FOCUS

Indianapolis Case Studies

Introduction

These case studies are included as a part of FOCUS to help familiarize interested individuals with neighborhood-based urban commercial development by providing local examples to help guide those with little exposure to this industry. What follows is a chronological outline of the key events which occurred in three, targeted development projects. This is also an analysis of what barriers could be expected from this type of project. Ideas are given on how to overcome some of these barriers. Lastly, a list of key learnings which resulted from each experience is presented. Our purpose in presenting this information is to try to provide guidelines and information on the following:

- What steps could a CDC or neighborhood group take to obtain and develop a strategic commercial site?
- Where can a CDC or neighborhood turn for help (government agencies, people, etc.)?
- What common problems can be anticipated and how can these be solved?
- What new and additive tools and procedures are needed to make these types of projects work?
- How do we work together to make commercial development feasible in urban neighborhoods?

Case Study #1: Historic and Mixed Use Developments

Name of Organization: Southeast Neighborhood Development (SEND)

Project Spokesperson: Darrell Unsworth, Director of Economic Development

Contact Information: (317) 634-5079 ext. 21 or E-mail: darrell@sendcdc.org

Date of Interview: April 30, 2003

General Boundaries of CDC: S – Raymond Street, N – Washington Street, W – Madison / Meridian, and E - Sherman

Project Location: Eastern corner of Historic Commercial District at Prospect and State Street, 1701 East Prospect Street.

Name of Project: Fountain Corners

Physical Description: 5000 sq. foot historical building which is consistent with a small town commercial area. Ideal for a business on the first level and a residence on the second level (mixed-use development).

Outcome Desired: Have the building purchased by a businessowner who would live above his business. Maintain the current structure in keeping with other elements of the historic district.

General Overview

CDC's (Community Development Corporations) concentrate on both residential and commercial developmental and rehabilitation. SEND frequently focuses on developing buildings in which the business owner will both work (downstairs) and live (upstairs). SEND found such a building at 1701 E. Prospect, bought it and set out to prepare it for potential buyers or tenants.

Summary of Events:

In July 2000, FOCUS was looking for a commercial development project in the Fountain Square area. (SEND already had the purchase agreement in process at this time for Fountain Corners and was working to close on financing. This site was then selected for one of the FOCUS pilots.) SEND originally proposed three projects and sent out RFPs to a group of commercial brokers for the FOCUS pilot selection. The response from the brokers was underwhelming. Fountain Corners was selected by FOCUS due to the mixed use aspect.

Fountain Corners

SEND purchased two buildings on the 1700 block of E. Prospect. The first tenant to come to the table with resources was the Fletcher Place Community Center. After much negotiation, Fletcher Place purchased one of the two buildings for expansion of their community programs and job training services. SEND removed the interiors of the buildings because they were not up to code. A Phase I environmental study was completed. No unusual "surprises" were discovered during the course of the study or removal. Darrell Unsworth, the Economic Development Director, started talking to commercial real estate brokers and discovered that there was a lack of significant interest in listing the buildings. (Four firms in total expressed an interest; one followed through after closer examination). One broker agreed to do it, but wanted to double the broker's fee due to the complexity of the location. SEND did not accept this offer and then negotiated with another broker for three months before the broker finally agreed to take the listing with the understanding that it would be a lengthy process. Most brokers wanted to tear down the buildings, which was the exact opposite of SEND's intent and the neighborhood's desire.

At the time of this interview, no offers have been made for the second building. In addition to brokers, SEND has also met with the Hispanic Chamber of Commerce to help attract their members, advertised the building by posting a sign and advertising it in newsletters and the Fountain Square newspaper. SEND is currently looking for another broker to take the property (at this point we have a verbal agreement with a broker but have yet to see the written listing agreement after a month) Also, the broker plans to finish gutting the inside and painting the interior so that potential buyers can envision the possibilities. However, the whole project has recently been tabled due to exciting developments involving a neighborhood restaurant.

Santorini's Greek Kitchen had grown their business to the point that they needed to move to a larger facility and was looking at sites outside the Fountain Square neighborhood. SEND recently acquired a vacant historic commercial building that formerly housed a troublesome bar. In an effort to get the restaurant to stay, SEND negotiated a deal that allowed for the restaurant to remain in the neighborhood and save a valuable building on an important corner of the historic district. Santorini's will relocate to East Prospect Street under a lease/ purchase agreement that pays all the costs of owning and operating the facility until the title is transferred. LISC grants, owner equity, SEND cash, and targeted FOCUS funds were used to complete the predevelopment pieces consisting of: environmental review, appraisal, historic plan proposal, construction budget, feasibility study, and design work for renovations. Acquisition and renovation will be completed using owner equity, a LISC predevelopment loan, and a loan from Old National Bank. SEND will provide construction management for the renovation and property management services under the lease. Santorini's will be expanding its restaurant as well as providing a banquet facility on the second floor of the building.

BARRIERS TO DEVELOPMENT	RESOURCES APPLIED
Commercial real estate brokers are not often motivated to look for buyers of small, downtown buildings. They have to exert the same amount of energy to find buyers for these properties as they do much bigger, newer sites. Of course, they make more money with the bigger sites.	Idea: Develop a website for urban revitalization. Coordinate joint advertisements in local news venues. (If collective could reduce the large costs in advertising individual properties)
Most brokers, if they do agree to take the listing, want to tear down the existing building and just sell the lot. This often invokes negative backlash from the neighborhood and also destroys the historic fabric of the streetscape.	Idea: CDCs need to assemble a group of contacts for potential buyers to access: environmental specialist, architects, commercial lenders, tax attorneys. Having this type of information available should make it more desirable for potential buyers to keep the current building.
Commercial tenants (chains) have certain criteria for their sites. Older, downtown buildings rarely meet this criteria. (square footage, parking, access…)	Start to work with the Neighborhood Self Employment Initiative. Their goal is to identify sources of small business and work with them to develop their businesses. This could lead to future renters/buyers.
Many people don't understand the tax benefits of buying historic buildings.	Need to get potential buyers in contact with historic tax experts and/or tax attorneys.

Identify the total package of benefits for the investor/business owner of living and working in a historic building or a mature district.	Develop advertising materials or a package that will describe the benefits of property appreciation, strength of niche shoppers, tax benefits, grant programs available, other neighborhood resources that apply as well as the advantages of being a part of a community of like minded and like missioned people.

Key Learnings:

- Need to develop relationships with brokers or agents willing to seriously market urban and neighborhood properties. Perhaps FOCUS partners need to develop these agents or a system that works to do this type of marketing.
- Need to also look for other unique ways to market older and smaller downtown properties.
- Look for small businesses that might want to expand and may need a bigger space. Find businesses operating successfully in other neighborhoods and offer them the opportunity to open additional locations. This has worked for SEND and other CDCs.
- Study the business model of successful inner city/neighborhood business ventures and provide those findings to interested entrepreneurs.
- Develop a template that defines the processes and steps in urban revitalization and help define the situations where one process works or does not work so that others attempting to do this work can gain insight. Assemble a flexible "toolbox" of development tools to apply to the inherent characteristics of individual neighborhoods.

Case Study #2: Attracting a Grocery Store

Name of CDC: Near North Development Corporation

Project Spokesperson: Eileen Laughlin, Past President

Contact Information: (317) 927-9881 or nndcindy@mindspring.com

General Boundaries of CDC: S – New York Street, N – 30th (Meridian Street to 40th Street), West – Canal/I-65N, E - Pennsylvania

Location within CDC: North Capitol and Fall Creek Parkway

Name of Project: Fall Creek Retail Center

Physical Description: 27,000 Sq. Ft. – Retail Center, a 2 acre site fronting on Capitol Avenue

Outcome Desired: Commercial Strip that would include a grocery store as the anchor with 5 – 6 smaller, adjacent stores

General Overview

The CDC for the Near North area in downtown Indianapolis was interested in removing inner-city blight and had also identified a need for a grocery store within its boundaries.

Chronology of Events

KEY DATES	EVENTS
1992	The City of Indianapolis completed a redevelopment planning process commissioned by Near North Development Corporation for the neighborhoods near Methodist Hospital. Eileen Laughlin was President of the Near North Development Corporation (NNDC), which was the CDC responsible for redeveloping these areas on the Near North side of Indianapolis. The neighborhoods in this catchment area strongly desired a new grocery store. A potential site was identified within the planning process.
1993 – 1996	The plan for acquiring the site was approved. Several properties had to be acquired to get enough land for the grocery store. The city provided some funding to acquire some of the properties. With the assistance of Local Initiatives Support Corporation, NNDC began researching various grocery chains that were locating in urban neighborhoods and went on several site visits. A grocery store surfaced that was interested in the property that had opened similar stores in Chicago and other urban cities. The remaining properties were purchased by NNDC within six months after the anchor tenant was identified and the project was approved.
1996 – 1997	A development team was put together to prepare the site for development. Old buildings were torn down and the general area was cleaned up. NNDC applied for and got a Predevelopment Recoverable Grant from LISC to cover predevelopment costs associated with the project. The city was very eager to have this project go through and they also provided demolition services to remove blighted structures on the site. Pressure was brought to bear by local grocery competitors who believed that they served this community sufficiently. This accentuated the need for community meetings and discussion. After lengthy negotiations, NNDC was encouraged by the neighborhood to move forward on the plan to attract a new retail center and additional grocery store.
1997	Financing had not yet been secured. There was a bond attorney on the NNDC board who was able to steer the organization towards the type of bonds need to get the deal financed at below market rates. Many banks were initially eager to work with the NNDC as the credit entity for the bonds.
1996 – 1998	A Near North Development Corporation Strategic Plan was prepared for the entire neighborhood. Negotiations continued with the grocer

	and bank that was chosen (based on rates and fee comparisons). Several smaller retailers were poised to sign on once the deal with the grocer was sealed. NNDC applied for additional funds from the Office of Community Services (part of the U.S. Department of Health & Human Services) to put more equity into the deal and to purchase additional property for a loading dock for the grocery. The grant was approved through a highly competitive national pool of applicants. A zoning change for all the property was also applied by NNDC and received.
1998	Right before closing the deal, the bank that the CDC was working with suddenly got nervous and would not close after the project moved through its various bank departments and approval committees. After more time intensive negotiations, the bonds that had been secured expired and this funding was lost. The grocer ended up locating in another CDC neighborhood and smaller tenants refused to sign without the grocer as an anchor. Unexpectedly to all partners involved at the time, the whole project fell through.
2001	With support from the FOCUS Initiative, NNDC and Mapleton Fall Creek Development Corporation commissioned a nontraditional market study to assess the demand and support for more retail services in these adjacent neighborhoods. The study revealed considerable support for more retail services, including a new grocery store.
Today	Through the FOCUS Initiative, the site was again selected for further exploration. Partners felt that it would be appropriate since NNDC still owned the property and was still interested and motivated to put a retail center there. An RFP was sent out to local developers and a significant response came back. Developers and brokers were interviewed with the assistance of the FOCUS Business Expansion Team. A contract was then negotiated with a local urban developer, Frank Swiss. Frank Swiss and NNDC are presently pursuing potential tenants through a brokerage agreement. In the meantime, the area hospital and the Children's Museum are contracting with NNDC to use the site for parking.

Barriers to Development:

- Current retail site selection practices do not typically accommodate urban settings
- Configuration of site is not always compatible with what the tenant wants – lacks sufficient parking for example
- One-way streets in urban areas pose difficulties for retailers seeking maximum traffic
- Income levels and negative perceptions of urban dwellers are frequently barriers for potential tenants and brokers rather than population density, spending habits, and high levels of purchasing power
- History of retail flight makes tenants/investors nervous
- Perception of crime is greater in urban areas

Key Learnings From This Project:

- Small staff CDC's typically have to draw heavily on board members and for-profit partnerships to acquire the economic development and commercial development expertise needed to complete a large commercial project
- Non-traditional funding sources are often required; Federal, state and city grants, bonds and other equity investments can be accessed and LISC technical assistance, national contacts and predevelopment funds can be extremely useful
- Ensure that the bank you are dealing with has been involved in some way in urban housing or commercial development
- Hire an expert in development and financing bonds or gain pro bono expertise through board affiliations and strong partnerships
- Dollars available from the federal government may bring useful resources but can also significantly increase administrative costs, amount of paperwork and have costly stipulations – do homework before applying for various funding streams
- Need to make sure you have a team of people committed to the site for the long run, commercial projects can take 3 – 5 years in challenged urban markets; Need access to relevant expertise
- Build relationships with brokers that specialize in the urban markets
- Need to present credible information to attract tenants to urban areas. Many groups contract out for market studies to be conducted. In so doing, seek research firms that focus on urban markets.
- Work with the City to explore incentives to attract new businesses: free rent, tax incentives, etc.
- Just because a project is difficult, doesn't mean it's not worth doing.
- It's good to solicit the support of the area businesses when trying to develop new tenants.

Case Study #3: Joint Ventures

Name of CDC: Mapleton-Fall Creek Development Corporation

Project Spokesperson: Jeff Marble, Executive Director

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mfcdc@iquest.net

Date of Interview: April 10, 2003

General Boundaries of CDC: 38th Street serves as the northern boundary, Meridian Street serves as the western boundary, and Fall Creek Parkway serves both as the eastern and southern boundaries for the neighborhood and CDC.

Location within CDC: Southern edge of neighborhood at the corner of Fall Creek Parkway and Central Avenue

Name of Project: Mapleton-Fall Creek Development

General Overview

The CDC for the Mapleton-Fall Creek area in Indianapolis was given the mission of finding land within its boundaries which could be developed for commercial use. The following is the chronology for the property that MFCDC pursued as a result of the FOCUS partnership.

Chronology of Events

KEY DATES	EVENTS
Spring, 1995	Mapleton-Fall Creek Development Corporation (MFCDC) formed a neighborhood planning committee to look over the area and determine the best locations for housing and commercial development within the neighborhood. The committee used the following criteria: available land, traffic counts and marketability.
Spring, 1996	The committee completed its study and recommended that one of the most viable sites for possible commercial development was the northeast corner of Central Avenue and Fall Creek Parkway. This property which sits on the southern edge of the neighborhood boundary, was the most traveled inbound artery, particularly in the morning, stood vacant and had contiguous land to support a commercial project.
Spring, 1996 – 1999	Activity on the project did not begin immediately. MFCDC was developing other properties and focusing on increasing and strengthening their housing program.
Spring, 1999	Jeff Marble was hired as the new CDC director and found the planning paperwork. He started looking into it and gathering information. Jeff went to the board members who gave him the go-ahead to put an option on the property previously cited in the 1996 study. This property was 1.3 acres of vacant land zoned C1 (commercial use) and D8 (residential). The property was split in half by a vacated alley.
Summer, 1999	Jeff Marble began negotiating with the property owner. The owner offered the property for $350,000. The MFCDC offered $100,000. Six months of negotiations followed.
January, 2000	The owner and the MFCDC finally settled on a price of $125,000 and an option was placed on the property.
February, 2000	MFCDC signed a contract with Skinner & Broadbent, a commercial realtor. Skinner & Broadbent was engaged to identify a potential retail user for this property. Their

	restrictions were no bars, liquor stores, gas stations or cash checking establishments.
November, 2000	No tenant was secured, Skinner & Broadbent's contract was cancelled, and the initial option on the property was about to expire. MFCDC renewed it for one year. The board agreed to extend the option for the right price. MFCDC negotiated that they would pay the property taxes and cut the grass as needed and did not have to put any additional funds down to extend the option.
Fall, 2000	During a Phase I environmental assessment, MFCDC discovered that there were three underground gasoline tanks on the property that would need to be addressed (one of the stipulations in their option agreement was that they were entitled to conduct environmental assessments). A Phase II environmental assessment was then completed which included soil borings and ground water testing. Both of these elements tested clean, but the tanks still needed to be removed.
November, 2000	MFCDC was awarded $82,000 in a CDBG grant funds. Part of this grant ($44,000) was used to hire an Environmental Engineering firm to remove the three tanks. Sludge was found in one of the three tanks which had to be pumped out and removed separately. The cost for this was an additional $6,000. During the course of this procedure, evidence of two more underground tanks was discovered.
December, 2000	MFCDC applied for and received a Recoverable Grant from Local Initiatives Support Corporation for $28,500.00. About half of this money was used to hire an engineering/architectural firm to create designs showing different ways a building might be configured on the property. The firm had to take into account the amount of space available, the number of parking spaces needed, etc. They created four separate designs. These designs were then used as marketing tools to try to interest companies in the site. This recoverable was loaned at 0% interest and will be paid back when a tenant is secured.
Spring, 2001	Through a board member's connection, Jeff Marble was approached with a private investor about the property. This investor lived in the area and wanted to develop a retail site there.
Spring, 2001	At the same time, Jeff extended the grants from both the City and LISC into the spring of 2002. Generally, this type of money is only available for one year after it is awarded; MFCDC had to file forms to get the grants extended.
Spring, 2001	Also at this time, Jeff learned that the property was partially in a flood plain. This was very unfortunate news.

	According to FEMA regulations, no federal money can be put into property that is on a flood plain. At this point, about $50,000 in federal money had already been used on the property and the MFCDC was faced with the possibility of having to pay back these funds.
Spring/Summer, 2001	The tanks that had been removed were determined not to be in a flood plain. The remaining tanks were not only in the flood plain, but also sit in the City's right of way posing an additional hurdle. Another option that could have been explored was the hiring a firm to perform a new study to try and move the flood plain line. This would have cost approximately $4500. In hindsight, MFCDC thought this was something they should have done.
Fall, 2001	The board decided to pursue extending the option on the property through 2002. This time, they negotiated a third year "free look" which did not involve any money down or any property taxes or grass cutting. Throughout 2001 and the first half of 2002, negotiations between MFCDC and the private investor continued sporadically. The negotiations finally became serious in the fall of 2002.
December, 2002	The property was finally purchased through a partnership between the private investor and a newly created For Profit Limited Liability Corporation (LLC) owned by MFCDC. The Corporation owns 10% of the land and the private investor owns the remaining 90%. The purchase price was $135,000, with $10,000 going to MFCDC and$125,000 going to the sellers. (See Joint Venture Document in the Resource Guide for further information on these types of partnerships).
December, 2002	An ad hoc group was formed whose goal was to search for an end-user of the property. The new owners were awarded FOCUS grant funds to conduct traffic count studies for the area, which were ultimately provided by the City of Indianapolis.
Spring, 2003	There is currently a national retailer interested in the site. This retailer has requested the following information before making a decision: the results of the traffic count study; how large of a sign can be erected and still be within city regulations and a count Sunday morning attendance of a nearby church. All of this information was obtained and passed on to the retailer.

Barriers that Can Occur in This Type of Endeavor:	**Suggested Ways to Overcome These Barriers:**
The CDC knew the right contacts in local government to access critical information and help accomplish certain tasks. Not	An ombudsman within City government or at LISC is needed to assist CDC's with navigating public policy and public

every neighborhood has this advantage.	regulations.
There is a high cost for environmental investigation and repair for any commercial development. Need to know what the environmental factors are.	Apply for grants from various sources. In this particular project, funds were used from: • Block grant money (CDBG money) • LISC recoverable grant • Other grants • City of Indianapolis brownfield funds
There has to be an organization and the leadership to work on a project like this. There needs to be a leader, a board of directors and support staff who are willing to stick with the project.	• Determine if your CDC has the right organizational leadership and commitment to pursue commercial development. • Insist that developers/brokers disclose costs up front.
Need to determine if it is even feasible to acquire property in an urban area that is conducive to commercial development. In most cases, the answer to this may be "no."	Conduct feasibility studies whenever possible before making an acquisition.
Money is needed to be able to negotiate an option. Not all CDC's can afford to do this.	Acquisition funds need to be put together so CDC's are in the position to acquire strategic property.
Need to figure out a way to find an appropriate end-user for a site.	A collaborative effort needs to be made to work with the local brokerage community to help national retail chains navigate urban developments. Cities need to develop a better way to get out information on what property is available and to give better ideas on how to use the property.

Key Learnings From This Project:

- There are not many resources available for commercial redevelopment (as compared with affordable housing).
- There are few to no commercial real estate brokers highly motivated by urban development.

- The economics of commercial redevelopment are such that it would be difficult to find a project that would succeed without a public/private partnership of some kind
- Often-times adjacent property near the developing property will have problems that need to be dealt with (i.e., crime, drug houses, etc.).
- Funding for land acquisition and improvement is needed. Private investors want a clean piece of property to purchase and build on.
- It is a challenge to try to connect with credit worthy end-users. Most likely, end-users that surface are local businesses that have money to invest but not enough to really make something out of the property.
- There's a need to create access to regional and national chains and to determine what their site criteria is.