



MID-NORTH INDIANAPOLIS COMMERCIAL NODE STUDY

DECEMBER 2012



Six Neighborhoods. One Plan.

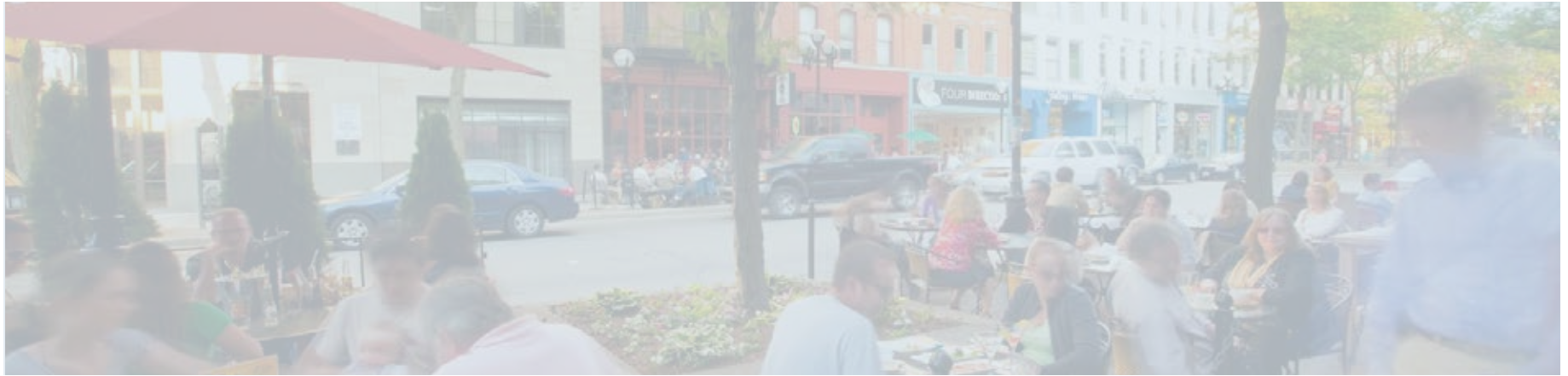


Mapleton-Fall Creek
Development Corporation



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About the Mid-North Area

Mid-North Indianapolis comprises three square miles and six neighborhoods north of Downtown Indianapolis. These neighborhoods consist of Crown Hill, Highland Vicinity, Historic Meridian Park, Mapleton-Fall Creek, Meridian Highland, and Watson-McCord. This collection of neighborhoods includes, or is adjacent to, some of the city's most recognizable landmarks, including Fall Creek, Crown Hill Cemetery, the Indianapolis Children's Museum, the Indiana State Fairgrounds, the Monon Trail, the Indianapolis Museum of Art and the central campus of Ivy Tech Community College.

Unified under the "six neighborhoods, one plan" vision, the Mid-North community has conducted a unified series of planning, community and economic development efforts in order to seek revitalization, new investment, and a sustainable future for some of Indianapolis' most historic neighborhoods. This study is one of many that have sought to highlight redevelopment opportunities that can be brought to the Mid-North area.

About this Commercial Node Study

In 2012, the Mid-North community completed its Quality of Life Plan, which helped identify a Work Plan for neighborhood improvement. The Work Plan spans a wide range of topical areas including aesthetics, business development, crime and safety, housing, youth engagement, senior advocacy, and education. Two recommendations from the Quality of Life Plan pertaining to this study include the following:

"Identify target commercial centers by completing an identification exercise that inventories all existing retail/commercial centers in the Mid-North area."

"Prioritize commercial centers for focused development activities that have the greatest ability to: increase population density, including mixed-use opportunities; capitalize on student, employee, visitor populations; encourage transformation of infrastructure and street patterns from those that prioritize commuter traffic to those that promote neighborhood connectivity and walkability, and; utilize multi-modal transportation options."

This study seeks to accomplish these Action Steps through a market-based process that identifies and prioritizes areas within the Mid-North that can become commercial "nodes" that attract clusters of businesses, offer goods and services that cannot be found within the neighborhood, and serve as catalysts to attract residents to the neighborhood and spur ongoing housing and business investment. The study examines the 12 potential nodes identified during the Quality of Life planning process, prioritizes areas for investment based on market and real estate principles and community input, and includes strategies on how local partners can leverage public and private investment within these targeted areas to generate positive commercial development.

This study was completed between September and December of 2012 with the guidance of a series of stakeholder meetings and three public meetings.

1 INTRODUCTION

1.1 WHAT IS A COMMERCIAL NODE?

A Node, by definition, is a “protuberant growth, natural bulge; swelling of a structure or part, or a centering point of component parts.” Overall, it describes a convergence of points that results in an accentuation or “bulge” of activity.

The concept of an “urban” node was popularized by MIT professor and author Kevin A. Lynch. Lynch wrote many books related to urban planning and design, and in the *Image of the City*, he asked readers to seek an understanding of the complex nature of cities and neighborhoods through identifying unifying elements, including gateways, landmarks, paths, edges and nodes, which he described as:

“..... points within the city, strategically located, into which the individual enters and which is often the main focal point to which she or he is traveling to or from. There are often junctions - a crossing or converging of paths. They often have a physical element such as a popular hangout for the individual or a plaza area.”

In essence, urban nodes are areas where numerous people converge for various reasons, and commercial nodes are areas that focus on commerce or business, which could include office users, shopping destinations, or both. Easily visualized commercial nodes include downtowns and shopping malls.



Top - the intersection of 30th Street and Central Avenue in the 1950s. Bottom - the same intersection in 2012.

WHY COMMERCIAL NODES?

As more and more attention and investment is made in revitalizing urban areas, the term “commercial node” has been popularized as a term referring to concentrations of retail, dining and services that are available at a neighborhood level, meaning easily walkable from surrounding residential areas. Having shops and restaurants easily accessible within urban neighborhoods is, of course, how most cities functioned for years. However, as many American cities experienced a decrease in the number of urban residents over the past several decades, so has it seen a decline - and virtual disappearance - of clusters of neighborhood serving businesses except only within our largest and most densely populated cities. As the retail industry has become increasingly more dependant on automobile oriented locations, it has become extremely difficult to re-engineer urban neighborhoods to accommodate new ways to do business. Meanwhile, retail has come to prefer locations in easily developed and accessible locations on the periphery, close to areas with higher levels of income than most central city neighborhoods. Newer cities that have grown in the past 30 years have evolved without any semblance of urban nodes whatsoever.

And yet, the (re)development of urban commercial nodes is a key feature in attracting residents back into urban neighborhoods. Faced with numerous obstacles, including a negative perception of quality school options and an aged housing stock, key amenities are needed to attract residents back to the city, and the proximity of shops, restaurants, services and entertainment destinations has emerged as one of the most important revitalization tools.



Urban Commercial Nodes are ideally not just places where businesses cluster, but which also foster activity, social interaction, and opportunities for the so-called “Third Space” beyond home and work.

WORKING DEFINITION OF COMMERCIAL NODES

In order to determine the objectives of this commercial node study, it is important to define what a Commercial Node means in the context of the Mid-North. Accordingly, this study uses the following definition of a commercial node:

A successful neighborhood commercial node:

- has a cluster / concentration of commercial activities, from shopping and dining to services and employees;
- has a mixture of destinations and locally serving businesses;
- has good multi-modal transportation accessibility, including the ability to integrate walking, biking, transit, and the automobile;
- is used often by nearby residents; and
- fosters social interaction.

1.2 TYPES OF NEIGHBORHOOD COMMERCIAL NODES

There are many different types and sizes of urban commercial nodes, and it is important to be able to establish expectations as to the potential of an identified area in terms of not only whether it could become a commercial node, as defined previously, but also to what extent the market potential of that node can cluster different types of businesses.

CORNER SHOP CLUSTERS

The smallest and most basic type of urban commercial node consists of a small number of commercial properties clustered around an intersection. Intersections are ideal locations for commercial activity since, by definition, they are central points of activity. “Corner” locations allow for the highest amount of visibility from major transportation routes, and thus are ideal for a wide range of commercial activities - particularly retail. These nodes would typically have no more than a half dozen businesses, with either a very local focus (serving only residents around the intersection) or accommodating a destination retailer or restaurant. A good example of this node in Indianapolis is the intersection of Kessler Boulevard and College Avenue (see below).



Kessler Boulevard & College Avenue

SMALL URBAN CLUSTERS

Small urban retail clusters are the core typology for neighborhood serving retail. Large cities like Chicago, Seattle and Boston have dozens of these commercial nodes spread throughout their core urban areas, while smaller and newer, more automobile oriented cities will tend to have fewer. Small urban clusters will have a concentration of a dozen or more businesses, with a combination of dining and retail, destination and locally serving. These can have an anchor business, such as a grocery store, pharmacy or other daily goods retailer, but they can also be clusters of dining / drinking establishments that serve large institutions, such as universities and hospitals.

Good examples of this typology in Indianapolis include 49th & Pennsylvania Street, 56th & Illinois Street (see below) and 52nd & College Avenue (see below).



56th and Illinois Street



52nd & College Avenue

NEIGHBORHOOD COMMERCIAL CENTERS

Larger scale commercial districts with 20-60+ businesses anchored by at least one major destination retailer (grocery, pharmacy) and usually two. They will have high concentrations of dining and drinking establishments, with businesses distributed along a corridor anchored by at least one major built-up intersection. They offer goods and services to nearby residents, but also draw significant numbers of customers from outside of the district.

Indianapolis has three areas that can be considered neighborhood commercial centers - Broad Ripple Village, Fountain Square, and Massachusetts Avenue. Good Midwestern examples include Brady Street in Milwaukee (see below) and Hyde Park and McMillan Street in Cincinnati (see below).



Brady Street, Milwaukee, WI



Hyde Park & McMillan Street, Cincinnati, OH

URBAN COMMERCIAL CENTERS

Large, high density districts with hundreds of businesses spanning all categories of dining, retail and services. These are sometimes oriented around public transit and are major destinations for visitors from within the region as well as tourists from outside the region. Urban Commercial Centers are anchored by at least 3-4 large retailers.

Not all cities have urban commercial centers. These often function and feel like downtowns in and of themselves. Indianapolis does not yet have one of these nodes, but good examples include Lincoln Park or Bucktown/Wicker Park in Chicago (see below) or South Street in Philadelphia (see below).



Bucktown/Wicker Park, Chicago, IL



South Street, Philadelphia, PA

PROJECT BASED COMMERCIAL NODES

Newly built projects (as opposed to the use of historic structures) that create an entirely new district by capturing untapped local or regional markets and support businesses through a high concentration of office workers, residents and/or hotel guests. Project Based Nodes are often found in university communities - tenant mix is usually dominated by national / regional chains and franchises, with smaller projects integrated throughout.

Indianapolis has a few examples of a project based commercial nodes, including the new CityWay and Alexander projects near Downtown. Other Indiana examples include Eddy Commons in South Bend (see below), and Wabash Landing in West Lafayette (see below), both of which are in university communities.



Eddy Commons, South Bend, IN



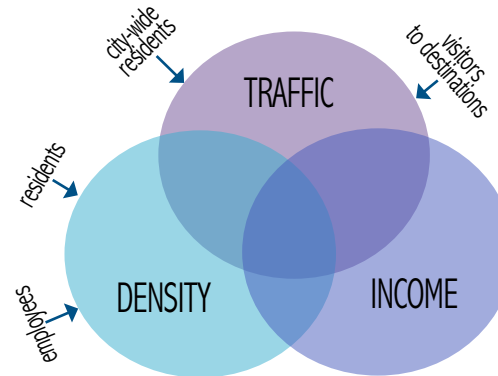
Wabash Landing, West Lafayette, IN

2 MARKET DYNAMICS

2.1 MARKET DYNAMICS OF URBAN COMMERCIAL NODES

As the saying goes, the key to a successful retail business is “location, location, location”. There are certain market drivers behind this assertion - retail developers and business owners typically look for a combination of several factors when choosing a certain location: (1) *traffic counts* - the number of people who drive or walk by a site every day; (2) *income* - the demographics of nearby households and their particular spending patterns; and (3) *rooftops* - the number of people within close proximity of the retail development. The larger the scale of the development, the larger the indicators need to be. For many years, shopping mall developers often used the “50/50/50” rule to determine location - 50,000 cars per day, \$50,000 in median household income, and 50,000 people within a certain range, typically 10 miles.

The market dynamics that support urban commercial nodes follow a similar framework, with slightly adjusted indicators. Like the indicators used to guide retail development discussed above, it is vital to understand the specific indicators and the relationship between each indicator to understand whether a particular location has the market forces that support nodal development. It is important to understand that while the factors discussed in this section relate to retail in general, the following overview focuses on the market dynamics necessary to generate sustained *concentrations* of commercial activity,



*The market dynamics of urban commercial nodes rely upon some combination of three key factors: **Traffic**, typically automobile traffic but also pedestrian, population **Density**, and **Income**. A successful commercial node must be strong in at least one factor, while the most successful nodes are strong in all three.*

not just a single business such as a restaurant or specialty shop, which could be sustainable for reasons other than these market factors.

The three most important indicators for understanding the success of urban commercial area are as follows:

- **Income** - the income of consumers dictates not only the scale of retail development but also the type - with

discount stores and fast food establishments dominating low income neighborhoods and high end restaurants and boutiques existing within affluent neighborhoods. Urban commercial nodes can and do exist in low and mixed-income neighborhoods, but the sustainability of businesses in these areas is greatly enhanced by the number of higher income households that either exist within the neighborhood or can be brought into the neighborhood. In Indianapolis, 56th and Illinois is a good example of a commercial node that is successful due to concentrations of high income households, while Fountain Square is a good example of a successful node due to its ability to draw a customer base from outside the local market area. Despite the inequalities it represents, income is by far the best indicator of whether an urban commercial node can be successful.

- **Density** - the density of people who live near an existing/potential node is the next key indicator for commercial success. Many urban commercial nodes rely heavily on the spending of the local market - people living in close proximity to shops and services. Simply put, the more people living near an area - preferably within walking distance - the better it serves as a commercial center. Density is one of the key tipping points in nodal development - low density areas like rural or suburban locations are significantly less likely to support small scale pedestrian oriented commercial areas than high density urban neighborhoods like those that can be found in New York City, San Francisco or Chicago, where urban storefronts abound on virtually every block in certain

neighborhoods. It also helps explain why these cities have numerous areas that can be considered urban commercial nodes, while smaller cities like Oklahoma City, Columbus or Nashville have far fewer. Density can also be thought of as relating to two markets - residents and employees. The concentration of employees in a given area like downtowns and urban medical centers often drive commercial centers, though if an area is too reliant upon employment density, the corresponding retail tends to focus on activity during the weekday, as opposed to weekday evenings and the weekend, which are the primary shopping times for residents.

Density can also be used to counterbalance low or moderate income areas. Low household incomes (and thus low disposable incomes) can greatly hinder the presence of retail, but the more people who live within proximity of a nodal location, the higher chance for retail to be successful because the total potential spending power of that area increases exponentially despite low median or per capita income indicators.

- **Traffic** - Though a less precise measurement of retail potential, traffic counts are nevertheless crucial to the mix as they measure how visible and accessible a commercial area is to passing traffic. The logic used is that people are much more likely to shop or dine in areas or at specific businesses they pass by on a regular basis. It is difficult to say that relying upon traffic counts to select a commercial location - particularly retail - ever worked against a business. For urban commercial nodes, "traffic" can mean both automobile or pedestrian traffic, though unless one is in a Downtown environment or in a major city, pedestrian counts mean relatively little. The auto-dominance of the United States means that daily automobile counts are still the best indicator for traffic, even if one intends to build a pedestrian oriented

commercial center as opposed to a strip center or shopping mall.

Understanding the numbers behind these indicators, as well as how they form a relationship with each other, is important. The most successful nodes are able to have positive numbers for all three categories, but many rely upon only one or two to be successful. The important factor to understand is that if one or two of these indicators is weak for a particular location, that location must make up for it in scale within the third category. For example, a commercial node could exist that has weak traffic counts and low density, but it typically relies upon very high income in close proximity. Alternatively, a successful node may have a low traffic count and income, but very high density.

A more detailed discussion of these indicators and how the potential nodal areas within the Mid-North compare to successful nodal centers is discussed in more detail below.

2.2 NODE COMPARISONS

In order to demonstrate the potential for commercial node development within the Mid-North, a comparison between the potential nodes defined by the Quality of Life plan and other local and regional successful nodes is necessary.

MIDWESTERN NODES

A 2009 study done by Development Concepts, Inc. explored the characteristics of urban commercial centers (aka "nodes") throughout the country. In order to be considered, each center or node had to have at least 100 retail businesses, surpass more than \$100 million in annual sales, and have a walk score above 80. For comparison, several nodes that

were located in the upper Midwest were chosen. These areas are not necessarily comparable to the scale of the nodes that could and should be fostered within Mid-North, but they do offer an insight to certain market indicators that have created these selected nodes - all of which would be considered to be successful urban commercial nodes based only on visual inspection:

- Bucktown/Wicker Park - Chicago, Illinois
- Uptown - Minneapolis, Minnesota
- Delmar Loop (The Loop) - St. Louis County, Missouri
- Brady Street - Milwaukee, Wisconsin
- Grand Avenue - St. Paul, Minnesota
- Hyde Park - Cincinnati, Ohio
- Bardstown Road, - Louisville, Kentucky

INDIANAPOLIS NODES

The next logical level of comparison for potential nodes in Mid-North would be existing nodes in the City of Indianapolis. Based on both previous demographic and anecdotal evidence, the following locations were chosen:

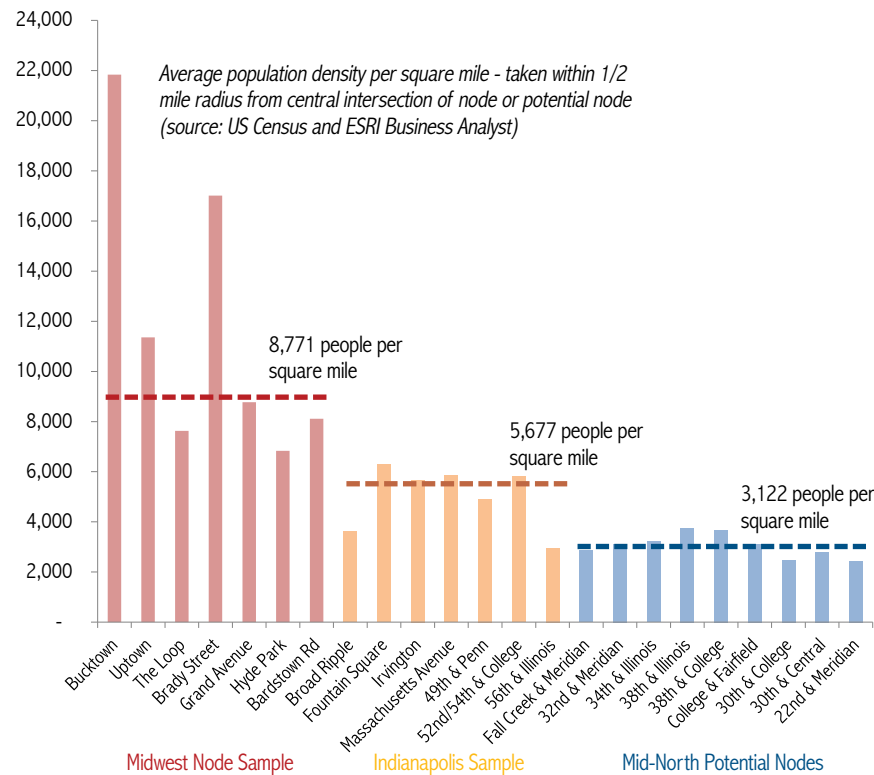
- Broad Ripple
- Fountain Square
- Massachusetts Avenue
- Irvington
- 49th & Pennsylvania
- 56th & Illinois
- 52nd/54th & College.

(continued on page 12)

REVIEW OF MARKET BASED INDICATORS FOR MID-NORTH INDIANAPOLIS

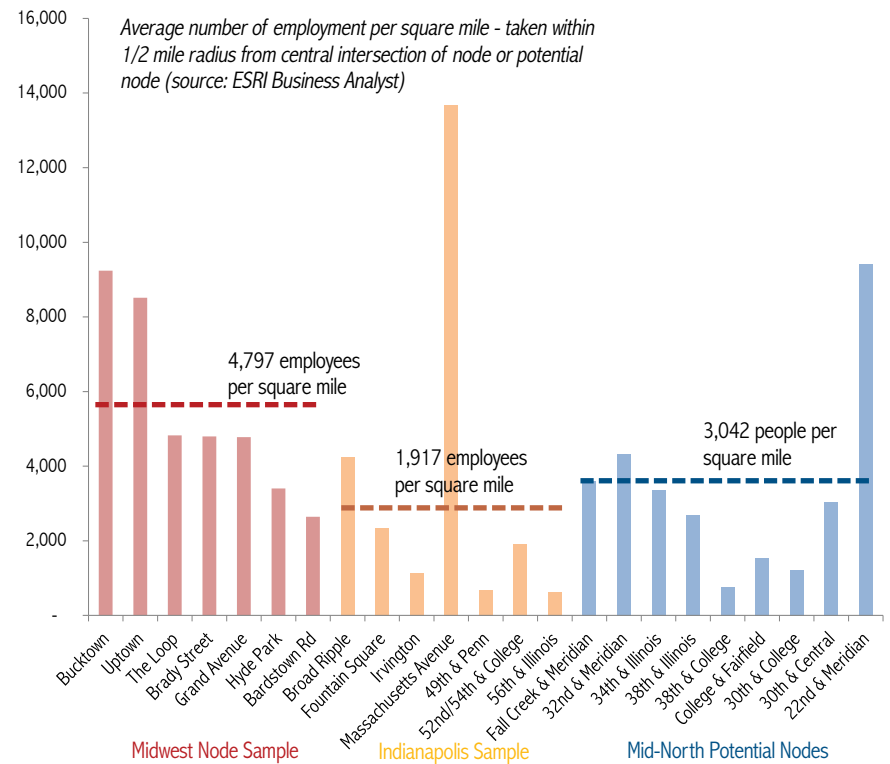
POPULATION DENSITY

A rule of thumb when targeting a certain amount of density for retail development is that a commercial area would need a density level of at least 10,000 people per square mile to support a small to medium sized commercial center without relying upon an outside market. Most urban neighborhoods, except those in the largest cities, would fall under this threshold. The Midwestern node sample averages about 8,700 people per square mile (within a 1/2 mile of a central intersection). Indianapolis fails to have even one neighborhood meet this threshold. Indeed, one of the difficulties with Indianapolis is that it is one of the least densely populated major cities in the country, resulting in a very small number of successful urban commercial nodes. The 9 Mid-North nodes chosen for comparison average only 3,122 people per square mile within walking distance - significantly lower even than the Indianapolis node samples, which average 5,677 per square mile. Population density, therefore, is not a particular advantage for Mid-North to draw upon.



EMPLOYMENT DENSITY

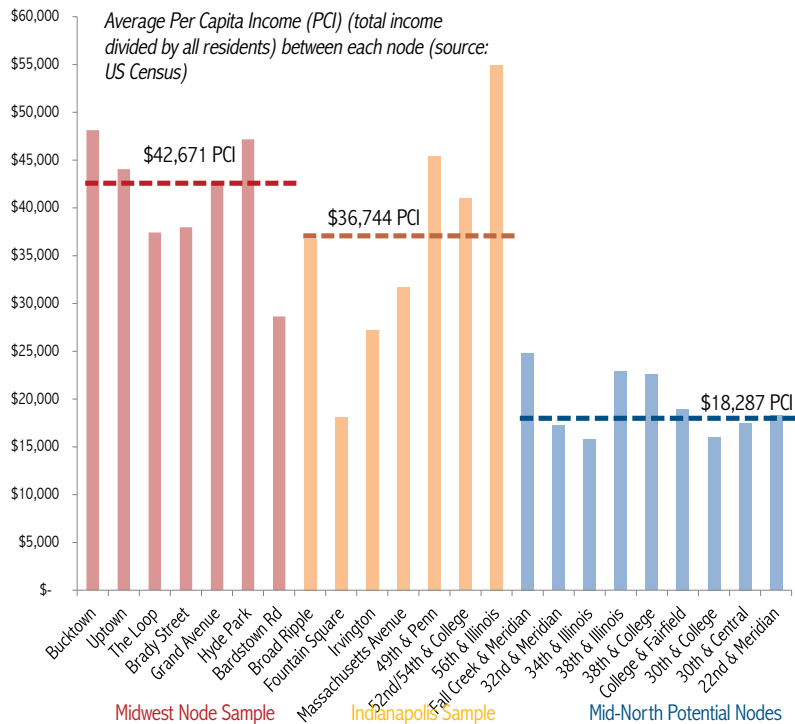
The employee market can be an impactful complimentary market to support commercial nodes, though it should not be relied upon as a primary market, as employees consume food, retail and services at different times than do residents. Research shows that the Midwest sample, in addition to high resident population density, also features relatively high employment density. Opposite of the residential density comparison, Mid-North has a much higher average employment density overall than the Indianapolis sample. In reality, only a few potential Mid-North nodes - 22nd & Meridian, the Former Winona Hospital (32nd & Meridian) and Fall Creek & Meridian - can take advantage of concentrated employment, but this is nevertheless a market strength that can be leveraged for commercial growth.



REVIEW OF MARKET BASED INDICATORS FOR MID-NORTH INDIANAPOLIS

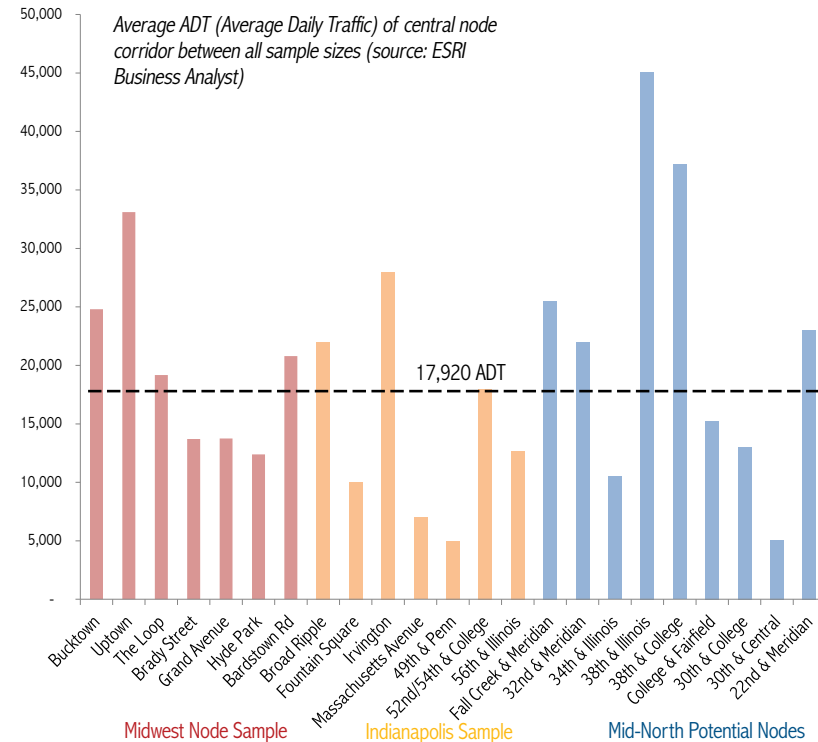
INCOME

The chart below illustrates the importance of income in how urban commercial nodes are formed and sustained. The Midwest Sample nodes average \$42,000 in per capita income (PCI)- a notably high level of income (the US PCI for the same period - 2010 - was \$38,637), particularly for an urban area. The Indianapolis sample is not far behind, and demonstrates why low density, low trafficked areas like 49th & Pennsylvania and 56th & Illinois can support small commercial nodes (each had a PCI of over \$50,000). The Mid-North, by contrast, averages only \$18,287, about half that of the City of Indianapolis, though typical of a revitalizing urban area.



TRAFFIC COUNT

Target traffic counts vary by location and business, but generally the thresholds used to support commercial activity of scale is a target of at around 18,000 -23,000 average daily traffic (ADT), with higher levels able to support larger amounts of retail and lower levels needing other characteristics such as density or income to provide balance. Of all the node samples illustrated in this section, the average ADT is just under 18,000. Five Mid-North nodes have traffic counts higher than this average, indicating that traffic count on these corridors can be a driver for commercial development. These nodes are located on 38th Street, Meridian Street, and College Avenue. There is, however, a point from which a node can receive diminishing returns relative to traffic count. While automobile traffic is used to gauge the outside market, too much traffic can be detrimental in nurturing pedestrian environments by appealing only to auto-oriented businesses and shopping malls. There are no set rules, but traffic counts above 30,000-35,000 ADT merit examination as to whether the traffic in question can successfully integrate pedestrian movement.

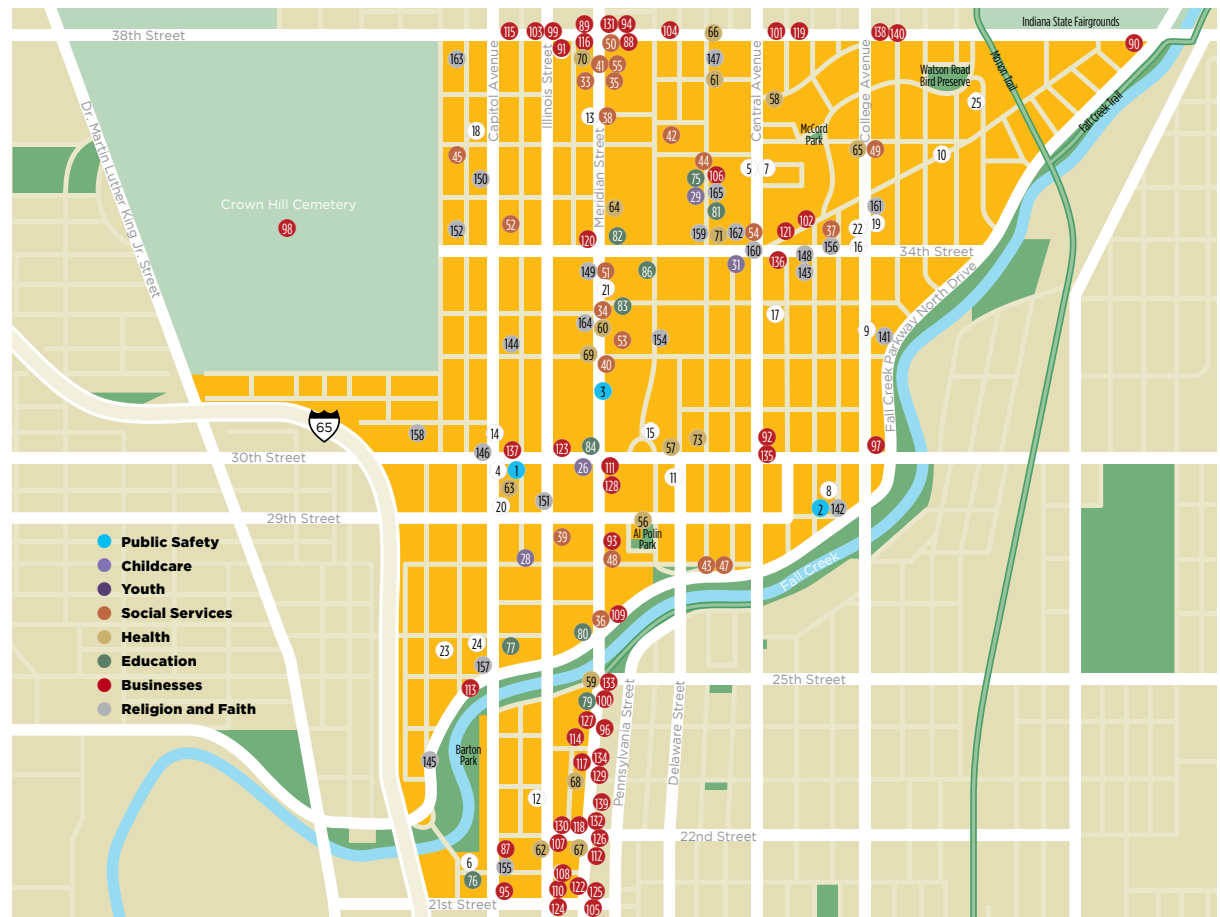


The results of the analysis on pages 10-11 show that Mid-North's weaknesses lie in income and population density, and its strengths are found in corridors with strong traffic counts, and - in certain locations - higher densities of employees. One only has to look at existing business clusters to see the role that corridors and traffic counts play on commercial activity in Mid-North. As is illustrated, virtually all of the existing businesses are located on corridors. The largest concentrations on 38th and Meridian Streets, with other businesses on College, 30th and Illinois Streets (south of Fall Creek) and virtually no businesses located internal to any high or moderately traveled arterial.

2.3 OTHER MARKETS

There are other markets that can be drawn upon to support urban commercial activity, though they often play a secondary role to the three core factors of density, income and traffic. The tourism / visitor market is one market in particular that Mid-North can draw upon. No less than four major and several minor visitor destinations are located within or adjacent to Mid-North, including the Children's Museum, Ivy Tech, the Indianapolis Museum of Art, and the State Fairgrounds. Individually, these are isolated destinations where visitors or students drive to and from without engaging the environment around them. While they offer limited opportunity to act as "base" markets to draw spending (as evidenced by the fact that none of these destinations have driven more than incidental commercial activity in the decades they have existed in Mid-North), the millions of outsiders brought to Mid-North on an annual basis nevertheless represents enormous potential. First and foremost, any commercial node that is meant to serve local residents must draw from the three core

FIGURE 2.1 MAP OF BUSINESSES IN MID-NORTH INDIANAPOLIS
(source: Mid-North Quality of Life Plan)



market factors, but once established, businesses should have a powerful complimentary market if appropriate marketing is used to the benefit of area businesses.

2.4 DEVELOPMENT ECONOMICS

Other than challenges relative to density and income in Mid-North, basic development economics also create a hurdle that makes it difficult to develop new commercial space. This hurdle, of course, exists in large part due to weak demographic indicators - as used by retailers to determine feasibility - and unsuitability for clustered commercial activity.

Development economics refers to the financial feasibility of a real estate development project. If the project cannot “cash flow” or “pencil”, in developer parlance, then it is unfinancable without some sort of assistance. The difference between the cost of a project and the income from that same project is the “gap”. This gap must be filled somehow or the project is not feasible. Using a basic pro forma model built off of local Mid-North market trends and some assumptions, it can be deduced that for the most part, real estate projects have an inherent “gap” that precludes requisite financial feasibility without a level of subsidy or other type of assistance to fill the gap.

For example, the analysis in Figure 2.2 to the right was used to determine the feasibility of a two-story commercial structure, using a “back of the envelope” analysis. The Pro Forma analysis estimates cost of construction, income and expenses for a 20,000 square foot building. Using both a value analysis (based on an estimated Cap Rate) and an income analysis (based on the amount of supportable debt) we can see that the market based revenue of \$14.00 a square foot generates a project gap between \$600,000 and \$770,000. Based on the analysis in Figure 2.4, a lease rate of at least \$17.30 would be needed to support this project - a rate at least \$5-

FIGURE 2.2 SAMPLE PRO FORMA FOR CONCEPTUAL TWO-STORY MIXED USE COMMERCIAL BUILDING IN MID-NORTH

| PRO FORMA | | |
|-----------------------------------|------------------|--------------------|
| Building GSF | 20,000 sf | |
| Building NSF | 18,000 sf | |
| Retail GLA | 9,000 gla | |
| Office GLA | 9,000 gla | |
| Parking | 80 spaces | 1 / 4 GLA |
| COSTS | | |
| Land | \$250,000 / acre | \$218,090 |
| Hard Construction | \$80 / sf | \$1,600,000 |
| Contingency | 7% | \$80,000 |
| Soft Costs | 7% | \$112,000 |
| Site Costs | \$2,500 / space | \$200,000 |
| Fee & Overhead | 15% | \$331,513 |
| | | <u>\$2,541,603</u> |
| INCOME | | |
| Retail | \$14 / sf* | \$126,000 |
| Office | \$14 / sf* | \$126,000 |
| Effective Gross | | <u>\$234,360</u> |
| EXPENSES | | |
| Retail | \$4.50 / sf | \$40,500 |
| Residential | \$4.50 / sf | \$40,500 |
| Total | | <u>\$81,000</u> |
| NET OPERATING INCOME (NOI) | | \$153,360 |
| Cap Rate | | 8% |
| *Gross Rate | | |



VALUE ANALYSIS

| | |
|----------------|--------------------|
| Building Cost | \$2,541,603 |
| Building Value | <u>\$1,917,000</u> |
| | \$(624,603) |

INCOME ANALYSIS

| | |
|--------------------|------------------|
| Supportable Debt | \$1,474,130 |
| Equity | <u>\$294,826</u> |
| Gap (minus equity) | \$(772,647) |

10 above current market rates. Figure 2.3 analyzes a mixed-use project, as the integration of residential units (or office) above commercial space can make the project work better. In this case, it does not, with gaps between \$4.4 million and \$4.6 million depending on the value or income based analysis used. As shown in Figure 2.4, this project would need approximately \$17.25 per square foot for commercial and \$1.55 per square foot for residential units in order to cash flow.

These numbers are approximations and would vary based on specific details of each project, particularly on variables like construction cost, land price, financing terms, etc. What these analyses do is to study the issue with enough detail to see if urban commercial development is financially feasible. Overall, it is safe to conclude the revenue one would expect to generate out of either of these projects does not cover its construction cost, thus making either of these project examples difficult to build in an area like Mid-North.

This is not a phenomenon applicable only to Mid-North. Indeed, much of Indianapolis' urban neighborhoods (and corresponding neighborhoods in other similarly sized cities) also face this problem, and is one of the reason that cities have seen liberal use of tools like the low income housing tax credit (LIHTC) and tax increment financing (TIF) to help fill the inherent gaps that exist when developing in low market areas.

FIGURE 2.3 SAMPLE PRO FORMA FOR CONCEPTUAL THREE-STORY RESIDENTIAL OVER RETAIL MIXED USE BUILDING IN MID-NORTH

| PRO FORMA | | |
|-----------------------------|------------------|----------------------|
| Site | 1.15 Acres | |
| Building GSF | 60,000 sf | |
| Building NSF | 51,750 sf | |
| Retail GLA | 7,500 sf | |
| Residential | 68 units | 750 sf / unit |
| Parking | 98 spaces | 1 / 4 GLA 1 / Unit |
| COSTS | | |
| Land | \$250,000 / acre | \$282,943 |
| Hard Construction | \$100 / sf | \$6,000,000 |
| Contingency | 7% | \$300,000 |
| Soft Costs | 7% | \$420,000 |
| Site Costs | \$2,500 / space | \$245,000 |
| Fee & Overhead | 15% | \$1,087,199 |
| | | <u>\$8,335,135</u> |
| INCOME | | |
| Retail | \$14 / sf* | \$105,000 |
| Residential | \$1.25 / sf | \$573,750 |
| Effective Gross | | <u>\$631,238</u> |
| EXPENSES | | |
| Retail | \$4.50 / sf | \$60,750 |
| Residential | \$4,000 / unit | \$272,000 |
| Total | | <u>\$332,750</u> |
| NET OPERATING INCOME | | \$298,488 |
| Cap Rate | | 8% |



VALUE ANALYSIS

| | |
|----------------|--------------------|
| Building Cost | \$8,335,135 |
| Building Value | <u>\$3,731,094</u> |
| | \$(4,604,041) |

INCOME ANALYSIS

| | |
|--------------------|------------------|
| Supportable Debt | \$3,667,459 |
| Equity | <u>\$733,491</u> |
| Gap (minus equity) | \$(4,400,951) |

**FIGURE 2.4 INCOME / LEASE NEEDS FOR FINANCIAL FEASIBILITY
SAMPLE URBAN COMMERCIAL PROTOTYPES**



**Non Anchored
Strip Center**

Square Feet: 25,000 nsf
Retail Space: 22,500 gla

Project Cost: \$3M
Parking: 100 spaces
Acreage: 1.4 acres

Required Lease Rate
For Initial Feasibility: \$16.70

** Projects are illustrative

Control Factors:
- Land = \$250,000 / acre
- Retail/Offices Expenses = \$4.50 / sf
- Cap Rate = 8%



Main Street Building

Square Feet: 3,000 gsf
Retail Space: 1,350 gla
Office Space: 1,275 gla

Project Cost: \$0.5 M
Parking: 16 spaces
Acreage: 0.16 acres

Required Lease Rate
For Initial Feasibility: \$18-20 / sf (blended)

Current Market Rates:

Commercial Space: \$6 - \$12 / square foot
Residential: \$1.00 - \$1.25 / square foot



Two Story Mixed-Use

Square Feet: 20,000 sf
Retail Space: 9,000 gla
Office Space: 9,000 gla

Project Cost: \$2.6 M
Parking: 80 spaces
Acreage: 0.9 acres

Required Lease Rate
For Initial Feasibility: \$17.30 / sf (blended)



2/3 over 1 Mixed-Use

Square Feet: 36,000 gsf
Retail Space: 8,100 nsf
Residential: 30 Units

Project Cost: \$4.6 M
Parking: 75 spaces
Acreage: 1.4 acres

Required Lease Rate
For Initial Feasibility:
Retail \$17.25 / sf (blended)
Residential: \$1.55 / sf

2.5 RETAIL POTENTIAL

Despite the hurdles to commercial activity described in detail in previous sections, the leakage of consumer expenditures within the Mid-North neighborhoods indicates that there is an available market to support retail if businesses can find locations in which to set up operations and capture multiple market segments. Figures 2.5 and 2.6 show the retail “gap” of the Mid-North neighborhoods*, as calculated using data from ESRI that compares the estimated retail supply (sales) and retail demand (expected annual consumer purchases). A surplus (negative numbers) would indicate that a retail category is attracting enough business from both within and outside of the local neighborhoods to exceed local demand. Retail leakage (positive numbers) indicates the amount of demand that exceeds the supply - meaning that these dollars “leak” out of the neighborhoods because there is not enough retail to meet demand.

As this analysis shows, the lack of businesses within Mid-North boundaries results in nearly \$46 million of retail leakage in virtually all main retail categories, from furniture and electronics to sporting goods and dining. This equates roughly to between 130,000 - 160,000 square feet of retail, depending heavily on the specific type and ownership of each business type. If one set a goal of capturing between 30-40% of the dollars that leak outside of Mid-North neighborhoods, one could potentially expect enough spending to support between 40,000 and 65,000 square feet of retail within Mid-North. This number increases when one

* the study area used for this analysis is the Mid-North boundary
** in square feet of gross leasable area (GLA) of retail

FIGURE 2.5 POTENTIAL RETAIL CAPTURE - MID-NORTH

| RETAIL CATEGORY | GAP | Leakage** | | Capture (30-40%)** | |
|--|--------------|-----------|---------|--------------------|--------|
| | | Low | High | Low | High |
| Furniture & Home Furnishings Stores | \$4,357,515 | 14,525 | 17,430 | 4,358 | 6,972 |
| Electronics & Appliance Stores | \$5,720,745 | 16,345 | 19,069 | 4,903 | 7,628 |
| Bldg. Materials, Garden Equip. & Supply Stores | \$4,871,954 | 13,920 | 16,240 | 4,176 | 6,496 |
| Food & Beverage Stores | \$3,068,517 | 7,671 | 8,767 | 2,301 | 3,507 |
| Health & Personal Care Stores | -\$3,530,242 | | | | |
| Clothing & Clothing Accessories Stores | \$5,556,843 | 18,523 | 6,421 | 5,557 | 8,891 |
| Sporting Goods, Hobby, Book & Music Stores | \$1,284,131 | 5,137 | 6,421 | 1,541 | 2,568 |
| General Merchandise Stores | \$13,596,443 | 38,874 | 45,321 | 11,654 | 18,129 |
| Miscellaneous Store Retailers | \$1,607,656 | 4,593 | 5,359 | 1,378 | 2,144 |
| Food Services & Drinking Places | \$6,053,285 | 17,295 | 20,178 | 5,189 | 8,071 |
| | \$46,117,089 | 136,856 | 161,012 | 41,057 | 64,405 |

FIGURE 2.6 POTENTIAL RETAIL CAPTURE - MID-NORTH (EMPLOYEE EXPENDITURE ADDED)

| RETAIL CATEGORY | GAP | Leakage** | | Capture (30-40%)** | |
|--|---------------------|----------------|----------------|--------------------|---------------|
| | | Low | High | Low | High |
| Furniture & Home Furnishings Stores | \$4,357,515 | 14,525 | 17,430 | 4,358 | 6,972 |
| Electronics & Appliance Stores | \$5,720,745 | 16,345 | 19,069 | 4,903 | 7,628 |
| Bldg. Materials, Garden Equip. & Supply Stores | \$4,871,954 | 13,920 | 16,240 | 4,176 | 6,496 |
| Food & Beverage Stores | \$3,068,517 | 7,671 | 8,767 | 2,301 | 3,507 |
| Health & Personal Care Stores | -\$3,530,242 | | | | |
| Clothing & Clothing Accessories Stores | \$5,556,843 | 18,523 | 6,421 | 5,557 | 8,891 |
| Sporting Goods, Hobby, Book & Music Stores | \$1,284,131 | 5,137 | 6,421 | 1,541 | 2,568 |
| General Merchandise Stores | \$13,596,443 | 38,874 | 45,321 | 11,654 | 18,129 |
| Miscellaneous Store Retailers | \$1,607,656 | 4,593 | 5,359 | 1,378 | 2,144 |
| Food Services & Drinking Places | \$6,053,285 | 17,295 | 20,178 | 5,189 | 8,071 |
| Total Residents | \$46,117,089 | 136,856 | 161,012 | 41,057 | 64,405 |
| Employees | \$16,301,100 | 54,337 | 65,204 | 27,168 | 32,602 |
| Adjusted Total | \$62,418,189 | 191,193 | 226,216 | 68,225 | 97,007 |

adds expected spending by employees who work in or near Mid-North. Employees would be expected to spend as much as \$16 million annually on retail goods and dining within close proximity of their workplace. Assuming the same capture rate, the potential for retail expands to nearly 100,000 square feet of retail.

This analysis is not meant to detail the level of retail growth that is immediately available for Mid-North, but instead to broadly define the scale of market response that could be generated from the local market if commercial nodes could begin to be developed within the Mid-North area. If concentrations of commercial activity can be generated utilizing other available markets, then it stands to reason that local households would respond accordingly by shifting some of their expenditures to businesses within the neighborhoods. This tipping point, if achieved, would greatly help sustain business activity within Mid-North. However, the exercise is a bit of a “chicken or the egg” scenario, where outside markets need to be tapped to establish commercial nodes before the local market - typically the “go-to” market that defines commercial nodes - can respond.

2.4 MARKET STUDY CONCLUSIONS

- **Mid-North Lacks the Density and Income to Readily Support Commercial Nodes** - One of the largest hurdles in establishing successful commercial nodes is that, relative to successful nodes in Indianapolis and nation-wide, Mid-North neighborhoods are not particularly densely populated, nor are there concentrations of income that can be used to support concentrations of retail.
- **Most Neighborhood Dollars Are Spent Outside of the Mid-North Area** - Since Mid-North has weak economic indicators for commercial activities, most retail that serves Mid-North residents is located on the periphery of, or completely outside of, the six neighborhoods. While this is currently a problem, it also represents an opportunity in that some of the consumer expenditures spent outside of the neighborhood can be “captured” back if other market obstacles are addressed properly.
- **Market Gaps Make New Construction a Challenge** - The need to rely upon new construction to create commercial nodes creates a problem in that, currently, market rents for both commercial space and residential units are not high enough to support construction and financing of projects, ranging from 1 story buildings to 4-5 story mixed-use buildings. This means that, without some sort of assistance or incentive, the private market is unlikely to seek investment within Mid-North.
- **Corridors are Mid-North’s Major Asset** - While Mid-North Indianapolis overall does not have strong demographic indicators for retail (ex: income, density, or crime are all core retail indicators), it does have several major corridors that run along and through its geography. 38th Street, Meridian Street, College Avenue, and to a lesser extent, Central Avenue, 30th Street, and Illinois Street. These corridors have the commercial qualities to leverage commercial nodes. It is recommended that all nodal activity be concentrated along one of these corridors to leverage the potential of rapid transit.

3 ANALYSIS OF COMMERCIAL NODE OPPORTUNITY

3.1 REVIEW OF POTENTIAL NODES

The Mid-North Quality of Life planning process identified a number of potential nodal areas for commercial development. It was a key task of this *Commercial Node Study* to evaluate each of these potential nodes and determine which made the most sense to explore further based both on market and physical conditions.

The graphic on page 19 illustrates the location of 11 of the 12 of the proposed nodes identified from the quality of life process, as well as an additional location (22nd and Meridian, location "J") that was added for this study. Generally, each node represents an intersection of two streets, around which commercial development could potentially occur. The following pages (18-22) discuss the strengths and weaknesses of each of these potential nodes based on a number of characteristics based in large part on the market/feasibility criteria discussed in the previous section, as well as other local physical conditions that impact the potential for commercial growth and development.

3.3 STRENGTHS & WEAKNESSES OF POTENTIAL NODES

(a) 38th and Michigan/MLK



Strengths

- Prominent location
- Adjacent to major regional destinations
- Visibility from two major corridors

Weaknesses

- No developable land at intersection (corners taken up by Crown Hill Cemetery, Indianapolis Museum of Art and Woodstock Country Club)

(b) 38th & Illinois



Strengths

- High traffic area
- Functioning commercial area to build upon
- Ability to serve Mid-North and attract spending potential from Meridian Kessler
- 38th street has been improved
- Opportunity to consolidate parcels for new development
- Tarkington Park renovations to occur
- Location along three arterials (38th, Illinois and Meridian)
- Higher densities of population

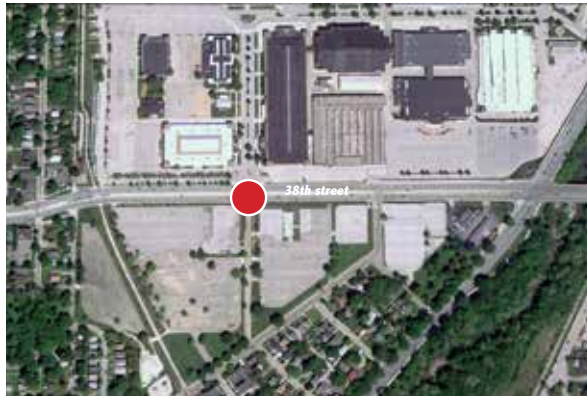
Weaknesses

- Wide and busy street (38th) deterrence to pedestrian connectivity
- Largely auto-oriented retail
- Perception of crime
- Located at edge of Mid-North area

FIGURE 3.1 MAP OF POTENTIAL COMMERCIAL NODES IN MID-NORTH (source: Mid-North Quality of Life Plan)



(c) 38th & Coliseum Ave.



Strengths

- High traffic area
- Proximity to major destination
- Adjacent to rail-trail and future light rail line (TOD Potential)
- Open land available for large-scale mixed-use development

Weaknesses

- Located outside walking distance from most Mid-North neighborhoods
- Relies on cooperation of State Fairgrounds to use / replace parking lots

(d) 34th & Illinois



Strengths

- Redevelopment occurring nearby
- Land available for new development

Weaknesses

- Few existing businesses / buildings to build off of
- One-Way main street (Illinois)
- Limited traffic on cross street (34th Street)
- Blighted property

(e) College & Fairfield



Strengths

- Location on College Avenue (growing urban commercial corridor)
- Existing commercial building to build off of
- Cleared sites available for redevelopment

Weaknesses

- Limited traffic on cross street (Fairfield)
- Constrained sites limit number of businesses that can be built.

(f) 32nd & Meridian



Strengths

- High traffic area
- Location adjacent to major destination (The Children's Museum)
- Redevelopment occurring on site
- Relatively high concentration of daytime workers
- Central location within Mid-North

Weaknesses

- Existing redevelopment plan does not call for retail
- No existing retail to build off of
- Difficult redevelopment opportunities to provide new retail
- Limited traffic on cross street (32nd)

(g) 30th & Central



Strengths

- Historic location for large commercial node
- Moderate to Good traffic count from three arterials (Central, 30th and 29th)
- Vacant land available for redevelopment
- Central location within Mid-North

Weaknesses

- One-way pair of 30th/29th Street splits traffic
- Lowest combined population / employment density

(h) 30th & College



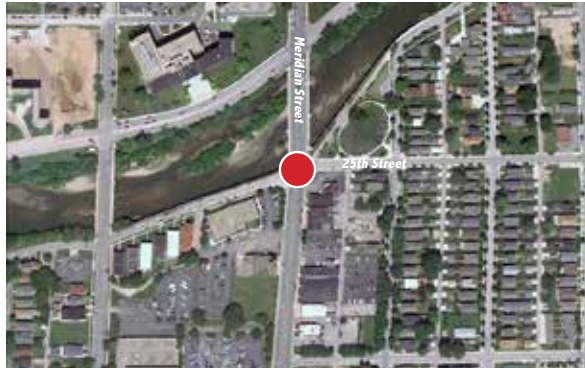
Strengths

- High traffic area (College, 30th and Fall Creek Parkway)
- Some opportunity for redevelopment or rehabilitation of structures for commercial / residential
- Location on College Avenue (growing urban commercial corridor)

Weaknesses

- Limited parking opportunities
- Need for large-scale property acquisition to create large enough development sites
- Narrow road to create sidewalk / parking improvements

(i) 25th & Meridian



Strengths

- High traffic area
- Proximity to major institutions
- Location along major commercial corridor
- Potential for redevelopment
- Ability to serve Mid-North and attract spending potential from Fall Creek Place
- Proximity to Fall Creek Trail
- Anticipated cleanup of Fall Creek Area

Weaknesses

- Lack of high cross-street traffic
- Need to assemble multiple sites / properties for redevelopment of scale

(j) 22nd & Meridian



Strengths

- High Traffic Area
- Functioning commercial area to build upon (existing corner shop node orientation)
- Ability to serve Mid-North and attract spending potential from Fall Creek Place and Herron Morton Place
- Available redevelopment opportunities
- Destination for nearby office workers

Weaknesses

- Existing businesses mostly serve daytime / visitors
- Need for pedestrian scale improvements
- Located at edge of Mid-North area

(k) 38th & College



Strengths

- High traffic area
- Functioning commercial area to build upon
- Ability to serve Mid-North and attract spending potential from Meridian Kessler
- 38th Street has been improved
- Opportunity to consolidate parcels for mixed-use development
- Existing anchors (Walgreens, Family Dollar)
- Growing urban commercial corridor

Weaknesses

- Wide and busy street (38th) deterrence to pedestrian connectivity
- Largely auto-oriented retail
- Perception of crime
- Located at edge of Mid-North area

3.3 TARGET LOCATIONS

Through an analysis of each node based on its strengths and weaknesses, opportunities, market position and community support gained through public meetings, five (5) nodes were selected for on-going economic development planning and, potentially, targeted investment. These nodes, discussed in more detail below, represents an opportunity of varying scale, timing and method of serving the community through retail and services and economic development. They are located on the best corridors within Mid-North, taking advantage of the asset of traffic count while seeking to mitigate the demographic and density weaknesses currently within the neighborhoods. Pages 25-29 illustrate conceptual development scenarios for four of the target nodes to demonstrate the likely scale and redevelopment needs each location requires to become true urban commercial nodes.

NODE #1 - 38TH & ILLINOIS (38TH ST. CORRIDOR)

Based on traffic counts, relative density, regional access, and position between the revitalizing Mid-North and the other more established Midtown neighborhoods such as Meridian Kessler, 38th & Illinois - and to a lesser extent 38th & College - offer the best opportunity for commercial development for Mid-North. Indeed, the concentration of retail already in the area, including numerous national chains such as McDonalds, CVS and Ace Hardware, prove the business potential of the area. Market trends and existing businesses suggest that 38th & Illinois has the potential to be a neighborhood commercial center sized node - on a similar scale as Broad Ripple - inclusive of what would be considered the 38th Street "Corridor" between Illinois and College.

Despite the relative market strength of the 38th & Illinois node, there are several caveats that should be considered in developing this node further. The first is that half of the area is located outside of Mid-North, meaning the node is on the periphery of Mid-North neighborhoods and requires partnerships to realize development results, especially as most of the commercial redevelopment opportunities are located on the northern side of 38th Street.

However, a larger issue to overcome is the high level of traffic along 38th Street - as many as 45,000 cars per day. In this case, traffic acts as a double-edged sword, offering significant market opportunity, but hindering efforts to create a pedestrian oriented commercial area that offers ease of mobility and separation from high volumes (and speed) of traffic. The development scenario for this node, on page 26, envisions a potential solution to this problem - focusing the pedestrian oriented retail and services on Illinois Street, north of 38th, which has a number of advantages, including a location away from the traffic volume on 38th Street, proximity to auto-oriented sites that appeal to anchor retailers and national retail chains, and synergies with planned park improvements.

Another issue of importance relative to 38th Street is crime. As (by far) the best retail location/corridor within Mid-North, 38th Street serves as a "gateway" to the rest of Mid-North. If 38th Street is seen as a desirable location to do business, so will areas internal to the neighborhoods. However, if 38th Street is not seen favorably, then this can really hinder interest in investment in other areas. Currently, 38th Street does not have what would be considered a positive image, particularly in terms of crime. This needs to be addressed immediately before the remainder of Mid-North can be perceived as having a viable business climate.

NODE #2 - 22ND & MERIDIAN

The Meridian Corridor offers another major business development opportunity for Mid-North. While ultimately Meridian Street should become a major urban commercial corridor between 16th and 38th Streets, long-term planning to enhance this corridor has been made in incremental stages. The 22nd & Meridian intersection offers an opportunity to both spark investment along the corridor, as well as foster a pedestrian oriented center-point along a mostly auto-oriented street.

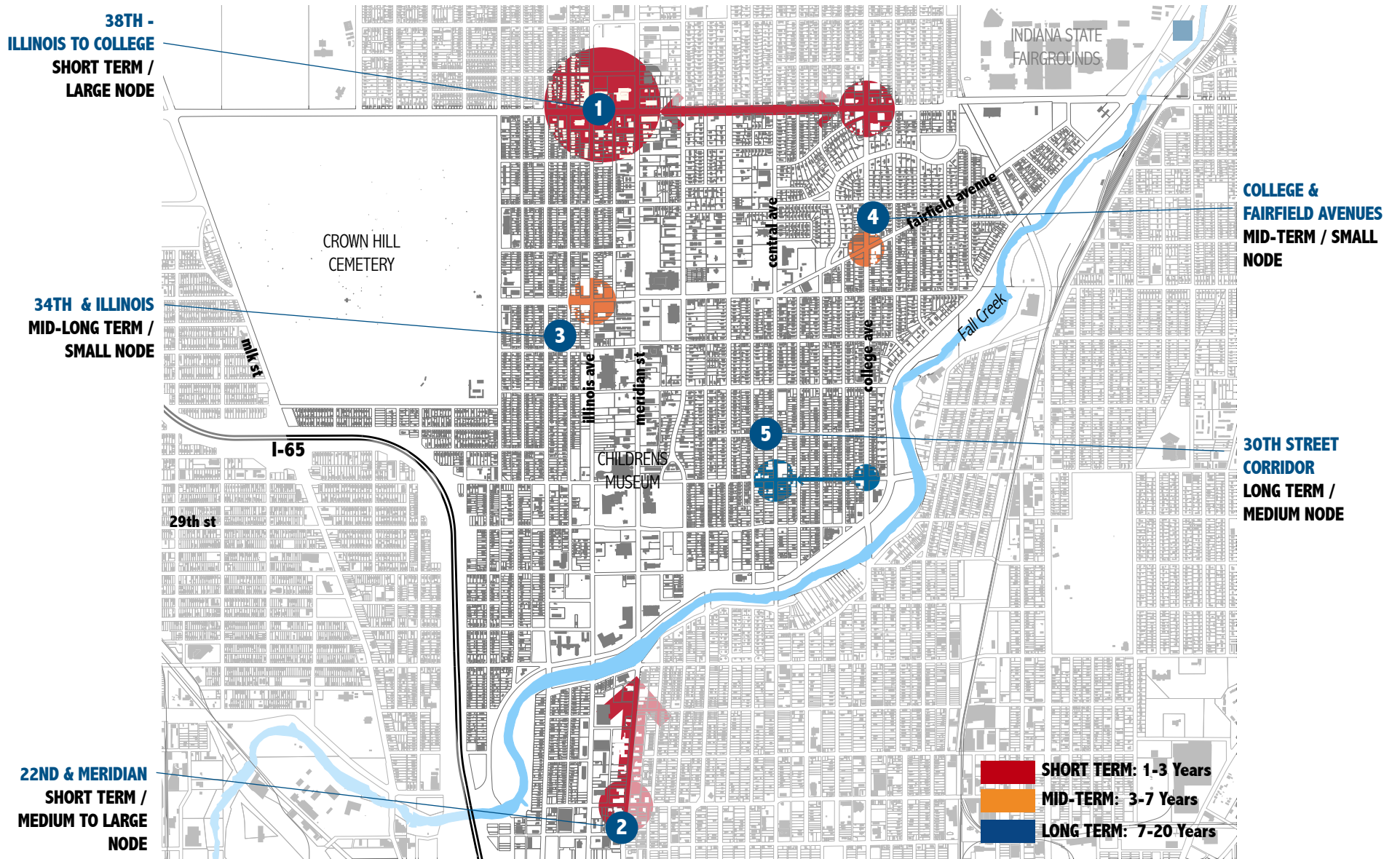
Other positive attributes of this area include a high concentration of employment nearby, proximity to the revitalizing Fall Creek Place and Herron-Morton neighborhoods, and an inventory of existing commercial buildings that allows for a cluster of several businesses within walking distance.

It is recommended that 22nd & Meridian, together with 38th & Illinois, be considered short-term opportunities for commercial nodes.

NODE #3 - COLLEGE & FAIRFIELD AVENUES

The intersection of College and Fairfield Avenues has weaknesses regarding surrounding density and income, and traffic counts are more modest in relation to 38th Street or Meridian Street. However, College Avenue has emerged as a major urban commercial corridor with numerous commercial nodes between Broad Ripple and 38th Street that are similar to those desired within Mid-North, such as 49th & College, 52nd & College, and 54th & College. As Mid-North and other areas of Center Township continue to revitalize, it stands to reason that there will be opportunities to expand the energy that has been created south of 38th Street - connecting the northside with Downtown. With two large vacant properties

FIGURE 3.2 TARGET NODES FOR DEVELOPMENT / INVESTMENT



and an existing building that can be rehabilitated into an operating business establishment, this intersection offers an opportunity to create a small-scale node that taps into the overall potential of the College Avenue corridor.

NODE #4 - 34TH & ILLINOIS STREETS

Like College and Fairfield, 34th & Illinois balances numerous opportunities and constraints. Unlike many other potential target nodes discussed here, it is not located on a major corridor. This does not necessarily preclude a nodal opportunity, but it does limit its scale.

This node was chosen in no small part due to community support for a commercial area in this location. Typically, this would not be enough to overcome weak market dynamics, but 34th and Illinois have several inherent strengths for commercial development. The first is that three sides of the intersection offer a short-term opportunity to develop mixed-use projects. Second, the density created through new residential units - which would be in addition to several other new and renovated apartment projects in the near vicinity - could help create enhance the residential density needed to support neighborhood scale businesses.

Third, given the redevelopment of the former Winona Hospital site, and its proximity to 38th & Illinois and investment surrounding areas, there is the potential for a larger urban “district” focused on Meridian and Illinois Streets, in which the 34th and Illinois intersection would play a supporting role. Since Illinois Street is a one-way street, only accessible by cars driving north, increasing the connectivity to 38th Street will be very important to reaching this goal. Given that the best retail “energy” will likely come from 38th Street, the ability to drive south to 34th Street is important.

NODE #5 - 30TH STREET CORRIDOR

During the mid-20th century, 30th Street was one of the largest hubs of commercial activity. Years of urban decline and disinvestment have left the hub of this activity – the intersection of 30th Street and Central Avenue – devoid of virtually any activity whatsoever. Today, this intersection needs an extensive amount of investment and planning to re-capture even a portion of its former glory and should not be considered an opportunity for a node in the short-term. However, there are several considerations and features of this area that support the community’s vision to re-capture some of its former functionality as a neighborhood commercial center. The intersection – 30th & Central – is centrally located within several neighborhoods, it is easily accessible from College Avenue and Fall Creek Parkway by integrating the 30th & College intersection, and there is a considerable amount of vacant land from which to conduct redevelopment activity. The best opportunity may be the potential to re-establish the 30th & Central node as a central intersection by increasing the traffic count along both streets. Over the years, Central Avenue and 30th Street have been turned from two-way streets to one-way corridors. By turning Central back into a two-way street – a process already underway – and combining the one-way traffic on 29th and 30th Streets back onto 30th Street, the intersection may be able to benefit from an increase in traffic and activity that should benefit commercial activities.

3.4 CONCEPTUAL DEVELOPMENT SCENARIOS

The following pages illustrate conceptual development scenarios for the five target nodes. The four short to mid term scenarios illustrates the redevelopment potential and the financial “gap” that would exist if the node were developed based on existing market trends.

22ND & MERIDIAN

This concept envisions a primarily commercial development scenario (as opposed to mixed-use) on three sites just off of the intersection of 22nd & Meridian that would be combined with the renovation of appropriate buildings (primarily A, D and E) for retail uses. Site #1, to the west, is large enough to hold a small mixed-use project with residential above a small amount of ground floor commercial space. The scale of buildings envisioned for Sites 1-3 represents the maximum build-out of each site assuming current commercial parking ratios and a focus on wood-frame construction and surface parking.

New Commercial: **28,200 sf**

New Residential Units: **45-50 units**

Total Estimated Investment:
\$7.9 million

Total Estimated Concept Gap:
\$2.17 million (27%)

EXISTING CONDITIONS



Legend

- A.** Jackson Hewitt, Misc. Retailer, Vacant Space
- B.** Vacant
- C.** Liquor Store
- D.** Sparkle Cleaners, Fuff & Kutz
- E.** Appeal Taxes, Reliable Staffing
- F.** Subway, Vacant Space
- FP.** Future Parking
- G.** Carpe Diem School (existing)

POTENTIAL DEVELOPMENT SCENARIO



Site 1 Site 2 Site 3

| | | |
|-------------------------|-------------------------|------------------------|
| Four Story | Two Story | One Story |
| Square Feet: 43,200 gsf | Square Feet: 18,000 gsf | Square Feet: 7,200 gsf |
| Retail: 3,000 sf | | |
| Residential 46 Units | | |

38th & ILLINOIS

This scenario attempts to address the high volume of traffic separating each side of 38th Street, which serves as both a positive and a negative. By creating a “main street” atmosphere on Illinois Street, as opposed to 38th Street, there is the ability to create a pedestrian oriented commercial node that has visibility and access off of 38th Street without the traffic.

This development concept transforms the parking lot behind United North Methodist Church into a mixed-use parking garage that can serve new commercial spaces, new residential opportunities, the renovated Tarkington Park, and the Church itself.

New Commercial: **21,000 sf**

New Residential Units: **12 Units**

Total Estimated Investment
(excluding parking structure):
\$6.4 million

Total Estimated Gap (excluding
parking structure)
none

EXISTING CONDITIONS



Legend

- | | |
|----------------------------------|--------------------------|
| A. Family Dollar | G. Misc. Retail |
| B. CVS Pharmacy | H. Sierra Flowers |
| C. McDonalds / BP Station | I. Ace Hardware |
| D. PNC Bank | J. Double 8 Foods |
| E. Boost Mobile | K. Dollar General |
| F. Misc. Retail | L. Subway |

POTENTIAL DEVELOPMENT SCENARIO



Site 1

Square Feet: 220,000
Retail: 21,000 sf
Residential: 12 Units
Parking: 400 spaces



COLLEGE & FAIRFIELD

The College & Fairfield intersection has the potential to be a small commercial center supported, in part, by two vertically mixed-use developments with as many as 100-120 units built on currently vacant land. This can be built in conjunction with the existing commercial space on the SE corner, which is not included in the estimates below.

A caveat is that the existing parcels, are not large enough to support vertical development, which means additional properties must be acquired in order to support this scenario.

New Commercial: **8,600 sf**

New Residential Units: **125 Units**

Total Estimated Investment:
\$14.3 million

Total Estimated Concept Gap:
\$3.3 million (23%)

EXISTING CONDITIONS



Legend

- A.** Vacant Space
- FP.** Future Parking

POTENTIAL DEVELOPMENT SCENARIO



Site 1

Three Stories
 Square Feet: 47,700
 Retail: 5,000 sf
 Residential 50 Units

Site 2

Three Stories
 Square Feet: 55,200
 Retail: 3,600 sf
 Residential 75 Units

34TH & ILLINOIS

Vacant, developable sites provide an opportunity to build larger scale projects that support mixed-use opportunities and new residential units that supply customers to any future businesses. This scenario envisions an opportunity for two mixed-use projects - each uses wood-frame construction and surface parking to control costs, resulting in 130-140 new units, as well as 3,000 - 5,000 square feet of ground floor commercial space.

Unless made larger, the northwestern corner parcel may have difficulty accommodating a three story mixed-use development. Here, a two story office over retail building is illustrated, though the total leasable square footage (16,000) is likely to represent mostly office or service uses as opposed to retail.

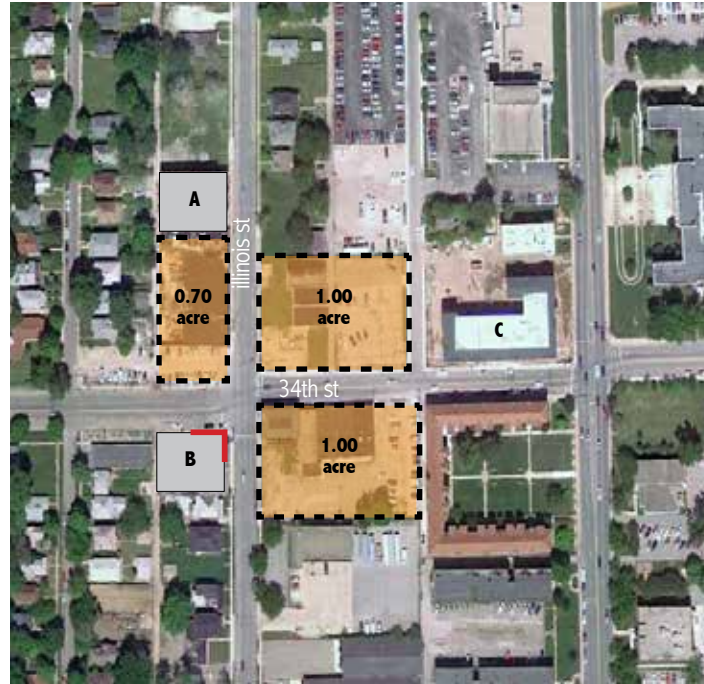
New Residential Units: **130**

New Commercial: **14,500 sf**

Total Estimated Investment:
\$18 million

Total Estimated Gap:
\$3 million (16%)

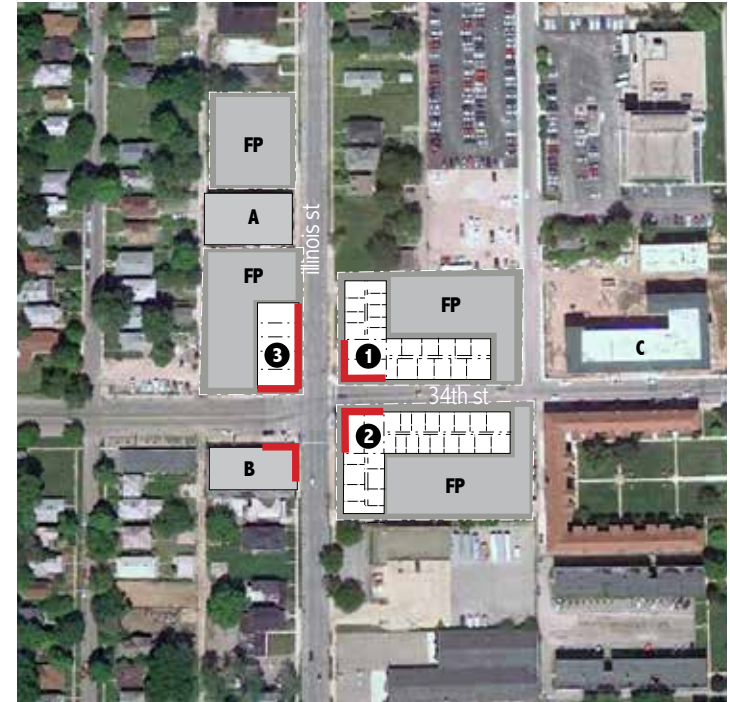
EXISTING CONDITIONS



Legend

- A.** Former Ritz Theatre
- B.** Existing Dry Cleaners
- C.** Senior Housing
- FP.** Future Parking

POTENTIAL DEVELOPMENT SCENARIO



Sites 1 & 2

Three Story
Square Feet: 57,600 gsf
Retail: 3,600 sf
Residential: 65 Units

Site 3

Two Story
Square Feet: 16,000 gsf

30TH STREET CORRIDOR

A 30th Street commercial “corridor” is created through redevelopment and re-use at two separate intersections - 30th & Central and 30th & College. Both of these intersections, which were identified as potential nodes, have limited short-term opportunities but together can complement each other to the benefit of overall commercial development. While 30th & College has more exposure to traffic and currently is the better area for commercial development, it lacks the land and redevelopment opportunities that 30th & Central has.

There are several planned developments along 30th Street already, and ongoing long-term planning, property acquisition and investment should sufficiently position the area to be ready for development and overall revitalization. One related initiative that can be worked on in the short-term is the benefit that can be achieved from turning 30th Street back to two-way traffic, similar to the way Central Ave is being turned back from one-way.

EXISTING CONDITIONS, PLANNED DEVELOPMENT AND FUTURE DEVELOPMENT OPPORTUNITIES

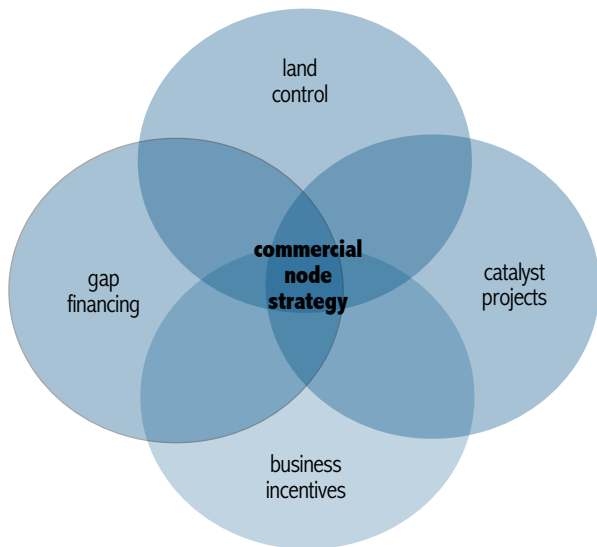


| Existing Features | Planned Development | Redevelopment / Reuse Considerations |
|---|--|---|
| <ul style="list-style-type: none"> A. Unleavened Bread Cafe B. Stetson Senior Housing C. Vacant Starbucks D. Marathon Gas Station E. Frogs Building F. Broadway United Methodist Church | <ul style="list-style-type: none"> G. Fall Creek Gardens H. Future Mixed-Use I. Assisted Living Center | <ul style="list-style-type: none"> J. 30th & Fall Creek Pkwy (apartment bldg in poor condition, potentially combine with Marathon Station) K. College - 30th to 29th (entire College Ave frontage, inclusive of Frogs buildings and vacant Starbucks building) L. NW Corner of 30th & College (available corner commercial property, combined with under-utilized / vacant residential parcels) M. NW Corner of 30th & Central N. SW Corner of 30th & Central |

4 STRATEGIES & IMPLEMENTATION

This section discusses the implementation strategy to foster and sustain urban commercial nodes within Mid-North Indianapolis. The approach consists of four key strategies that follow a guiding principle for activity.

This Strategies and Implementation Section is written with the assumption that the key organizations responsible for implementation are Mapleton-Fall Creek Development Corporation (MFCDC) and Near North Development Corporation (NDDC).



4.1 GUIDING IMPLEMENTATION PRINCIPLE

Perhaps the most important task for implementation will be the **cultivation of partnerships** that will ultimately allow the Mid-North commercial development program to be successful. Starting with nearby community development organizations, partnerships must also be fostered with land and property owners, private developers, banks and lending institutions, the City of Indianapolis, local and regional economic development agencies, and state and federal agencies.

It is likely that MFCDC and NDDC already has relationships and/or partnerships with relevant organizations. However, it may be necessary to re-engage or upgrade a working relationship with some based on the level of effort these two organizations plan to put into this commercial node strategy.

Below is a quick list of local partners that are likely to play a role in supporting commercial node development in Mid-North:

- Department of Metropolitan Development (DMD)
- Department of Public Works (DPW)
- Local Initiatives Support Corporation (LISC)
- Indiana Small Business Development Center
- DevelopIndy
- King Park Community Development Corporation
- Midtown Indianapolis, Inc.
- Local Brokers / Realtors
- Local Property Owners
- Area-Wide Developers
- The Indianapolis Children's Museum

- Ivy Tech Community College
- Indiana State Fairgrounds

4.2 LAND CONTROL

Through both existing and as-yet undefined resources, there is an opportunity for MFCDC and NDDC to acquire property - either outright or option future control - throughout the Mid-North area. Property ownership can be a significant tool in three ways;

1. Assembling property large enough for a commercial or mixed-use projects can incentivize a developer who would not otherwise be interested in spending the time and money for such assembly;
2. Offering land at a discount can assist a development project to become more feasible - and thus more attractive to developers and/or businesses; and
3. Ownership of land by friendly interests means that neighborhood developers can control what type of project is developed on the site, preventing unforeseen outcomes that can preclude nodal development. Or, the owner can influence certain criteria such as design, inclusion of commercial space, or other community development related goals.

There are several ways in which property can be controlled by each Community Development Corporation (CDC).

Mid-North Commercial Node Study

4 - STRATEGIES AND IMPLEMENTATION

Acquisition for Development - acquiring a property for a short-term development project, or taking control of a property in order to avoid carrying costs. This could involve a CDC acquiring a property or properties for a developer, or doing it on their own and marketing the property for developers/investors.

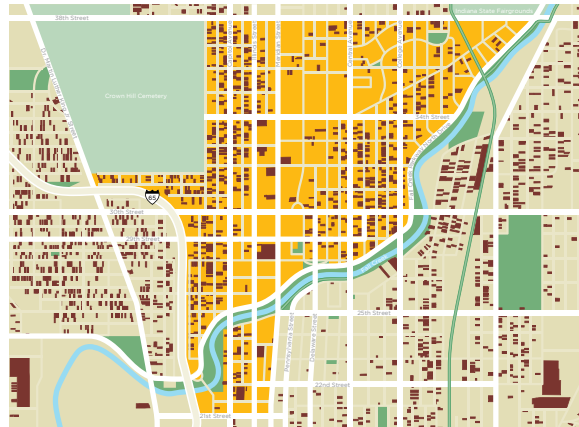
Acquisition for Land Banking - given the long-term nature of both residential and commercial development in Mid-North, it may make sense to strategically purchase properties and “bank” them until they are ready.

Optioning Land - An alternative to property acquisition is the ability to option certain properties - giving the CDC the right to purchase at a certain time for an agreed upon price. This alternative is not free - earnest money will need to be paid upfront for the privilege of the option, and it typically has a time constraint to it, but it is significantly cheaper than an outright purchase. A common method of using property options is to exert control over a number of key properties and then use a development project to finance the remainder of the purchase.

Right of First Refusal - similar to an option, this gives an entity the first right to negotiate for a property if the owner decides to put it on the market. This is best used to prevent a strategic property from being developed in an undesirable manner.

4.3 GAP FINANCING

The process of gap financing is one of the most common methods of redevelopment finance. This term essentially refers to the “gap” incurred by a real estate project if one cannot make the pro forma work. Examples typically include scenarios where there is a lack of revenue to cover expenses



The vast number of vacant properties and buildings is a detriment to Mid-North, but it also provides an opportunity to exert control over key properties in an affordable manner before market forces make land more costly.

(construction), or unfavorable financing terms, rates or ratios, or a general unwillingness to finance.

As illustrated in Section 2, the present development economics found within Mid-North make building market-rate commercial, residential or mixed-use projects extremely difficult (the analysis excluded an assessment of bank financing). While a major hurdle, this is both something to be expected and an issue to which there are multiple solutions. Through partnerships and public and not-for-profit resources, financing can be allocated to fill the “gap” and make a project more feasible. Indeed, the vast majority of real estate projects built in the Center Township over the past several years have used some sort of subsidy or incentive.

While a crucial strategy to implement, this is one where the CDCs are likely to have limited control. Due to the availability of resources, gap financing - except for smaller scale projects - is typically done by the public sector who have access to

resources like Tax Increment Financing, bonding capacity, or other investment vehicles to support redevelopment and economic development. Therefore, CDCs should focus on playing 1 of 2 roles: (1) gap financing small projects or individual businesses (see section 4.4) through internal resources; and (2) building partnerships to connect property owners, developers and investors to the tools necessary to make development projects more feasible within Mid-North. Examples include working with the City of Indianapolis on requests for TIF and other incentives, sponsoring projects for Low Income Housing Affordable Tax Credits with the Indiana Housing and Community Development Agency (IHCDA), or New Market Tax Credits with relevant Community Development Financial Institutions (CDFI), working with LISC for developers to secure certain types of financing, or coordinating with the Small Business Development Center to secure Small Business Administration (SBA) products for new businesses. The more proactive each CDC is to connecting investors to various resources, the more crucial those organizations become to leveraging financing that would otherwise go to other areas of the City. This allows for developers and inventors of a wide range of expertise and capitalization to get involved, rather than simply relying upon only the largest and most experienced to put a deal together.

Gap financing can be used in a number of ways, with the following being the most likely areas to address in Mid-North:

Land and Carrying Costs - The difficulty, cost and time-consumption taken by private developers to acquire land can preclude a project before it even gets off the ground. Intermediaries can purchase the land and turn it around at a discount to balance acquisition costs, or hold the land to avoid carrying costs until a deal can be put together;

Equity - Tax credits and other tools can be used as equity sources to subsidize the cost of construction in weak market

areas or to assist with the provision of affordable housing;

Infrastructure / Site Prep - The cost of infrastructure or other costs to prepare a site that are unique to redevelopment sites might restrict development feasibility. This can include environmental contamination or demolition.

Predevelopment Costs - Any activities necessary to move a development project towards financing and construction, such as design & engineering, market studies, zoning approvals, etc.

Favorable Financing - Lending institutions can require restrictive terms in revitalizing areas that are considered to be “high risk”. This can prevent a development deal from being structured - the same is true with small business lending. Intermediary lending or grants can make these deals work for all three parties (developer/business, lending institution and community development organization) through activities such as mezzanine financing, soft second loans, interest rate buy-downs, and credit enhancements.

4.4 BUSINESS INCENTIVES

A menu of incentives used to attract and support various types of commercial enterprises is an extremely important tool. It is especially important if Mid-North hopes to attract a number of small independent and/or entrepreneurial businesses. The use of loans or grants can assist businesses in three primary ways: (1) incentivizing a business to locate in Mid-North vs. another part of town; (2) discounting retail space, making it profitable for both the business and property owner; and (3) providing working capital.

Common applications for business incentives include:

- **Rent write-downs** - One of the best incentives that impacts both businesses and landlords is the ability to

write-down a lease rate for a period of time. This is important for several reasons: (1) small businesses are often unable to afford the rents that owners and developers need to charge when renovating or constructing a commercial property; (2) reducing the risk of rent, one of the major fixed variables in a business operation, can help a start-up business grow with reduced risk; and (3) rents higher than the market rate make it difficult to finance and lease commercial property.

- **Working Capital** - The lack of working capital is one of the most prevalent problems in starting a new business where there is not enough history to secure financing.
- **Business Training** - Many small business owners do not have the requisite training and/or education to run that business profitably over a sustained period of time - providing training in terms of accounting, marketing, inventory management and web-site integration can substantially improve the chances of a small enterprise in succeeding.
- **Collective Marketing** - Effective marketing can be costly and time consuming for a small business - especially a start-up. The act of marketing a district on behalf of many businesses can greatly enhance opportunities while reducing the need to tap into precious resources for each business.
- **Tenant Improvements** - Assisting a business with the improvement or renovation of a space for occupancy can be an incentive for both a business or property owner. Improvements can include anything from the rehabilitation requiring a space to meet building code standards to basic finishes for a particular business (signage, furniture, equipment, etc.) Tenant improvement assistance can be a grant, or financed through a lease.
- **Locational Incentives** - offering incentives to businesses who are looking to locate in various locations in Indianapolis.

Page 32 details some specific “projects” related to business incentives and recruitment that should be considered for Mid-North Indianapolis.

4.5 CATALYST / DEMONSTRATION PROJECTS

Due to challenging demographics and development economics - on both a local and macro scale, it may be necessary for MFCDC and NNDC to be active partners, investors or developers on short-term projects to remove risk from the private sector by building commercial projects that can “prove” the market for future ventures. Often, revitalization areas can be stuck in a “catch-22” situation where there are few, if any, improvement or development projects and investment is minimal or non-existent because there are no projects that help “prove” the market.

If commercial activity is desired, then such a scenario requires a market intervention where a public and/or not-for-profit sector entity seeks to alleviate or take subsequent risk in order to create commercial space to help prove market opportunities. For a not-for-profit, this can include a range of activities:

- Gap financing, covered on page 30;
- Developing a commercial project as a not-for-profit development corporation; and
- Investing in commercial space within another proposed building (such as a housing project) and taking on the risk of leasing and managing that space.

The key component of this strategy is not only to organize around resources, but also to find a short-term project appropriate for short-term investment.

IMPLEMENTATION PROJECTS

REVOLVING LOAN FUND

In order to fund many of the activities described in the Business Incentives Strategy, a special fund will need to be capitalized and managed for the benefit of business recruitment activities. A typical vehicle for investment is a revolving loan fund, which would offer loans of various sizes and favorable rates to businesses for a variety of purposes. For organizations with limited resources, a loan fund has several advantages over a fund that administers grants, including the ability to recycle funds over a long period of time. Below is an example of an Urban Retail Loan Fund administered in Detroit, Michigan:

Urban Retail Loan Fund - Detroit, MI

ELIGIBLE USES - Working capital, purchase of inventory and equipment, and tenant improvements.

ELIGIBLE BUSINESSES - Retailers, service industries, and other storefronts with stable operations, demonstrated management strength, and successful business models. Intended to supplement conventional bank and small business financing and to provide financing when alternatives are not available.

LOAN SIZE - \$50,000 - \$500,000

CONSIDERATIONS - Applicants must be able to contribute meaningful owners' equity in their projects, present a viable business plan, and demonstrate a successful track record.

LOAN TERMS - Fixed amount term loans with flexible structure and repayment. Typical maturity will be three to five years. Fee and interest rates determined based on the project's risk profile and capacity to repay.

RETAIL INCUBATOR

A retail incubator is a building (or part of a building) built specifically for the incubation of start-up retail businesses. Incubators, which are used more often with start-up manufacturing businesses, offer controlled space, financial benefits, and technical assistance that helps them navigate the difficult early years of starting and operating a business.

Incubators come in several different forms. *Incubator facilities* are buildings entirely dedicated to incubation, *Floating* incubation means providing assistance to retailers to locate in a specific district, partnering with landlords who own existing commercial spaces, and *Pop-Up* incubators fill temporary spaces to reduce vacancy.

Based on the unique circumstances of Mid-North, it is recommended that the feasibility of an incubator facility be explored. This facility would / should be:

- dedicated to operating start-up / first stage businesses;
- owned and managed with controlled space;
- located in existing or new building;
- owned or leased;
- located in good retail areas (i.e. 38th & Illinois, 22nd & Meridian) so that business can grow;
- potentially supported by available space for 2nd Stage / "move-up" opportunities.

COMMERCIAL RECRUITMENT AND COORDINATION

A position must be created to focus solely on the commercial development of Mid-North. This professional would focus on:

- Communicating with retailers;
- Recruiting tenants;
- Technical assistance (accounting, finance, etc.);
- Deal structuring;
- Grant writing / resources to support commercial development;
- Provide technical training for businesses; and
- Coordinating zoning opportunities

4.6 ONE YEAR ACTION PLAN

- 1. Establish strategic priorities within implementation organizations** - The key first step in implementing this commercial node study is for MFCDC and NNDC to effectively organize around the allocation of resources and time relative to this project. This means making commercial development an organizational priority, refining short and long term strategic plans to reflect work towards related goals, and conducting an inventory of existing resources that can be allocated towards commercial development.
- 2. Identify NNDC vs. MFCDC Activities** - The two key implementation agencies - MFCDC and NNDC - should combine efforts to help implement this plan. As part of this partnership, the two organizations need to coordinate and allocate resources and tasks so that there is minimal duplication and specialized activities are given to the most appropriate staff.
- 3. Leverage relationships with key partners relative to commercial development** - Existing relationships with agencies discussed on page 29 likely already exist, but updated discussions must be had with neighborhood, city and state agencies and organizations as to how partnerships, resources and expertise can be leveraged for the purpose of nodal development.
- 4. Support creation of North Midtown TIF District** - The use of TIF funding will be crucial to incentivize development projects, Mid-North should work with relevant partners to push for the creation of the proposed North Midtown TIF for the purposes of both commercial and residential redevelopment.
- 5. Coordinate on redevelopment planning for 38th Street Corridor** - Both previous planning and market forces make the 38th Street corridor ripe for redevelopment if the right resources can be brought to bear. As a crucial component of Mid-North's commercial success, partnerships must be forged with neighboring organizations to plan for the future of the corridor. This includes planning for the allocation of resources and desired development, but also to mitigate hurdles like crime and pedestrian accessibility.
- 6. Create detailed (re)development plans for short and near term nodal areas** - Each potential node identified in this study must be examined in more detail in order to understand the precise development economics behind each node. Ideally, these plans will identify a first-phase project in which local implementation organizations (i.e. MFCDC and NNDC) can exert influence.
- 7. Identify resources for property acquisition, subsequent land assembly and banking** - Through the identification of key steps in each detailed development plan, additional resources and tools should be identified and targeted for each particular node, need, and development type.
- 8. Hire / designate a commercial development specialist** - A commercial specialist should be hired (or trained internally) to perform the tasks recommended on page 33.
- 9. Conduct initial planning for a retail incubator** - Consider taking the initial steps towards creating a Mid-North retail incubator, including preferred type, location and financing. Information can potentially come from the detailed development plans prepared for each node.
- 10. Monetize a business loan fund** - Explore methods to finance and utilize a business loan fund/pool, such as investigating local, state and federal grants, foundations and other sources of capitalization.

COMMERCIAL DEVELOPMENT TOOLKIT

| Tool | Description | Suggested Uses | Source |
|--|---|--|---|
| CITY OF INDIANAPOLIS | | | |
| Community Development Block Grant (CDBG) | CDBG funds are for a variety of community development purposes, including affordable housing, economic development projects, and infrastructure. | Infrastructure, gap-financing, large-scale projects, land acquisition | Local CDBG funds are allocated through the City's Department of Metropolitan Development |
| Tax Increment Finance (TIF) | TIF Districts allow for the self-financing of projects through the capture of tax "increment". This increment, which is often used for infrastructure and uses to support development, can be allocated as it is earned, or used to finance redevelopment bonds. | Infrastructure, parking, land acquisition, gap-financing, predevelopment costs | Department of Metropolitan Development (Note: as of the end of 2012, no TIF District exists in Mid-North, but the proposed North Midtown district would potentially create this tool for local use - see page 38) |
| Section 108 Loan | The Section 108 loan, or CDBG "Float" leverages HUD's allocation over several years into a larger pool of funds that can be used for a variety of purposes. The loan is typically used on a much shorter-term basis than TIF - about 2-5 years. | Infrastructure, parking, land acquisition, gap-financing, predevelopment costs | Local CDBG / Section 108 funds are allocated through the City's Department of Metropolitan Development |
| Credit Enhancements | Credit enhancements are used to secure more favorable financing terms, or to simply secure financing for projects in redevelopment areas. | Enhancements to conventional financing on qualifying real estate projects | City of Indianapolis |
| DEVELOPER RESOURCES | | | |
| Low Income Housing Tax Credits (LIHTC) | LIHTC or Section 42 credits are allocated through the US Treasury and are the country's largest funding source for affordable housing. Developers sell credits to obtain enough equity to support both the cost of construction for a project, as well the discounted units offered for low-income households. These credits can be used to support commercial development through mixed-use projects - residential above retail. | Mixed-use (residential over retail) development projects | Credits are allocated through the Indiana Housing and Community Development Agency (IHCA). Developers are the primary user, both private and not-for-profit. |
| New Market Tax Credits (NMTC) | New Market Tax Credits are designed specifically for commercial development in weak market areas. However, they are much less prevalent than LIHTCs - particularly in Indiana. | Financing commercial development | Credits are allocated through Community Development Finance Institutions (CDFI)s, many of which are banks and not-for-profits. The City of Indianapolis has received credits for local allocation in the past. |
| Historic Preservation Tax Credits (HPC) | Tax Credits are available to renovate historic properties if they meet certain criteria. These credits can be combined with other funding sources. | Renovation of historic properties for commercial use | Credits are allocated both at the Federal and State levels. |

COMMERCIAL DEVELOPMENT TOOLKIT

| Tool | Description | Suggested Uses | Source |
|---------------------------------------|---|--|---|
| MISCELLANEOUS ACTIVITIES | | | |
| Land Banking | The process of land banking consists of the acquisition of property for the purpose of long-term development - or development that will not take place immediately. Land banking is done by all types of (re)development organizations and developers. | Property acquisition for the purpose of assembling large enough parcels for appropriate commercial development, or to control development outcomes for a particular site or district | The Indianapolis Land Bank runs land banking activities for the City, and can both acquire and hold property for various purposes. Community Development Corporations (CDCs), churches, and private landowners, developers or investors also participate in land banking using a number of resources. |
| Land Options / First Right of Refusal | Aside from basic property acquisition, property control can be exerted by securing options to purchase properties at later dates, or agreements called "First Right of Refusal" - giving the right to be the first bidder on a property if the owner decides to sell. This can be viable long-term alternative. While this agreement require some small funding to secure, it can be vastly cheaper than outright acquisition. Doing so can also avoid costly carrying costs related to the land, such as property acquisition and maintenance. | Long-term property acquisition for development | <i>Public Sector</i> - typically general or special redevelopment funds; <i>Private Sector</i> - private investment; Not-for-Profits - dollars gained from grants, pass-through HUD financing or income from projects. |
| Revolving Business Loan Fund | Loan funds are set up through a number of different methods. The concept of a "revolving" fund focuses on the need to conserve resources, thereby securing payback of a loan so that funds can be recycled a number of times over a longer period of time rather than a single allocation. | Business incentives, favorable financing, rent / loan write-downs, working capital, etc. | Cities typically allocate special funding to create loan pools, not-for-profits must secure funding from public or private sources such as TIF increment or private foundations / grants. |
| LISC | | | |
| Financial Products | LISC offers a variety of short-term financing that can be used to assist with development in revitalization areas. | Predevelopment, acquisition, construction, bridge loans, working capital, guaranty | LISC Indianapolis |
| Facade Improvement Grants | Matching grants and design assistance to improve the front of commercial buildings | Facade improvements for existing buildings | LISC Indianapolis |
| Technical Assistance Program | Small grants to hire experts (architects, developers, financial consultants) to develop commercial property. | Technical assistance for real estate development | LISC Indianapolis |

COMMERCIAL DEVELOPMENT TOOLKIT

| Tool | Description | Suggested Uses | Source |
|--|---|--|--|
| SMALL BUSINESS ADMINISTRATION | | | |
| 7(a) Loan Guaranty | The most common SBA product - this guaranty is provided to lenders to make them more willing to lend money to small businesses. Most types of businesses are eligible, except for real estate and other speculative businesses. | Loans for small commercial businesses | Small Business Development Center |
| Community Express Loans | The Community Express program helps provide more opportunities for under served populations of business owners, including women and minorities, and businesses in targeted development areas. It is part of the overall 7(a) program. | Loans for small commercial businesses | Small Business Development Center |
| SBA Micro loan Program | The micro loan program provides very small (up to \$35,000) loans to new businesses or small business growth. The program works through non-profit community based lenders. | Loans for small commercial businesses | Small Business Development Center |
| OTHER | | | |
| Vacant Building Property Tax Abatement | A tax abatement (5-10 years) given to a business or developer who renovates a vacant building in Marion County | Renovation of vacant buildings into commercial uses | DevelopIndy |
| Economic Improvement District (EID) | Also known as Business or Special Improvement Districts (BIDs or SIDs), EIDs are special purpose districts where property owners agree upon an additional fee or levy to pay for common benefits within the district, such as beautification, infrastructure, maintenance, and marketing. EIDs are designed to provide a commercial district with a dedicated and consistent revenue stream that allow property owners and businesses to make decisions related to improvements above and beyond what would be available from local government. | Capital improvements, marketing, common area maintenance, beautification, signage, security. | EIDs are typically organized and administered through a local not-for-profit economic or community development organization. District formation requires the agreement from a majority of property owners in the district, as well as from the local legislative body. |

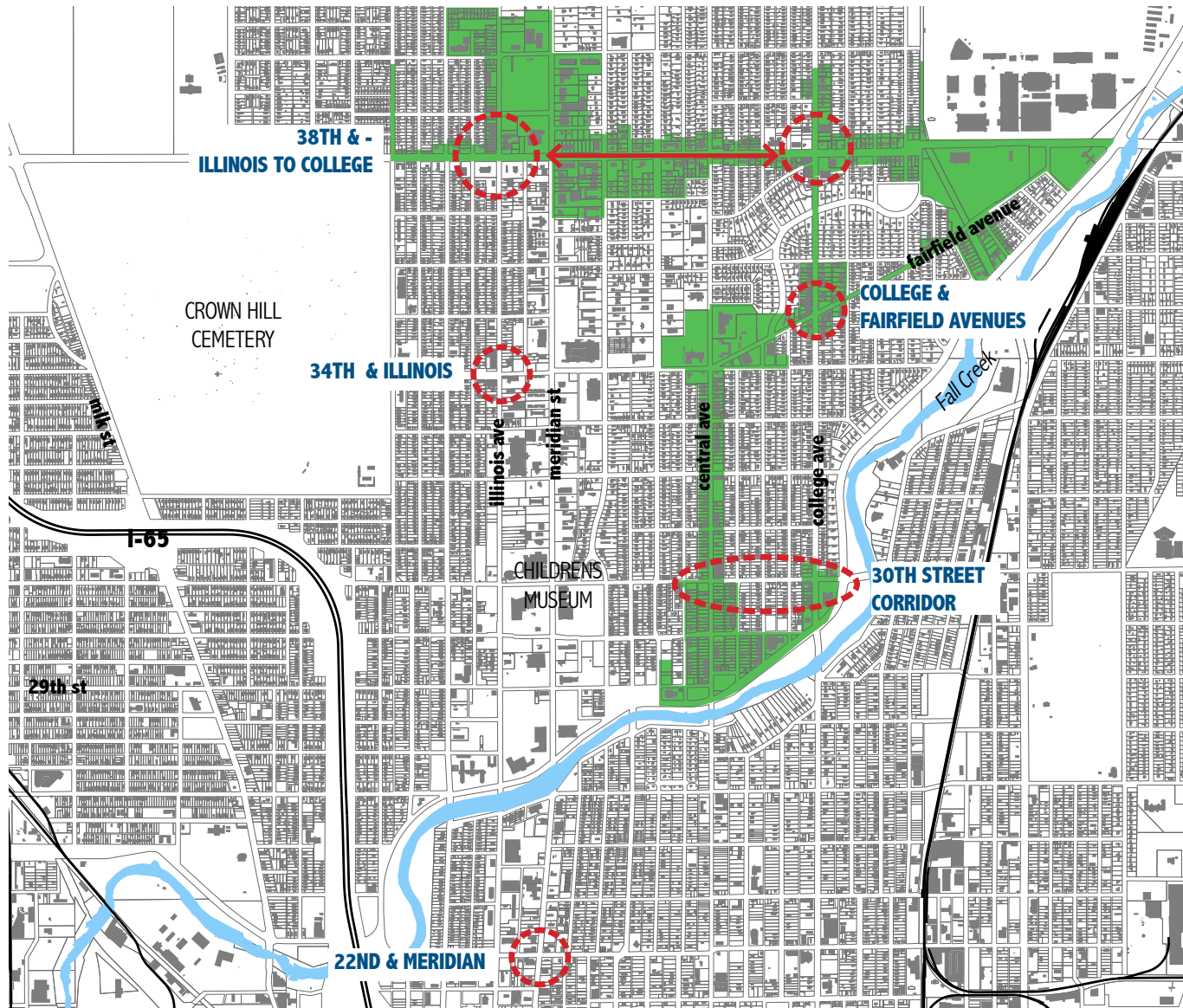


FIGURE 4.1 PROPOSED TIF DISTRICT FOR NORTH MIDTOWN

This graphic illustrates the boundaries of the proposed North Midtown Tax Incremental Finance District as it relates to the Mid-North neighborhoods - the entire district extends farther north to Broad Ripple to cover other parts of Midtown Indianapolis. Recommended nodal development areas are indicated as to whether they correspond with the proposed TIF. As the proposed TIF stands now, the 34th & Illinois and 22nd & Meridian nodes will not align with the proposed TIF district.