	0			30% of household income				
Woodland Pines	201 Spruce St	Cloquet	1988	19	19				0				30% of household income				
Maplewood Apts	1326 18th St	Cloquet	1988	24	8	16			0	0			30% of household income				
Tall Pines Apts	1514 & 1516 16th St	Cloquet	1983	8	4	4			0	0			30% of household income				
Sahlman East THs	1701 Sahlman Ave	Cloquet	1980	36		28	8			0	0		30% of household income				
1503 Tall Pine Fourplexes	1503 Tall Pine Ln	Cloquet	1980	12		12				0			30% of household income				
Fond du Lac Housing	Various	Cloquet	Various	180		40	140			0	0		30% of household income				
<i>Totals/Averages/vacancy rate</i>				<i>1985</i>	<i>290</i>	<i>33</i>	<i>109</i>	<i>148</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>			
Income-Restricted (Shallow Subsidy)²																	
Settler's Ridge	92 Riva Ridge Dr	Cloquet	2000	22		11	11			0	0		\$590	\$645			
Whispering Pines Apts	810 & 812 Tall Pine Ln	Cloquet	1995	36	6	21	9			0	0	0	\$685	\$775	\$845		
Sahlman West THs	1501 Sahlman Ave	Cloquet	1977	50	12	12	26			0	0	0	\$610	\$710	\$895		
<i>Totals/Averages/vacancy rate</i>				<i>1988</i>	<i>108</i>	<i>18</i>	<i>44</i>	<i>46</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>\$635</i>	<i>\$711</i>	<i>\$825</i>
Market Rate																	
14th Street Apts II	2020 14th St	Cloquet	2013	22	5	12	5	n/a	n/a	n/a			\$495	\$665	\$865		
14th Street Apts I	2010 14th St	Cloquet	2009	18	6	6	6			0	0	0	\$665	\$865	\$915		
Oakwood Estates Apts	910 Oak St S	Cloquet	2005	30	16	10	4			1	1	0	\$730	\$880	\$1,120		
Lincoln Place Apts	2300 Lincoln Ave	Scanlon	1995	8	1	5	2			0	0	0	\$750	\$950	\$1,100		
Chateau Apts (I-IV)	820-850 Spring Lake Rd	Cloquet	1973-77	20	6	14				0	0		\$525	\$625			
Park Avenue Manor	701 Park Ave	Cloquet	1970s-r	12	5	7				0	1		\$400	\$500			
Westgate Manor	777 Laurel St	Cloquet	1974	24	12	12				1	1		\$555	\$630			
North Road Apts	603 North Rd	Cloquet	1974	12		12					0			\$630			
Woodgate Square	403 Doodridge	Cloquet	1973	24	3	21				0	3		\$760	\$820			
Viking Manor II Apts	518 4th St	Cloquet	1966	12	8	4				1	0		\$610	\$695			
Viking Manor I Apts	510 4th St	Cloquet	1963	36	24	12				3	1		\$665	\$740			
West End Apts	224 Ave A	Cloquet	1920	11	4	7				0	0		\$320	\$450			
<i>Totals/Averages/vacancy rate</i>				<i>1975</i>	<i>229</i>	<i>9</i>	<i>100</i>	<i>108</i>	<i>12</i>	<i>0</i>	<i>6</i>	<i>7</i>	<i>0</i>	<i>\$417</i>	<i>\$587</i>	<i>\$743</i>	<i>\$1,014</i>
<i>0.0% 6.8% 6.8% 0.0%</i>																	

n/a = not available

¹ Income restrictions are typically set at 60% of area median income (AMI) or less; households then pay 30% of income toward rent.

² Income restrictions are typically set anywhere between 50% and 80% of AMI; households pay a set rent, regardless of income, which is often held below market rates.

* Property also contains 11 age-restricted units

Source: Stantec

Income-restricted units receive some sort of subsidy from government or philanthropic entities to lessen the burden for moderate- or low-income households. At most of the income-restricted developments in Cloquet, tenants pay 30% of their adjusted gross household income for rent. Typically, a government subsidy program contributes the remaining gap between actual tenant payment and a fair market rent (FMR) that is established by HUD or another governing organization. The 2013 FMR for the Duluth-Superior metro area as established by HUD are as follows:

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2013 HUD Established Fair Market Rents (FMR) for the Duluth-Superior Metro Area by Unit Type

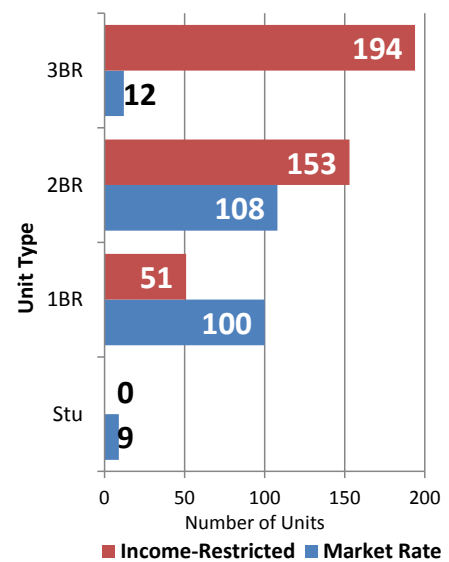
Efficiency/Studio	One-bedroom	Two-bedroom	Three-bedroom	Four-bedroom
\$459	\$552	\$725	\$945	\$1,052

Commonly recognized subsidy programs include Section 8 (project-based), public housing, Section 236, and Section 515. Properties supported through the Section 42 program (aka Low Income Housing Tax Credit program) also restrict tenancy based on income. However, tenants at Section 42 properties are obligated to pay the entire set rent, which is held below a fair market standard set by the Minnesota Housing Finance Agency.

The following bullet points and graphics summarize key findings from the general-occupancy multifamily rental review.

- Figure 17 shows the distribution of 627 general-occupancy rental units, by unit type and income restrictions. Among the market rate properties, one-bedroom and two-bedroom units comprise 93% of the total unit count, with only a small number of studio and three-bedroom units available. Among income-restricted properties, there is a much higher proportion of three-bedroom units and a much lower proportion of one-bedroom units.
- Of the 229 market-rate units surveyed, 13 were reported as vacant. This translates to an occupancy rate of 94%, indicating a balanced rental market. A rental market at 95% occupancy is considered a healthy market, as it provides for sufficient consumer choice and adequate unit turnover.
- Of the roughly 400 income-restricted properties, none were reported as vacant. Furthermore, many property managers surveyed indicated waiting lists were kept with names of interested households should the apartments become available. This indicates a very strong pent-up demand for affordable rental housing.
- Overall, the average age of a general-occupancy rental unit is about 30 years old. However, market rate units tend to be about 10 years older, on average, than income-restricted units.
- According to the survey, the average market rate rent for one-bedroom units is \$587 per month; for two-bedroom units it is \$749 per month; and for three-bedroom units it is \$1,014 per month. These average rents are slightly above the FMR set for the metro area by HUD.

Figure 17: Distribution of Rental Units by Type



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- Roughly three-quarters of the income-restricted units have deep subsidies that restrict tenancy to households with very low incomes. Therefore, rents are based on a sliding fee scale in which the household only pays 30% of their income toward rent. However, Cloquet/Scanlon also has several income-restricted properties in which the subsidy is much shallower and the income restrictions are more liberal. However, tenants are required to pay a set rent even though the rent may be held to levels slightly below “market.” In Cloquet, however, many “market” rate properties have rents consistent with such properties because they are older and lack a number amenities that newer properties have.

It should be noted that the survey of market rate rental properties did not include single-family homes, duplexes, or other buildings with fewer than four units. This was because the time and expense associated with such a broad survey would have been cost prohibitive.

Furthermore, according to the U.S. Census’s 2011 American Community Survey, about 40% of the rented units in Cloquet/Scanlon are single-family homes. Although this is a substantial proportion, we believe that by surveying over 60% of Cloquet/Scanlon’s rental units, we can gain an accurate picture of the rental market without incurring the cost of identifying and surveying all rental properties.

Nonetheless, Stantec did collect anecdotal data from the interviews conducted as part of this study as well as a brief review of on-line rental sources. Based on this supplemental data, the typical rental rate for an older house starts at about \$900 per month, whereas newer homes start at about \$1,400 per month.

6.1.1 Renter-Occupied Housing and Affordability

The term “housing affordability” has more than one definition. The U.S. Department of Housing and Urban Development (HUD) define a housing unit as affordable if low and moderate income households pay 30% or less of their income toward housing costs.

Rental development and assistance programs are chiefly meant to assist households at or below 50% of median income; therefore, Minnesota Housing assumes affordable units are affordable to households earning \$31,150 in 2013. The 50% of median designation is consistent with the federal Low-Income Housing Tax Credit program’s rent limits. Housing costs for rental units include both monthly rents and utilities.

Table 16 highlights the percentage of rental units in Cloquet that fall under Minnesota Housing’s definition of affordability and a more stringent definition set at 30% of area median income. It should be noted that a significant proportion of the two and three bedroom units affordable to those with incomes under 30% of AMI are owned and managed by the Fond du Lac Band. If these units were not included in the analysis, the percentage of two and three bedroom under the affordable limit would drop substantially.

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Table 16: Cloquet/Scanlon Rental Units by Affordability

Affordable Rental Housing Measures	60% of AMI	50% of AMI	30% of AMI
Area Median Family Income (AMI) = \$62,300	\$37,380	\$31,150	\$18,690
<i>Maximum affordable housing costs (rent & util.):</i>			
Efficiency/studio unit	\$655	\$546	\$327
One-bedroom unit	\$702	\$585	\$351
Two-bedroom unit	\$841	\$701	\$420
Three-bedroom unit or larger	\$972	\$810	\$486
<i>Percentage of Cloquete units surveyed under "affordable" limit:</i>			
Efficiency/studio unit	100%	100%	80%
One-bedroom unit	87%	50%	22%
Two-bedroom unit	88%	63%	41%
Three-bedroom unit or larger	97%	77%	72%

6.2 SENIOR RENTAL MARKET CHARACTERISTICS

Senior (age-restricted) units make up the remaining portion of Cloquet's rental housing supply. Development efforts in the senior housing industry over the past 10-15 years have altered the perception of traditional rental housing for seniors. Through the creation of different types of housing and varying levels of accompanying services, the industry has tapped interest from both the senior population and the adult children of seniors in need of alternative housing.

Cloquet/Scanlon's senior rental offerings generally cover the range of senior housing options available in many communities, which are as follows:

1. Active Adult (or independent living where few, if any, support services are provided): rents tend to be modest, often because units are restricted to low- or moderate income households, or the units are owned in the form of a condominium or cooperative;
2. Independent Living (or congregate housing): support services, such as meals and light housekeeping, are available for an additional fee or included in the rent;
3. Assisted Living: two or three daily meals as well as basic support services such as transportation, housekeeping and/or linen changes are included in the rent. More importantly, personal care, such as assistance with bathing, grooming and dressing, is available either for an additional fee or included in the rent;
4. Memory Care: more rigorous and service-intensive personal care is required for people with dementia and Alzheimer's disease. Typically, support services and meal plans are similar to those found at Assisted Living facilities, but the increased levels of personal care require more staffing and higher rental fees;
5. Skilled Nursing Care Facilities: intensive service for frail seniors, heavily regulated by the State government.

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It should be noted that nursing care facilities are generally considered as institutional care (counted as group quarters by the Census) and do not fall under the umbrella of senior housing.

Stantec surveyed a total of 443 senior rental units in 12 projects. A little less than half of the senior rental units are located in Active Adult developments, and the vast majority of those are income-restricted developments. The next largest category of senior housing is assisted living with 150 units. Table 17 provides data on each of the surveyed senior developments.

Table 17: Cloquet/Scanlon Senior Housing Properties

Project Name	Address	City	Year Opened	Total Units	Units by Type			Vacant Units			Monthly Rent		
					Stu	1BR	2BR	Stu	1BR	2BR	Studio	1BR	2BR
Active Adult (aka Independent Living with few services)													
Maplewood Court II ¹	1318 & 1322 18th St	Cloquet	1993	11	11			0			----- 30% of Household Income -----		
Aspen Arms ²	950 14th St	Cloquet	1971	73	71 2			0 0			----- 30% of Household Income -----		
Larson Commons ²	910 Cloquet Ave	Cloquet	1980	85	80 5			0 0			----- 30% of Household Income -----		
Fond du Lac Housing	Trettel Lane	Cloquet	1984	16	16			0			----- 30% of Household Income -----		
Trails Edge THs	17XX Trail Dr	Cloquet	2005-11	20	20			0			\$1,225-1,600		
<i>Totals/Averages/vacancies</i>			<i>1980</i>	<i>205</i>	<i>178 27</i>			<i>0 0</i>			<i>\$1,412</i>		
								0.0%		0.0%			
Independent Living with Services Available													
Evergreen Knoll THs	1309 14th St	Cloquet	2006	24	24			0			\$1,725-1,900		
<i>Totals/Averages/vacancies</i>			<i>2006</i>	<i>24</i>	<i>24</i>			<i>0</i>			<i>\$1,812</i>		
								0.0%					
Assisted Living													
Evergreen Knoll	1309 14th St	Cloquet	2001	51	11	40	0	3	\$4,200	\$2,500-2,900			
Suncrest	2400 Washington Ave	Scanlon	2004	45	1	32	12	0	1	\$928	\$1,200	\$1,400	
Lighthouse of Cloquet ³	1909 Tall Pine Ln	Cloquet	2006	12	12			1			n/a		
Lighthouse of Cloquet ³	701 Horizon Circle	Cloquet	2008	32	32			3			n/a		
Fond du Lac Housing	1571 Airport Rd	Cloquet	2009	10	10			1			----- 30% of Household Income -----		
<i>Totals/Averages/vacancies</i>			<i>2004</i>	<i>150</i>	<i>66</i>	<i>72</i>	<i>12</i>	<i>5</i>	<i>4</i>	<i>0</i>	<i>\$3,927</i>	<i>\$2,033</i>	<i>\$1,400</i>
								7.7%		5.6%		0.0%	
Memory Care													
Diamond Willow	132 West North Rd	Cloquet	2006	20	20			1			\$5,650		
Lighthouse of Cloquet ³	1909 Tall Pine Ln	Cloquet	2006	12	12			1			n/a		
Lighthouse of Cloquet ³	701 Horizon Circle	Cloquet	2008	32	32			3			n/a		
<i>Totals/Averages/vacancies</i>			<i>2007</i>	<i>64</i>	<i>64</i>			<i>5</i>			<i>\$5,650</i>		
								7.8%					

¹ Property also contains 11 general occupancy units

² Property also available to low-income households with disabilities, though the majority of residents tend to be seniors

³ Lighthouse of Cloquet has two locations. Both locations can accommodate assisted living and memory care residents. Due to the flexibility in the design of the facilities, the number of beds ascribed to each level of care is estimated.

Source: Stantec

Key aspects of Cloquet's senior housing market are summarized in the following statements.

6.2.1 Active Adult

- The majority of the Cloquet/Scanlon's 205 Active Adult units have only one-bedroom (87%). None of the units were vacant at the time of the survey, translating to a 100% occupancy rate.
- Four of the five Active Adult buildings are income-restricted, in which tenants pay 30% of their income toward rent. At the only market rate Active Adult property, the average monthly rent is just above \$1,400 for a two-bedroom unit.

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- Support services, such as meals, housekeeping, and personal care must be contracted through the County or another third-party entity at each of these properties.
- Three of the five Active Adult buildings are more than 30 years old. The age of the properties is reflected in the minimal number of two-bedroom apartments.

6.2.2 Independent Living

- There is only one independent model of senior living in which services are readily available and can be purchased for an additional fee yet are not included in the rent. These are the townhome units at Evergreen Knoll. The average rent for these units is over \$1,800 per month and there currently are no vacancies.

6.2.3 Assisted Living

- The five assisted living facilities in Cloquet/Scanlon have a total of 150 units/beds. Most of the units split between a studio efficiency layout or a one-bedroom layout. However, about 10% are the units have two-bedrooms designed for couples. These are only found at Suncrest.
- The Evergreen Knoll facility has a higher level of care incorporated into their concept and this is reflected in their higher rents. Suncrest has a much lower base rent because services are included in the base. However, as services are needed, they have the ability to provide additional services. The Lighthouse of Cloquet also has a higher level of care model, but they chose not to disclose their base fees for this study.
- The Fond du Lac band operates a small assisted living facility for members of the band. Residents only pay based on a sliding fee scale and do not pay more than 30% of their income toward rent and services.
- Overall, the five assisted living facilities have a combined occupancy of 94%. This is slightly above market equilibrium for assisted living (90-92%) and indicates potential pent up demand.

6.2.4 Memory Care Housing

- Memory care housing caters to seniors suffering from dementia-related illnesses such as Alzheimer's. Incidence rates of these types of diseases vary, but are more prevalent in older seniors (75+) than in younger seniors (65-74). This unique housing concept is designed to provide care for residents, stimulate senses, and provide for resident security. A comprehensive array of services is generally available to residents.
- Memory care housing is a relatively new entrant to the Cloquet/Scanlon market. The average age of a memory care unit is only six years old.
- All 64 memory care units/beds in the market are a studio or efficiency concept. There are no one- or two-bedroom layouts. This is largely due to the significantly higher cost of memory care

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housing and the programming needs of residents, which often require them to be outside of their private living spaces in the facility's common areas and engaged with staff and other residents.

- Of the 64 memory care units/beds in the market, five are vacant, which is an occupancy rate of 92% and close to market equilibrium.

7.0 Housing Demand Analysis

The preceding sections of this report presented various indicators that reveal the nature of the need for future housing development in Cloquet and Scanlon. The Demographic and Economic Analysis sections characterized changing trends in Cloquet/Scanlon's resident population and employment base. The Characteristics of the Housing Stock section along with the For-Sale and Rent Market Analysis sections showed how shifting preferences in the local market have effected considerable change in the supply of housing in recent years.

This section of the report examines the future growth potential in Cloquet and Scanlon. It breaks down the potential demand through 2030 for the full spectrum of housing types, both owner-occupied and renter-occupied. It initially presents some broader trends affecting housing growth potential across the nation, with subsequent sections detailing Cloquet/Scanlon's potential to realize substantial growth by concentrating on developing a wide variety of housing types at multiple price points.

It should be noted that the projected demand for housing presented in this report should not be used to determine the market feasibility of any single development or project. Due to the broad nature of the analysis, many of the assumptions used to project housing growth and demand are conservative and do not take into consideration the unique circumstances surrounding individual projects.

7.1 BROADER TRENDS AFFECTING HOUSING GROWTH POTENTIAL

- The traditional “nuclear” family is no longer dominant. In 1970, 39% of American households were traditional “nuclear” families (married couples with at least one child); by 2010, that rate had dropped to 20%. Subsequently, housing products have changed to accommodate a wider variety of household types. As well, ongoing demographic trends such as fewer children per married couple and increasing divorce rates have had a dramatic effect on average household sizes in the United States.
- Baby boomers are beginning to exit their peak earning years. As of 2010, the baby boomers fell between the ages of 46 and 64. The older half of this generation are now beginning to enter their early retirement years. Although market trends show that baby boomers have shown a willingness to spend for their desired housing and buck the preferences of previous generations, it will be important to pay close attention to this group as their incomes become more fixed and health considerations increasingly drive their housing decisions.
- Sophisticated marketing tactics have identified a broader spectrum of consumer segments. Rather than work to simply attract “owners or renters,” today's real estate industry directs advertising campaigns targeted at an increasingly wider array of consumers: seniors, empty-nesters, young couples with or without children, single professionals, roommates, etc.
- Broadening consumer segments translate to a broadening of housing products. Buyers and renters are now able to choose from a wider variety of housing products than in years past: single-family homes, townhomes, twinhomes, condominiums, cooperatives, traditional apartments,

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rental townhomes, independent living, assisted living, memory-care housing, etc. Developers and communities must constantly re-evaluate their available housing options to ensure that the housing needs of a wide demographic of prospective residents will be accommodated.

7.2 OVERALL HOUSING GROWTH POTENTIAL IN CLOQUET/SCANLON: 2013 TO 2025

The flow chart on the following page (Figure 18) breaks down our assessment of Cloquet/Scanlon's overall housing growth potential by 2025. It separates overall housing growth into owner-occupied and renter-occupied housing, with each of these categories separated to reflect single-family and multifamily units (owned housing) and general-occupancy and age-restricted units (rental housing).

Demand for new housing in Cloquet will come from four primary sources:

- 1) **Household growth fueled by newcomers attracted to Cloquet/Scanlon.** The reasons for relocating to Cloquet/Scanlon are numerous, but common ones would include employment opportunities, the quality of the schools, the supply of relatively affordable housing, and the availability of goods and services. To some degree, this dynamic is balanced out by households that move away from Cloquet/Scanlon. However, based on the noted factors that attract newcomers to Cloquet/Scanlon, we believe newcomers will somewhat outnumber those who leave in the next 10-15 years.
- 2) **Household growth due to new household formation.** As children of existing Cloquet/Scanlon families age into young adulthood, many of them will want to remain in Cloquet/Scanlon yet move out of their parents' home and form their own households.
- 3) **Replacement of aging housing stock.** The US Census has estimated that approximately 0.35% of all housing units older than 50 years old are lost each year due to demolition, fire, disaster, or other malady. (Younger housing units are also subject to similar forces, but at much lower rates.) Therefore, because Cloquet has a significant number of housing units more than 50 years old, lost units will become an increasingly important factor when considering replacement need. In many ways, communities that are not necessarily adding new households still have to construct new units every year due to the loss of existing units. However, one should keep in mind that the process of building replacement housing units does not necessarily mean building on the same site as a lost unit. In many cases, the land in which units are lost may convert to other uses such as new roadways, parks, commercial uses, or simply remain vacant.
- 4) **Preferences for new forms of housing.** Cultural trends and demographic shifts can result in the need to build new housing in the absence of household growth. One key example of this that is relevant to Cloquet/Scanlon is the presence of a rapidly aging population. Senior housing, as noted previously in the report, is a relatively new concept that comes in a variety of new forms, such as single-level units, that help older households remain independent as long as possible.

Based on the above sources of demand, we believe that Cloquet/Scanlon has the potential to develop approximately 500 new housing units between 2013 and 2025. Furthermore, we also factored into this estimation other key factors touched-on previously in this report:

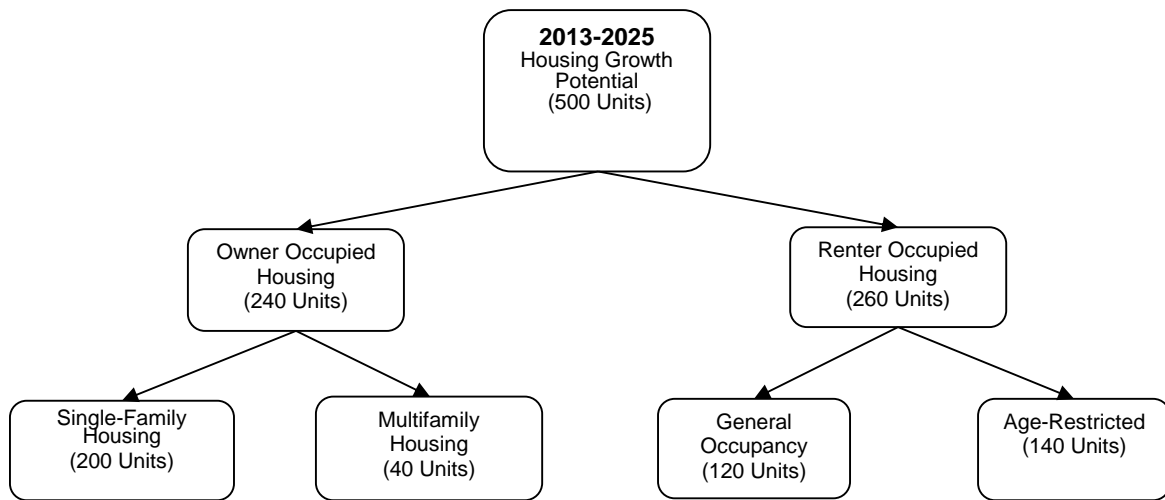
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- Developers are still reeling from the recent recession that slowed demand for new construction dramatically. However, most developers agree that the recent recession was a particularly strong anomaly and that the market demand for new construction will return, though not for several more years.
- As more seniors and empty-nest baby boomers choose lifestyle housing, this will increase demand for more multifamily ownership product (e.g., townhomes and cooperatives) that has historically not had a major presence in the Cloquet/Scanlon market.

The homeownership rate in Cloquet/Scanlon declined from 75% to about 71% between 2000 and 2010. Given projected growth in the age groups that have the strongest propensity to rent (i.e. those under 35 and over 65) will continue to slowly erode the overall rate of homeownership. Thus, we estimate that 48% of the projected units built through 2025 (240 homes) will be owner-occupied, with rental housing making up the remaining 52% (260 units). As noted previously, the overall demand for rental housing includes pent-up demand for rental senior housing, which we estimate as 100 units that can be supported through 2025.

Figure 18: Cloquet/Scanlon Forecasted Housing Need 2013-2025



Depending on the nature of specific projects, these figures may be conservative as some projects have the potential to attract new residents from beyond the Cloquet area because of lack of supply or price increases in other nearby submarkets (e.g., Duluth, Hermantown, and Esko).

The following sections detail our basis for the 60:40 (owner:renter) growth ratio, as well as the projected potential to develop various housing types within the owner- and renter-occupied markets in Cloquet/Scanlon.

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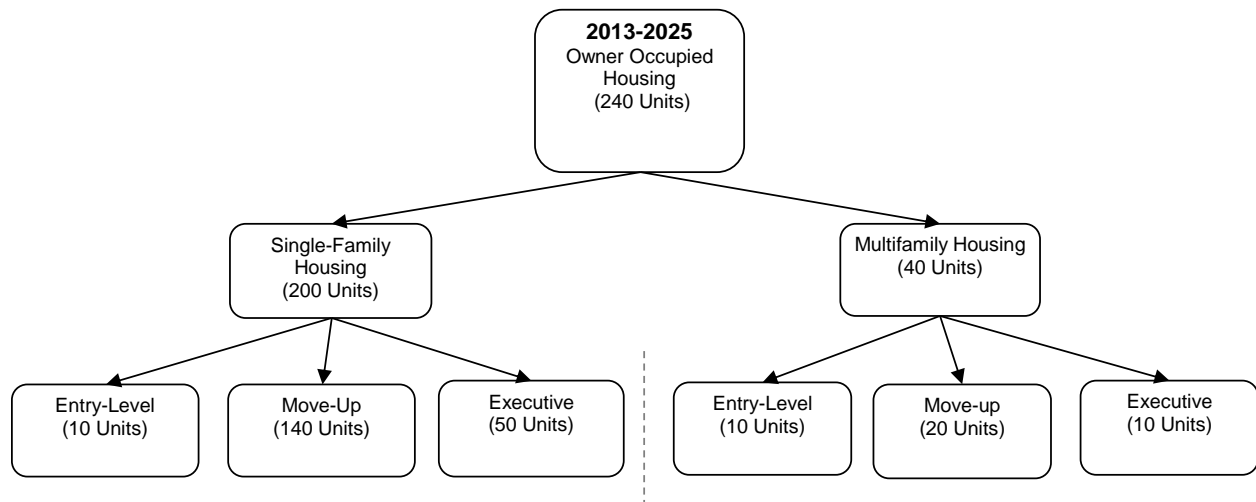
7.3 OWNER-OCCUPIED HOUSING GROWTH POTENTIAL IN CLOQUET/SCANLON: 2013-2025

Figure 19 on the following page breaks down Cloquet/Scanlon’s potential for owner-occupied household growth between 2013 and 2025. It divides the potential for both traditional single-family and multifamily housing. Within both types, the projected distribution by price is shown, utilizing the three price tiers described by area Realtors earlier in this report.

As was noted earlier, we believe that Cloquet/Scanlon appears capable of adding 240 new owned housing units between 2013 and 2025. We believe that this potential will most likely be met by providing traditional, detached single-family homes (200 homes). In years past, the bulk of new owned housing built in Cloquet and Scanlon was developed as traditional single-family homes. Given the supply of available lots and the pricing of most new construction, we believe this will continue into the future.

With that being said, though, we believe the market for owner-occupied multifamily housing (i.e., townhomes, cooperatives, and condominiums) is growing in large part due to the growing base of early retirees who want to maintain homeownership but downsize into a lower maintenance product type. Despite these subtle changes to the market, we still believe that detached single-family homes will continue to dominate the owner-occupied market.

Figure 19: Cloquet/Scanlon Forecasted Owner-Occupied Housing Need 2013-2025



In addition to dividing the growth potential between single-family and multifamily homes, the flow chart shows the need for developing homes at a variety of price points: Entry-Level, Move-Up/Mid-Level, and Executive. We evaluated recent developments in the community based on these pricing levels as the combination of pricing and housing type communicates likely buyer profiles for the community.

Buyer Profiles for the various price categories can be summarized as follows:

Single-family:

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- Entry-level: young families with or without children, young couples, single professionals; head of household generally 25-35 years old
- Move-up: families with children, head of household generally 35-55 years old
- Executive: higher-income families with children, empty-nesters; head of household age varies, (income-driven category; peak earning 45-60 years old)

Multifamily:

- Entry-level: empty-nesters, retirees, divorcees, young couples without children, single professionals; head of household age varies (generally 25-35, or 55 and older)
- Move-Up/Mid-level: empty-nesters, retirees, higher-income single professionals; head of household generally 45 and older
- Executive: higher-income retirees and empty-nesters; head of household generally 55 and older

Understanding the types of buyers likely to consider various housing types aids the community in understanding likely ripple effects on local institutions, schools and health care providers that accompany various types of new development. We discuss these effects and make other recommendations in the *Conclusions and Recommendations* section that follows in this report.

The buyer profiles also assist in forecasting Cloquet/Scanlon's overall growth potential, as demographic shifts in aging, income and average household size serve as signposts for identifying emerging markets in the community. For example, the most significant demographic impact on the community will be the aging of resident baby boom households and the in-migration of young families drawn to jobs in Cloquet and the perceived quality of the schools.

7.3.1 Single-family Housing Growth Potential

We believe that over 80% of Cloquet/Scanlon's owner housing growth potential lies in traditional single-family homes (200 units). Within this figure, we estimate that move-up homes priced between \$175,000 and \$300,000 (in 2013 dollars) will account for 70% (140 units) of the projected growth. Executive homes (\$300,000+) will comprise about 25% of the projected growth (50 units), while entry-level homes (<\$175,000) will account for only 5% of growth (10 units), since the cost of land and new construction makes most entry-level single-family homes infeasible.

7.3.2 Multifamily Housing Growth Potential

We estimate that Cloquet/Scanlon has the potential to also absorb 40 new owner-occupied multifamily homes. Within this figure, we estimate that move-up or mid-level homes priced between \$150,000 and \$250,000 (in 2013 dollars) will account for 50% (20 units) of the projected growth. Entry-level townhomes (<\$150,000) and executive townhomes and condominiums (>\$250,000) will comprise the remainder of new multifamily growth.

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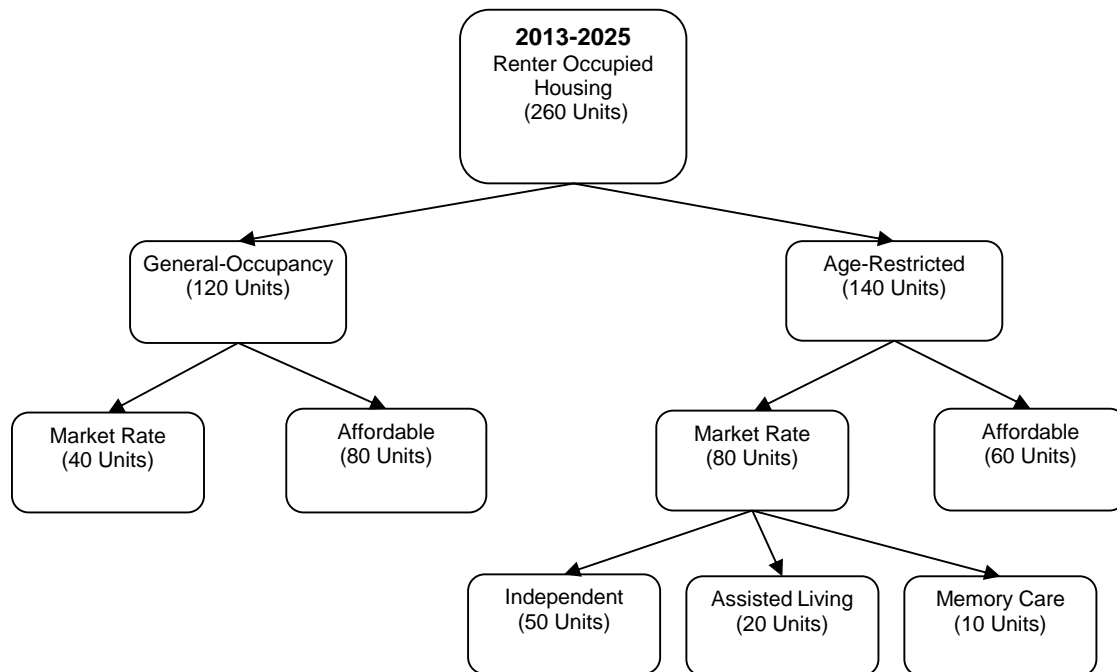
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7.4 RENTER-OCCUPIED HOUSING GROWTH POTENTIAL IN CLOQUET/SCANLON: 2013 TO 2025

Figure 20 on the following page breaks down Cloquet/Scanlon’s potential for renter-occupied household growth between 2013 and 2025. It divides the potential for both general-occupancy and senior (age-restricted) housing. Within both types, the projected distribution of both market-rate and income-restricted housing is shown. Senior market-rate housing is further broken down to show the potential to develop independent living (with and without services), assisted living and memory-care housing.

Trends indicate that Cloquet/Scanlon’s potential to develop new rental housing is similar to the market for new owned housing. We project a need for 260 new rental units in the City between 2013 and 2025, with about 45% being general-occupancy units (120) and 55% being senior units (140 units). The following subsections discuss the reasoning behind our estimates for rental growth potential in Cloquet/Scanlon.

Figure 20: Cloquet/Scanlon Forecasted Rental Housing Need 2013-2025



7.4.1 General-Occupancy Rental Growth Potential

We estimate that Cloquet/Scanlon has the capability to add 120 new general-occupancy rental units between 2013 and 2025. This projection is broken down to include 80 new income-restricted units and 40 new market rate units. The estimates are based on multiple factors that both encourage and discourage demand for general-occupancy rental housing, including the following:

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- The recent housing bust and foreclosure crisis has resulted in fewer young households entering the ownership market because of higher barriers to entry (e.g., increased down payment levels) and a lack of faith that housing is a safe long-term investment.
- The high cost of higher education has significantly increased the debt levels of young households which affects their ability to save money for a mortgage down payment.
- The volatile nature of today's economy and a persistently high unemployment rate means that younger households are more "footloose" than previous generations when seeking employment. This means younger households are less inclined to make long-term financial commitments, such as homeownership, for fear that they may move in order to follow employment opportunities.
- The population age 18 to 34 is projected to decline through 2020. This is a prime age group for rental housing. Therefore, declines among this age group will limit demand for rental housing.
- Nearly all of Cloquet's market rate rental units have rents that fall below "affordable" standards as noted by the Minnesota Housing Finance Agency. This is because much of the rental housing stock is older and lacks many of the modern amenities desired by today's lifestyle renter, such as in-unit washer/dryer, elevator, attached covered parking, fitness center, community room, etc.
- Current occupancy at Cloquet's income-restricted general-occupancy rentals is 100%.

7.4.2 Senior Rental Growth Potential

We estimate that Cloquet/Scanlon has the capability of adding between 140 new senior rental housing units between 2013 and 2025. Some of this demand will be due to overall household growth (40 units) driven by aging households in nearby rural areas relocating to Cloquet/Scanlon as well as adult children attracting their parents to the Cloquet/Scanlon area. However, we also believe a significant amount of demand (100 units) will be pent-up from existing Cloquet/Scanlon households who will be aging in place and need/desire various types of senior housing.

We believe that a majority of senior housing additions (80 units) should be a variety of market-rate units, with an estimated need for an additional 60 income-restricted senior units that would be intended to target very low and extremely low income seniors. For market-rate units, the strongest potential appears to be in the independent living market (50 units), with more limited potential in the market for housing with services (30 units). These growth projections are based on the following market indicators:

- The population age 75 and older is forecasted to decline slightly through 2020 but then increase substantially by 2030. Over the short term (next 5-7 years), this will result in stronger demand for independent living options and moderated demand for higher levels of care (e.g., assisted living). However, after 2020, demand will be strong for all levels and types of senior housing.
- Currently, there is very little availability for independent living senior housing.

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- Most of the new senior housing that has been constructed in recent years has been dominated by assisted living and memory care housing.
- As with owner-occupied multifamily housing, senior rental units are a good lifestyle option for half-time residents (snowbirds). These households are more likely to be younger, active seniors (65-74), the primary market for independent living.
- National trends have shown that seniors are moving to be near their grown children and grandchildren. Therefore, a significant proportion new senior housing demand will come from outside the community.
- Cloquet's affordable senior units are currently 100% occupied. Almost all of the affordable units consist of small, one-bedroom units in buildings more than 30 years old with few features and amenities. Despite the small size and lack of amenities, these units are remaining occupied in today's market, indicating a very strong demand for housing.

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8.0 Conclusions and Recommendations

The preceding section in this report identified the potential new household growth that we believe Cloquet and Scanlon could achieve between 2013 and 2025. This section lists some strengths and weaknesses related to Cloquet/Scanlon's growth potential, contains our recommendations for each city to realize the projected growth potential, and raises other considerations for local officials, property owners and developers to take into account when planning for future housing construction in Cloquet/Scanlon.

8.1 RESIDENTIAL DEVELOPMENT: STRENGTHS AND WEAKNESSES

We identified numerous strengths and a few weaknesses concerning Cloquet/Scanlon's ability to attract new households and realize the projected growth potential. It should be noted that the points below are not a complete list, nor are they stand-alone factors fueling or nullifying residential growth opportunities. They, like many of the factors studied in this report, are intertwined with various demographic and economic considerations. We included the following for discussion, as they were the most prevalent in our research findings:

8.1.1 Strengths

- Cloquet/Scanlon has a stable and diverse economic base that has been growing in recent years.
- The schools in Cloquet/Scanlon have a solid reputation that has been drawing many young families with children into the community in recent years.
- Cloquet/Scanlon has a strong complement of retail goods and services that meet most household needs.
- Cloquet/Scanlon is within commuting distance of Duluth. Therefore, households that may be price sensitive to the Duluth housing market or prefer a smaller, more intimate community can live in Cloquet/Scanlon and commute to Duluth. Furthermore, any retail needs not currently available Cloquet/Scanlon can be easily accessed in Duluth.
- Cloquet/Scanlon provides easy access to many of the recreational opportunities available in northeastern Minnesota, including Lake Superior, the St. Louis River and Lake Superior Basin, the Boundary Waters Canoe Area, and the surrounding lakes regions.
- Cloquet/Scanlon is a desirable community to a wide variety of people. Young singles and couples, families, retirees, seniors - many different demographic groups - would be likely to consider Cloquet/Scanlon as a residential destination, given appropriate housing to suit their needs and budgets.

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8.1.2 Weaknesses

- The housing stock is dominated by smaller, older homes on small lots. In order to keep these homes marketable and in demand, costly upgrades are needed. Furthermore, many of the lots these homes are located on are often too small to accommodate the kinds of upgrades desired by today's market.
- The sharpest employment growth in recent years has been lower-wage service industry jobs. This has placed a great deal of demand pressure on quality affordable housing. In many cases, employed households that are unable to afford market rate rents or entry-level for-sale homes have resulted to doubling up or combining households in order to cover housing costs. This can result in overcrowding, which contributes to significant wear and tear on the housing stock, or leaves homes susceptible to foreclosure should the combined household split apart for any number of reasons (e.g., domestic differences, employment located elsewhere, loss of employment, etc.).
- Although Cloquet/Scanlon appears to have a significant supply of vacant residential lots available for development, many of these lots are scattered throughout the community. As a result, there are very few options for new subdivision development. What currently exists is minimal and is almost entirely marketed to upscale or luxury housing. Although in-fill development can stabilize older neighborhoods with new housing stock, the development costs are often much higher relative to new subdivisions because the construction and marketing costs are specific to a unique site and a developer cannot take advantage of any economies of scale.
- In addition to an older housing stock, some of the older neighborhoods also have aging infrastructure in the form of poor sidewalks, road surfaces, and street lighting. Although not under direct control of a homeowner or property owner, these elements are a key component to the marketability of a home. For example, well maintained public infrastructure has been correlated with increased levels of re-investment in the housing stock.

8.2 RECOMMENDATIONS FOR NEW HOUSING DEVELOPMENT, 2013-2025

In order to assist Cloquet/Scanlon in realizing its projected growth potential, we have included the following list of recommendations for cities to consider when making decisions on how new housing should be created in the community.

1. Within the urban service area and where possible, consider working with property owners to combine vacant lots smaller than 7,500 square feet with adjacent properties. This will make the new combined lots more marketable because they will be larger, be connected to city services, and have room to accommodate renovation/expansion of an existing home.
2. Consider extending municipal services to the neighborhoods along 14th Street south of John and Stephen Roads. Given the number of vacant lots in this area, along with the provision of municipal services, this neighborhood could meet the demand for new middle market housing and function much like a new subdivision. Characteristics that make this consideration

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potentially attractive are that the neighborhood primarily consists of lots smaller than 20,000 square feet, which are small enough to potentially recoup the costs of new services. Furthermore, lots between 10,000 and 20,000 square feet are the sweet spot for the middle- and move-up markets. Recently, the only new subdivision development has been for lots larger than 1.5 acres without municipal services. Also, extending municipal services into these neighborhoods may alleviate any current or future septic issues since many of the existing lots and the homes on them are decades old. Finally, Erickson Acres on the north side of Cloquet experienced a fair amount of new residential development over the past 10 years with similar sized lots. This is due in part to Erickson Acres having municipal services available.

3. Consider targeting older neighborhoods for improvements to public infrastructure and then track housing values in these areas to better understand the correlation between public investment and private investment.
4. Although trends suggest younger households may not have as much faith in homeownership as previous generations, continue to encourage homeownership in the community, especially in neighborhoods with a significant amount of older housing stock. The potential for re-investment in the housing stock is especially high when homes can easily transition from older households to younger households. Younger households often take advantage of sweat equity and increasing incomes to upgrade and improve upon properties.
5. Encourage a diverse mix of housing. The current distribution of new owned housing is heavily weighted to serve households in the executive categories. The entry-level and middle markets should be addressed, as well. A diverse mix of new housing types at all price levels encourages new households to move to the community, as well as promote healthy turnover within the community. A lack of development of these types of homes could cause adverse ripple effects throughout the community:
 - a. School District Enrollment. Recent research conducted for the Northfield School District that may be relevant to the Cloquet/Scanlon area showed that housing type and housing cost have an effect on district enrollment. Summarized briefly, more expensive housing and multifamily housing translate to declining enrollment patterns. If young families in need of affordable housing are unable to find housing, they will be forced to look elsewhere. Young families help to maintain steady school enrollment levels, preventing fluctuations that could force reactive funding decisions, hiring practices and school programming.
 - b. Public Services and Local Institutions. Spending habits, healthcare service needs, community programs for young families versus older families and seniors (i.e. child daycare vs. adult daycare), and recreational programming are only a few examples of how residential characteristics (and subsequent demographic profiles) affect other aspects of the overall community.

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6. Focus on developing housing affordable to households that earn 80% or less of area median income. To facilitate the development of more affordably-priced homes, we encourage Cloquet/Scanlon officials to consider the following suggestions:
 - a. Cooperative housing is a product type that has been rapidly gaining in popularity in many communities throughout the state, particularly among seniors and retirees. In this type of housing, residents buy shares in a cooperative development, and then pay a monthly lease fee for the duration of residence. The entry shares are typically less costly than a traditional condominium, allowing residents to keep more of their cash, but are still able to see a return on their investment. Upon move-out, residents receive the accrued value of their entry shares.
 - b. Manufactured (or modular) housing is a product that has gained acceptance in the market in other smaller cities and towns in Greater Minnesota; Rochester and Marshall are two examples. Industry estimates show that 18% of all new homes sold in Minnesota are manufactured or modular homes. These units are manufactured in a factory, disassembled, and then re-constructed on a home site. This method translates into savings for buyers, as purchase costs can average between 20 and 50 percent below new traditional housing types. It is very important, however, that manufactured housing is of high-quality and follows architectural styles that fit Cloquet/Scanlon.
 - c. Ensure land use regulations support mixed-use, higher-density development.
 - d. Streamline the development approval process in order to minimize the amount of fees and other costs that get passed along to homebuyers or renters.
 - e. Make sure adequate land is available to meet market demand for new housing. Otherwise, if available land is restricted too much, limited supply will cause rapid appreciation in the price of housing.
 - f. Consider promoting the establishment of community land trusts. Community land trusts are typically large tracts of land in which the housing on the land is sold to low- and moderate-income households, but the land underneath remains under ownership of a third party, which is often a non-profit organization.
7. Consistent reinvestment in the Cloquet/Scanlon's existing housing stock will maintain community stability. Residential neighborhoods are the fabric that defines most communities.

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Should local housing not be adequately maintained or updated, particularly in concentrated areas, the cost to redevelop or reinvest will be greater and affect the stability of the community.

In years past, community stability was defined by attracting young households who would maintain their current residence through to their retirement years. This notion is antiquated in the current housing industry.

We believe that the best way to ensure constant housing reinvestment and maintain community stability is to encourage residents to move to different housing as their lifestyle needs change, but to remain in the community (turnover and retention; see chart at right). This can only be accomplished through the availability of a wide variety of housing types.

- Housing turnover *without retention* = declining sense of community; long-time residents move from the community, undermining local institutions.
- Housing turnover *with retention* = opportunity for new families (vitality) and maintenance of longtime community members (stability)