

# Strategic Acquisitions Financing for Redeveloping Communities in Indianapolis



**FOCUS** – An innovative partnership between LISC, the Greater Indianapolis Chamber of Commerce, the Indianapolis Coalition for Neighborhood Development and the City of Indianapolis, the FOCUS initiative is a city-wide collaboration that was created to jump-start commercial development in Indianapolis’ urban neighborhoods through planning, advocacy, and delivery of economic development projects.

Through this partnership, the FOCUS initiative, an acronym for Fostering Commercial Urban Strategies, is creating vibrant neighborhood business districts and establishing long-lasting relationships that connect neighborhoods with businesses and new resources to revitalize urban markets.

To stimulate economic development activity and create positive change in urban neighborhoods, the FOCUS initiative provides:

- Financial and technical assistance to neighborhood-based organizations to support their community and economic development efforts
- Alternative sources of funding to small business owners located in core urban areas
- Resources to equip community developers and small business owners with the tools needed to revitalize vacant or underutilized properties



## Strategic Acquisitions Fund

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Community partners have gathered through the FOCUS initiative to create new tools to jumpstart economic revitalization in Indianapolis' neighborhoods. Developing commercial real estate in urban areas involves risk and often, speculation. Responsibly minimizing that risk involves a substantial amount of expertise and preliminary work and each project brings its own complexity and unique requirements.

Access to flexible acquisition financing is among the needs most often cited by CDCs and other nonprofit developers to help them gain control of strategically located sites that are currently negatively impacting their revitalization efforts. Many important development sites have been lost due to the inability to secure timely and appropriate acquisition financing. The end result has been that the property has either remained blighted (due to a speculative investor holding the property in hopes of realizing a gain in the distant future) or a developer pursued a project inconsistent with the City or neighborhood community building plans. Recent experience has shown that if center city neighborhoods are to be able to maximize commercial development opportunities, they require early stage acquisition and predevelopment financing.

In order to effectively increase the scale and scope of the CDCs' current level of commercial development, Indianapolis needs to address existing and emerging gaps in project financing through increased capital and expansion of specialized loan products.

Providing loan financing to acquire sites for future development requires patient capital, as it frequently takes several years to put a project together. It also involves higher risk, as the ultimate "take-out" or permanent financing source is often unknown. Given these risk factors, local lenders, despite an interest in community development lending, generally do not offer acquisition financing of this nature, regardless of the balance sheet of the CDC or organization.

The FOCUS initiative has identified the need for acquisition financing as a key strategy for supporting commercial real estate development, particularly since few funding sources are available for speculative strategic acquisitions. Acquisition financing will also help proactively implement the real estate development projects proposed in the completed corridor plans. To meet these needs the Strategic Acquisitions Fund was created.

The Strategic Acquisitions Fund (SAF) is capitalized by four institutions, including LISC. The other three institutions, Citizens Gas, Clarian Health, and the Annie E. Casey Foundation, are providing loans to LISC to capitalize the SAF. Funds from the SAF will then be loaned to community based organizations to speculatively acquire strategically located properties. These sites will be located on the seven FOCUS corridors that created master plans for the corridors' development or in other areas adjacent to neighborhood or City-led redevelopment strategies. .

LISC will offer recoverable grants to CDCs for predevelopment costs for the targeted sites. In addition, the FOCUS program has a wide range of tools available, including marketing to potential tenants through the IndySiteFinder website, a technical assistance grant fund, a brownfield grant program, façade improvement grants, and financial support for corridor staff who will attract reinvestment to these areas. LISC staff will assist borrowers with packaging these resources and maximizing their ability to effectively develop sites acquired through the SAF.

## **Terms and Conditions for Acquisition Financing**

The following terms will apply to Strategic Acquisitions Fund loans:

Interest Rate: 6.0%

Origination Fee: 0.5% - 1%

Maximum Term: 3 years

Maximum Loan to Value: 99%

Security/Collateral: The full value of the loans will be collateralized with a security interest in the subject property. The loans will be full recourse to the borrower.

Repayment Schedule: Monthly or quarterly interest only payments with the outstanding principal due at the close of construction financing or the maturity date, whichever occurs first.

## **Key Underwriting Considerations**

Loans from the Strategic Acquisitions Fund will be limited to projects which meet the following criteria:

**Eligible Borrowers:** Community development corporations, nonprofit organizations, or other development entities for which a CDC or nonprofit shall serve as a sponsor.

**Proposed Use:** The funds are for short-term acquisition of strategic sites for the purpose of developing community facilities, commercial, or mixed-use real estate projects. Eligible uses can be vacant land or buildings.

**Project Location:** Proposed sites must have strategic significance to the borrower and the neighborhood. The proposed site and project must be located on a FOCUS corridor and comply with the corridor plan **or** in an area targeted by the borrower or other neighborhood group for redevelopment **or** in an area with significant other previous or planned investments by the borrower or the City. If the proposed project is located on a FOCUS corridor, the borrower must demonstrate the project is part of a proactive strategy to fulfill the recommendations of the corridor plan.

**Development Team:** The team undertaking the proposed project must include partners who have demonstrated capacity and experience completing projects of at least similar scale and complexity. The financial strength of the borrower will also be an important consideration.

**Preliminary Feasibility:** The borrower will be required to present a project concept and development timeline that is based upon reasonable assumptions relative to the market. A financing plan for the proposed project including realistic projections of development costs and sources of financing will also be required.

**Required Pre-approval Documentation:**

1. Completed LISC application, including development and financing plan and market analysis
2. An appraisal may be required, depending on the site
3. A Phase I environmental assessment may be required

4. Evidence the proposed project complies with zoning or other regulatory/land use requirements

Project Review Process: LISC will follow its standard review and approval processes, for processing SAF loans, including presentation to the LISC Project Review Committee (PRC) as well as the national LISC credit committee (when required).

Quarterly Reporting: The borrower will be required to provide LISC with quarterly narrative progress reports.

Steps to Approval:

1. Borrower submits proposal and related materials to LISC
2. LISC committees review request
3. Committee evaluates proposal and makes decision on whether to approve the loan or suggest changes
4. If approved, loan is made and monitored on a quarterly basis by LISC
5. LISC submits reports to Fund partners updating them on the progress of loans and projects.