

APPENDIX F



Mixed-Use Redevelopment Report 3942 Woodland Avenue

Duluth, Minnesota

Prepared for
City of Duluth

Prepared by Adaapta
A partner under contract with
Kansas State University Technical Assistance to Brownfields

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TAB
Technical Assistance
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KANSAS STATE
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Disclaimers

This document was produced by Adaapta, LLC, a partner of the Technical Assistance to Brownfields (TAB) Program at Kansas State University (KSU), to evaluate the considerations surrounding mixed-use, as it pertains to the property at 3942 Woodland Avenue in Duluth, Minnesota. KSU TAB is an EPA funded program. User Entities receiving TAB assistance should engage appropriate professional services prior to making final decisions, plans or actions on brownfields redevelopment projects. No warranties are made, express or implied.

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1.0 Introduction

In partnership with the Kansas State University Technical Assistance to Brownfields (KSU TAB) program, Adaapta provided technical assistance to the City of Duluth, Minnesota (the City), by providing an overview of common challenges associated with mixed-use properties, as well as some potential solutions. The City is interested in directing the redevelopment of 3942 Woodland Avenue (the Site) as a mixed-use project and is preparing to release a Request for Proposals (RFP) to solicit developers.

The information in this report is meant to guide the City in the development of an RFP, providing a better understanding of what elements and factors a developer will evaluate.

There are several asset classes that can be incorporated into a mixed-use property, but a popular form in 2025 contains retail on the ground floor and residential units above. This report focuses on that mixed-use scenario.

This report highlights the differences between multi-family developers and retail developers and their considerations when choosing a site, then delves into some challenges and potential solutions associated with mixed-use properties.

2.0 Site Selection Considerations of Developers

This section includes an overview of key factors that multi-family and retail developers consider when selecting a property. Though both multi-family and retail developers consider factors including market demand, demographics, existing supply of similar product and traffic patterns, they also approach these topics from separate perspectives.

2.1 Multi-family Developer Site Selection

Multi-family developers choose a site based on factors such as market demand and demographics, performance of comparable properties in the area, potential rental rates, and connectivity and neighborhood amenities.

2.1.1 Population Growth and Composition

Multi-family developers seek areas with strong population growth and composition, income levels that are sufficient to support target rent levels, and trends in tenure (owners vs. renters).

Developers often start research with [CoStar](#), the industry standard real estate data and analytics platform. Real estate professionals evaluate median incomes and which segments of the population are growing or shrinking:

Median Household Income	95.2K
Population Growth 5 Yrs 20-29	-9.0%
Population Growth 5 Yrs 30-39	6.6%
Population Growth 5 Yrs 40-54	-2.3%
Population Growth 5 Yrs 55+	-2.0%
Population Growth 5 Yrs	-2.8%

Figure 1: Population growth trends for Woodland-Pleasantview Multi-family Submarket, via CoStar

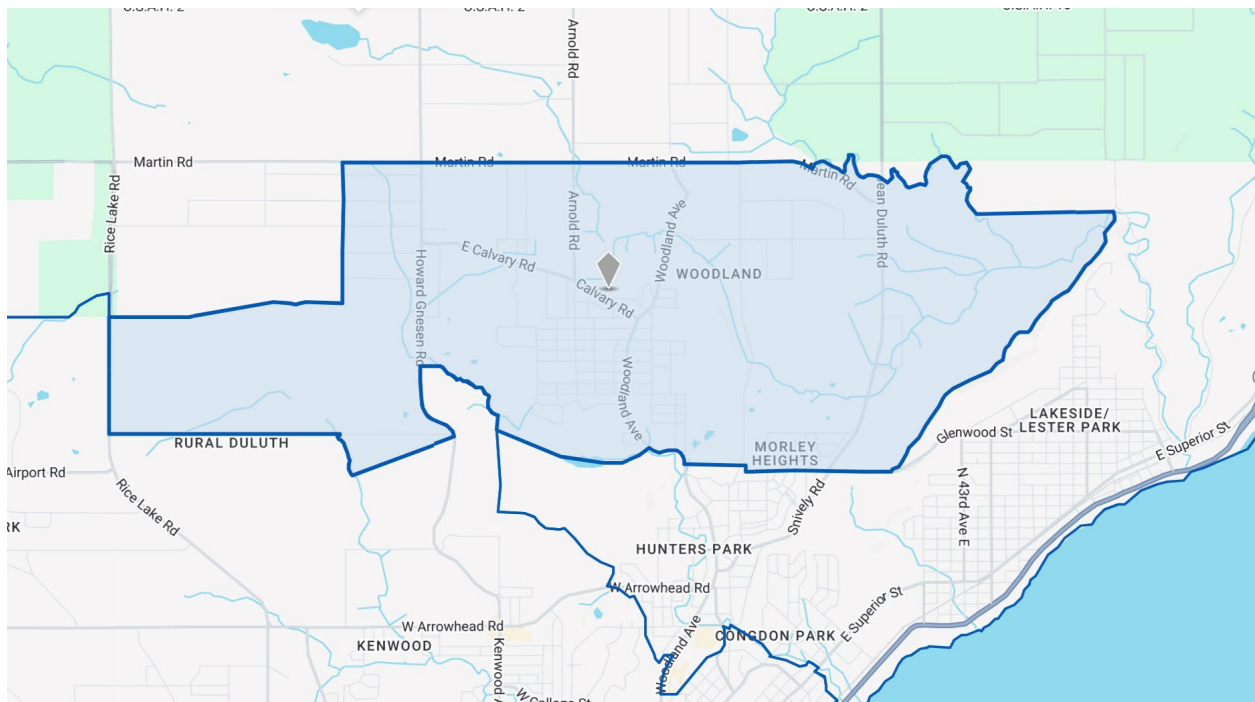


Figure 2: CoStar's Woodland-Pleasantview Multi-family Submarket

The [U.S. Census tract](#) is one form of data a real estate analyst can use to perform demographic research on a deeper level than what CoStar is able to provide.

For example, CoStar does not provide tenure data (renter vs. owner), but the U.S. Census does.

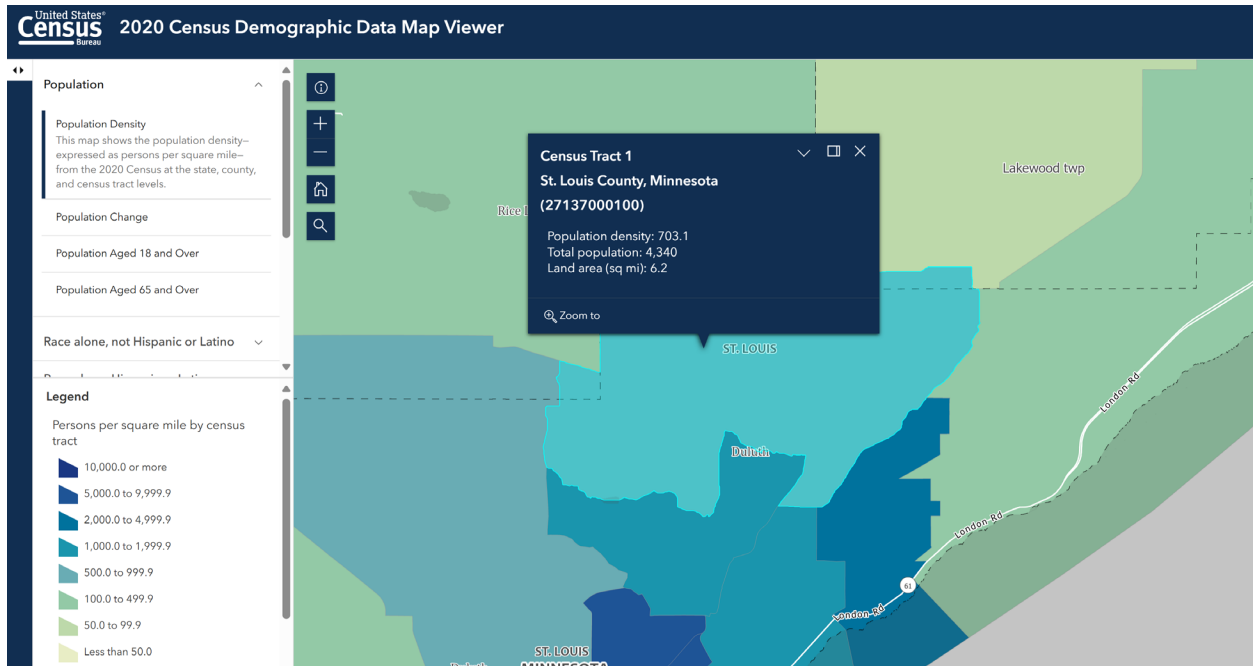


Figure 3: U.S. Census tract boundaries for the Site

The age distribution by tenure (owner vs. renter) in the Site's census tract is as follows:

Table 1: Age distribution by tenure in Site census tract

Population in Census Tract 1	Estimate
Total:	1,706
Owner occupied:	1,507
Householder 15 to 24 years	40
Householder 25 to 34 years	170
Householder 35 to 44 years	344
Householder 45 to 54 years	250
Householder 55 to 59 years	146
Householder 60 to 64 years	136
Householder 65 to 74 years	317
Householder 75 to 84 years	85
Householder 85 years and over	19
Renter occupied:	199
Householder 15 to 24 years	0
Householder 25 to 34 years	10
Householder 35 to 44 years	82

Householder 45 to 54 years	27
Householder 55 to 59 years	0
Householder 60 to 64 years	9
Householder 65 to 74 years	12
Householder 75 to 84 years	9
Householder 85 years and over	50

The tenure data shows that there are nearly eight times as many owners in this census tract than renters. It’s possible that this is due to a lack of available rental units rather than a lack of interest in renting.

While the age category with the most renter-occupied households is approximately 35 to 44 years, the age category with the second-most renter households is aged 85 and older.

A developer can perform further analysis to determine whether there are any apartment units for seniors in the area, and if there are, evaluate their vacancy level. Low vacancy levels suggest high demand.

2.1.2 Household Incomes and Tenure

Though median incomes in an area can be helpful for high level research, (i.e., comparing two submarkets), the developer will identify differences between median incomes for renters vs. owners. This is important because incomes can differ substantially between renters and owners.

Table 2: Annual household income for the Site census tract

Annual Household Income for Census Tract 1	Number of Households
Total:	1,706
Owner occupied:	1,507
Less than \$5,000	5
\$5,000 to \$9,999	8
\$10,000 to \$14,999	0
\$15,000 to \$19,999	20
\$20,000 to \$24,999	29
\$25,000 to \$34,999	73
\$35,000 to \$49,999	101

\$50,000 to \$74,999	257
\$75,000 to \$99,999	179
\$100,000 to \$149,999	388
\$150,000 or more	447
Renter occupied:	199
Less than \$5,000	0
\$5,000 to \$9,999	12
\$10,000 to \$14,999	0
\$15,000 to \$19,999	21
\$20,000 to \$24,999	0
\$25,000 to \$34,999	65
\$35,000 to \$49,999	0
\$50,000 to \$74,999	9
\$75,000 to \$99,999	10
\$100,000 to \$149,999	0
\$150,000 or more	82

The income category with the most owner-occupied households is the group earning more than \$150,000 per year.

The income category with the most renters is also the highest earning group. This data suggests there are approximately 82 renters who would likely be able to afford a home in this census tract but are choosing to rent.

2.1.3 Target Rents and Comparable Properties

There is only one property recorded in the Site's multi-family submarket. This lack of publicly available information could challenge a multi-family developer, as it can be more difficult to achieve investment when there are fewer comparables to present to a lender, equity investor or investment committee.

In densely populated areas with a significant amount of recent construction, a developer may be able to estimate the rents they could achieve in the area by looking at the rents of comparable properties and their vacancy levels. For example, if there are 20 new builds, which are all charging between \$1,400-\$1,600



per month for a one-bedroom, and all the properties have low¹ vacancy rates, it is likely that a comparable building in that area will be able to charge similar rents.

In an area where there is not much new multi-family development to reference, pricing the units is riskier, and more difficult for the developer, as it is less clear what the market will bear. Unfortunately, the Site is in an area with limited publicly available data.

The City could work to gather information about all the existing rental units in the area, if it is a high priority to attract a for-rent multi-family developer. Information may be available through City's rental licensing or with the [Housing & Redevelopment Authority of Duluth](#).

One way a developer may set rents in an area with no comparable buildings is by analyzing the incomes of target² households and set rents at levels that would be affordable to those households. The U.S. Census provides household income data, as shown in Table 2. A general rule of thumb, if the developer wishes to build homes that are affordable, is to set rents no higher than 1/3 of the income among households in the target group.

Developers often hire demographic and market analysts to dive deeply into all these factors and provide estimates of how many units of each type of multi-family housing may be supported (i.e., 400 affordable family units, 200 senior housing units, 70 market rate units).

2.1.4 Accessibility, Transit, and Neighborhood Amenities

One other consideration for developers of multi-family housing could be availability of public transit, walk or bike scores, and an evaluation of neighborhood amenities.

¹ Underwriting standards fluctuate over time, and by market, geography and market conditions. In the past 30 years, the underwriting assumptions for vacancy levels have usually been around +/- 5%. Vacancy levels below this would likely be considered "low."

² Basing this calculation on the median household income of all residents in the area should be avoided, as incomes for renting households are often lower than incomes of owning households. It is also important for the developer to understand incomes for the *type* of renter – incomes for mid-career individuals are likely quite different from seniors on a fixed income.

Walk Score®	Description
90-100	Walker's Paradise Daily errands do not require a car.
70-89	Very Walkable Most errands can be accomplished on foot.
50-69	Somewhat Walkable Some errands can be accomplished on foot.
25-49	Car-Dependent Most errands require a car.
0-24	Car-Dependent Almost all errands require a car.

Figure 4: Walk score descriptions, via [Walk Score Methodology](#)

In Q3 of 2025, the Site has a [walk score](#) of 57, a transit score of 21, and a bike score of 23. The evaluation of these factors is especially important for developers working in areas where there is a substantial amount of competition. If a renter is deciding between two units that are otherwise similar, but one is within walking distance of restaurants, shops, and a grocery store, this property may be preferred over one that has a low walk score.

2.2 Retail Developer Site Selection

Retail developers choose a site based on factors such as population size, household density, median incomes, performance of comparable properties in the area, potential rental rates, vehicular traffic and foot traffic.

2.2.1 Pre-screening Criteria

Often, the earliest factors in retail location pre-screening are population size, number of households, and median household incomes. Typically, retailers need to know this information for 1-mile, 3-mile or 5-mile radii around the Site.

Table 3: Retail demographic data for the Site

Radius around the Site	Population Size	Number of Households (aka "Rooftops")	Median Household Income
1-mile	3,903	1,589	\$104,541
3-mile	32,571	11,862	\$93,040
5-mile	60,673	25,295	\$68,797

Developers working on behalf of a retailer (build-to-suit) will have population, household, and median income thresholds to meet when considering a land purchase. Each retailer has different requirements for their brand³. Having a tenant already in place before construction starts is less risky than the alternative has become standard for retail development.

A developer creating a mixed-use property typically must build the retail space “on speculation” – they are building the space before they have a tenant. This is one of the major risks involved in mixed-use properties.

A mixed-use building is often not optimal for retailers, as it is hard to keep businesses alive in these spaces (see Section 3 for a detailed explanation). Chain retailers are unlikely to rent space in a mixed-use building due to these performance concerns, and because they typically have stringent design standards for their properties.

2.2.2 Target Rents and Comparable Properties

CoStar has slightly more recorded data for retail spaces in this submarket than recorded data for multi-family.

The only retail property under construction in 2025 is on Calvary Road and the recorded data suggests this property was a build-to-suit project for Dollar General. But the developer plans to sell the retail property to another owner with the tenant already in place. Selling the property with a national credit tenant already in place adds a substantial amount of value to the property, rather than attempting to sell an empty retail building, which the new owner will need to work to lease.

Since there is a national credit tenant in the space on Calvary Road, the developer is listing the property for \$2.66 million, or \$251.92 per square foot. Though this is the listing price, it may not be the final sale price. A retail developer would want to know the final sales price, which they can use to back into an estimated rental rate for Dollar General.

³ For example, see Krispy Kreme Doughnuts' retail location requirements [here](#).

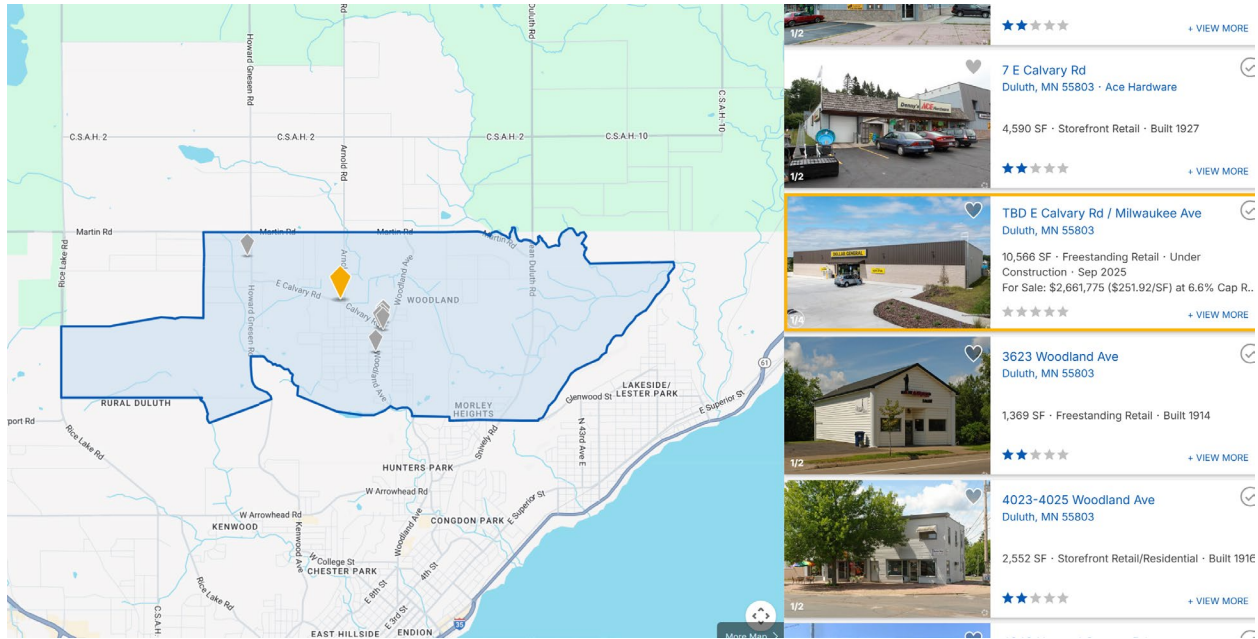


Figure 5: CoStar's Woodland-Pleasantview Retail Submarket

If a developer is considering a mixed-use property, the Dollar General site would not be a good comparable, as free-standing retail is different than mixed-use retail. Mixed-use retail is rented at a discount from free standing retail, as mixed-use retail is riskier (see Section 3).

2.2.3 Vehicular Traffic

Vehicular traffic, the primary means of attracting customers, is one of the most important considerations for retailers.

The Minnesota Department of Transportation [Traffic Mapping Application](#) provides Annual Average Daily Traffic (AADT) data for locations near the Site, including the intersection of Woodland Avenue and Austin Street, shown in Figure 6. This intersection saw 2,285 vehicles daily in 2021.

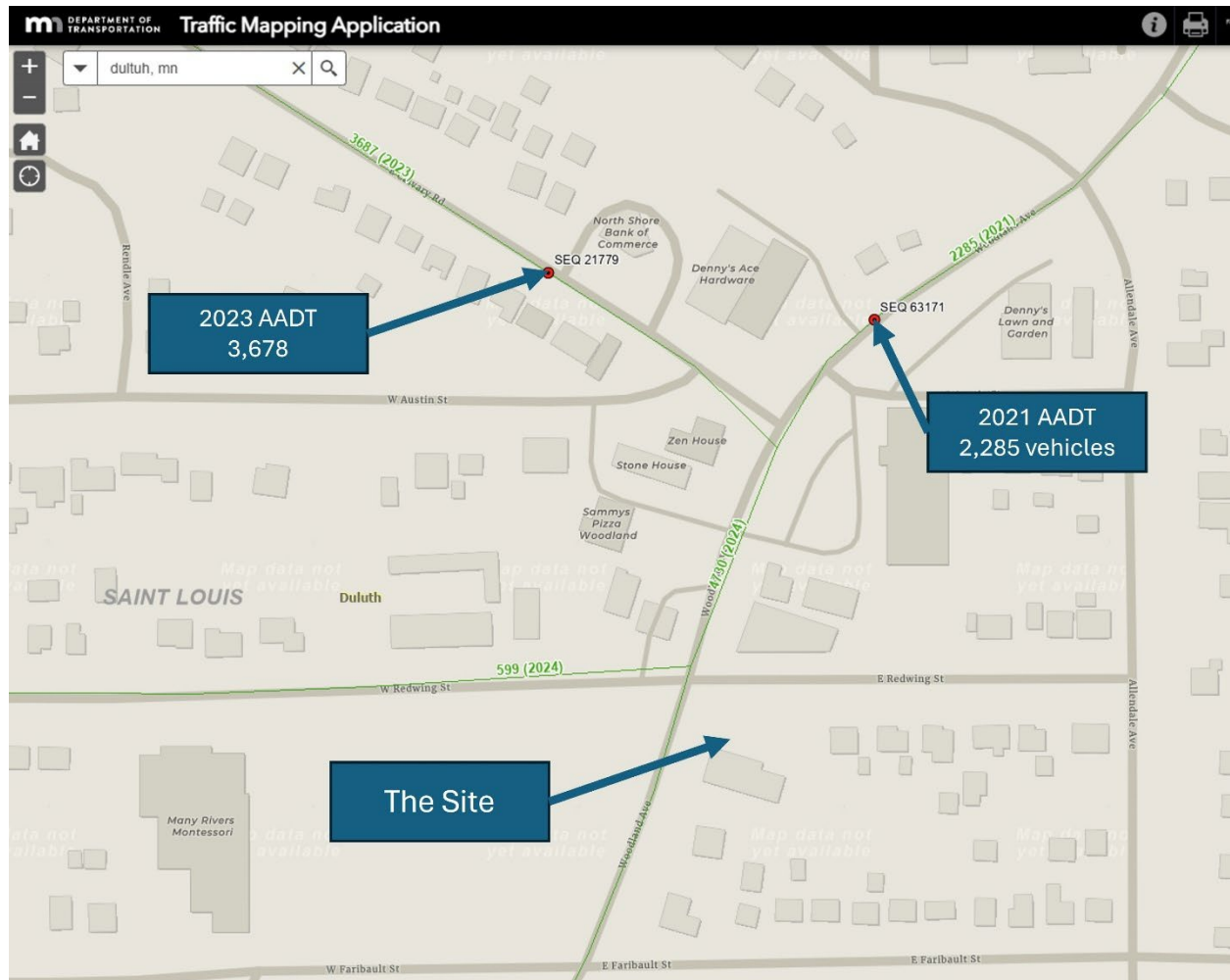


Figure 6: Map showing traffic count locations

Traffic counts are often one of the key requirements for chain retailers. It is common for national chain retailers to require traffic counts over 20,000 vehicles per day to consider a site as one of their locations.

2.2.4 Foot Traffic

More sophisticated retail developers may utilize foot traffic data to determine what types of customers are visiting locations nearby. This data can be used to determine which types of retail brands or categories of retail could be complementary within the same shopping center.

The industry standard software for this type of retail foot traffic analysis is [Placer.ai](https://www.placer.ai/), which uses Mobile Ad ID technology to better understand visitor behavior. This includes how many visitors are being attracted to a location each year, the median income of the visitors to that location, how long visitors spend in that



location on average (referred to as “dwell time”), along with other data points important to retailers.

Please refer to Appendix A for foot traffic data for the Ace Hardware, Sala Thai, and Woodland Marketplace Foods at the intersection of Woodland Avenue and Calvary Road.

3.0 Pre-Construction Considerations for Mixed-Use

This section addresses considerations surrounding retail and residential mixed-use.

3.1 Challenges with Mixed-Use Funding and Financing

Lenders and equity investors must evaluate each project for its financial feasibility and risk profile to determine whether the project is safe enough for an investment.

Mixed-use properties are notoriously risky, because they have income streams from a variety of asset types (i.e., retail, office, or residential), which all have different requirements for success. Fundamentally, different asset types typically thrive in different physical locations.

Table 4 outlines location-based incompatibility in a mixed-use property with ground floor retail and residential above.

Table 4: Incompatibilities between Optimal Retail Locations vs. Residential Locations

Optimal Conditions for Retail	Optimal Conditions for Residential
Busy street with high traffic counts. <ul style="list-style-type: none"> National retailers often require traffic counts of at least 20,000 vehicles per day. 	Safe streets with lower traffic counts and traffic speeds; enhanced walkability.
Strong visibility from a busy street.	Sound insulation from busy roads.
Easy vehicular access to street.	Proximity to schools, parks, rec centers, public transit or other public amenities.
For larger retailers, signalized intersections are often preferred. For smaller or local businesses, being located within an existing walkable retail corridor is important for success.	Pleasant outdoor spaces.

Optimal Conditions for Retail	Optimal Conditions for Residential
Dependable retailers often require dense and high-earning populations at the 1-, 3- and 5-mile radius to stay in business.	Residential leasing also benefits from a higher population density and high-earning populations (for market-rate), but household density is not as critical to residential success as it is for retail.

In mixed-use scenarios, the residential units are responsible for the majority of the revenue, and the retail is considered an amenity for the neighborhood and the units above.

Lenders and equity investors see retail at the base of multi-family buildings as very high risk. They will commonly offset this risk by creating a financial model that assumes the building will generate zero rent from any of the retail spaces. Another method of reducing risk is by setting up the property to be divided into a multifamily condominium and retail condominium after construction. This will be discussed in further depth in Section 5.

If the project is still financially feasible when the retail spaces are assumed to create zero revenue, the investors may feel comfortable enough with the project. Typically, to get the project to “pencil⁴” under these conditions, the rents in the units above must be market rate or luxury rents.

3.2 Regulatory Conditions

3.2.1 Zoning Standards

The City has adopted a [Unified Development Chapter](#) (the Code) which includes zoning and development regulations.

3.2.1.1 Zoning Classification

The Site is currently zoned Mixed Use-Neighborhood (MU-N), according to the City's online [GIS map](#), as shown in Figure 7.

⁴ To be financially feasible.

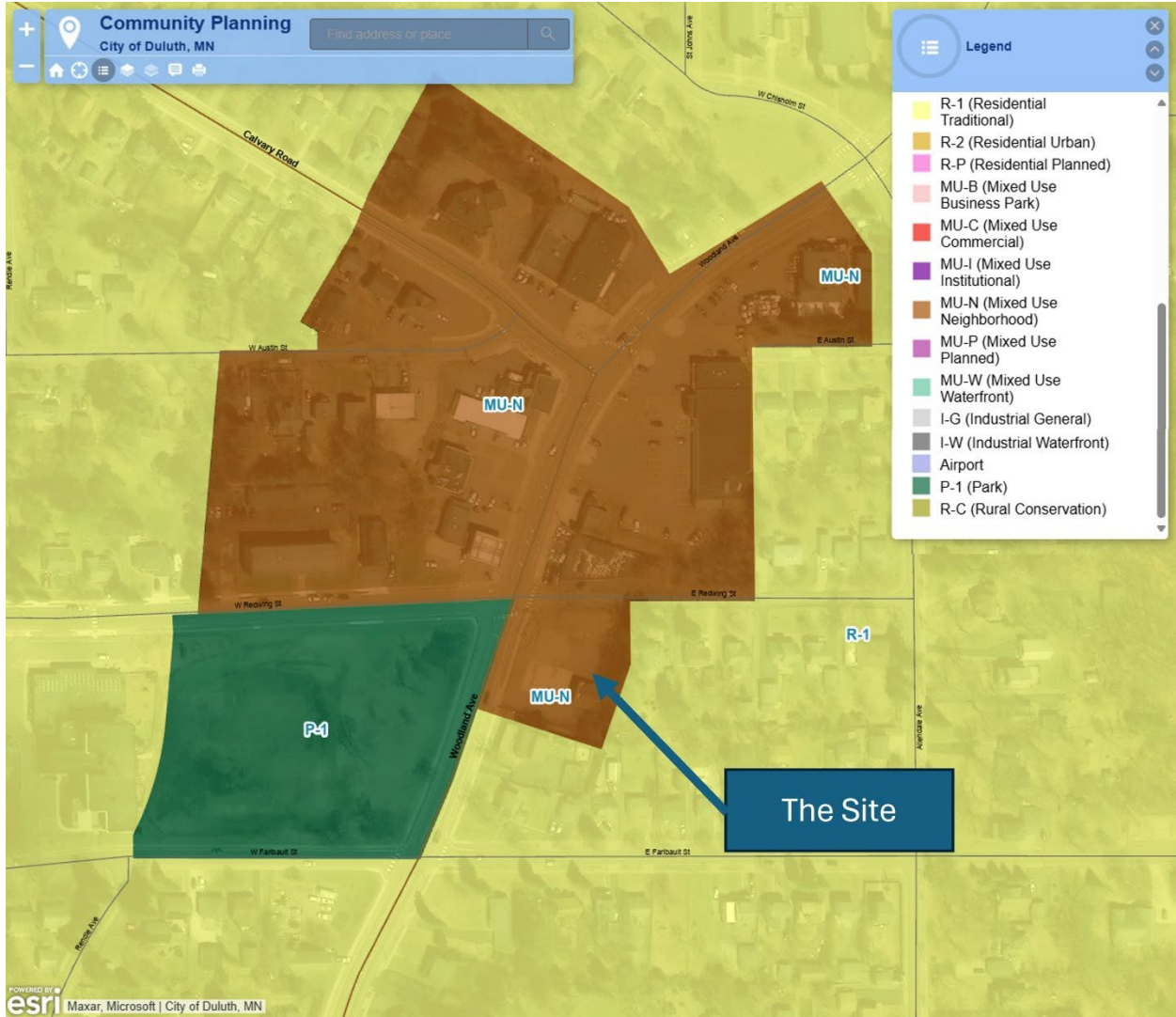


Figure 7: City Zoning Map with the Site highlighted

3.2.2.2 Dimensional Standards

The Code includes dimensional standards for new development in the MU-N district. Table 5 includes a summary of the dimensional standards that may apply to a mixed-use development in the MU-N district.

Table 5: Dimensional standards for the MU-N district

Description	Requirement
Lot Standards	
Minimum lot area per family for multi-family dwelling	500 SF per unit
Townhome or Live-work dwelling	2,200 SF per unit
Structure Setbacks	

Description	Requirement
Front Yard	<ul style="list-style-type: none"> • 10 feet for structures 35 feet in height or less • 20 feet for structures more than 35 feet in height
Side Yard	<ul style="list-style-type: none"> • 15 feet for non-residential use adjacent to residential district or use • 10 feet for multi-family adjacent to single-family district or use
Rear Yard	15 feet
Structure Height	
Non-residential use	45 feet
Residential or mixed-use within 500' of R-1 or R-2 district	50 feet

The dimensional standards outlined in Table 5 have been applied to the site and Figure 8 shows the approximate buildable area based on setbacks. This concept assumes a mixed-use building between 35 and 50 feet in height. Due to the proximity of the Site to a R-1 zoning district the maximum height allowable is 50 feet. The space required to accommodate parking has not been excluded from the buildable area.

The site is approximately .58 acres in area (25,213 square feet), which could allow a maximum density of 50 multi-family units or 11 live-work dwellings. Limitations such as setbacks, topography, access, parking and building height would all impact the final density, likely resulting in a lesser number of units being obtainable.



Figure 8: Map showing the approximate buildable area

3.2.2.3 Allowable Uses

Table 6 includes a summary of permitted and special uses within the MU-N district that are most likely to be considered. Most uses are permitted, except for small restaurants. Small restaurants may include businesses such as a coffee shop or bakery. Requiring a Special Use permit for this use adds a layer of approval potentially creating a barrier to development.

Table 6: Summary of potential uses to be considered as part of the Site development

Use Description	Status
Dwelling, Multi-family	Permitted
Dwelling, live-work	Permitted
Office	Permitted
Restaurant (less than 5,000 SF)	Special Use
Personal service and repair, small (less than 10,000 SF)	Permitted
Retail store not listed, small (less than 15,000 SF)	Permitted

3.2.2.4 Parking Standards

The City has established maximum off-street parking standards. Table 7 includes a summary of the parking standards based on potential use and zoning district. In a mixed-use development, no more than 50% of the parking can be in the front yard, which will have an impact on overall site design.

Table 7: Parking standards

Use	Maximum Off-Street Parking
Multi-family Dwelling	2.5 spaces per dwelling unit
Office	4 spaces per 1,000 SF of Gross Floor Area (GFA)
Restaurant	10 spaces per 1,000 SF of GFA
Retail	4.5 spaces per 1,000 SF of GFA
District	Permitted Parking Area
All mixed use and special purpose districts	No more than 50 percent of off-street accessory parking can be located within the front yard

Although there is not a minimum parking standard, the City Code includes the following additional regulations related to parking for new multi-family construction.

50-20.1.C.2. New construction multi-family dwellings proposing construction of fewer than 0.5 off-street parking spaces per dwelling unit shall submit an off-street parking plan for the development meeting the following conditions:

- (a) The plan shall be prepared by a professional expert in off-street parking;
- (b) The plan shall establish a rationale for the total number of off-street parking spaces provided with a basis in the total anticipated number of

bedrooms in the development, percentage of residents who may own cars, and where those cars shall be parked during their tenancy;

(c) If the parking plan assumes that on-street parking will be available for any of the parking needs, the plan shall include an analysis of available on-street parking including vehicle counts during the day, overnight, weekday, and weekend;

(d) The plan shall establish alternate or backup parking solutions should future parking demand exceeds available supply.

3.2.2 Future Land Use

The City several years ago adopted [Imagine Duluth 2035](#), an update to the comprehensive plan. The plan addresses future development goals related to housing and economic development. In the plan, the Site is shown in a Neighborhood Commercial district. Figure 9 shows the site location on the City's Future Land Use map.



Figure 9: City's Future Land Use Map with the Site highlighted

The Neighborhood Commercial classification is described as follows:

Small- to moderate-scale commercial, serving primarily the adjacent neighborhood(s). May include specialty retail; community-gathering businesses such as coffee shops or lower intensity entertainment; offices; studios or housing above retail (storefront retail with vertical mixed use). Typically situated in or adjacent to residential neighborhoods. May transition to neighborhood mixed use.

Adjacent to the Neighborhood Commercial area is Traditional Neighborhood, which supports a mix of housing types. A mixed-use development on the Site would be compatible with the surrounding Traditional Neighborhood, having an increase in density and the potential for neighborhood-focused commercial development on the main floor.

The City also identified Core Investment Areas (CIA) within the plan, and the Woodland area is included. The redevelopment of the Site does align with these goals.

CORE INVESTMENT AREA AMENITIES

The City will seek to create an environment in each Core Investment Area which will enable it to achieve the following:

- Upgraded or functional utility infrastructure adequate for redevelopment;
- Modern street networks, serving all users, walkable for nearby residents;
- Well evaluated and designed street and parcel layouts, suitable for modern development;
- Opportunities for gathering spaces, such as:
 - Coffee shops
 - Hardware stores
 - Small restaurants or taverns
 - Post office or shipping/receiving company
 - Churches or schools
 - Community clubs
- Access to healthy food (grocery store / bodega);
- Shared parking possibilities, where appropriate;
- Medical facilities / clinic.




Figure 10: Information on the CIAs from the Imagine Duluth 2035 plan

3.2.3 Topography and Infrastructure

Figure 11 was retrieved from the RFP 22-AA06 issued by the City in February of 2022. The approximate parcel lines have been imposed onto the map for reference. As shown in the figure, the Site is serviced by water, sewer, stormwater and gas. Appendix B includes a more detailed utility map provided by the City's engineering department.

Figure 11 also includes the topography lines, which show approximately a 14-foot elevation change on the north and east border of the parcel. This can have a significant impact on the development of the Site, reducing the buildable area or causing an increase in site work to install retention walls.



Figure 11: Utility and topography map from City 2022 RFP

Site access is available off Woodland Avenue and West Redwing Street. Woodland Avenue is a complete street with two lanes of traffic, a center turn lane, a designated bike lane, curb and gutter, and sidewalk. West Redwing Street is a paved roadway with deferred maintenance that does not currently have curb and gutter or sidewalks. Images of these two roadways are shown in Figure

12. Development of the Site may trigger street improvements and the installation of a sidewalk on West Redwing Street. This added infrastructure cost can have an impact on site development costs.



Figure 12: Images of the street conditions fronting the Site

4.0 Management Considerations for Mixed-Use

4.1 Challenges with Managing Mixed-Use Property

Whenever two different asset types (i.e., retail and residential) are combined into one building, challenges arise with the management of these properties. It is rare to find property management companies with staff who are equally skilled in managing apartments and managing retail.

Management and leasing of retail properties is typically handled by a commercial real estate broker with special expertise in this type of retail property. Often the broker is engaged during the pre-construction phase and will assist in refining pricing assumptions and targeting potential tenants. Depending on the market it may be possible to pre-lease some or all the retail space. Lenders will often look for a broker to be identified as part of underwriting the construction financing and typically as part of the permanent mortgage financing.

Since the skills required to manage retail and residential properties are different, it is unusual to find one team that can do both effectively.

Table 8: Differences between Retail Leasing and Residential Leasing

Retail Leasing	Residential Leasing
Tenants are businesses.	Tenants are individuals or families.
Leases are long, often 3-10 years.	Leases are short, often 1 year.

Retail Leasing	Residential Leasing
Each lease is complex and time-consuming, involving multiple lawyers and substantial negotiation timelines.	Leases are less complex and typically do not involve attorneys or negotiations.
Tenant turnover is slower because lease terms are longer.	Tenant turnover is much faster because lease terms are shorter.
Marketing of retail spaces occurs via retail brokers, trade shows, or industry relationships.	Marketing occurs via social media, signage, or online listings .
Property managers for retail properties must be familiar with a variety of different deal structures, including tenant improvement allowances, percentage rent agreements, and exclusivity clauses .	Property managers for residential properties must be familiar with fair housing compliance laws and practices. If the units are subsidized affordable units, property managers must also be familiar with evaluating each tenant's assets, income, and household composition, to ensure compliance with state and federal affordability programs. Annual recertification and reporting is typically required for affordable units, to ensure that tenants are still meeting income qualifications.
Property managers must be able to evaluate the financial health and risk profile of any business seeking to lease space, which involves being able to interpret financial statements.	Property managers must be familiar with background and credit checks, and must be able to process large quantities of applications at one time.

4.2 Solution for Managing Mixed-Use Property

The most common method for managing mixed-use properties is for two teams to manage the different asset types within the same building. It is common for the residential property manager to contract a retail property manager to work under them to handle management of the retail space at ground level. Shared spaces such as parking, utilities, and common areas often require coordination between the two teams.

5.0 Sale Considerations for Mixed-Use

5.1 Challenges with Selling Mixed-Use Property



Real estate investors typically earn most of their returns when they sell the property. This makes the speed and profitability of a sale important to both the bank and the equity investors.

Since mixed-use properties are essentially two types of properties within one building, the buyer pool for mixed-use properties is smaller. Mixed-use buyers must understand the underwriting⁵ for both multi-family and retail, and they must have their own funding partners who are familiar with mixed-use. All parties on the buyer's side need to be comfortable with a higher level of risk.

A smaller buyer pool often means that there is less chance of a bidding war, which drives sale prices upwards. A smaller buyer pool may also cause the property to sit on the market longer.

5.2 Solutions for Sale of Mixed-Use Property

5.2.1 Sell Each Component Separately

One method sometimes used to sell a mixed-use property is to sell each component separately, via “condo-izing.” Though the most common form of condominiums are residential homes, the condominium ownership model can apply to many forms of real estate. For example, a mixed-use property with retail on the ground floor and apartments above could be recorded as a condominium so that the retail spaces on the ground floor can be sold to a retail investor, while the apartments above could be sold to a multi-family investor.

The condominium ownership structure allows for two separate permanent mortgages – one for the multifamily and one for the retail space. In the case of a mixed-use building, there may be a two-member owner association created to maintain the building envelope, roof, parking site and any other shared space or amenities.

This condominium strategy may expand the buyer pool somewhat, as buyers would not be required to manage elements of the building which are not their specialty.

This solution requires upfront legal work and may require certain physical changes to the structure (i.e., separate utilities metering, separate entrances and exits).

⁵ Underwriting is a process where individuals or institutions evaluate financial risk, primarily in loans, insurance, and investments.

5.2.2 Fully Lease Retail Components

One of the biggest risks for a mixed-use building with retail at the base is ensuring the retail remains occupied. Since retail thrives when located next to busy streets with high traffic counts, or in very dense areas with enhanced walkability, many retailers cannot survive in the quieter locations where new multi-family buildings are typically built. Retailers know their odds of survival in these areas are lower, and therefore it is difficult to find retail tenants who are willing to lease space at the bottom of a multi-family building.

One thing that a mixed-use seller should do to make the property more attractive to a potential buyer is to ensure that all retail spaces are fully occupied by reliable tenants before the property goes up for sale. If there are multiple retail spaces with different tenants, the seller should ensure that the lease expirations are staggered, so that the buyer's property managers don't need to fill all the retail spaces within the same year at some point in the future.

Buyers are more likely to be attracted to a property that has “national credit tenants⁶” in the retail spaces, as these tenants are less likely to fail than smaller, mom-and-pop retailers. However, these credit tenants often have higher requirements for population density and average daily traffic surrounding the property.

5.2.3 Optimize Mixed-Use Financing

The seller could reach out to lenders who understand mixed-use properties and can offer clear terms to potential buyers.

The seller should highlight any local, state or federal government incentives that will make retail more financially feasible. The local government may be able to assist in putting together a comprehensive list of resources that can help fund the construction of the project, as well as resources to help attract a buyer once the project is complete and ready for sale.

Some examples of incentives or programs that may apply to mixed-use properties could include:

- Community Reinvestment Act ([CRA](#)) Financing

⁶ Some examples of national credit tenants could include Ace Hardware, Starbucks, CVS, Chipotle or other household names.

- Banks are graded on how well the bank provides loans to local residents, makes business loans in underserved areas, or invests in community development projects (such as affordable housing, or projects that otherwise stimulate the local economy).
- Certain banks may need projects that will help improve their CRA “grade,” especially if they are attempting to merge, or open new branches.
- Department of Employment and Economic Development (DEED), Redevelopment Grant Program
 - Grants pay up to half of the redevelopment costs for a qualifying site, with a 50% local match. Eligible applicants are cities, counties, port authorities, housing and redevelopment authorities, and economic development authorities.
 - City staff can assist a developer apply for a Redevelopment Grant prior to the sale of the property to the developer.
- [Duluth 1200 Fund](#)- Build Forward Duluth Loan Program
 - Provides funding for purchases, expansions of owned buildings, including equipment expenses to sustain the business. As a gap financing program, another financial institution will be required to match or exceed the amount requested from this program in addition to owner equity.
- Downtown Revitalization Funds
 - These types of programs may provide incentives to a developer within an eligible district for specific improvements or activities.

6.0 Alternative or Non-Traditional Ground Floor Solutions

The previous sections have outlined challenges and solutions for a traditional mixed-use property. This section covers some alternative solutions that meet the spirit of a mixed-use property, while side-stepping the complexities associated with traditional mixed-use.

While the City cannot regulate the programming of privately owned spaces beyond zoning compliance, the City may be able to state a preference for ground floor activation or community amenities at this site within the RFP. A few of these alternative or non-traditional means of ground-floor activations could be listed as examples of ways developers can achieve activation, without the risks associated with traditional mixed-use.

6.1 Live-Work Units

One solution to creating a more activated ground floor could be to create live-work units. These units are designed for both residential and professional activity. The units typically have storefronts facing the street or sidewalk. Sometimes these units have two entrances – one for resident access only, and another leading to the publicly accessible office or studio space.

Typical live-work tenants are entrepreneurs, freelancers, artists, small business owners, or remote workers, but there is typically no rule stating that a person applying for the unit must use the space for professional purposes.

This style of unit is most successfully leased in more dense, walkable areas, and in areas with many younger individuals who may have secondary jobs or “side hustles.”

6.2 Ground Floor Residential Amenities

A common solution to activate ground floor space is to put the building's amenities at the ground level. Market-rate or luxury apartments tend to have more extensive amenity space than affordable apartments.

Traditionally, these amenities are exclusively for use by residents and their guests, although one pioneering real estate firm has created a concept where the building's amenities are accessible to non-residents, for a monthly subscription fee.

[X Companies](#)⁷ created a residential concept which allows non-resident access to an apartment's amenity spaces such as gyms, coworking spaces, pools and social events. X Company buildings target a very young demographic, and the company's properties are in large metropolitan areas.

6.3 Space for Community Pop-Up Events

Another alternative for activating the site could be to include a designated outdoor space for community pop-up events, such as small farmer's markets or

⁷ X Companies has encountered financial and legal difficulties in the past 3 years. Residents at X's flagship property in Denver, CO reported very disorganized and unresponsive property management. In 2023, the building's extensive amenities were closed to both residents and non-residents. In 2024, the building obtained new property management. As of late 2025, the property's amenities are open to both residents, and to non-residents for a membership fee.



food truck events, if the site is large enough to accommodate such outdoor spaces.

6.4 Plan for Future Ground Floor Flexibility

Developers will sometimes attempt to offset risk by creating flexibility to build the ground floor out as typical apartments or live-work apartments in the event that retail tenants are not viable. One alternative is to leave the ground floor space unfinished, but stub utilities and install electrical conduit in the locations they would be needed for apartments in the future. Utility connections can be capped and conduit hidden if retail space is successfully leased. Developers will often not begin construction of a mixed-use property until retail leases are signed.

7.0 Conclusion

Mixed-use development is a challenging project type because it combines different asset types, each with their own risks and unique needs. Incorporating multiple uses compounds the risk of the project, while often reducing the financial returns.

Despite its many challenges, mixed-use developments can be a great amenity to a community – if planned correctly. Methods developers commonly use to offset the risks and challenges associated with mixed-use include building conservative proformas, hiring specialized asset management companies to manage the different assets within the same building, and selling the two asset types independently via “condo-ization.”

There may be alternative strategies a developer could consider for ground floor activation, such as live-work units, ground floor residential amenity spaces, or outdoor spaces for community pop-up events. A developer may also choose to build the ground floor retail space with the ability to convert to more residential units, in the event that retail tenants cannot be found. Preparing the Site to be development ready is another step the City can take to reduce risks and help the developer anticipate project costs and timelines.

Figures

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