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St. Louis County Union Depot

# Economic and Market Analysis

*Final Report*

April 30, 2012

# **ECONOMIC AND MARKET ANALYSIS**

## **FINAL REPORT**

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**April 30, 2012**

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# 1. INTRODUCTION

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## 1.1 Background and Purpose

The Saint Louis County Union Depot (or the Depot) is on the United States National Register of Historic Places and is located in downtown Duluth, Minnesota. The Depot is 115 years old and currently houses the Lake Superior Railroad Museum and other arts and cultural organizations. The Depot has served several different rail lines through its history, and passenger rail service is anticipated to return between Duluth and the Twin Cities through the Northern Lights Express (NLX).

With the prospect of intercity passenger rail service being reinstated, a study was initiated to examine potential new, complementary uses that capitalize on the historic value of the Depot and strengthen the local economy. This report identifies economic development opportunities afforded by the proposed new rail service that are appropriate for this historic structure and the surrounding area.

## 1.2 Organization of the Report

This Economic and Market Analysis provides an assessment of the current market conditions and local economy, and it offers suggestions for development and appropriate use of the rail station and the surrounding area. The report is structured as follows:

- Current market conditions are described in Chapter 2.
- Future market capacity and demand for development estimates are provided in Chapter 3.
- Potential St. Louis County Union Depot uses and study area development opportunities are presented in Chapter 4.
- Strategies to promote economic growth in and around the Depot are offered in Chapter 5.
- Chapter 6 highlights marketing strategies that may be appropriate for the Depot and surrounding area.

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## 2. CURRENT MARKET CONDITIONS

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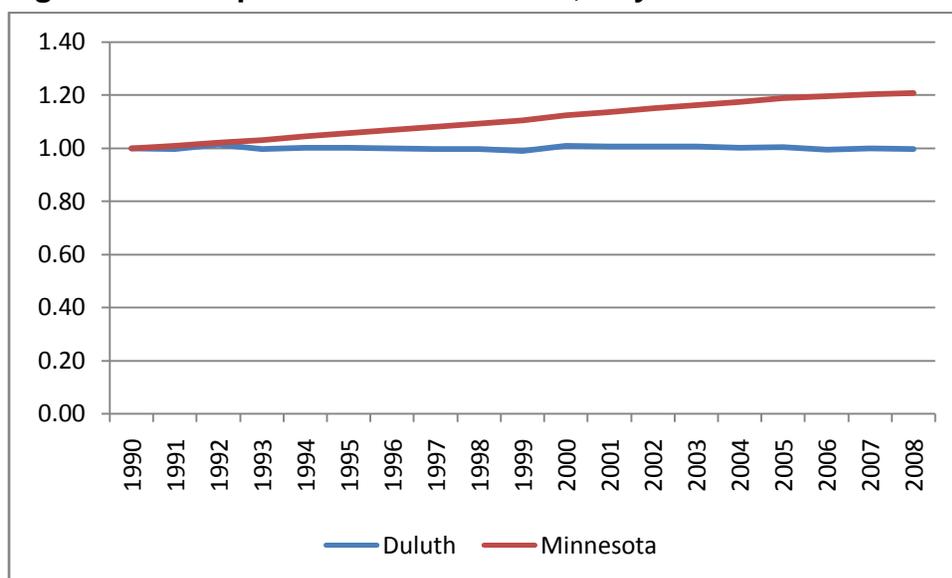
This section of the report provides an economic and real estate market assessment of the Depot and the surrounding downtown area and summarizes:

- Economic and demographic conditions and trends;
- Commercial real estate;
- Residential real estate;
- Land use conditions; and
- Economic development interview findings.

### 2.1 Economic and Demographic Conditions and Trends

Duluth's population has shown relatively flat growth for the period from 1990 through 2008, while Minnesota as a whole has grown roughly 20 percent during that same time (see Figure 1). Duluth's flat demographic growth is somewhat surprising given that employment and wages have grown over the same period for both Downtown Duluth and the City of Duluth.

**Figure 1 Population Growth Index, City of Duluth and Minnesota**



Source: MN Dept of Administration: Office of Geographic and Demographic Analysis

In 2007, the total population of Downtown Duluth was 22,863 with 66 percent of the total population of workforce age as seen in Table 1.

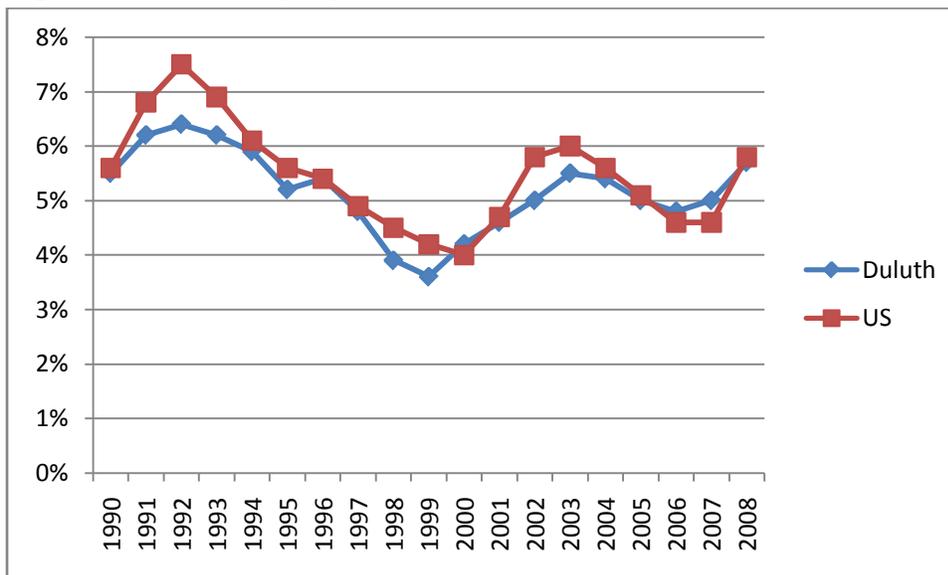
**Table 1 Population by Age Group and Gender 2007**

	Age Groups				Total
	0 - 18	19 - 24	25 - 65	65+	
Male	2,395	1,967	5,672	1,043	<b>11,077</b>
Female	2,373	1,927	5,457	2,029	<b>11,786</b>
<b>Total</b>	<b>4,768</b>	<b>3,894</b>	<b>11,129</b>	<b>3,072</b>	<b>22,863</b>

Source: Claritas

The unemployment rate in Duluth has been slightly lower than the overall United States since the mid-1990s (Figure 2). In 2008, the overall unemployment rate for both Duluth and the US was about 6.0 percent for the year, but as of May 2009 the unemployment rate for the nation had jumped up to 9.1 percent with the current economic recession, and it is expected to reach 10 percent in the coming months. The Duluth unemployment rate was 7.5 percent in May 2009, a bit lower spike than experienced at the national level.

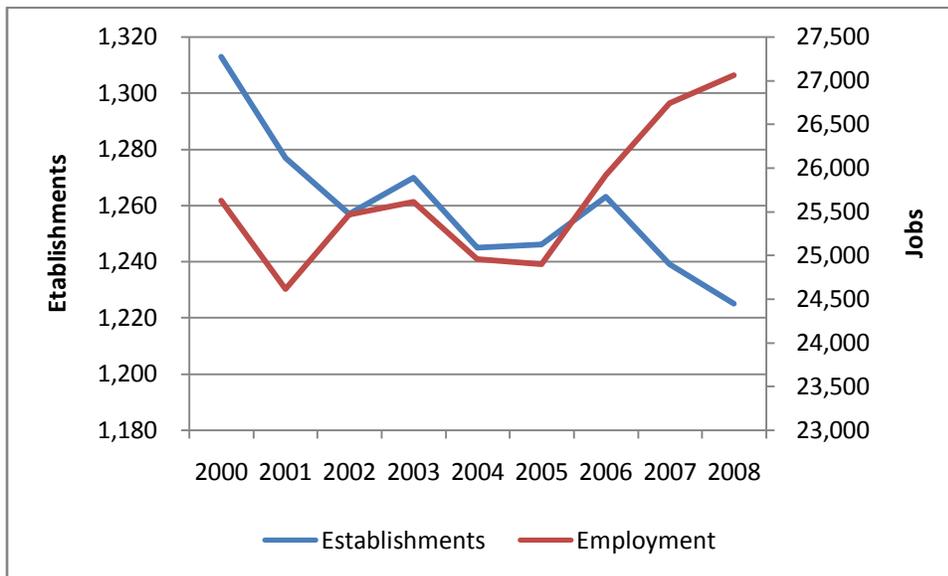
**Figure 2 Unemployment Rate: Duluth and US**



Source: Minnesota Department of Employment and Economic Development

In terms of total job growth, downtown Duluth has shown positive employment growth from 2000 to 2008, with the exception of 2004 and 2005, as seen in Figure 3. The number of establishments over the same period, however, has steadily declined from 1,313 in 2000 to 1,225 in 2008.

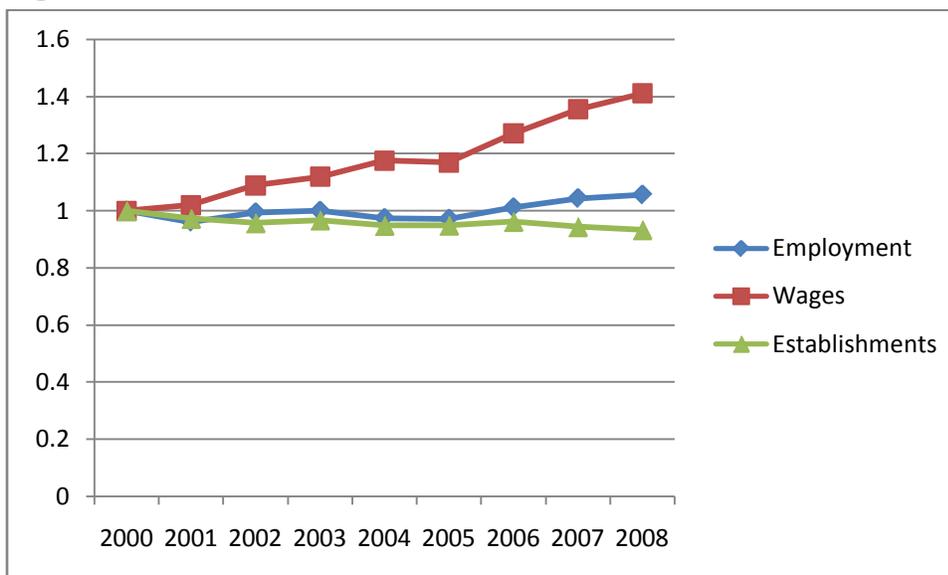
**Figure 3 Establishments and Employees for Downtown Duluth**



Source: Minnesota Department of Employment and Economic Development (DEED) – QCEW

In 2008, Downtown Duluth had more than 27,000 employees and 1,225 establishments. Despite that the total number of establishments has declined since 2000, as noted above, jobs and wages have shown positive growth since 2000, with the exception of 2004 and 2005. The number of jobs grew by a modest 6 percent since 2000, and wages grew disproportionately by 41 percent (Figure 4). It is worth noting that employment is measured on an establishment basis (i.e., location of the job) rather than on a residential basis, which is how population is measured.

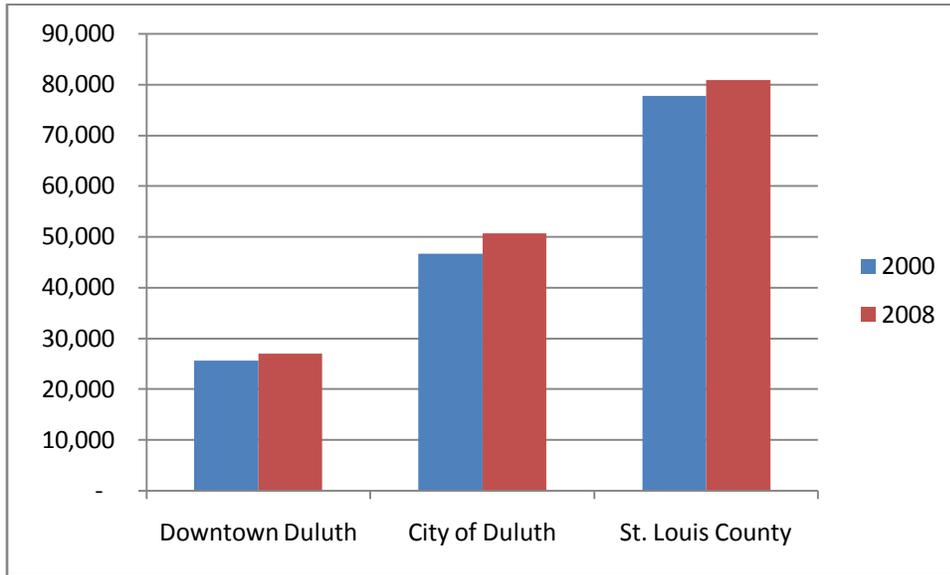
**Figure 4 Growth Indices for Downtown Duluth**



Source: Minnesota Department of Employment and Economic Development (DEED) – QCEW

Figure 5 shows that half of the jobs in the City of Duluth are within the Downtown Area and more than half of all St. Louis County jobs are within the City of Duluth. This relationship has held steady over the past decade.

**Figure 5 Employment Downtown Duluth, City of Duluth, St. Louis County**

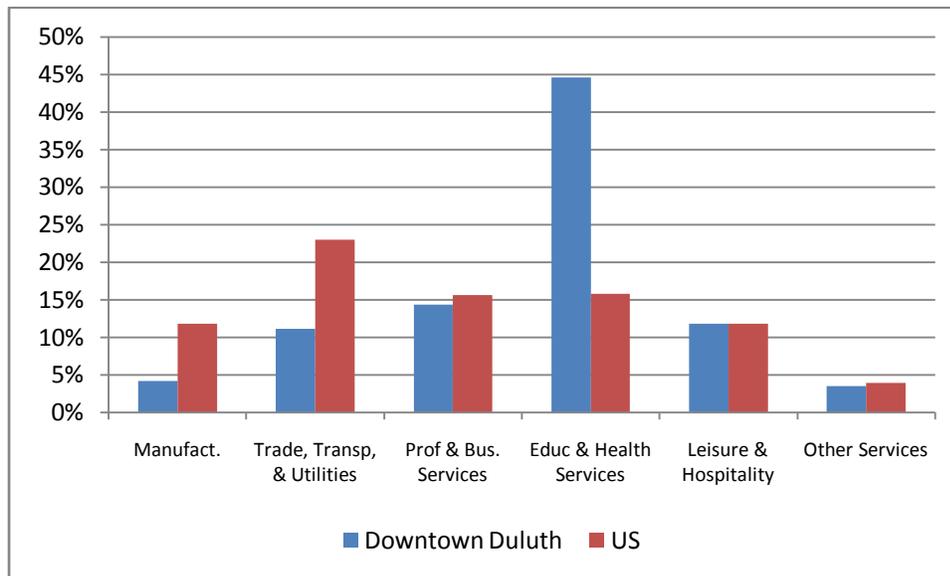


Source: Minnesota Department of Employment and Economic Development (DEED) – QCEW

In terms of industry mix, education and healthcare services are the predominant employers in Downtown Duluth, reaching more than 12,000 employees in 2008 (Figure 6). The second largest employers in the region are professional and business services, followed by leisure and hospitality which have exhibited significant growth since 2006.

Compared to the national average, Duluth’s education and health care sectors employ a larger portion of the labor force, a difference of 29 percentage points. Manufacturing and trade, transportation and utilities are under-represented in downtown Duluth – not unusual for a downtown area, except that retail trade activity is relatively modest in Duluth.

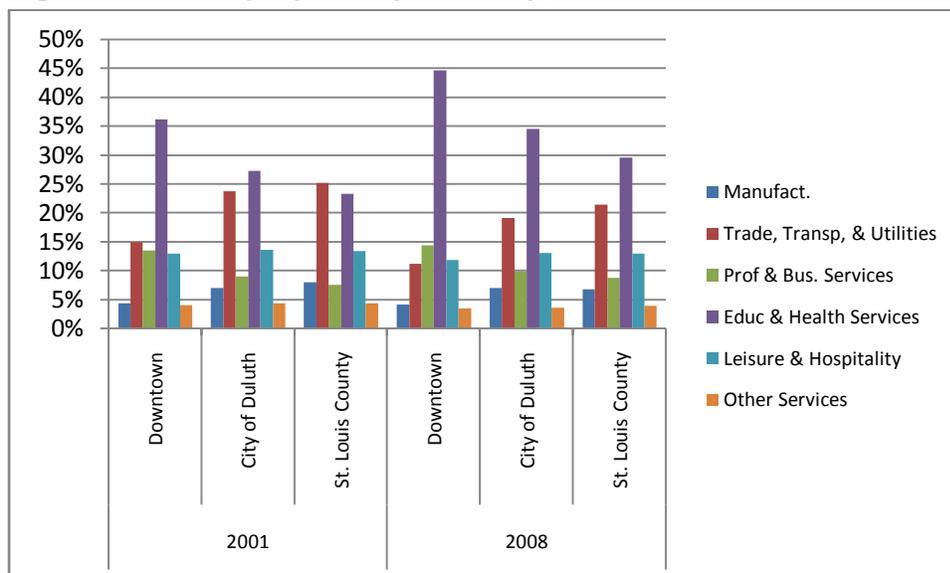
**Figure 6 Share of Jobs by Major Industry, Downtown Duluth vs. U.S**



Source: Minnesota Department of Employment and Economic Development (DEED) – QCEW

Across the City and County, education and health services are the largest industries and have demonstrated strong growth trends. The professional and business services, albeit a smaller percentage of total employment, has grown from 2001 to 2008. Trade, transportation, and utilities are the second largest employers within the region, but their overall share of jobs in the County is declining. The change in industry employment for downtown Duluth, the City of Duluth, and St. Louis County can be seen in Figure 7 for the years 2001 and 2008.

**Figure 7 Employees by Industry, Downtown Duluth**

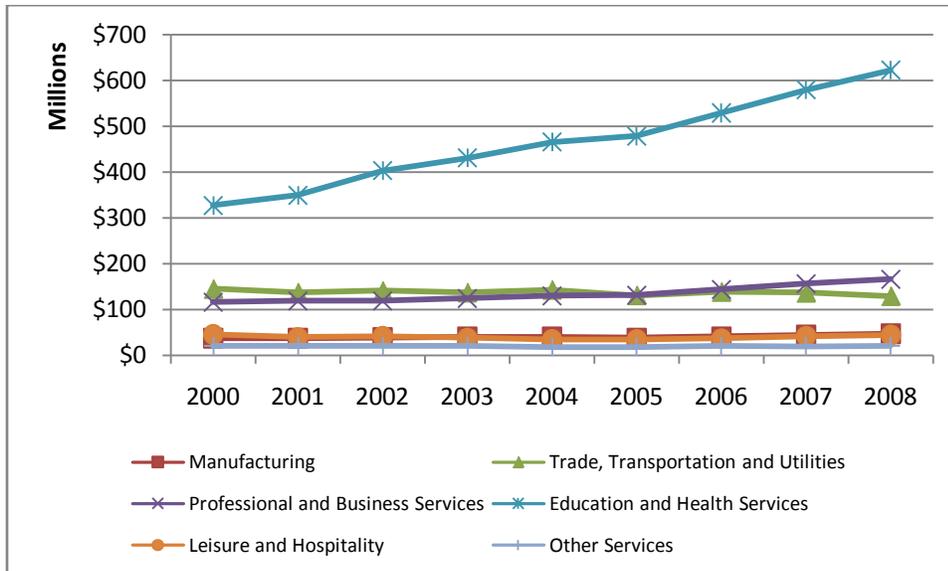


Source: Minnesota Department of Employment and Economic Development (DEED) – QCEW

Wage growth by industry has been relatively flat since 2000 for all industries, except in education and health services. Figure 8 indicates that the wages for education and health

services have nearly doubled from 2000 to 2008, while employment only increased by one-third. The distribution of wages by industry (Figure 8) shows that the top two industries (education and healthcare and professional and business services) account for the largest proportion of total wages. The education and healthcare industries, in particular, account for 50 percent of the jobs in the region (Figure 9), but 60 percent of the wages. This suggests higher wages per job. The leisure and hospitality industry is quite the opposite, as it employs 13 percent of all jobs in the downtown but provides only 4 percent of the total wages.

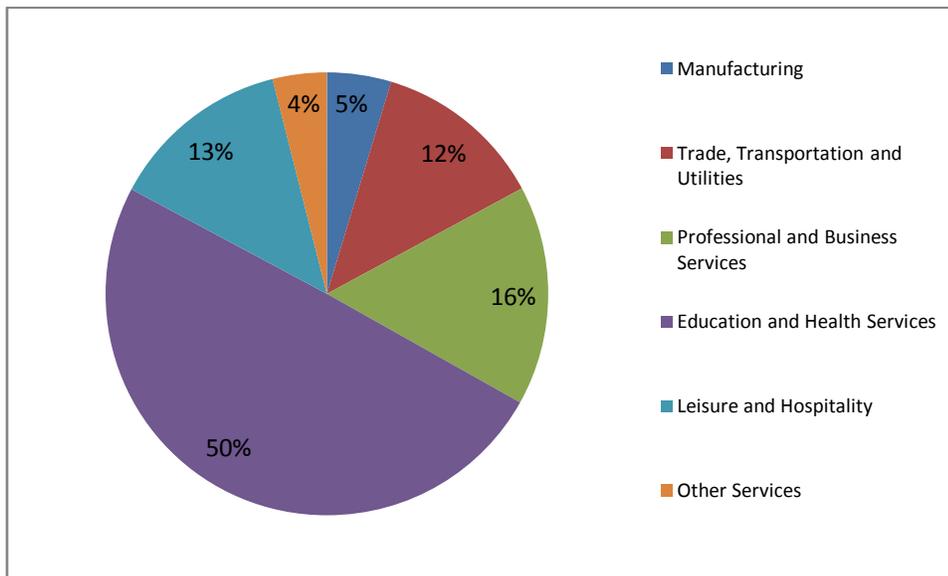
**Figure 8 Annual Wages for Downtown Duluth in Thousands of Dollars**



Source: Minnesota Department of Employment and Economic Development (DEED) – QCEW

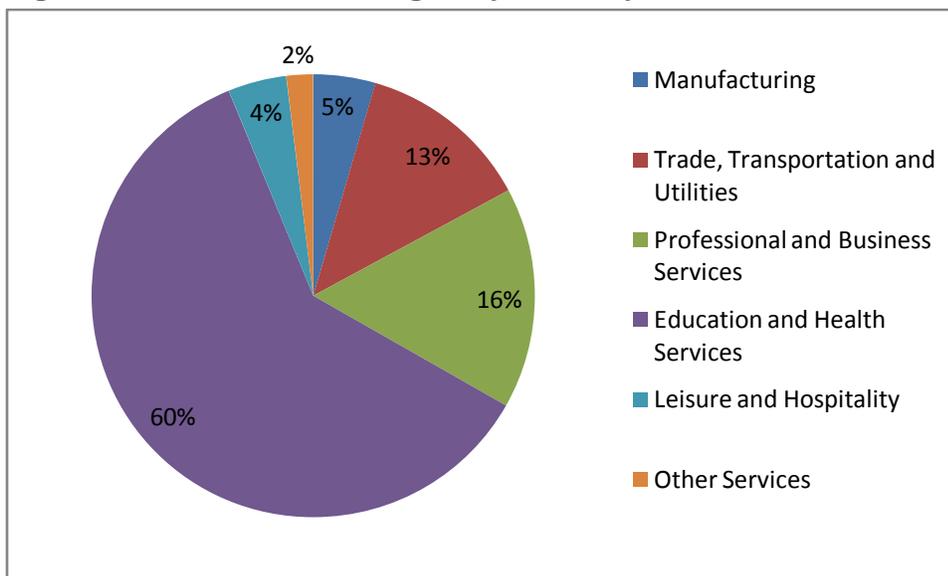
In 2008, \$1.16 billion in total wages were distributed in the region, maintaining a per capita income of \$32,790, which is 15 percent less than the national per capita income. In terms of the median income, however, Duluth is only 6 percent less than the national average, and the city maintains a lower cost of living, as evidenced in the housing prices.

**Figure 9 Percent of Employees by Industry for Downtown Duluth 2008**



Source: Minnesota Department of Employment and Economic Development (DEED) – QCEW

**Figure 10 Percent of Wages by Industry for Downtown Duluth 2008**



Source: Minnesota Department of Employment and Economic Development (DEED) – QCEW

## 2.2 Real Estate – Commercial

Commercial real estate in the City of Duluth is comprised of 18 percent retail and 82 percent office space by square feet. Despite the different mix of retail and office space, the vacancy rates for both are quite similar for the downtown area as shown in Table 2 and Figure 11 (though retail vacancy rates are likely approaching 20 percent in the current economic recession, according to anecdotal evidence).

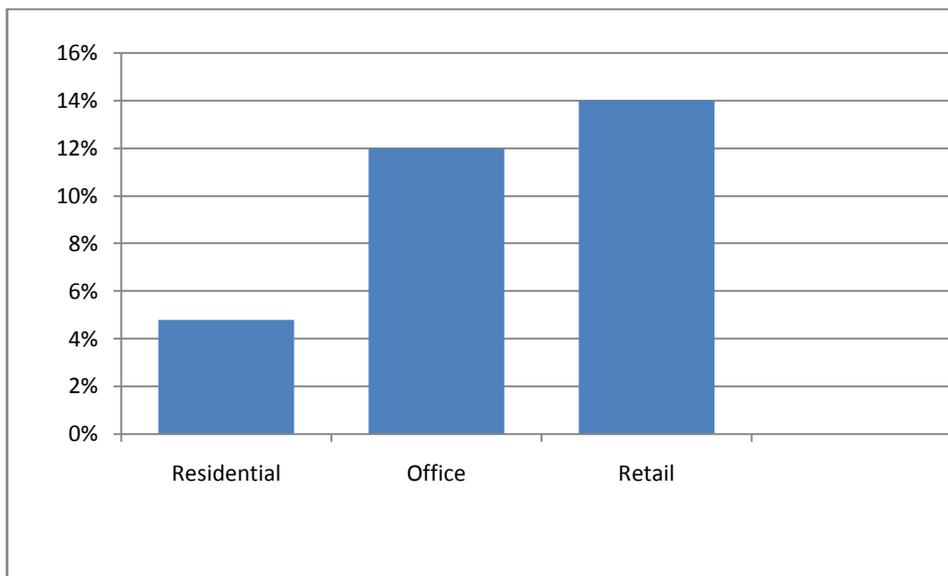
**Table 2 Office Vacancy Rates for Downtown Duluth by Class**

Year	Type	Vacancy Rate
2001	General	20 %+
2007	General	12%
2007	Class A	9% to 11%

Source: Miller Hill Market Study

General office vacancies have improved (Table 2) since 2001, with general office vacancy rates decreasing from 20 percent in 2001 to 12 percent in 2007.

**Figure 11 Real Estate Vacancy Rates for Downtown Duluth**



Source: Miller Hill Market Study, published by MXD Development Strategies, Ltd., for the City of Duluth

For the downtown area, the lease rate range for Class A and Class B office space is the same, \$13 to \$17 dollars, with Class C ranging from \$9 to \$14.50 as shown in Table 3. The triple net lease is a more inclusive fee that covers the rent plus all taxes, insurance, and property maintenance. As the triple net lease includes more, the rates tend to be higher for equivalent class office space. The Common Area Maintenance (CAM) fees cover additional maintenance of identified common areas within the building, for example lobbies, hallways, and elevators. These CAM fees are generally applied in addition to Net Leases in multi-tenant buildings, but they vary with each lease.<sup>1</sup>

<sup>1</sup> RealTech Real Estate Services, Inc.: <http://www.realtechre.com/terminology.htm>

**Table 3 Office Lease Rates for Downtown Duluth by Class**

Region	Class	Class-type	Lease \$ per square ft
Downtown Duluth	Class A Office Space	Gross Full Service	\$13 to \$17
		Triple Net Lease	\$16.50 to \$21
		CAM Fees	\$5 to \$7.50
Downtown Duluth	Class B Office Space	Gross Full Service	\$13 to \$17
Downtown Duluth	Class C Office Space	Gross Full Service	\$9 to \$14.50
Duluth - Miller Hill	Class A Office Space	Gross Full Service	\$19 to \$23
		Net Lease	\$15 to \$18.50
Duluth - Miller Hill	Class B Office Space	Net Lease	\$13 to \$14
		CAM Fees	\$5.50
Lincoln Park	Class B Office Space	Gross Full Service	\$10 to \$12
West Duluth	Class B Office Space	Net Lease	\$10 to \$13

Source: Miller Hill Market Study

On the retail side, the downtown area has similar lease rates per square foot as other neighborhoods of the city, with the highest rates in the Miller Hill area. The vacancy rate is by far the highest in downtown Duluth, however. In terms of total square feet, downtown Duluth has the third largest inventory of space in the City.

**Table 4 Retail Lease Rents**

Region	Inventory	Vacancy	Lease \$ per sq. ft.
Central Entrance	128,103	8%	\$10 to \$12
East Duluth	249,161	2%	\$9 to \$12
Downtown Duluth	457,024	14%	\$10 to \$12
Canal Park Duluth	191,500	1%	\$12 to \$14
West Duluth	549,203	6%	\$8 to \$10
Miller Hill	2,165,129	4%	\$12 to \$ 15

Source: Miller Hill Market Study

In terms of the likely lease rates for space within the Depot, similar stations to the proposed Depot anticipate rents in the \$12 to \$14 per net square foot range for transit related space on the upper floors of the station and retail space attached to the station. These lease rates do not include utilities, maintenance or cleaning. Transit oriented retail space in the terminal building's concourse can be as high as \$50 per net square foot, again not including utilities, maintenance and cleaning. Real estate professionals in Duluth suggest a net square foot rate of \$10 to \$12 for retail space.

## 2.3 Real Estate – Residential

Residential rents are relatively low compared to the nation; Table 5 has a break down of average rents by residential unit type. Vacancy rates for all rental unit configurations are below 10 percent, with an average vacancy for all units at 4.8 percent.

**Table 5 Average Rents and Vacancy by Residential Unit Type: 2004**

Unit Type	Avg. Rent	Vacancy Rate
Studio/efficiency	\$384	4.6%
1-bedroom	\$571	6.1%
2-bedroom	\$744	2.8%
3-bedroom	\$878	9.5%
4-bedroom	\$1,078	0.0%
All units	\$631	4.8%

Source: City of Duluth Rental and Vacancy Survey 2004

After the housing market prices began to decline and the market became saturated with housing units “for sale,” the number of building permits also declined for the nation, Minnesota, and Duluth as shown in Table 6. On a percentage basis, the decline in building permits statewide did not experience as dramatic a decline as the rest of the US. The drop in building permits for Duluth was consistent with national trends, with a 49 percent decline in building permits issued between May 2008 and May 2009.

**Table 6 Building Permits, U.S., Minnesota, and Duluth**

	May-09	May-08	Percent Change	Total 2008
United States	216.1	412.9	-48%	905.4
Minnesota	3.14	3.87	-19%	11.55
Duluth MN-WI	0.09	0.18	-49%	0.79

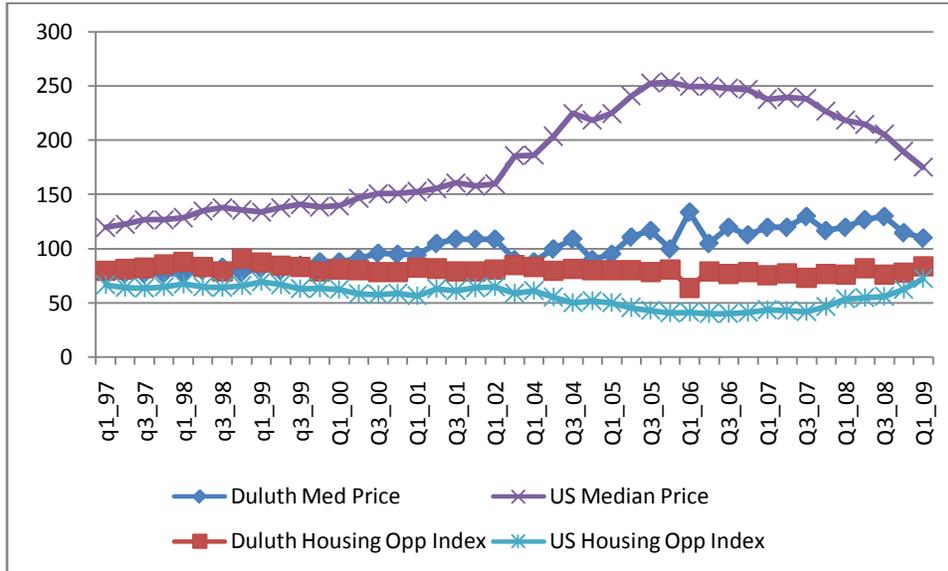
Source: National Association of Homebuilders (NAHB)

The Housing Opportunity Index (HOI) from National Association of Homebuilders (NAHB) compares the median home price and housing opportunity for Duluth and the nation on a quarterly basis. This information is presented in Figure 12 and depicts the dramatic increase in the national median home price beginning in 2001 and peaking in 2005. During the same period, the median home prices for Duluth increased above \$100,000. The “housing boom” and subsequent decline was less dramatic in Duluth.

The HOI is a measure comparing the local median home price with the local median income, and is stated as a percent of the population with the median income in the region that would be able to afford the median priced house. The effect, which is more pronounced in the national index,

occurred from 2001 to 2005, where housing prices increased without a proportional increase in income and resulted in driving the index down as shown in the national HOI drop. The index has a similar effect in Duluth, albeit to a lesser degree, with the exception of first quarter 2006. As the housing market contracted following the end of the boom, the median housing prices began to drop significantly for the nation, followed by the Duluth housing market.

**Figure 12 Housing Opportunity Index: Duluth vs. US**

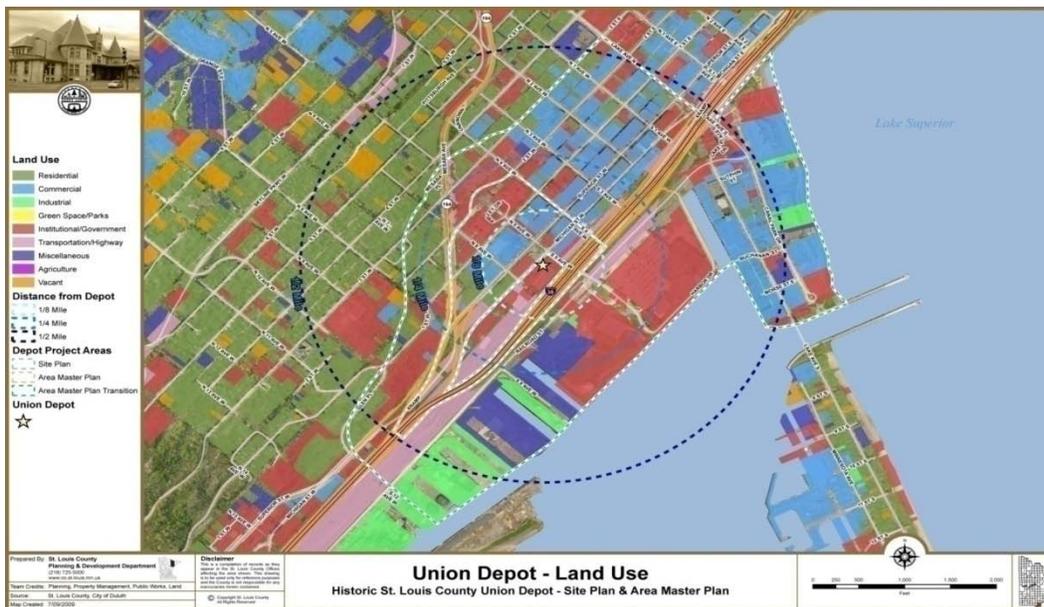


Source: National Association of Homebuilders (NAHB) Housing Opportunity Price Index

## 2.4 Current Land Use Conditions

Figure 13 presents a map of land use surrounding the St. Louis County Union Depot, including the downtown area to the northeast and areas along Lake Superior such as Canal Park and the Duluth Entertainment Convention Center (DECC). Land use is generally dense in the downtown area, with clusters of government-owned land and commercial land closest to the Depot and residential neighborhoods within a few blocks. The radii surrounding the Depot (represented by the star) indicate 1/8, 1/4, and 1/2 mile distances and the colors indicate the mix of uses.

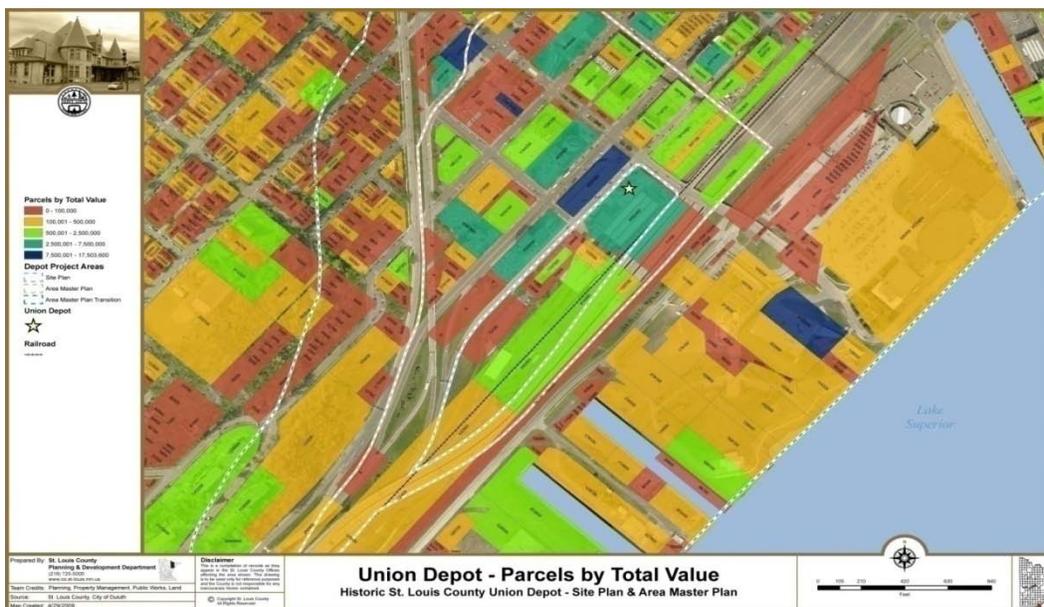
**Figure 13 Land Use Surrounding the Depot**



Source: St. Louis County GIS database

Figure 14 presents land use parcels by property value. The parcels in the darker blue and darker green colors represent the highest property values; both the library site and DECC facilities exhibit high property value. Surrounding the Depot are a number of mid-priced parcels indicating a potential for: a) increases in property value once passenger rail is restored; and b) reasonably priced parcels that could help near- and long-term development.

**Figure 14 Property Value by Parcel Surrounding the Depot**



Source: St. Louis County GIS database

Table 7 is an inventory of land use parcels by distance, category (residential, commercial, institutional, etc.), parcel size and value (consistent with Figure 13 above). The land use closest to the Depot is focused on a number of commercial sites, government-owned land such as the nearby County Courthouse and City Hall, and transportation land use (highways and rail). Extending to a ¼ mile radius substantially increases land use options, though residential space does not expand significantly until beyond the ¼ mile radius.

**Table 7 Duluth Depot Parcels Near-Term**

	Residential	Commercial	Industrial	Institutional Government	Transportation	Misc.	Vacant
1/8 Mile Parcels	3	10	0	19	9	0	0
1/8 Mile Sq Ft	55,766	284,008	0	363,108	228,722	0	0
1/8 Mile Value	\$4.6 mil	\$13.7 mil	\$0 mil	\$18.4 mil	\$1.8 mil	\$0 mil	\$0 mil
¼ Mile Parcels	36	49	1	126	24	13	3
¼ Mile Sq Ft	304,521	631,644	11,488	1,628,326	698,137	283,304	10,842
¼ Mile Value	\$15.4 mil	\$40.9 mil	\$52,200	\$83.5 mil	\$4 mil	\$1.2 mil	\$9,500
½ Mile Parcels	464	247	31	322	54	45	36
½ Mile Sq Ft	3,157,466	2,414,728	331,023	5,390,351	1,658,287	955,614	255,916
½ Mile Value	\$68.1 mil	\$118.9 mil	\$1.3 mil	\$111.4 mil	\$5.6 mil	\$4.2 mil	\$1.1 mil

Source: St. Louis County GIS database

## 2.5 Summary of Development Interview Findings

Interviews were conducted with economic development officials and leaders in Duluth to obtain a current perspective of the economic conditions and development potential for the Depot and surrounding downtown area. The discussion also included points on how changes to the Duluth

Depot could enhance or leverage additional development in the downtown area. The following interviews were conducted on June 9, 2009.

### **2.5.1 Greater Downtown Council**

The representative of the Downtown Council (Kristi Stokes) believed that there was greater potential and opportunity for residential development in the area. The Sherman Development high end luxury condominiums on top of the newer Sheraton Hotel are currently half full and are a prime example of development potential. While residential development is making progress, vacancy rates for downtown are still high for office space, in the 14 percent to 15 percent range. Although there is a need for upgrading existing hotel facilities, there is no need for new facilities. Facilitating new development can be an obstacle, as the city administration is attempting to improve relationships with business developers and create a more “business friendly” atmosphere to erode the lingering negative feelings developers currently have. Historic preservation tax credits have benefited recent development in the area, and Ms. Stokes believes that these credits and other public incentives are instrumental to spur additional private sector development.

Walking and transit connections to the Bayfront and multi-modal facilities are important to the city. Passenger rail will be instrumental in the development of Duluth. Passenger rail connections with the Duluth Entertainment Convention Center (DECC) will be able to leverage more activity (arena in 2010) and potentially attract larger or multiple conferences at once.

### **2.5.2 Duluth Area Chamber of Commerce**

Duluth has several strengths, including the workforce, educational system, and the attitude that “people live here for a reason.” Within the city, there are a number of distinct “pocket neighborhoods;” for example, the Lower Hillside tends to be lower-income and the Upper Hillside has larger homes with higher incomes. Current residential developments are moving into areas of Duluth that were formerly predominantly industrial.

The sentiment regarding City government is that it has been “dysfunctional” in the past and comes across as not business friendly with developers. Historical tax credits are being used on developments like the Bridgeman Russell Building, but are insufficient as the developer (A&L) is “losing their shirt” on the project.

The economic development opportunities in Duluth are in entrepreneurial activities and smaller niche service (start-up) companies. It is uncertain if passenger rail service would spur economic development, but the Chamber suggested that it is unlikely to happen on its own and significant public incentives and spending would be important. Development at the Depot would need to provide complementary retail services: grocery and convenience stores, cleaners, restaurants and bars, and other services to attract more people and initiate “spillover spending.” In order for development of the Depot to succeed, there is a need for “real leadership and vision;” for example, DECC should be working with the hotels and rail to combine visitation, lodging, and rail transportation.

### **2.5.3 UM Duluth – Small Business Development Center**

There has been significant economic development success in Duluth in the last 15 years, including Canal Park and the Aquarium. Downtown Duluth is more vibrant today than it was 10 years ago. Some of the success is due to leveraging private development with some tax increment financing (TIF) and other public funding mechanisms. The funds available from the City are limited, however, given the fiscal situation. The City's image is an obstacle to future development, as the public perceptions are negative and there is a need for realistic solutions to address the challenges.

The opportunities for development are in supporting activities. For example, the Radisson is currently under-utilized and a parking garage nearby could be improved or combined with other commercial development. Development within the Depot should cater to travelers - coffee shops, bars, rental cars, and other small retail. The expectation is that rail service to Duluth will help with the existing economic base, but it will not be a "silver bullet." Access to the Twin Cities will be great for Duluth residents and help make Duluth seem closer to the people in Minneapolis.

### **2.5.4 APEX**

APEX covers six counties and a metro area population of 420,000, with \$11 billion in spending power. The region's key industries are finance, health care, and insurance. The region also has four Class I railroads that serve the area along the international seaport. Downtown Duluth is going through a gradual gentrification with higher-end condo market opportunities and a growing demand for downtown living. Currently, the Duluth office vacancy rate is about 12 percent and retail is at 20 percent, which is not bad compared to other cities.

The key opportunity for development is the Bayfront Development with DEDA, which could potentially become mixed income housing and retail/recreation activity. The mix needs to be different than Canal Park, with more emphasis on residential. These opportunities should move forward even absent the new rail service. With passenger rail, the growth rate could double, impacting retail, health care, entertainment, services, and residential developments, with lesser impact on finance. For passenger rail to be effective, it must be competitive with the auto drive time. Additionally, parking may be an issue as it is a current challenge, and there is a need for more parking near the rail station particularly if station area activity increases. The Depot will also need to be connected with the skywalk system and have connections to other transportation modes. For development purposes, with the exception of the Rail Museum, most current uses at the Depot could be moved elsewhere to allow for rail related development. The TIF districts should be used locally to spur more development, and APEX believes that the \$190 million estimated rail corridor feasibility study is conservative.

### **2.5.5 Oneida Realty Co. and BOMA**

Oneida Realty Company and BOMA are the largest property managers and real estate developers in the Duluth Central Business District (CBD), as their primary focus is downtown. While Oneida may have 98 percent occupancy at the recently modernized and upgraded Alworth Building in Canal Park, occupancy is much lower at some other buildings. Canal Park is more retail oriented and probably has less than 5 percent vacancy, which is a lower rate than

downtown. The office vacancy rate is at 15 percent which is down from 20 percent about 8 years ago. It remains in the 10 percent to 12 percent range in “normal” times.

The city “tools” to help encourage investment and economic development come from the TIF and special districts that tax themselves to provide additional services such as cleaning and safety. Development is difficult at the moment as the Return on Investment (ROI) is quite low. For example, A&L Development has pioneered risky and speculative real estate projects becoming the city’s “white knight.” A&L has most recently developed 60,000 square feet of mostly condos, some of which remain vacant. Additionally, the permitting process with the City has been horrible in the past but is better with the current administration. The zoning code is from 1951 but City did adopt a comprehensive plan a couple of years ago and is now trying to adopt and write a new unified form-based zoning code. Historic preservation has helped some development projects but there is a tendency by some to try to have anything old labeled as historic, even if it should be changed (e.g., St. Louis County Jail).

There is some opportunity for downtown living with examples such as the Sheraton and Canal Park. When the market does rebound, it may take a few more years after that to fill existing space that is available today. With LaFarge Cement out of business on the waterfront, there is a development opportunity with Bayfront Park. Oneida would like to see that as true mixed use with residential and a new marina.

Oneida expressed concerns about: a) the potential for Bayfront to compete with Canal Park (if uses are too similar); or b) if all downtown activity is along the water and the traditional downtown, including the Depot area, is less vibrant. Parking is an issue in Duluth. The City built parking for the Hospital to help facilitate that project, but the parking is often empty and the City has lost money on that. There are opportunities from rail service – modest service industry opportunities as well as the importance of connections between rail and the DECC. He does not see a big impact on office space in Downtown. Duluth Airport has 6 flights per day. At the airport, there is a coffee shop and car rentals but not much else. This activity level could be compared to the rail station. Key at the rail station would be to leverage its downtown location to have services consistent with more activity than just rail.

### **2.5.6 NSSR**

In the past, rail service was state subsidized. This means that if the state legislature decided not to fund it, the service ended. Now there are rail authorities and a Joint Powers Alliance among the counties and cities along the corridor who will provide the taxing and subsidies for the proposed service. The County contributes \$175,000 to the Depot facility and it takes about \$750,000 to run. Whatever is “short” after revenues is assessed back to tenants as a reverse lease. The Depot receives 250,000 visitors per year and the Great Hall has a liquor license so they can host events such as receptions. The Railroad Museum could stay in its current location (with some reconfiguration or realignment to make space for active trains) with a nearby roadhouse for storage and restoration. The NLX will not be maintained or stored at the Depot but rather at another facility, possibly nearby.

### **2.5.7 Northspan**

Northspan is a private sector firm and is a fee-for-service development business. It is involved in business financing, business attraction, deal-making and does some direct work for APEX. His focus is on office, other commercial, and industrial development rather than residential. Duluth's major development strengths are the Lakeview and lake properties like Bayfront, which could be a mixed used development. Economically, Duluth is a tourist draw with the convention center. A number of buildings have redevelopment potential given their proximity to the Depot; for example, the Radisson and KDAL building.

There are physical infrastructure challenges to development surrounding the Depot, given the Interstate towards the lake and other roadway facilities that cannot easily be converted to other uses. Perhaps a longer-term consideration would be moving the library, especially once rail service is active, because this is not the best use at that location. The library has a "deadening" effect on development potential in the area, so relocation should be a consideration moving forward.

Tax laws in Minnesota can impede development opportunities, as businesses sometimes locate in Wisconsin instead. To spur development in Duluth, some public support such as TIF, historic tax credits, LISC new market tax credits, and so forth will be needed.

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### **3. DEPOT USES AND DEVELOPMENT OPPORTUNITIES – NATIONAL EXPERIENCES AND CASE STUDIES**

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Opportunities for economic development and commercial activity in the Duluth Depot and the surrounding area are two-fold. First, there are those opportunities that are contingent on ridership. If more people ride the train, then there will be a greater need for retail, services and amenities to better serve those passengers. Second, the Depot has the opportunity to integrate in a larger way with the surrounding area, helping to connect rail passengers with downtown Duluth and attracting development with the presence of rail. The following section describes the possibilities for use at the Depot and station area development, based on the experiences of other rail stations and data that are available from organizations such as AMTRAK.

According to the December 2007 *Minneapolis-Duluth/Superior Restoration of Inter-City Rail Service Comprehensive Feasibility and Business Plan*, submitted by Transportation Economics & Management System, Inc. (TEMS), ridership estimates for the proposed intercity service range from 140,000 to 400,000 passengers annually, depending on assumptions related to the Casino, frequency of trains, and speed of trains.

As is evident, this range is quite broad and has implications for the retail opportunities available to the station. As the project evolves and more specific ridership estimates become available, the retail opportunities will be narrowed. In the meantime, Amtrak guidance provides some information related to the likely mix of retailers in an improved Duluth station. Please note that the Amtrak guidance is based on averages and focuses on retail supported by rail ridership. This guidance suggests the following station offerings associated with various levels of ridership:

- Coffee shops – daily boardings exceed 1,500;
- Newsstand (machine) – ridership exceeds 50,000 annually; and
- Food service – annual boardings exceed 400,000.

To the extent that retail, restaurant and service uses can be integrated with other downtown business activity and other Duluth patrons, more expansive uses could be warranted than this somewhat narrow retail profile. These additional uses are also discussed in subsequent sections.

#### **3.1 Food Service**

Amtrak calls for food service when annual boardings exceed 400,000. According to the Transportation Economics and Management System (TEMS) report for the proposed passenger service, 400,000 boardings may be reached in a scenario involving eight trains and a direct connection to the Casino. If this ridership estimate is not met, food service may or may not be justifiable. The final determination will depend on the actual ridership estimates and the level of success associated with tying the Depot into station area activities and development.

##### **3.1.1 Ridership Induced Food Service Development**

Based on rail ridership alone, a vending machine and possibly a small coffee/sandwich shop are justified at the station. Coffee shops are generally warranted when daily boardings are in excess

of 1,500. Again, assuming an upper limit on ridership of 400,000, based on several stringent assumptions, this may not be sustainable. When annual volumes (boardings and alightings) exceed 50,000, vending machines are called for by Amtrak. In the case of Duluth, providing vending machines may be reasonable, regardless of the number of trains or their speed.

### **3.1.2 Connectivity Induced Food Service Development**

The Grand Concourse Restaurant in Station Square, Pittsburgh, was initially provided with a very appealing rent package to entice the restaurant to locate in Station Square and make a substantial investment in improvements. Nominal rent with a percentage of the restaurant profits coming back to Station Square, if the restaurant's sales exceeded a certain level, was offered. There was an incentive to the new restaurant tenant, as well as Station Square, to market the restaurant. By doing so, they were ensured that revenues were high enough to provide a return to Station Square and help the restaurant be successful.

The Depot and its City/County partners need to make some strategic decisions about vision and goals for whether or not to try to concentrate some retail/commercial activity at the Depot. As with most private investment in Duluth, public subsidy and support may be needed to achieve near-term private development. Incentives to locate a restaurant, similar to the Pittsburgh example, may be needed to attract that level of activity at the Depot. A successful restaurant at the Depot will need to rely on a combination of rail passengers and non-rail customers.

## **3.2 Retail**

Retail reports of the Duluth area do suggest that there are retail opportunities in the Depot. The existing national and city-wide economy notwithstanding, the following section offers retail recommendations for the station area.

### **3.2.1 Ridership Induced Retail Development**

With ridership estimates in excess of 50,000 annually, Amtrak would call for a newsstand (machine). Other stores may be appropriate for the space, depending on the final ridership estimates. Train stations and airports often include gift and drug stores, as well as higher end clothing, accessories, and electronics retailers. Game rooms, kiosk businesses, and other retailers are also possibilities, depending on ridership estimates.

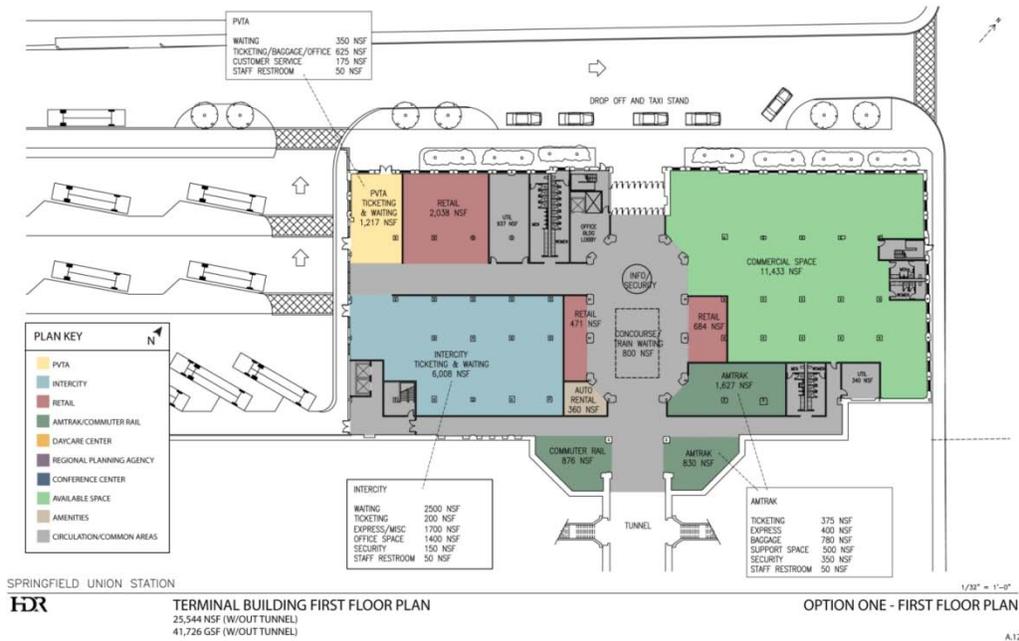
Businesses such as barber shops/shoe shine, dry cleaners, and others also may be appropriate for Duluth. Some amenities could include telephones and ATMs, among others.

There are numerous rail stations and similar facilities located across the country that have redeveloped and experienced economic development success. There are others that are currently undergoing redevelopment. The experiences, successes and failures, of these facilities are useful to the Depot as it continues to evaluate its best uses.

Springfield Union Station in Springfield, Massachusetts, is located in a downtown that is similar to Duluth. Because of this, its proposed layout may be relevant to any reconfiguration plans for the station itself. The planned redevelopment for the station provides approximately 3,193 net square feet (NSF) allocated to retail. Of this, approximately 1,155 square feet are attributable to

rail ridership. The remaining square footage (2,038) is located in closer proximity to the bus and is likely attributable to that service. Figure 15 presents the redevelopment plan for Springfield Union Station.

**Figure 15 Springfield Union Station Redevelopment Plan**



Source: Pioneer Valley Transit Authority and Springfield Redevelopment Authority, *Redevelopment Plan for the Union Station Intermodal Transportation Facility*, Springfield, MA, October 7, 2008.

### 3.2.2 Connectivity Induced Retail Development

On the left and right side of the Great Hall in the Depot, as well as the lounge areas around the two fireplaces flanking the Hall, there is an opportunity for food or retail. Reports that have considered Depot uses recommend consolidation of Depot retail on the main floor. The argument is that this provides a more significant visual presence than a series of small shops scattered throughout the Depot. Additionally, if all the stores are on the main floor, they will receive greater foot traffic and exposure and provide more opportunities for non-rail customers to use the retail services at the Depot. This could encourage casual visitors to attend some of the exhibits or tour the museums as well.

Gift shops are significant revenue generators for many of the stations/museums that were reviewed as a part of this overall effort. For example, the California State Railroad Museum generates \$1.5M from their museum store. Visitors spend an average of \$7/person in the MASS MoCA gift shop.

In terms of expanding retail, independent of the current tenants and rail ridership, the City/County will need to ascertain their level of commitment to such a vision. Many larger railroad stations such as Union Station in Washington, DC, and Penn Station in New York City

do house retail establishments in a mall-like manner. Union Station has 140 retailers.<sup>2</sup> Smaller stations also have been renovated in this way. For example in 1980, the Cincinnati Union Station was converted into a shopping mall known as the "Land of OZ." A private developer invested upwards of \$20 million in renovations preparing the terminal in the hope that this would revitalize the facility and help keep people in downtown Cincinnati. While it was originally a success, the recession of the 1980s led to the ultimate closure of OZ in 1984. The rail station currently houses numerous museums and offers limited passenger rail service.

### **3.3 Rental Space**

For many facilities similar to the Depot, significant revenue is generated from renting space within the building to third parties. Expanding marketing efforts to encourage greater use of the Depot for rental uses is recommended. These uses could include professional rental space or rental space for special events.

#### **3.3.1 Special Events**

Currently, the Depot hosts approximately 150 weddings in the Great Hall and Railroad Museum. In addition, 30 to 40 events are held on the scenic railroad. Weddings generated nearly \$105,000 in revenue in 2008 and railroad museum events generated about \$11,000 in revenue, according to Ken Buehler, Executive Director of the Lake Superior Railroad Museum.

While a restored Great Hall could promote even more large events, improved spaces for smaller functions located in the Depot may prove to be an additional revenue source. Easy rail access and an inviting smaller function area may encourage more businesses, organizations and individuals to consider the Depot for their events. One also could envision some groups contacting the larger convention area in Duluth and then being referred to the Depot, because of their smaller group size. By offering smaller venues, more people will be exposed to the Depot and its offerings, possibly encouraging return visits.

At the Cincinnati Museum Center, there are three museums, two auditoriums, three private dining rooms, and a Grand Rotunda available for rent. In 2008, the Center held 35 social events (primarily weddings) and 168 corporate events (primarily smaller meetings). While the Grand Rotunda in the Cincinnati Museum Center is the largest rentable space, its acoustics are not ideal. According to the museum, smaller events are their greater revenue source. Total revenue generated through these events was greater than \$1 million annually. Additional marketing and the possible redevelopment of smaller spaces within the Depot may provide the opportunity for additional rental income.

#### **3.3.2 Professional Rental Space**

The Torpedo Factory in Alexandria, Virginia, offers studio rentals to artists. Renting studio space in the Depot to fine artists would provide an opportunity to diversify the use of the Depot and gain some revenue, even if at a lower value. Additionally, the Depot's artist community could be highlighted as one segment of the 1.8 mile Bob Dylan Way that links cultural assets from the Depot to the Armory. This use would further promote the Depot as an organization

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<sup>2</sup> States for Passenger Rail Coalition, [www.s4prc.org](http://www.s4prc.org)

devoted to the arts and culture. In addition, it would improve the Depot's connectivity to other areas of downtown Duluth.

At the Torpedo Factory, artists must go through the annual jury process to become a Torpedo Factory artist, and all artists working in fine arts and fine crafts may apply. Once accepted, juried artists are then eligible for a short-term studio lease and may work toward a long term lease. The Torpedo Factory attracts 500,000 visitors annually.

Renting office space to businesses is another option for the Depot. The Massachusetts Museum of Contemporary Art (MoCA) uses a portion of the sizable square footage of their factory complex as professional rental space. The viability of this proposal for the Depot will depend on the availability of comparable office space in and around the station, and whether the Depot can distinguish itself to businesses in need of office space.

### **3.4 Museum Exhibits**

The Depot currently hosts several museums, and this may continue to be a primary use of Depot space. There are several different examples of rail stations around the country that have chosen to utilize their station for this purpose. Their experiences may be helpful to the Depot as it continues to consider preferred Depot uses.

Including a diverse group of exhibits/museums seems to be a successful strategy for organizations that are similar to the Duluth Depot. Keeping them "fresh" was highlighted by museum officials and reports, particularly given that many tourists tend to stay close to home and return to museums on a somewhat regular basis, according to various studies.

In 1986, the voters of Hamilton County passed a bond levy to save the Cincinnati rail station from destruction and to transform it into the Cincinnati Museum Center. The Center was opened in 1990 and now provides a home to six organizations. It houses a natural history museum, a historical museum, a children's museum and an Omnimax theater and considers this diversity a real draw. The Center is a nationally recognized educational and research resource, serving more than 1.47 million visitors annually.<sup>3</sup>

The *St. Louis County Heritage & Arts Center Study Final Report* recommended a single "Depot Box Office" located in or adjacent to the Great Hall to help visitors navigate the various offerings at the station. The box office would offer tickets for both museums and performances as a "one-stop-shop." The study further recommends that once rail service is in place, the ticket office could sell rail tickets as well as tickets for other Duluth attractions, possibly as part of a new "Duluth Passport" offering. In considering where to locate the box office, the study suggested that it be located where rail tickets were historically sold.

Diversity of museums and exhibits, as well as an overall strategy on placement within the Depot is critical to the Depot being a tourism "draw." Several reports commented on the lack of coordination among the existing Depot museums. The Great Hall should serve as a coordination point for the Depot offerings. If museums do remain at the Depot, they should be unified rather than a random collection of facilities.

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<sup>3</sup> <http://www.cincymuseum.com/>

### **3.5 Rail Attraction**

The Depot’s location in downtown Duluth is central and visible from major roadways, but it is not easily accessible by car. It is not far from other attractions, but it is not in an area with high visitor foot or drive-by traffic. Currently, the Port Town Trolley provides seasonal service to the Depot, but it is not connected to the skywalk system or to non-trolley transit. That said there are bus stops located a short walk (one to two minutes) away. Passenger rail service could help bring tourists to the Depot. In addition, these visitors could spur additional economic development in and around the station area. The experiences of rail station area development in other cities are provided in subsequent sections.

### **3.6 Trolley Service**

Reinstating the Trolley Service looping to connect the length of Superior Street to Canal Park with spurs reaching the neighborhoods East and West of downtown is one option to better connect the Depot with downtown Duluth.

Beginning June 7, 2009, the Port Town Trolley started circulating every 20 minutes between downtown Duluth, Canal Park and Bayfront. It operated daily from 11:30 a.m. to 7 p.m. throughout the summer until Labor Day. By encouraging trolley service to the Depot, the potential for intercity rail ridership is further increased. In addition, the trolley passengers could visit the museums and make retail purchases, once the Depot is enhanced.

### **3.7 Surrounding Area Opportunities**

In addition to the economic development opportunities associated with the station itself, there are also opportunities in the area surrounding the station. The St. Louis County Depot is a distinctive building and one that travelers see as they drive into Duluth. It is one of the only locations in Duluth that offers a cluster of attractions under one roof. As such, it is unique to the city and affords an opportunity to promote economic development in the area.

Over the last generation, the development of “smart growth”<sup>4</sup> has taken hold, in response to sprawl and its more negative attributes. Smart growth focuses on encouraging mixed-use development near infrastructure. Another objective is providing walkable and connected neighborhoods, and open space is part of the overall development vision. The Duluth Depot area is potentially well-suited to this type of development.

#### **3.7.1 Transit Oriented Development (TOD)**

Along the same lines as “smart growth” is transit oriented development, which is “a compact and integrated development of homes, retail, and service businesses, public park space and other amenities that create an inviting atmosphere for pedestrians in the area that surrounds a public transit station and lies within a comfortable 20 minute walk of that station.”<sup>5</sup>

National studies suggest that approximately 30 percent of households prefer homes that offer a walkable, more compact environment, similar to older neighborhoods or urban districts. These

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<sup>4</sup> [www.smartgrowth.org](http://www.smartgrowth.org)

<sup>5</sup> *AMTRAK Downeaster: Overview of Projected Economic Impacts, A Report to Northern New England Passenger Rail Authority (NNEPRA)*, by the Center for Neighborhood Technology

same studies have found that an even higher percentage of households would consider moving to this type of neighborhood.<sup>6</sup>

The benefits of transit-oriented development include:

1. **Increased property values:** Higher rents and property values for development around transit stations.
2. **New housing options:** Higher density housing options that are attractive to young professionals and empty nesters; this higher density may help support downtown retail.
3. **New commercial development:** Development increases because employers are provided access to a large employment pool.
4. **Increased ridership:** Mixed use development close to transit can promote ridership, making it easier for commuters to use transit rather than drive.
5. **Mobility choices:** Greater mobility to the elderly, individuals who do not drive or own a car, as well as others.
6. **Disposable income:** Household reduction in the number of cars owned by residents, as well as a reduction in the costs associated with those vehicles (e.g., insurance, parking, operating costs). This can mean more income for other expenditures.
7. **Environmental benefits:** Clustered homes and destinations around transit. This provides alternatives to automobile use to people and can reduce vehicle miles traveled. This reduces pollution from cars and greenhouse gas emissions from the overall transportation sector.
8. **Economic development:** Revitalization of aging downtowns and declining urban neighborhoods.<sup>7</sup>

While much of the TOD research is related to light rail improvements, there is the potential for improved access to intercity passenger rail services at the Depot, as well as the increased foot traffic due to the service, to contribute to some TOD in the station area. For example, retail and commercial businesses should presumably benefit from greater foot traffic. This may increase the value of commercial property near the Depot, and improved mobility and access for passengers may also increase the value of residential property.

Tourists, commuters, and other travelers are also likely to benefit from the access to rail passenger service. Developers and builders who incorporate the benefits of these groups are likely to invest in new residential and commercial development near the station. It is important to note that economic development trends associated with transit are impacted by a number of different factors. For example, speed, frequency of service and scheduling are all factored into the level of passenger traffic that is created from passenger rail. With regard to economic development around the station area, it is the level of passenger traffic that is relevant not the manner in which this traffic is derived.

Because the conventional standard for “walking distance”<sup>8</sup> is one quarter mile (1,320 feet), economic development associated with the Duluth Depot is likely to occur within that distance.

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<sup>6</sup> Leinberger, Christopher B., *The Option of Urbanism: Investing in a New American Dream*, Washington, DC.

<sup>7</sup> TCRP Research results Digest No. 52, [http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp\\_rrd\\_52.pdf](http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp_rrd_52.pdf).

<sup>8</sup> [http://www.dot.state.oh.us/Divisions/Rail/Programs/passenger/Ohio percent20Hub percent20Economic percent20Impact percent20Studies/Gem06BenchmarkStudyAnalysis.pdf](http://www.dot.state.oh.us/Divisions/Rail/Programs/passenger/Ohio_percent20Hub_percent20Economic_percent20Impact_percent20Studies/Gem06BenchmarkStudyAnalysis.pdf)

Development further than a quarter mile is more typically accessed via automobile, and this substantially reduces the economic development impact in the immediate area of the station. The development that is likely to occur around the Depot will be mixed use; that is, some combination of residential, commercial, office, institutional, or other land uses.

### **3.8 Comparison Rail Station Areas**

The economic development impact on residential space around rail stations is mixed and, as noted above, most TOD research is related to light rail. There are, however, some examples of TOD associated with the initiation or expansion of intercity passenger rail service. The following section highlights some of these experiences.

#### **3.8.1 Keystone Corridor Experience**

According to a study conducted by the Ohio Rail Development Commission, stations in existing built up urban neighborhoods, such as Harrisburg, Pennsylvania, and Lancaster, Pennsylvania, appear to have stronger and more robust housing and residential trends associated with passenger rail.<sup>9</sup> The economic development around stations attributable to expanded passenger rail service, however, is not always clear.

In Harrisburg and Lancaster, cities with rail stations serving Amtrak's Keystone Corridor Service, the population living within one quarter mile of the stations fell slightly from 2000 to 2005, the same time period during which passenger rail service increased. The Pittsburgh station, also located on this corridor, experienced modest population growth.

In contrast, the number of households increased in both Lancaster and Harrisburg. This would suggest that smaller households tended to locate near the stations, consistent with most TOD literature. Studies of TOD suggest that households near rail stations are often childless or two-income professional households that place a high value on public transit.

Although population growth around station stops was either stagnant or modest in this corridor, household incomes in the Keystone Corridor increased considerably. Within one quarter mile of Harrisburg, median household income increased by 4.2 percent between 2000 and 2005; it is expected to increase 7.3 percent between 2005 and 2010. Median household income around the Lancaster station stop is projected to increase by almost 20 percent between 2000 and 2005.<sup>10</sup> Higher income should translate into higher levels of spending around these stations.

The impact on vacancy rates in these station areas is mixed, but all three stations are expected to experience a decrease in the share of rental housing during the second half of this decade. This suggests a small, but potentially important, shift toward owner-occupied housing near the rail stations.

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<sup>9</sup>[http://www.dot.state.oh.us/Divisions/Rail/Programs/passenger/Ohio percent20Hub percent20Economic percent20Impact percent20Studies/Gem06BenchmarkStudyAnalysis.pdf](http://www.dot.state.oh.us/Divisions/Rail/Programs/passenger/Ohio%20Hub%20Economic%20Impact%20Studies/Gem06BenchmarkStudyAnalysis.pdf)

<sup>10</sup>[http://www.dot.state.oh.us/Divisions/Rail/Programs/passenger/Ohio percent20Hub percent20Economic percent20Impact percent20Studies/Gem06BenchmarkStudyAnalysis.pdf](http://www.dot.state.oh.us/Divisions/Rail/Programs/passenger/Ohio%20Hub%20Economic%20Impact%20Studies/Gem06BenchmarkStudyAnalysis.pdf)

The City of Philadelphia's 30<sup>th</sup> Street Station is credited with the development of 700,000 square feet in high rise office space, which is connected to the rail station. Because of the success of this development, mixed use hotel, retail, and commercial space development is anticipated to continue in the area around the 30<sup>th</sup> Street Station. While Philadelphia is significantly larger than Duluth, its experience with economic development around the rail station is worth noting.<sup>11</sup>

### 3.8.2 Downeaster

Between 1842 and 1967, there was a continuous presence of passenger trains in Portland, Maine's largest city. Most of Portland's railroad activity revolved around agricultural goods being exported and imported from Europe. Passenger activities were mostly confined to intercity travel from Portland to Boston, Montreal, Nova Scotia, and points west. Historically, train schedules were designed with intercity travel, rather than daily commuting in mind.

Regional rail service returned to Northern New England when the Downeaster began service in December 2001 after ten years of planning by advocacy groups, the State of Maine, Amtrak, and the Federal Transit Administration (FTA). Approximately 40 percent of riders travel to or from Maine, with Boston as the most popular destination. Nearly one-third of passengers travel on a multi-ride pass and more than half travel to and from their destination within a day.<sup>12</sup> Because this service was reinstated after years without passenger service, it is a useful example for parties interested in reinstating passenger service in Duluth.

Proximity to the Downeaster rail stations does not appear to have significantly changed the immediate neighborhoods from a demographic perspective. Ridership on the Downeaster has increased at double digit rates, but population, households and income growth is expected to slow between 2005 and 2010.

It is important to note that there are very low levels of passenger traffic and volume at all Downeaster stations in Maine, except the Portland Terminal, and the Portland terminal is located in a commercial and industrial center where there is very little residential development. Passenger traffic levels have also been somewhat uneven, which could make developers wary of making investments around the station. Ensuring that service is reliable and accommodates its passengers' needs may improve the likelihood of Duluth Depot area economic development.

According to the *Economic Benefits of Amtrak Downeaster Service* study, six economic development projects are attributable in some way to the current or future operation of the Downeaster. Some of these projects involve renovation of existing buildings and others the development of vacant land. The report assumed that 26.5 percent of future economic development around the Saco rail station will be due to the Downeaster service.<sup>13</sup>

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<sup>11</sup> States for Passenger Rail Coalition, [www.s4prc.org](http://www.s4prc.org)

<sup>12</sup> *Environmental Assessment for the Downeaster Portland North Expansion Project*, prepared by the Federal Railroad Administration and the Northern New England Passenger Rail Authority.

<sup>13</sup> Final Report, *Economic Benefits of Amtrak Downeaster Service*, Prepared for: Maine Department of Transportation, Prepared by: Economic Development Research Group, Inc., February 2005.

### **3.8.3 Milwaukee**

The Hiawatha Line has been operational for several decades, but recent upgrades and the addition of a station at George Mitchell Airport in Milwaukee have helped boost ridership. Milwaukee's station is located near a major highway and in an older commercial and industrial area.

Population and residential growth has been significant around the Milwaukee station, increasing by more than 50 percent between 2000 and 2005. The number of housing units within walking distance of the Milwaukee station has increased substantially between 2000 and 2005, nearly 60 percent. This growth is expected to continue, but at a lower rate. Much of this growth is likely connected to waterfront development around a canal, but this is encouraging for a city like Duluth with similar waterfront development. The share of rental housing within one quarter mile of the Milwaukee station has also declined, suggesting the potential for an increase in owner-occupied housing.

There has been substantial waterfront revitalization along the canal in Milwaukee, and this is apparent to passengers as they approach the station. New investment in apartments and lofts is also evident, and several marinas host recreational boats. In the immediate area surrounding the station, however, there is little indication of substantial economic development.

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## **4. FUTURE MARKET CAPACITY AND MARKET DEMAND**

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The following section describes the analysis that was conducted to estimate market capacity for development in the Duluth Depot area. The report also provides the methodology for estimating the likely market demand for development due to the public and private development and transportation enhancement efforts being considered for Downtown Duluth. Finally, economic development estimates of population and employment are described and results are presented.

Assessing the potential for development in the St. Louis County Depot and surrounding area is a critical first step to determining the appropriate manner in which development should occur in this section of Duluth. There is the opportunity for future growth to be more compact, with buildings being redeveloped and new development occurring on vacant properties. Passenger rail service or other transportation improvements may be possible, and the Depot itself may be redeveloped. These activities would promote real estate development in and around the rail station. An assessment of the market capacity for development, as well as an estimation of the likely market demand for development generated by these proposed enhancements, offers the opportunity to facilitate a more structured growth plan for the area.

This section of the final report provides the results of a development analysis of the Depot area. The overall market capacity is ascertained, and estimates are made of the likely development in the master plan area based on stakeholder interviews with local development experts, case study findings of induced development from other passenger rail stations, and HDR's economic and market assessment of the study area. Estimates are determined for the near-term (1 to 5 years), as well as the longer-term (10 to 20 years).

### **4.1 Market Capacity and Market Demand**

Market capacity is an estimation of all opportunities for development, based on existing vacant land, underutilized properties, and vacancy rates in and around the Duluth Depot. It should not be inferred that all of the property included in the capacity estimate will be developed. Rather, it provides a starting point for the estimation of the likely market demand for development that could occur with station area enhancements and reinstated passenger rail service.

Market demand is calculated using the market capacity estimates, current vacancy rates in Duluth, opportunities for redevelopment of existing properties, vacant land development possibilities in the near- and longer-term, and the experience of passenger rail stations that have initiated or expanded passenger rail service.

The following sections detail the methodology used to estimate market capacity and demand for development. In addition, the results of the analysis are presented and estimates of economic development (i.e., number of jobs and residents) likely to result from increased real estate development are provided.

## 4.2 Methodology

Research suggests that transportation influenced development is most likely to occur within a comfortable 15-20 minute walk.<sup>14</sup> Beyond that distance, individuals are more likely to drive an automobile. Based on this information, the area of greatest interest in the estimation of market capacity and market demand is located within ½ mile of the Depot.

Using information related to transportation oriented development (TOD) and the recommendations of professionals familiar with Duluth, three radii were created around the St. Louis County Depot at ½, ¼ and 1/8 mile distances. By examining the development potential in these three spheres of influence separately, the estimation could be tailored to better reflect the existing and planned composition of development based on location.

The properties within these three radii were evaluated, and estimates of development capacity were made. Using the capacity estimates, market demand for development due to the proposed enhancements was then calculated. For comparison purposes, it is worth noting that the area within the ¼ mile radius is most analogous to the master plan study area. The following provides the overall methodology for this evaluation.

**Data Collection:** Data from the St. Louis County GIS assessor database was used to determine all of the parcels within a half-mile radius of the Duluth Depot. Two different categories of development were considered:

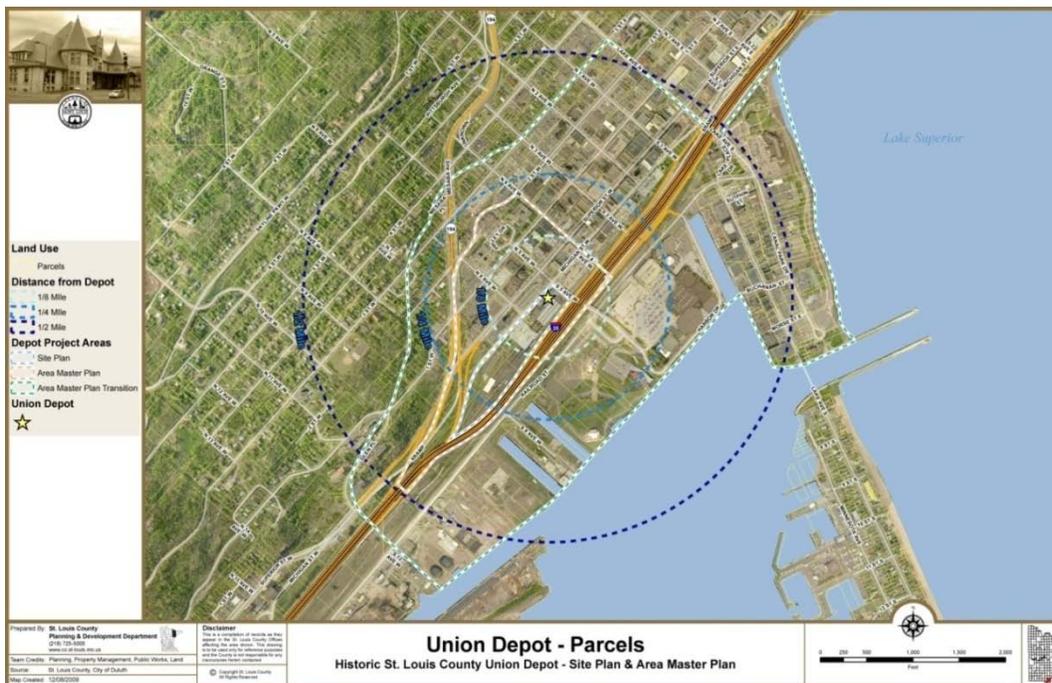
- Development of currently existing but underutilized structures; and
- Currently vacant land.

The aggregation of existing land by distance from the station, land use category (residential, commercial, institutional, etc.), size and value was obtained from St. Louis County and is presented in Table 7 of this report. This information served as the basis for the capacity and demand analyses conducted for this study. Figure 16 presents the existing parcels located within ½ mile of the Depot and Figure 17 shows the vacant parcels within this same radius.

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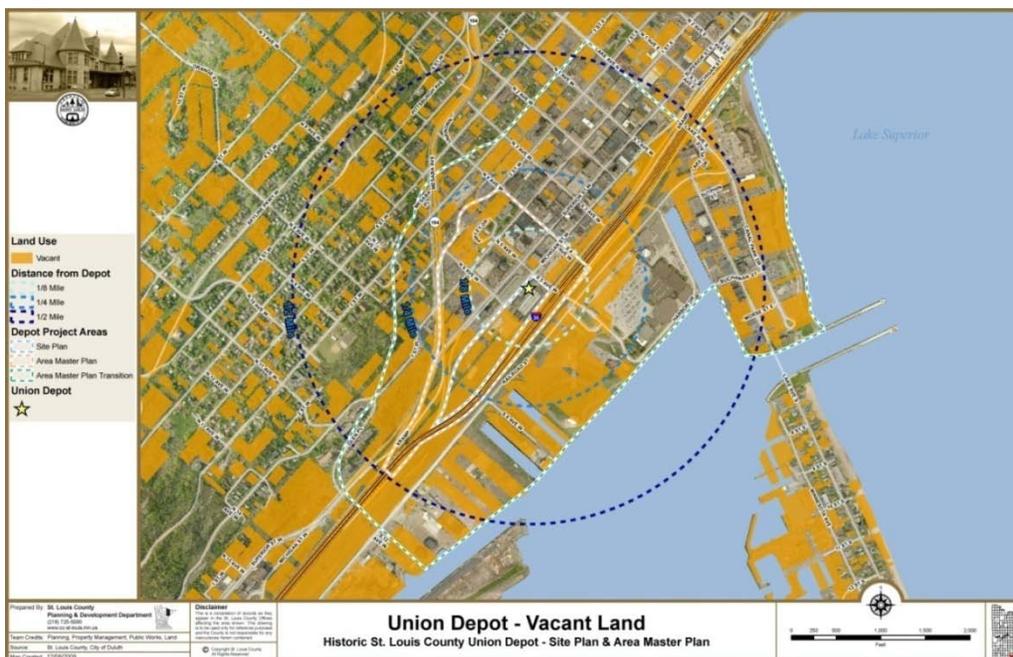
<sup>14</sup> [http://www.fairfaxcounty.gov/planning/tod\\_docs/walking\\_distance\\_abstracts.pdf](http://www.fairfaxcounty.gov/planning/tod_docs/walking_distance_abstracts.pdf)

**Figure 16 Existing Parcels**



Source: St. Louis County GIS database

**Figure 17 Existing Vacant Land**



Source: St. Louis County GIS database

**Parcel Categorization:** Using the data collected from St. Louis County, parcels were then categorized as residential or commercial.

- Parcels with existing buildings were categorized based on their current use;

- Currently vacant parcels were divided into residential and commercial, based on the current mix in the area and expectations for longer-term development.
  - Commercial property was further categorized into office or retail, based on real estate data and local development experts.

**Developable Square Footage:** Based on aerial views of the study area and research related to infrastructure requirements for development, estimates of the appropriate building size, relative to parcel size, were made. Factors such as green space versus built up space in existing neighborhoods surrounding the Depot also were considered.

- Within 1/8 of a mile, 75 percent of a parcel was assumed to be buildable in the near-term.
- Beyond 1/8 of a mile, 65 percent of a parcel was assumed to be buildable in the near-term.
- No parcels were considered developable beyond ¼ of a mile from the Depot.
- Longer-term, 65 percent of a parcel was assumed to be buildable.

**Near-term and Longer-term Market Capacity Assumptions:** Using information on existing buildings and the expertise of professionals familiar with Duluth, assumptions were made as to the height of new development that would be appropriate in the Depot region, as well as the mix of uses for this new development.

- Near-term (1 to 5 years)
  - Eighty percent of commercial property was assumed to be office and 20 percent retail, based on the current mix in the study area.
  - Vacancy rates for office and residential space were used to estimate the currently underutilized space in study area buildings.<sup>15</sup>
  - Based on the experience of development professionals, building heights were assumed to vary from two to seven stories high.
- Longer-term (10 to 20 years)
  - Residential development was assumed to represent 75 percent of capacity. Commercial use comprises the remaining 25 percent.
  - Commercial development is assumed to provide street level retail space and office space on the upper floors of the building.
  - On average, buildings were assumed to be a relatively conservative six stories high.

**Estimation of Market Demand:** Passenger rail service levels and the type of development envisioned for the Depot itself have not yet been determined. As a result, there is some uncertainty about the likely development associated with these endeavors. To account for this uncertainty, market demand for development was estimated as a range, by varying the portion of market capacity that would be demanded as a result of station improvements and reinstated passenger rail service. These percentages were developed based on the transit oriented development experiences of passenger rail stations and other transportation services.

- Low range of market demand development assumptions
  - Near-term – 13 percent of capacity

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<sup>15</sup> Vacancy rates were obtained from the “Miller Hill Market Study,” City of Duluth Rental and Vacancy Rate Survey 2004, and HDR’s assessment of current market conditions.

- Longer-term – 20 percent of capacity
- High range of market demand development assumptions
  - Near-term – 33 percent
  - Longer-term – 45 percent

### 4.3 Market Capacity Analysis Results

Market capacity provides a basis on which to consider the likely development attributable to station area improvements, such as Depot redevelopment and passenger rail service initiation. It provides an inventory by land use of potential development opportunities, based on the currently underutilized and vacant property in the area.

The following sections present the results of the development capacity analysis. Development estimates were calculated for both near-term and longer-term opportunities. These estimates reflect the current economic recession, as well as the fact that transit oriented development may take 10 to 20 years for full build out to be realized. Additionally, there is existing commercial and residential space available around the Depot. Once this space is occupied, additional development in the station area may be warranted in the longer-term, which is why both near- and longer-term estimates are provided.

#### 4.3.1 Near-Term Development Capacity

As shown in Table 8, estimates indicate that in the near-term, there is 358,465 square feet of underutilized space available in the Duluth Depot area. Underutilized space was calculated using information related to existing parcels and the vacancy rates for residential and commercial space in the Duluth Depot area.

Of this underutilized space, slightly more than half is residential. Vacant space is estimated to be 629,384 square feet, with approximately 55 percent of this space available for residential purposes. Converting the square footage estimates into residential units of 1,200 square feet each, and assuming full build-out, it is estimated that 456 new units could be developed for residential use in the near-term.

**Table 8 Near-Term Development Capacity Potential**

TOTAL NEAR-TERM DEVELOPMENT CAPACITY POTENTIAL						
	Residential Units	DEVELOPMENT CAPACITY BUILDING SQ. FT.				Total
		Residential	Commercial	Office	Retail	
Underutilized	170	203,886	154,579	114,204	40,375	358,465
Vacant	286	343,452	285,932	235,894	50,038	629,384
<b>TOTAL</b>	<b>456</b>	<b>547,338</b>	<b>440,512</b>	<b>350,098</b>	<b>90,413</b>	<b>987,849</b>

In total, approximately 987,000 square feet of space is estimated to be available near-term in the study area. Of the commercial space potentially available, roughly 80 percent is available for office use.

### 4.3.2 Near and Longer-Term Development Capacity

Although development capacity is available in the near-term, additional capacity may be available in the longer-term for the Depot master plan area. For example, a large parcel located to the southwest of the station may provide the opportunity for development over time.

As shown in Table 9, long-term development capacity is estimated to be 1.1 million square feet. Seventy-five percent of this development capacity likely would be for residential use, potentially contributing to the development of 704 residential units. The remaining capacity is estimated to be commercial with street level retail and office space on the upper floors.

Overall, total development capacity in the master plan area is estimated to be 2.1 million square feet with approximately 1.4 million square feet of this development likely to be for residential uses. Residential development could yield 1,160 units at full build out. Overall capacity is estimated to be 722,249 square feet of commercial space, with approximately 80 percent office space development. The remaining 20 percent of the commercial space capacity is expected to be retail.

**Table 9 Long-Term Development Capacity Potential**

TOTAL LONG TERM DEVELOPMENT CAPACITY POTENTIAL						
	Residential Units	DEVELOPMENT CAPACITY BUILDING SQ. FT.				Total
		Residential	Commercial	Office	Retail	
Near-term Opportunities	456	547,338	440,512	350,098	90,413	987,849
Long Term Opportunities	704	845,213	281,738	234,781	46,956	1,126,951
Full Build Out	1,160	1,392,551	722,249	584,880	137,370	2,114,800

Please note that this analysis measures development capacity; it does not assume that all available space will be occupied. The next section of this report offers estimates of the likely market demand for development attributable to the improvements being considered in the Depot area.

## 4.4 Market Demand Analysis Results

According to the analysis, significant development capacity is available. There is, however, some uncertainty related to the amount of development that is likely to occur with the renovation of the Depot and the potential reinstatement of passenger rail service in Duluth. While development capacity exists, there is no guarantee that all available property will be developed even if passenger rail service is reinstated and the Depot is redeveloped. As a result, low and

high estimates of development were calculated to provide a range of the potential market demand for development.

Several steps were taken to ensure that the most reliable estimates of potential development in the Duluth Depot study area were generated. Information from the developer interviews was utilized, and the following factors were also considered in the analysis:

- The geographic location of the station and the proximity of the potential development;
- Land available for development by zoning; and
- The relative size of a building compared to the size of the available parcel.

Few studies have been conducted that estimate the level of development attributable to passenger rail service and station area development. As part of the analysis for the Depot study area, however, those studies that have been conducted were reviewed to provide context and comparison to the results of the Depot area analysis.

One study of the Dallas DART Commuter Rail System was the basis for an intercity passenger rail study conducted for the Downeaster service, which runs from Portland, Maine, to Boston, Massachusetts. The Dallas study suggested that 50 percent of the development near the commuter service was due to the service itself. The Downeaster report used approximately half of this estimate, because the Downeaster schedule does not facilitate widespread commuter service. Specifically, the Downeaster study assumed 26.5 percent to be the portion of future development that can be attributed to the Downeaster Saco Station area.<sup>16</sup> Other studies conducted have allocated an even smaller percentage of development to the initiation of passenger rail service and rail station development.

#### **4.4.1 Estimated Development**

For the Duluth Depot analysis, the low level of development scenario assumed that 13 percent of the capacity available would be developed in the near-term. Longer-term, the low development scenario assumed 20 percent of the capacity would be developed. The results of this scenario are presented in Table 10.

Overall, 356,547 square feet of development is estimated in this scenario, with 68 percent toward residential uses and most occurring in the longer-term. Converting this residential square footage into 1,200 square foot units results in an estimated 201 units at full build out. Approximately 30 percent of those units are expected to be developed in the near-term. Commercial development is estimated to be 114,834 square feet at full build out, with 81 percent toward office space and the remaining being utilized for retail.

These estimates of development attributable to station area improvements and reinstated rail service may be low, when compared to the experiences of other passenger rail stations. With the current economic condition, however, they offer a conservative estimate of the development that

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<sup>16</sup> Final Report, Economic Benefits of Amtrak Downeaster Service, Prepared for: Maine Department of Transportation, Prepared by: Economic Development Research Group, Inc. in association with: KKO and Associates, February 2005.

may be attributable to the proposed enhancements around the Duluth Depot over time. That said, even this relatively low estimate of development comes close to exceeding the underutilized capacity that is available within a ½ mile radius of the Depot. According to the analysis described previously, existing capacity of underutilized space is approximately 358,000 square feet. As a result, some new development will be required to meet even this modest level of rail related development.

**Table 10 Market Demand Development Opportunities (Low)**

MARKET DEMAND DEVELOPMENT OPPORTUNITIES (LOW)						
	Residential Units	BUILDING SQ. FT.				Total
		Residential	Commercial	Office	Retail	
Near-term Opportunities	61	72,670	58,487	46,483	12,004	131,157
Long Term Opportunities	141	169,043	56,348	46,956	9,391	225,390
Full Build Out	201	241,713	114,834	93,439	21,395	356,547

The high level of development scenario assumed 33 percent of capacity would be developed in the near-term and 45 percent in the longer-term. Table 11 presents the results of this scenario.

Overall, 834,995 square feet of development was estimated with 67 percent residential use. Converted to units, the analysis suggests 468 units will be developed at full build out with most of the units being built in the longer-term. Commercial space is estimated to be 272,988 square feet with 81 percent being used for office space and the remainder retail.

**Table 11 Market Demand Development Opportunities (High)**

MARKET DEMAND DEVELOPMENT OPPORTUNITIES (HIGH)						
	Residential Units	BUILDING SQ. FT.				Total
		Residential	Commercial	Office	Retail	
Near-term Opportunities	151	181,661	146,206	116,198	30,008	327,867
Long Term Opportunities	317	380,346	126,782	105,652	21,130	507,128
Full Build Out	468	562,007	272,988	221,849	51,139	834,995

Table 12 shows the aggregation of residential and commercial land area within ¼ mile of the Depot, as well as the estimated residential and commercial building. Market demand development estimates for both the low and high level of development scenarios are also provided.

As shown in the table, residential development due to station area improvements and reinstated passenger service is expected to grow about six percent in the low development scenario and 14 percent if a more aggressive level of development occurs. For commercial space, the growth is expected to be approximately 12 percent on the low end and as much as 29 percent on the high.

**Table 12 Existing Land Use and Anticipated Development**

	Square Feet		Estimated Development Growth	
	Total Residential & Commercial Land Area	Residential & Commercial Building Space	Residential	Commercial
Existing Properties	2,664,565	4,854,383		
Low Level of Development		356,547	6%	12%
High Level of Development		834,995	14%	29%

Note: The square feet of Total Residential & Commercial Land Area estimate is the current commercial and residential land within ½ mile of the Depot. Square feet of Residential & Commercial Building Space is estimated within the Master Plan area and includes estimates of the average floor to area ratio (FAR) by land use category.

#### 4.5 Economic Development Impacts

The reinstatement of passenger rail service in Duluth and the property development of the Duluth Depot study area are anticipated to spur population and employment growth. This section provides estimates of employment and population for both the low and high level of development scenarios described above.

Using a multiplier of jobs per 1,000 square feet, each commercial use was converted into an estimate of employment. To estimate population, a similar exercise using a rate of population per 1,000 square feet of residential space was applied to the development estimates. In general, industry standards were used to calculate these values. The table below presents the multipliers for jobs and population.

**Table 13 Jobs & Population per 1,000 Square Feet of Development**

Usage Type	Multiplier
Residential	1.50 people/1000 sq. ft. unit
Retail	1.70 jobs/1000 sq. ft.
Office	2.80 jobs/1000 sq. ft.

Using the low and high level estimates of development described in the previous section and applying these multipliers to those estimates, population and employment were calculated.

Assuming a relatively low level of economic development, 298 jobs and 363 residents are estimated to result from Depot development and reinstated passenger rail service, as shown in the table below. If development is more aggressive, 708 jobs and 843 residents are anticipated.

**Table 14 Jobs & Population Attributable to Development**

	<b>Low Level of Development</b>	<b>High Level of Development</b>
<b>Employment</b>	298	708
<b>Population</b>	363	843

According to the analysis, the majority of the jobs associated with development in and around the Depot would be in offices. Depending on the level of development in the area, 262 to 621 office jobs are anticipated. Retail jobs are estimated to range from 36 to 87 at full build out. Overall, total employment is expected to increase by 298 to 708 jobs.

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## 5. ECONOMIC GROWTH STRATEGIES

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This section of the report details the preliminary strategies for maximizing new economic growth at the St. Louis County Depot and surrounding area. Recommendations include physical improvements, policy considerations, and other methods for best achieving economic growth in the Depot and surrounding area, with minimal transfer of existing economic activity.

### 5.1 Economic Growth Opportunities

Leveraging the uses at the St. Louis County Depot and reinstating passenger rail service are both opportunities for growth in the Depot area. Tying the Depot into the Duluth Transit Authority's proposed multimodal facility via an underground tunnel also would facilitate potential economic growth. These efforts would encourage Transit Oriented Development surrounding the St. Louis County Depot. Careful and coordinated land use and transit planning, along with an explicit effort to attract TOD, can help facilitate this type of development around the Depot. If passenger service is reinstated at the Depot, some transit oriented development due to the renewed passenger rail service is possible.

According to the Center for Transit-Oriented Development, transit-oriented development should increase the "location efficiency" so that people can walk, bike and take transit. It should boost transit ridership and minimize traffic while providing a rich mix of housing, shopping and transportation choices. TOD should generate revenue for the public and private sectors and provide value for both new and existing residents. Creating a sense of place is critical.<sup>17</sup>

Strategies to maximize transit-oriented development around the Duluth Depot are provided in the following subsections.

### 5.2 Physical Improvements

Numerous physical improvements have been offered to increase the number of Depot visitors and better integrate the station with downtown Duluth. Access to the Depot has been cited in several reports as being difficult, and several recommendations to improve access are provided below. In addition, the following section highlights ways to improve the visibility of the Depot.

#### 5.2.1 Pedestrian Access

Improving signage and other "welcoming" street elements would encourage pedestrians to include the Depot in their visit. These types of efforts would also increase visibility and integration of the Depot within the downtown.

A signature pedestrian footbridge linking the Depot with the Bayfront area of Duluth would help enhance the Depot's future development potential by making the Depot seem more approachable. This would enhance the station's accessibility to the lake shore activities and planned development. In addition, it would encourage rail ridership. Individuals who are interested in attending Bayfront festivals and events would have an alternative to driving, which would seem reasonable if the rail-station-to-Bayfront connection was more pedestrian-friendly.

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<sup>17</sup> <http://www.reconnectingamerica.org/public/tod>

### **5.2.2 Arrival Point**

Currently, the main entrance to the Depot is unclear to prospective visitors. Visitors are inclined to go to the historic main entrance, but this is blocked. The current main entrance commands no presence, whereas the older entrance commands attention and remains the formal focal point of the historic structure. Reopening the main entrance to the Depot through the Great Hall would provide an easier and more attractive way to enter the station. Configuration of commercial space would also be oriented in a way that encompasses the new, but historic, main entrance.

### **5.2.3 The Great Hall**

No single organizational entity has clear domain in The Depot and this has contributed to a lack of clear orientation once a visitor enters the Depot. The Great Hall falls short of its full potential as a signature entry space to The Depot. Adding signage to promote Depot activities, offering brochures on Depot exhibits and other activities in Duluth, and creating smaller exhibits to pique visitor interest may assist visitors in orienting themselves and help visitors to feel welcome.

### **5.2.4 Improved Exterior Lighting**

An exterior lighting design that enhances the Depot's façade after dark will not only promote safety at the Depot but will also frame the Depot in a more attractive way from other areas of downtown. Ensuring that lighting around the Depot is at the scale of pedestrians will also make the Depot seem more welcoming to passers-by.

### **5.2.5 Other Physical Improvement Considerations**

In addition to the very specific recommendations above, there are some best practices that may be of relevance to improving the physical space of the Depot and immediate surrounding area.

For example, the station area must be pedestrian friendly, allowing ease of movement in and around the station. Storefront windows, awnings, architectural features, lighting and landscaping should be provided to offer a comfortable pedestrian environment along and between buildings in the study area. Sidewalks should connect adjacent properties, and trees should shelter streets and sidewalks. Some green space around the station area would also help to make the Depot seem more welcoming.

### **5.2.6 Explore Moving and Upgrading Library**

One of the most desirable locations for mixed use TOD is the area where the current library is located. As noted in the interviews of economic development professionals in Duluth, moving the public library to a new location would open up considerable space directly across from the Depot. This new space could be converted to mixed-use in the near to mid-term time horizon. Businesses and/or condos located in the former library space would be in close proximity to rail transportation, and it provides the most attractive location for commercial development next to the Depot. The move could benefit the library as well, by providing it with an opportunity to restructure its new space, as well as possibly enhance its offerings and technology. It is an option that should be explored.

### 5.3 Zoning Policy and Development Opportunities

Zoning regulates the types of activities and dimensional standards of building form. While the City of Duluth is still operating from a Euclidean-based 1958 zoning code, zoning policy is currently being restructured in the city. The type of code currently utilized by the City of Duluth keeps different activities, or land uses, segregated. This means that future development is largely confined to previously developed areas and to the preservation of green space.

The existing zoning has not encouraged the mixing of uses, including housing above downtown businesses. In downtown Duluth in and around the Depot area, there is currently condominium vacancy. Once these residential units are occupied, however, opportunities exist to increase downtown housing options in the mid- to long-term. This could, in turn, help drive an improved pedestrian connectivity between downtown districts, a goal for the City of Duluth. Creating a downtown where people do not have to drive to get around, by providing a variety of multimodal transportation options, would help facilitate this connectivity. Expansion of passenger rail service at the Depot will offer a new transportation option.

In June 2006, the Duluth City Council adopted a Comprehensive Land Use Plan for the City of Duluth to better determine the long-term future of Duluth's physical development. The city is moving toward implementation of this plan by developing a new legal framework for comprehensive land use regulations. The new Unified Development Chapter of the City of Duluth Legislative Code (Chapter 50) will replace the City's current 50-year old Euclidean-based zoning ordinance. Specifically, it will:

- “Incorporate contemporary approaches to neighborhood revitalization, mixed uses and natural resource protection regulations;
- Bring together all of the City's development and zoning related sections into one simplified, unified document; and
- Include a streamlined development review and approval process which will allow the City to be more efficient and responsive to its citizens and the needs of the development community.”<sup>18</sup>

A public meeting was held in mid-September of this year to discuss the proposed Module 1 of the Unified Development Chapter. This module includes general provisions, zoning districts, and permitted uses. Future public meetings will be scheduled for subsequent modules and will address form based districts, development standards, and the review and approval procedures.

According to the *Downtown Duluth Modal Connections Study*, the 2009 update of Duluth's zoning code revisions away from Euclidean-based zoning toward a unified development code (UDC) will bring together the city's development and zoning related sections into one document. A UDC generally streamlines the development review and approval process.

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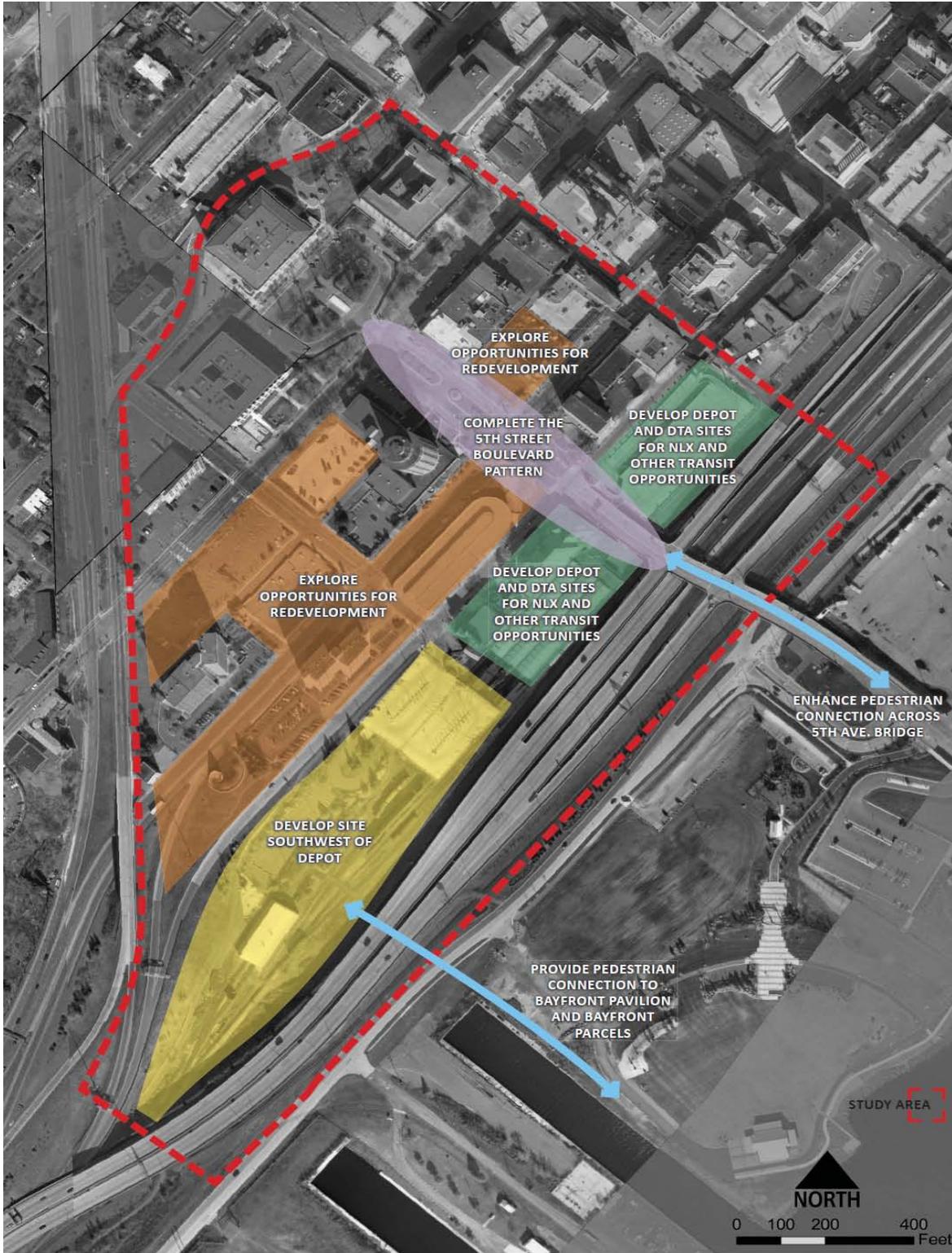
<sup>18</sup> <http://www.duluthmn.gov/planning/udc/index.cfm>

As mentioned previously, the 2009 update will include form-based zoning, which is used to control the physical form of development with significantly less focus on land use. This transition will promote an increase in the interrelationships between the streetscape and help to stimulate a vital mix of uses.

Existing infrastructure and land use conditions will need improvement to create logical, attractive and safe connections throughout the downtown. Services, such as passenger rail at the Depot and the continuation of trolley service, will help to effectively circulate visitors and locals throughout the City of Duluth, further enhancing connectivity and promoting mixed uses of land surrounding the St. Louis County Depot.

Entities interested in expanding economic development in and around the Depot should be engaged in the new zoning regulation process and keep the channels of communication open with the City of Duluth, as it continues toward implementation of its UDC. The reintroduction of passenger rail service, as well as improvements to the Depot itself, are compatible with the apparent goals of the city's proposed new zoning policies. The city appears amenable to mixed use development and to the promotion of a more pedestrian- and transit-friendly city. Passenger rail at the St. Louis County Depot may be one way to support this vision.

The figure below displays some parcels that could be considered for development. The possibility of developing these parcels in a mixed use manner should be explored.



**St. Louis County Union Depot**  
 Elements Common to All Concepts



## 5.4 Taxes, Incentives and Financing

As consistently stated during interviews with economic development professionals in Duluth, significant public incentives and spending will be a critical component of a successful growth strategy in and around the Depot. The following provides information related to the taxing and financing mechanisms employed by facilities similar to the Depot. In addition, incentive plans to promote economic development in and around rail stations are also included. Information for this section was obtained from reports and interviews conducted by individuals familiar with economic development in Duluth.

### 5.4.1 Tax Increment Financing

Tax increment financing (TIF) is a method of financing real estate development costs to:

- Encourage developers to construct buildings or other private improvements; or
- Pay for public improvements, such as streets, sidewalks, sewer and water, and similar improvements.<sup>19</sup>

If a new building is constructed in the Duluth Depot area, the market value of the property and its property taxes would typically rise. TIF would use the additional property taxes paid to cover a portion of the development costs.

When a TIF district is created in Minnesota, the county auditor certifies the current tax capacity of the properties in the district as the TIF district's original tax capacity. Once the property in the district increases in value, the increases above the original tax capacity are "captured." As the TIF district is being created, the county auditor will also certify an original tax rate. The original tax rate is the total property tax rate that applies in the district. The "tax increment" for the district is determined by multiplying the original tax rate by the captured tax capacity. This will approximately equal the taxes paid by the captured tax capacity or the increase in taxes that result from the development.

TIF in Minnesota is generally used to redevelop areas occupied with substandard buildings or build housing for low-income and moderate-income families. It can also be used to help clean up pollution or provide economic development incentives. Finally, TIF in Minnesota can be used to finance public infrastructure, such as streets, sewer, water, sidewalks, and similar improvements. It may be a financing mechanism that is appropriate for the Duluth Depot and surrounding area to help facilitate economic development.

It is important to note that there are issues related to TIF programs. Even if a station is located in an area where this program would be appropriate, the amount of the projected tax increment that the project area is expected to generate may fall short of the amount necessary to pay for all the infrastructure costs. In addition, many of the costs associated with a particular project require "upfront" revenue expenditures. While redevelopment agencies can issue bonds against future revenues, bonding creates pressure to develop land uses that are not transit supportive due to their goal of generating revenues in redevelopment areas. Therefore, there may be a timing

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<sup>19</sup> <http://www.house.leg.state.mn.us/hrd/issinfo/tifmech.htm>

mismatch between a city's revenue needs associated with TOD and the timeframe in which tax increment revenues would be available for use.<sup>20</sup>

#### **5.4.2 Local Initiatives Support Corporation (LISC)**

LISC has been the nation's largest community development support organization since 1980. Opened in 1997, the Duluth LISC has been an integral part of affordable housing and neighborhood revitalization providing financial tools, technical assistance, and policy support to Community Development Corporations (CDCs).

Its mission is to help nonprofit CDCs transform distressed neighborhoods. The organization mobilizes corporate, government, and philanthropic support to provide CDCs with:

- Loans, grants, and equity investments;
- Local, state, and national policy support; and
- Technical and management assistance.

LISC has marshaled more than \$6 billion from 3,100 investors, lenders, and donors for CDCs to use in planning and implementing projects, strengthening their organizations and leveraging another \$14 billion in investment in low-income communities.

#### **5.4.3 Public Funding and Infrastructure**

According to the Center for Transit-Oriented Development, a standard expectation for developer profit, after netting out all development costs, is about 15 percent.<sup>21</sup> This expected rate of return is basically constant, regardless of the region of the country in which the development is occurring. To achieve this rate of return, public subsidies will be needed. For example, subsidies could include: parking; utility; and property tax rebates.

Loans to reduce up front costs of infrastructure upgrades or other project costs are also ways to encourage private development. When attempting to encourage development in a market, such as the Duluth Depot area, it is important to make projects financially feasible and to catalyze further development activity by providing built examples.

#### **5.4.4 Sustainable Development and Livable Community Programs**

Evaluating access to county and regional agencies is another way to jump start development. Funds from these organizations can provide "first in" funding for projects that can help local jurisdictions, such as the City of Duluth, leverage additional public and private financing. The following subsections include detail related to various Metropolitan Planning Organization programs that support transit-oriented development.

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<sup>20</sup> Financing Transit-Oriented Development in the San Francisco Bay Area Policy Options and Strategies, prepared by Center for Transit-Oriented Development, August, 2008.

<sup>21</sup> Financing Transit-Oriented Development in the San Francisco Bay Area Policy Options and Strategies, prepared by Center for Transit-Oriented Development, August, 2008.

The first program is established in Minnesota and may be appropriate for the Duluth Depot and study area. The remaining two programs are located outside of the state and are provided as examples of programs that work for other regions in the country. These programs may be of interest to the development community.

**The Metropolitan Council’s Livable Communities Demonstration Account (LCDA) (Minneapolis-St. Paul, MN)** – In Minnesota, the Metropolitan Council offers a Livable Communities Demonstration Account. Cities apply on behalf of developers for infrastructure upgrades, transportation improvements, and land assembly. Funding recommendations are made by an Advisory Committee, which is comprised of a broad cross section of stakeholders from around the region. The Advisory Committee rates projects on criteria that include land use, innovation, and project readiness. It then makes recommendations to the Metropolitan Council.

The program uses funding from a regional tax levy that must be renewed every year. Funding is currently \$8 million per year, and there is no cap on individual project funding. The largest grant to date has been \$2.5 million, and a cap of 40 percent of any year’s funding can be used within Minneapolis and St. Paul. Many projects that receive funding also apply and receive funding in subsequent years.

**Portland Metro’s Transit Oriented Development and Centers Program (Portland, OR)** – This grant program is available to developers for elements of construction projects that may not be feasible in the development market currently, because of location or infrastructure costs. The program uses long-term easements on projects to ensure accountability for the grant funds, and funding is currently at about \$4 million per year. Historically, this has not been enough to keep up with demand. Federal transportation funds have been swapped with local funds to increase the flexibility of the program. The average grant per project is approximately \$300,000, but Metro is planning to expand the funding to make larger grants available.

**North Central Texas Council of Governments (NCTCOG) Sustainable Development Funding Program (Dallas-Fort Worth, TX)** – This funding program is available to local jurisdictions with separate funding streams for Infrastructure, land banking, and planning. Forty million dollars in funding for the Sustainable Development program came from local infrastructure funds “swapped” with federal transportation funds (CMAQ and STP-MM). Approximately \$8 million (no more than 20 percent of the total) was allocated for land banking projects.

Local jurisdictions must have public private partnerships in place to apply. Developers work with cities to prepare applications. For most projects, the individual project requests have been larger than NCTCOG can fund. Funds not expended—or without a Notice to Proceed—within a certain time frame must be returned to NCTCOG and are then redistributed to other projects. For the land banking program, cities are required to pay back the entire principal funding amount, regardless of the success or failure of the development. This means cities can participate in the “upside” of development, but must also bear some of the risk.

## **5.5 Development of Rail Stations and Historic Buildings**

The following subsections highlight the experiences of other comparable organizations, from a funding perspective. As is frequently the case with these types of projects, one source of funding

does not construct and maintain a facility. Typically, funds come from a variety of sources with local or state governments often providing the start-up funding for renovation and construction. Private donations, facility-generated revenues, and some public funds then support the longer-term operations and maintenance of the facility.

### **5.5.1 Cincinnati Museum Center**

The City of Cincinnati and Hamilton County own the 75-year-old Union Terminal building, but the Museum Center leases it and is responsible for its maintenance. Currently, the Cincinnati Museum Center receives funding from two Hamilton County property tax levies: a 2004 levy for operations, maintenance and repair of Union Terminal and a 1986 levy to fund bonds for renovation of Union Terminal.

While the Museum Center has progressed in increasing its endowment, it has not raised enough funds to be financially independent from the funds provided by the current operation levy. The Museum Center also receives operating revenue from government, private, earned and investment sources.

A renewal levy that would generate \$16.2 million over five years for operation and maintenance will appear on the November ballot in Hamilton County. The levy would cost the owner of a \$100,000 home \$4.44 a year, which is less than what is paid with the current levy. A 1986 separate bond issue that paid for the Museum Center's 1990 move into the Union Terminal building expires this year and will not be renewed.

The smaller levy will allow the Museum Center to keep up with day-to-day building maintenance while continuing to fund exhibits and programs. There are considerable capital improvements that need to be made at the Center, including the repair of some water damage. These projects will be sidelined in the near-term, and the funds to make those repairs are not yet determined.<sup>22</sup>

### **5.5.2 Pittsburgh Station Square**

The Pittsburgh History & Landmarks Foundation (PHLF) is a nonprofit organization founded in 1964 to “support the preservation of historic buildings and neighborhoods in Pittsburgh, Pennsylvania, USA. PHLF includes a non-profit corporation, Landmarks Community Capital Corporation (LCCC), and a for-profit subsidiary, Landmarks Development Corporation (LDC).” The LCCC makes loans and obtains grants and investment capital, which it uses to finance and develop projects that assist in the revitalization of urban centers, towns, and neighborhoods. LDC provides consulting services and develops real estate.

Aided by an initial generous gift from the Allegheny Foundation in 1976, PHLF adapted five historic Pittsburgh & Lake Erie Railroad buildings for new uses and added a hotel, a dock, and parking areas to the Station Square area. This facility includes stores, offices, restaurants and other entertainment along the riverfront in Pittsburgh.

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<sup>22</sup> <http://news.cincinnati.com/article/20091005/NEWS0108/910060317/1055/NEWS>

After 19 years of developing Station Square, the Pittsburgh History & Landmarks Foundation sold the property to developer Forest City Enterprises in 1994. Eight years later, a 100 room expansion to the Sheraton Hotel was completed and the Bessemer Court entertainment district was added by Forest City Enterprises.

### **5.5.3 Milwaukee Rail Station**

In November 2007, the Wisconsin Department of Transportation (WisDOT) completed a \$17-million Milwaukee Intermodal Station funded with state, federal, city, and private sector funds. The station serves Amtrak's Hiawatha and Empire Builder services, as well as Greyhound and other intercity bus operators. Space is being leased for food service, retail, and commercial offices in the multi-story station.

Based on expected development benefits in the area, the City of Milwaukee provided \$6 million in tax incremental financing for the station. This financing mechanism was supported by a multi-state economic impact study that projected a \$227-million increase in land values around the station, along with up to 3,000 additional jobs in the Milwaukee area from improved rail service supported by the station.<sup>23</sup>

### **5.5.4 Torpedo Factory**

In 1969, the City of Alexandria bought the Torpedo Factory complex of buildings from the federal government. It was several years before a plan was accepted for their use. The Local Art League President and Director of the Alexandria Bicentennial Commission, Marian Van Landingham, proposed a project that would renovate the building into working studio spaces for artists. Her proposal was endorsed by the Commission, and she became the first city-employed Director of the Art Center. From 1982 to 1983, the building underwent a major renovation as part of Alexandria's waterfront development plan.<sup>24</sup>

### **5.5.5 Massachusetts Museum of Contemporary Art (MoCA)**

MASS MoCA opened in May 1999. The project funding was comprised of a \$22 million construction grant from the Commonwealth of Massachusetts and \$9.4 million in private funds for construction support. In addition, \$5.6 million in private contributions for programming and start-up were provided.

The museum is an independent 501C3 whose operations and programming are funded through admissions and commercial lease revenue, corporate and foundation grants, and individual philanthropy. Except for the initial construction grant from the Commonwealth of Massachusetts, and competitive program and operations grants from the National Endowment for the Arts and the Massachusetts Cultural Council, MASS MoCA is privately funded; 90 percent of annual operating revenues are from earned revenues, membership support, and private gifts and grants.

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<sup>23</sup> [http://www.s4prc.org/reports/pdf/trainstations\\_july08.pdf](http://www.s4prc.org/reports/pdf/trainstations_july08.pdf)

<sup>24</sup> <http://www.torpedofactory.org/history.htm>

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## **6. MARKETING STRATEGIES**

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This section of the report provides information related to prospective marketing strategies and opportunities that may contribute to economic growth in and around the Duluth Depot. Promoting the notion of “connectivity” between the St. Louis County Depot and other organizations in Duluth is an important component of the marketing endeavors recommended.

In the near-term, development strategies should be focused on current and future Depot uses. Changing the composition of the current Depot uses is one option. Working to fill existing vacant properties and developing existing parcels are also opportunities in the near-term. Longer-term, new parcel acquisition could be considered and development of new residential units, smaller offices, retail and restaurants could be attempted. The following section provides strategies for marketing that may enable the Depot and surrounding area to promote development.

### **6.1 Duluth Entertainment Convention Center (DECC)**

#### **6.1.1 Conventions**

Creating marketing materials that connect hotels, the train, and the Duluth Entertainment Convention Center (DECC) together is one example of a “connectivity” opportunity. DECC is currently expanding, and they are planning to build another arena which means they can host larger concerts and more conventions. The train station is very close to the DECC and the hotels are almost connected. A “package” connecting the hotel, train, and DECC could be marketed to conventions, with an emphasis on access to train service. Presenting how “well connected a community” Duluth is would be important in any marketing materials. Further enhancing the use of the Depot as part of convention planning, group rail discounts to convention attendees could be provided to promote rail ridership.

#### **6.1.2 DECC Events**

As mentioned previously, the DECC is currently expanding and part of the expansion effort is to build another arena providing the opportunity to host larger concerts and other events. These improvements are nicely timed to coincide with passenger rail expansion, and close coordination with DECC event coordinators will offer additional opportunities for joint marketing efforts to concert, sporting event, and other event attendees.

### **6.2 Green Opportunities**

Increasingly, the City of Duluth is becoming a center of green industries, including hydroelectric and wind-generated power, bio fuels development, environmentally-friendly building design, and green building techniques. The promotion of passenger rail as a “green” alternative to driving may resonate well with many of these green industries. Clients and employees of these businesses who visit Duluth could be encouraged to utilize the rail service provided at the Depot.

The Great Lakes Coalition 5th Annual Great Lakes Restoration Conference was recently held in Duluth. Similar environmentally-oriented conferences are likely to be hosted in the city going forward. Working with the organizers of those types of events to promote the use of the

passenger rail service provided at the Depot will increase ridership, as well as provide visibility to the Depot and the surrounding businesses.

### **6.3 Bob Dylan Way**

In May 2006, the City of Duluth designated a cultural pathway in honor of Duluth's native son, Bob Dylan, to commemorate his 65th birthday. Private dollars have been raised to create and install 30 street signs to mark the pathway. The 1.8 mile Bob Dylan Way extends from Michigan Street at 5th Avenue West to 15th Avenue East and London Road. The pathway follows segments of Michigan Street, Superior Street and London Road and links cultural assets, including the Duluth Depot.

The Depot should work closely with the Bob Dylan Way Cultural Pathway Effort to ensure that tourists utilizing the pathway are aware of the Depot's offerings. One possible recommendation for the Depot is the leasing of artist space. If this opportunity is pursued, linking the visual arts at the Depot with the musical arts of Bob Dylan would be a natural partnership that should be pursued.

### **6.4 University of Minnesota**

Although the University of Minnesota at Duluth (UMD) is several miles away from the train station, the school works closely with Duluth transit to offer a relatively convenient way for students to travel the city. Cooperation with the university will offer the possibility to promote ridership at the Depot.

Other schools nationwide have worked in close coordination with passenger rail providers. It is worth noting that based on phone surveys conducted by the University of New Hampshire (UNH), 58 percent of UNH students have ridden Amtrak's passenger rail, the Downeaster, at least once. The location in the UNH core campus assures that much of the ridership walks to the station; unfortunately, this convenience is not afforded to University of Minnesota students. That said, it is recommended that the Depot work with UMD to promote use of rail by students and faculty. Student rail discounts could be offered and city transit schedules to and from UMD reviewed to best coordinate public transportation options for students and faculty.

According to the UMD website (<http://www.d.umn.edu/about/student-profile.html>), 16.7 percent of the student body came from northeastern Minnesota. Thirty eight percent came from the Twin Cities metro area. Working with UMD to promote passenger rail service connecting Duluth to the northern region of Minnesota could benefit both the sustainability of passenger rail in Duluth and the university by offering another means of travel for its students and faculty. Marketing efforts could be focused at the beginning and end of the school year, prior to school vacations, and before key weekend events (e.g., Parent's Weekend, Homecoming).

### **6.5 Marketing Partnerships**

The development of partnerships in cross-marketing campaigns, whereby the Depot serves as one destination among many of the interesting places to visit in Duluth, is another opportunity to expand use of the passenger rail service and Depot. Integrating the Depot, its rail service, museum and commercial offerings, into a greater marketing campaign would increase Depot

visibility and consolidate marketing materials and message. This is likely to be both cost and marketing effective.

The Depot could establish a tourist information stand or booth, manned or unmanned, to serve as a starting point for visitors. Information related to the connectivity of bus and rail transportation could also be provided, further encouraging the use of mass transit. A brochure for the Depot as a whole, rather than for the individual organizations within the Depot, would be cost effective and reinforce the message that the Depot offers something for everyone.

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## **7. SUMMARY OF FINDINGS**

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This section of the report presents the findings of the economic and market analysis related to the St. Louis County Union Depot and surrounding area.

### **7.1 City of Duluth Economy**

The City of Duluth has experienced very little population growth in the last 20 years, although employment has grown by 6 percent since 2000. The number of establishments in Duluth has decreased from 1,313 in 2000 to 1,225 as of 2008. In contrast, wages have increased by 41 percent in the City of Duluth. For education and health care, Duluth offers higher wages per job than the national average. Additionally, Duluth's cost of living is lower than the US average.

The unemployment rate for the nation jumped from 9.1 percent in May 2009 to 9.4 percent in November 2009. Duluth's unemployment rate was 6.8 percent in November 2009, a reduction from the May rate of 7.5 percent, suggesting that Duluth may be recovering from the economic recession more quickly than the nation as a whole.

The economic stability of the area, in addition to the apparent improvement in the local economy during the last quarter of 2009, is promising for development in and around the Depot for both the near- and longer-term.

### **7.2 Depot and Surrounding Area Uses**

Based on guidance provided by Amtrak and ridership information available for the proposed Northern Lights Express service, a vending machine, small coffee/sandwich shop, and a newsstand machine would be appropriate for the Depot. Other retail opportunities also may be reasonable, but the development of a strategy integrating the Depot with the surrounding area is recommended prior to expanding Depot retail beyond that supportable by riders of NLX.

Other uses of the Depot could include the renting of space to artists and other professionals. Further marketing the Depot for special events, and redeveloping the Depot to accommodate smaller groups, is also an opportunity and potential use.

Surrounding the Depot, development is expected to be mixed. Commercial space is likely to be comprised of first-floor retail with office space available on the upper floors. With an improved station area and the reinstatement of passenger rail service at the Depot, residential development is also likely to occur. Station area development will be comprised of both redeveloped but underutilized existing space and the longer-term development of currently vacant parcels in the Depot area.

### **7.3 Real Estate Development Opportunities**

The land use around the Depot is primarily government owned and commercially zoned currently, and properties in this area are generally mid-priced. This offers the potential for property values to increase once passenger rail is restored. Furthermore, the existence of reasonably-priced parcels could help facilitate near- and longer-term development in the area.

Most of the development associated with the reinstatement of passenger rail and station area improvements is expected to be residential. Within the next 20 years, total space requirements are anticipated to reach between 356,547 and 834,995 square feet. More than two-thirds of this space is expected to be used for residential purposes; during this period of time 201-468 residential units are anticipated. Most commercial space will be utilized for offices.

Based on the market demand for development estimates, the existing underutilized capacity of 358,465 square feet available in the Depot area is not sufficient to accommodate the expected development demand generated by the reinstatement of passenger rail and other station area improvements. Even if the more optimistic level of development is not realized, the low level of development of 356,547 square feet cannot be accommodated by the existing underutilized capacity. First, the existing underutilized space may not be attractive enough to induce development. Second, it is unrealistic to assume that occupancy of this space would reach 100 percent.

## **7.4 Economic Development**

As the Depot area is developed during the next 20 years, population and jobs are expected to increase. The analysis suggests that between 298 and 708 jobs are likely to be generated with the reinstatement of passenger rail service and other development-promoting efforts. Most of these jobs will be in office work, with a relatively modest 12-13 percent in the retail sector. Population is also expected to increase, with a minimum of 363 new residents and the possibility of as many as 843. Although these projections may appear to be small, the economic growth is expected to occur entirely within ¼ mile of the St. Louis County Union Depot.

Moving forward, St. Louis County and the City of Duluth should strategically evaluate near-term opportunities for development. Once passenger rail service is implemented and the local and national economic picture improves, additional development could be considered. Efforts to integrate the surrounding area with the Depot are encouraged, and a County plan to promote transit oriented development is advisable. Leveraging the uses at the Depot and reinstating passenger rail service are both opportunities for growth in the Depot area. Developing a clear and coherent strategy for optimizing these opportunities should be a high priority for the County.

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## 8. APPENDIX OF ECONOMIC TERMS

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**Near-term:** 0-5 years

**Long Term:** 10-20 years

**Vacant:** Open space with no current development

**Underutilized:** Existing building space that is not fully occupied

**Development Capacity Potential:** Space that is either underutilized or vacant in the Duluth Depot area. It reflects the estimated floor area ratio (FAR) to assess building square feet rather than land area.

**Development Opportunities:** Those opportunities for development that could be pursued, as a result of the proposed Duluth Depot improvements and reinstatement of passenger rail service.

**Low Development Level:** Lower range of future market demand estimates, 13-20% of total market capacity for development

**High Development Level:** Higher range of future market demand estimates, 33-45% of total market capacity for development

**Near-term Opportunities:** Development opportunities within five years based on available capacity and market demand.

**Long Term Opportunities:** Development opportunities over the next 10 to 20 years based on potential market capacity and market demand.