

# “BLIGHT ELIMINATION PROGRAM” INITIATIVE OF IHCDA’S HARDEST HIT FUNDS:

Site  
selection,  
control,  
reuse

*REPURPOSING DEMOLISHED SITES  
REINVESTING IN NEIGHBORING PROPERTIES*

## PRESENTATIONS 11/10 – 11/19/2014

Afternoon

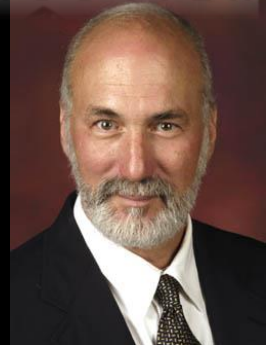
PART D  
1:00-3:00



Bruce Frankel

Professor of  
Urban Planning

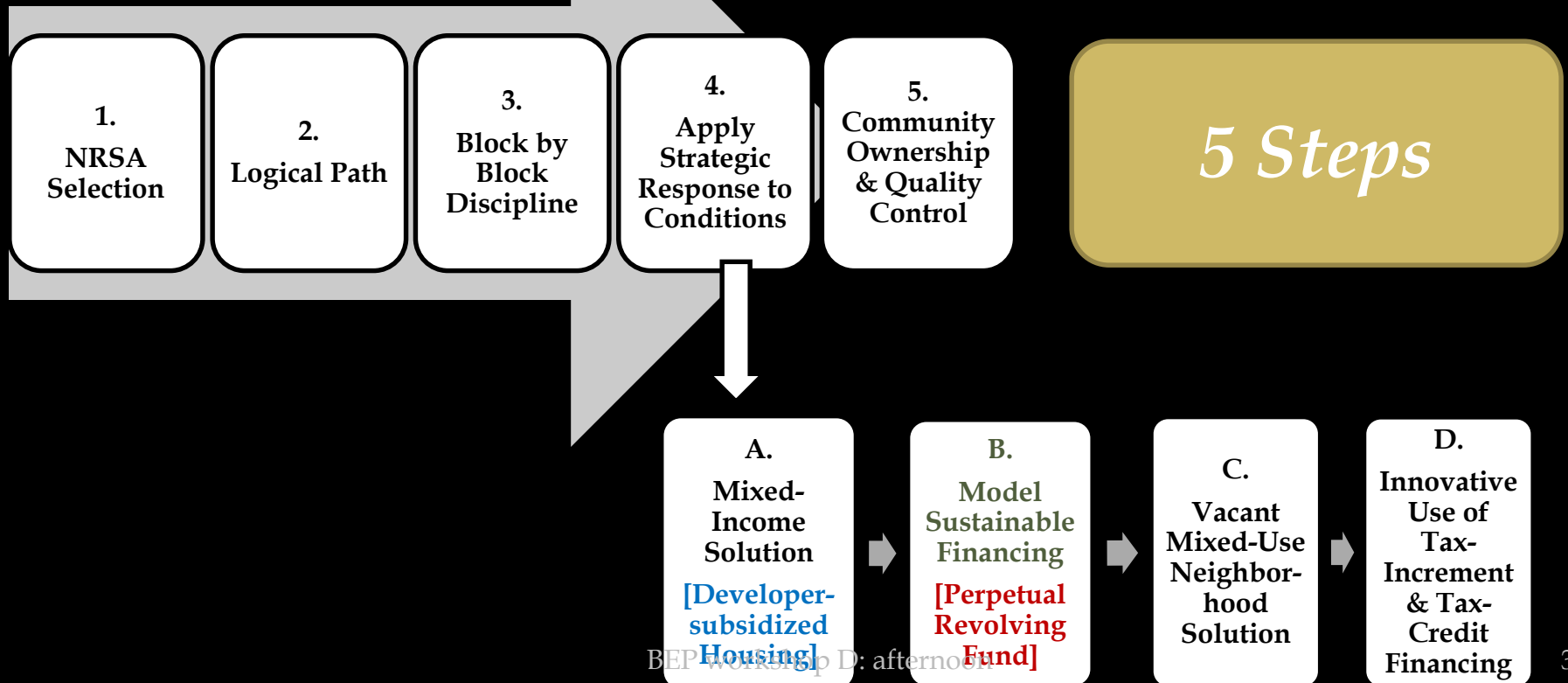
Director, Real Estate  
Development Programs



# Thematic Elements

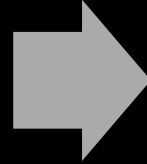
1. Apply Strategic Principles toward Sustainable Redevelopment
2. Evidence that it will work?
3. Themes to a Strategy of Indirection
4. Structuring PPP as Never Before = The Essential Uses of Business Plans

# PART A: Apply Strategic Principles



# 1 & 2. NRSA Selection & Logic of the Path

**Worst Area[s] of the City based on Need**



**Census Tracts /Block Groups with best assets**

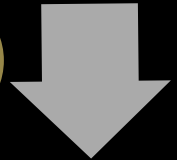
- Greatest market potential AND
- Greatest market impact
- Preponderance of available properties for above

**Exit strategy:**

- total site control
- create a market
- sell at profit remaining parcels

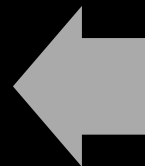
**E.g., Chicago: Cabrini-Greene adjoining Lincoln Park, Old Town HD, Gold Coast**

**E.g., Muncie: Gilbert/McKinley adjoins DT, Minnetrista**



**Lots**

- Every lot
- Make habitable the vacant
- Exterior and cost-effective systems for occupied
- Infill construction or pocket park, etc.



**Blocks**

- Remove cancer OR
- Proximate market impact AND
- Available properties AND
- Logical path from marginal to intractable obstacles



# Step 3 A Discipline Block by Block

# Lot by Lot 3 Interventions

- Demolish & Infill
- Infill
- Rehabilitate

### Tract 3.1

#### PROPERTY VALUES



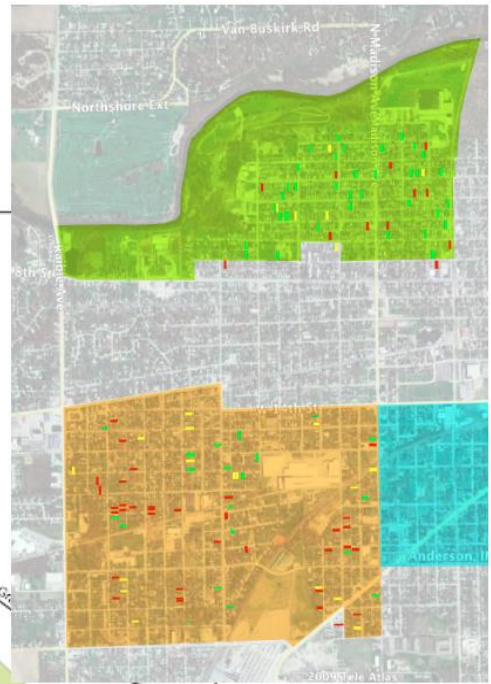
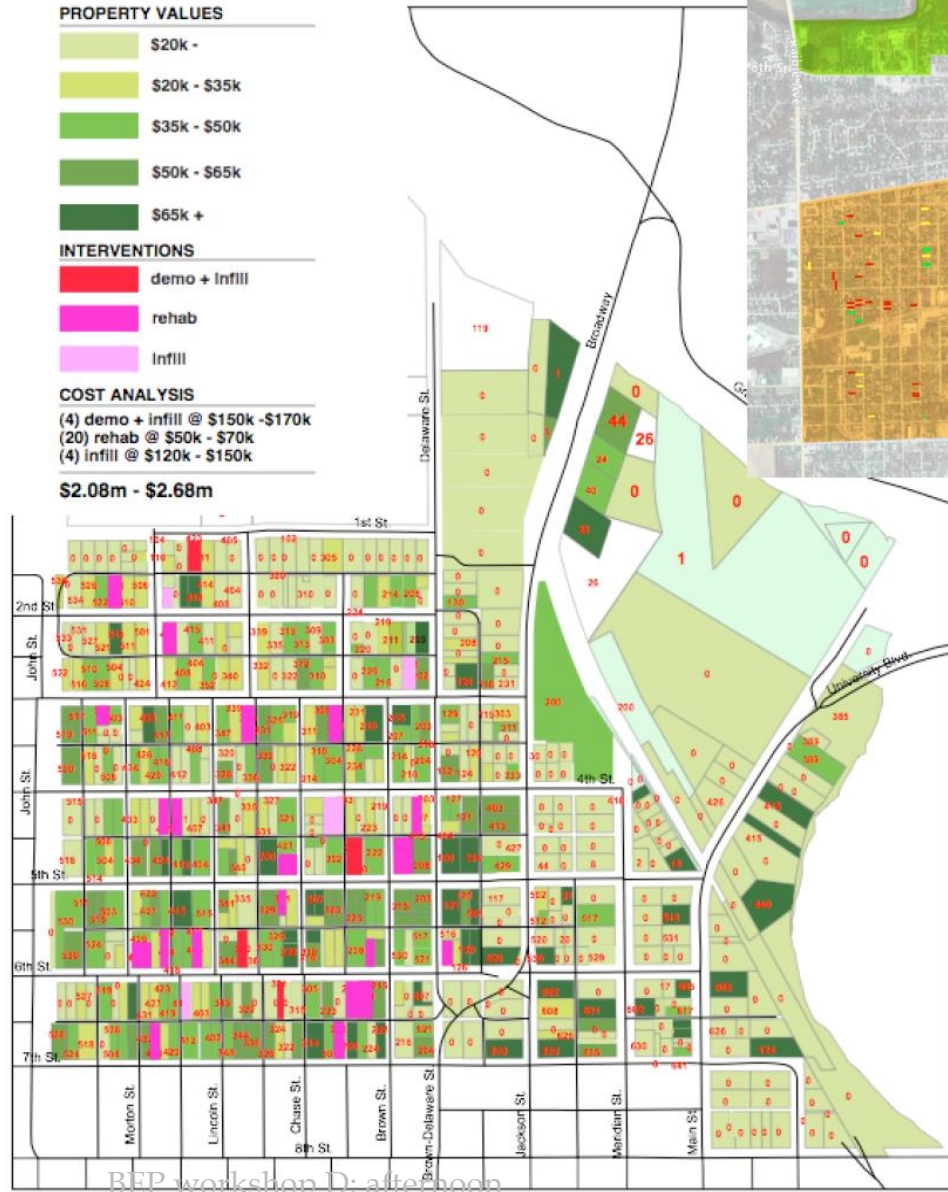
#### INTERVENTIONS



#### COST ANALYSIS

(4) demo + infill @ \$150k - \$170k  
 (20) rehab @ \$50k - \$70k  
 (4) infill @ \$120k - \$150k

**\$2.08m - \$2.68m**



# Detail Section

- Demolish & Infill
- Infill
- Rehabilitate

MAIN : VINE - PERSHING



**Property Values**

- <\$30k
- \$30k - \$60k
- \$60k - \$90k
- \$90k - \$120k
- \$120k <
- UBHA list

**Interventions**

- d/i** demo + infill
- i** infill
- re** rehab
- owner rehab  
*(homestead exemption filed)*

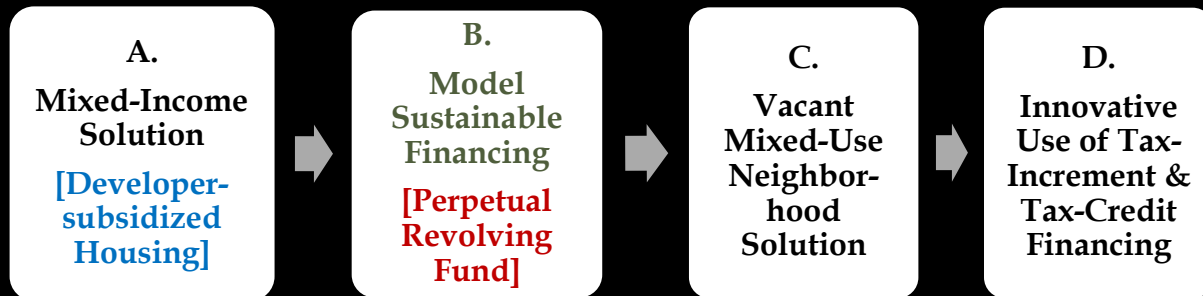
**Intervention Analysis**

- (0) demo + infill @ \$150k - \$170k
- (1) infill @ \$120k - \$150k
- (3) rehab @ \$50k - \$70k
- (5) owner rehab @ \$10k - \$20k

**\$320k - \$460k**

# Step 4: Apply Strategic Responses to Conditions

## 4 Innovations

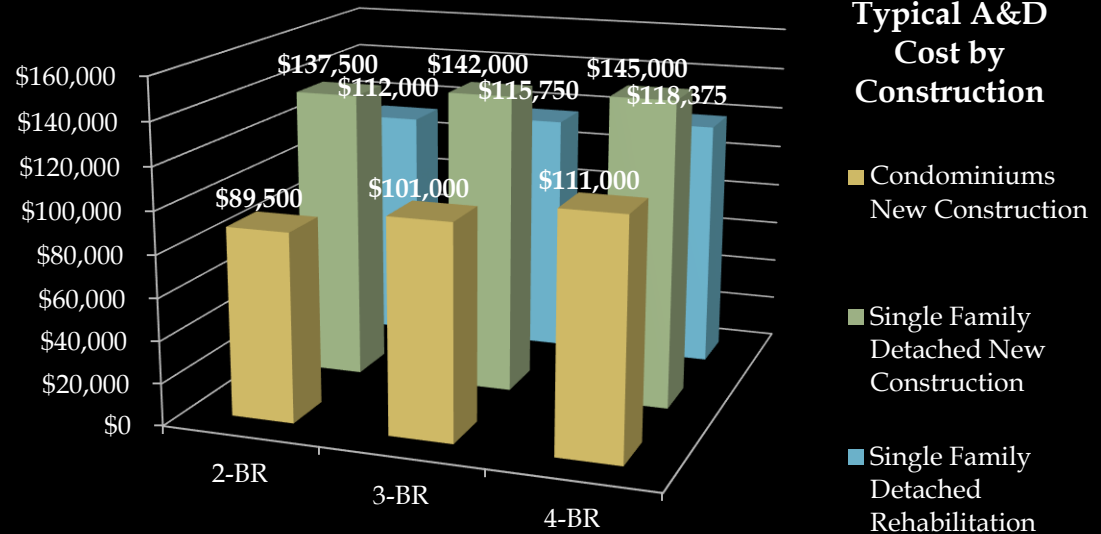


# 4A. Mixed-Income Solution

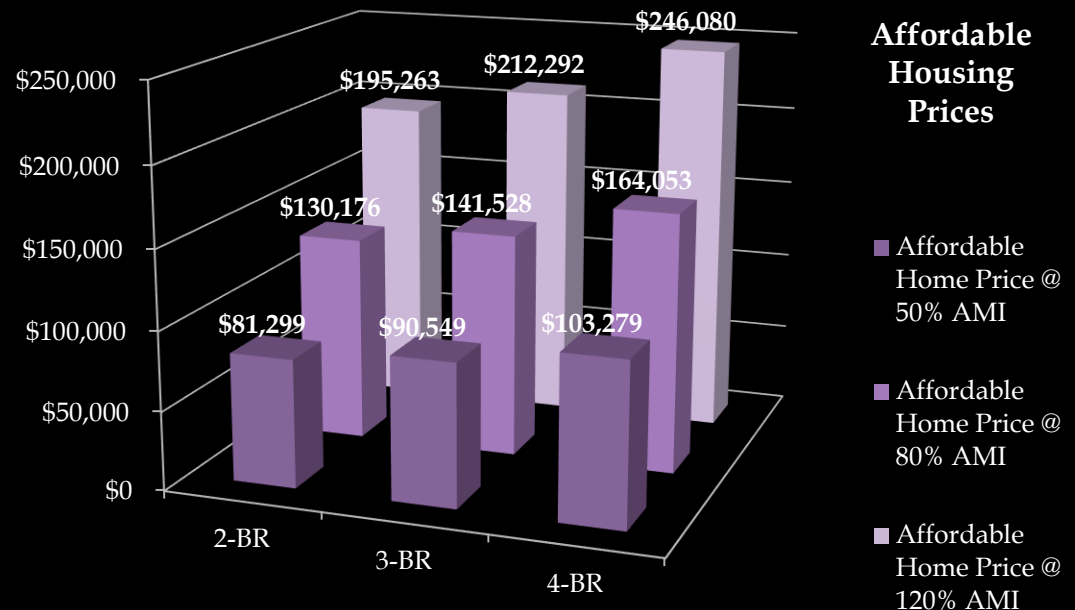
	50% AMI	80% AMI	120% AMI	Cost Mixture	Sold Price Mixture	Net Proceeds Mixture
				\$ 370,000	\$ 370,000	\$ 0
Market Price	\$ 110,000	\$ 130,000	<b>\$ 170,000</b>	<b>Bold</b> represents sold price [lesser of affordable and market prices]		
Cost	\$ 100,000	\$ 120,000	\$ 150,000			
Affordable Price	<b>\$ 80,000</b>	<b>\$ 120,000</b>	\$ 180,000			
Surplus [Subsidy]	\$ (20,000)	\$ 0	\$ 20,000	<- Sold Price - Cost		

Conceptual Numbers

# Project Cost

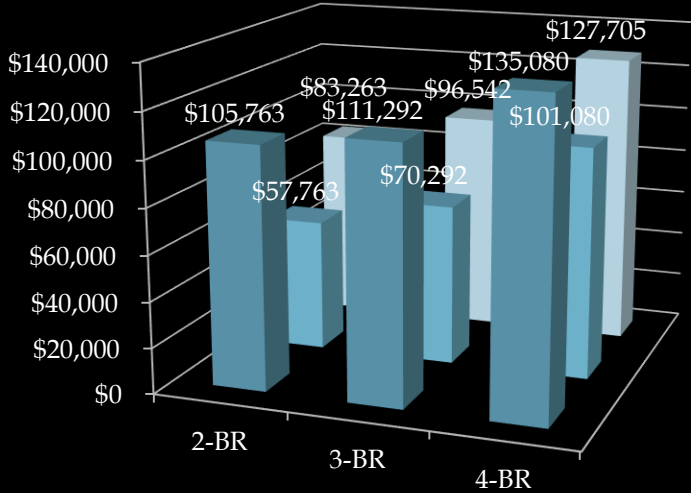


# Set for Affordability



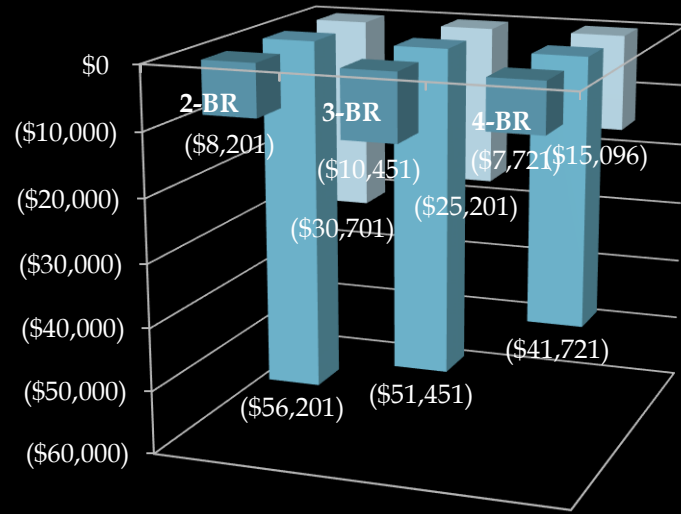


# Subsidies needed at 50% AMI



## Surplus (Subsidy) @ 120% AMI

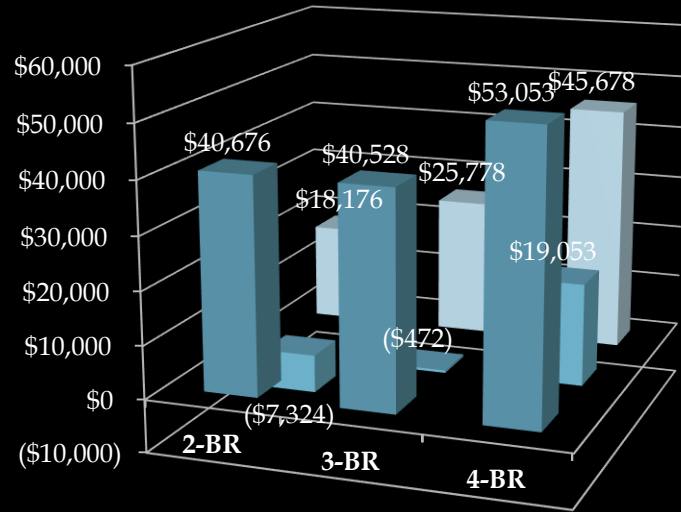
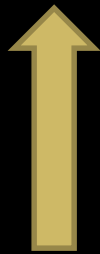
- Condominiums New Construction
- Single Family Detached New Construction
- Single Family Detached Rehabilitation



## Surplus (Subsidy) @ 50% AMI

- Condominiums New Construction
- Single Family Detached New Construction
- Single Family Detached Rehabilitation

# Subsidies provided at 80% & 120% AMI



## Surplus (Subsidy) @ 80% AMI

- Condominiums New Construction
- Single Family Detached New Construction
- Single Family Detached Rehabilitation

# Actual Numbers

<b>Direct Costs and Revenues</b>	<b>Average per Property</b>	<b>Total</b>
<b>Dwellings</b>	1.20	60
<b>Bedrooms</b>	3.02	151
<b>Assessed Value</b>	\$25,482	\$1,274,100
<b>Proposed Acquisition Value @ 85% Assessed</b>	\$21,660	\$1,082,985
<b>Demolition Cost</b>	\$7,732	\$61,856
<b>New Construction Cost</b>	\$160,521	\$2,889,375
<b>Rehabilitation Cost</b>	\$90,119	\$2,883,800
<b>Total Direct Cost of Acquisition &amp; Development</b>	\$138,360	\$6,918,016
<b>Revenue from Sales</b>	\$170,200	\$8,510,000
<b>Surplus [Deficit] before indirect costs and administration</b>	<b>\$31,840</b>	<b>\$1,591,984</b>

# Concept B: Strategic Revolving Loan

## Affordability Test

- Underwrite at affordability levels [homeowners; renters]
- Mitigate defaults; maximize economy

## Select Inexpensively

- Smaller houses to rehabilitate
- Rehab may be less costly than new construction
- Depreciable assets permits greater tax credit and increment financing

## Redistribution

- A large enough pool of both A&D interim loans and permanent mortgage funds whereby surplus net proceeds of less needy homebuyer sales provides the requisite affordability subsidies to more needy sales
- An adequate income mix of buyers to achieve the above

## Social Redeveloper

- Require the role of a public or private, nonprofit master developer [but, a “socially conscious” for-profit is possible]
- Can JV with property owners; need not acquire

## Role of Investment

- Recapture secondary mortgage investment upon buyer 's resale
- a public A&D loan would require no ROI [return on investment];
- a private A&D loan would function as a line of credit where interest carried would be structured into each transaction
- The larger funds and attendant redevelopment activities engenders private investment sooner in the target area

## INCREMENTAL MODEL

- The incremental model is structured around the revolving loan. There are strategic choices toward achieving the objective of a perpetual loan.

Determining Factors



# 4C. Vacant Mixed-Use



## Condominiumize

- Owner retains title to each unit
- Enters redevelopment agreement
- A for-profit or nonprofit redevelops upper floors with a take-out commitment by mortgagee of owner or sale to end user or investor- see below]

## Consortium

- Condo owners may organize to market and manage all the upper floors [e.g., rental apartments, residential condo association, live/work]

## End User

- Qualifying the financial instruments described in the April workshops
- Area-wide benefit for non-residential use [negatively impacted by ARRA 2-17-09]

## 3 Options

- Owner leases
- Owner sells to end user
- Owner sells to investor [landlord for upper floors, including consortium above]

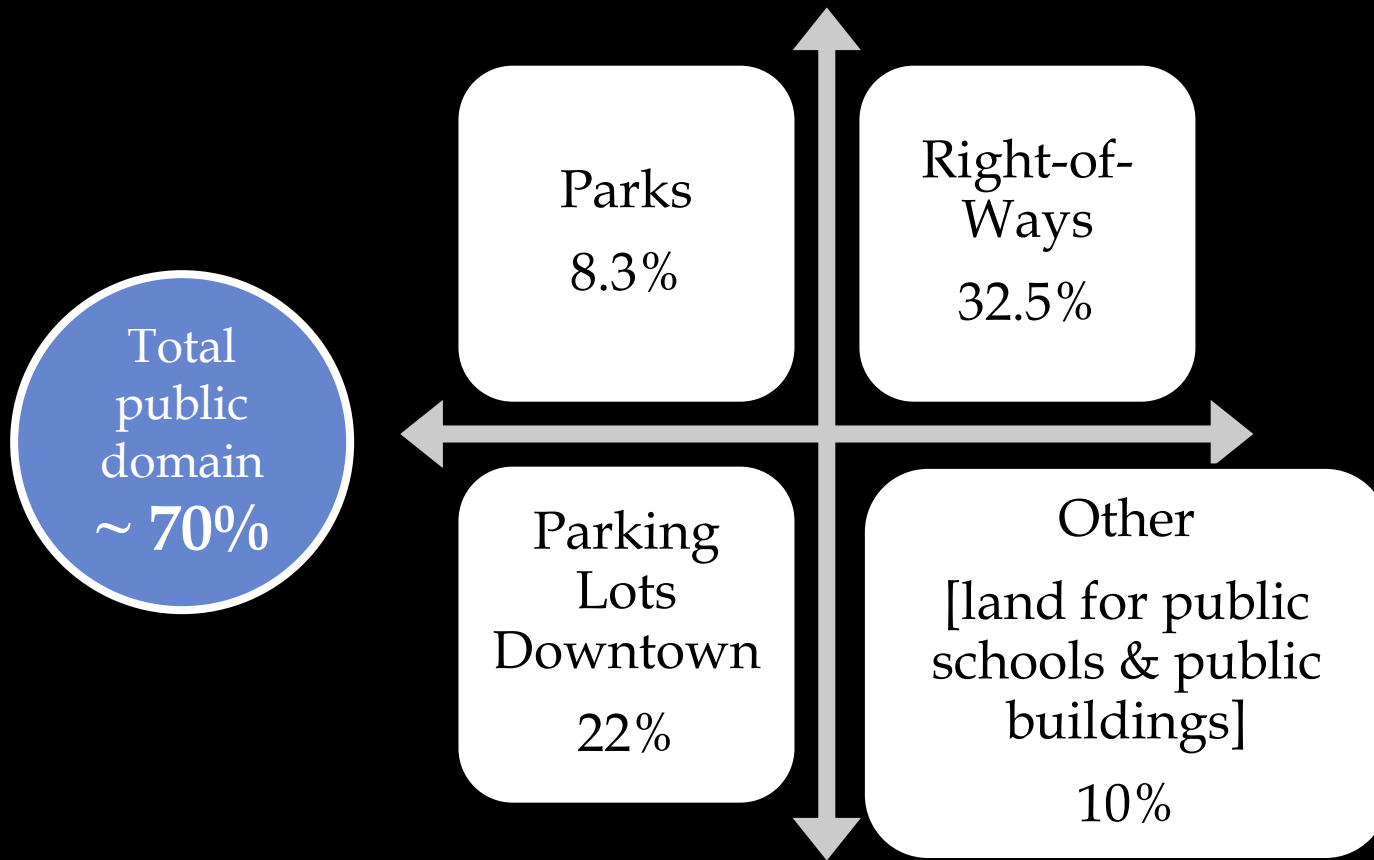
# PART B:

# Apply Themes to

# Strategy of Indirection

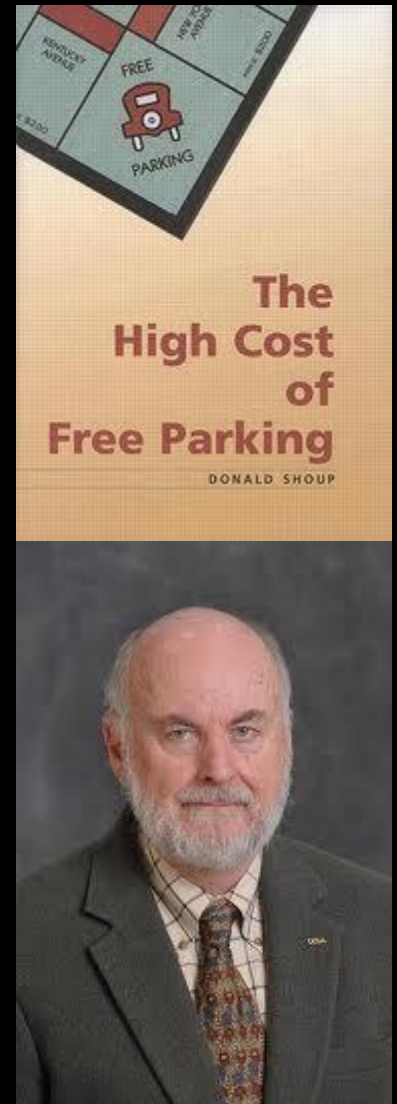
1. Public Spaces
  - a. “Complete Streets” as connectors
  - b. Parking strategies in metro cities
2. Demand Side Incentives

# 1. City Public Spaces



# “The High Cost of Free Parking”

- ▣ Donald Shoup
- ▣ Professor Urban Planning, UCLA
- ▣ B.E. in Electrical Engineering, Yale
- ▣ Ph.D. in Economics, Yale



# Frankel's Simplified Illustration

- ▣ Block of 28,800 s.f. [120' x 240'], assume no setbacks or OS
- ▣ Assume office building requiring 1 parking space per 250 s.f.
- ▣ Assume 188 s.f. gross per parking space surface; 235 s.f. decked

## Scenario 1 Suburban: Surface Parking + 1- story Building

Building Size  
= 16,438 s.f.

3.6X

Taxes =  
\$38,965

6.1X

Employees =  
66

3.6X

## Scenario 2 Conventional Urban: 4-story AG Parking + 4-story Building

Building Size  
= 59,385 s.f.

2.1X

Taxes =  
\$237,050

2.5X

Employees =  
238

2.1X

## Scenario 3 Max Density: 4-story UG Parking + Max-story Building

Building Size  
= 122,553 s.f.  
[4.3 stories]

Taxes =  
\$591,614

Employees =  
490

# “Value-Capture” Strategy leads to Public Self-Financing of Parking

UG Parking  
Taxes =  
\$591,614

\$11.8 M  
public bonds

AG Parking  
Taxes =  
\$237,050

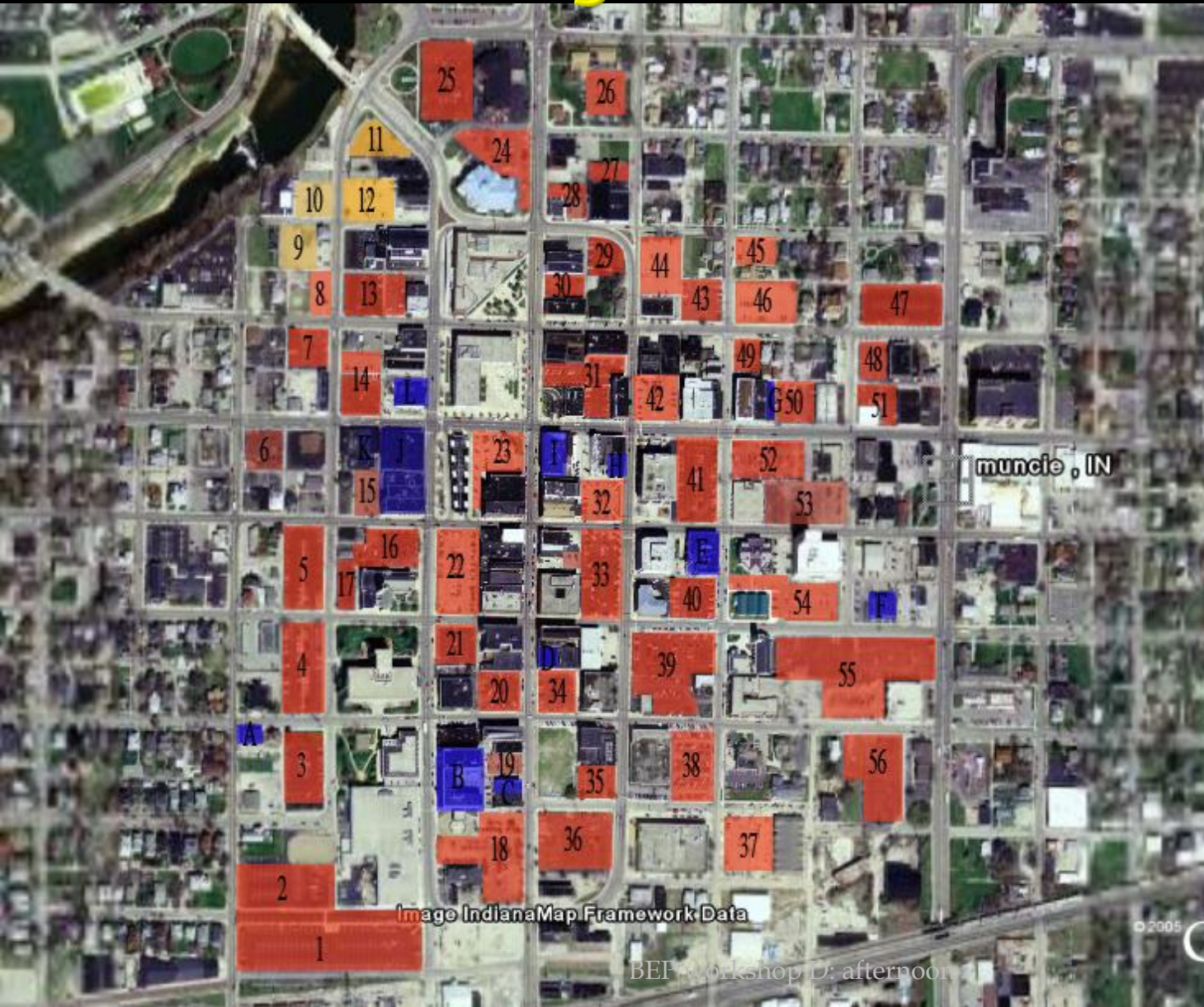
\$4.7 M  
public bonds

Direct impact, discounting  
any indirect impacts



# Parking as the Primary Land Use Vacant Buildings comes in second

Choose land use wisely for transportation and vice-versa



56 parking lots =  
1,216,175 SF

12 under-utilized  
buildings =  
441,425 SF

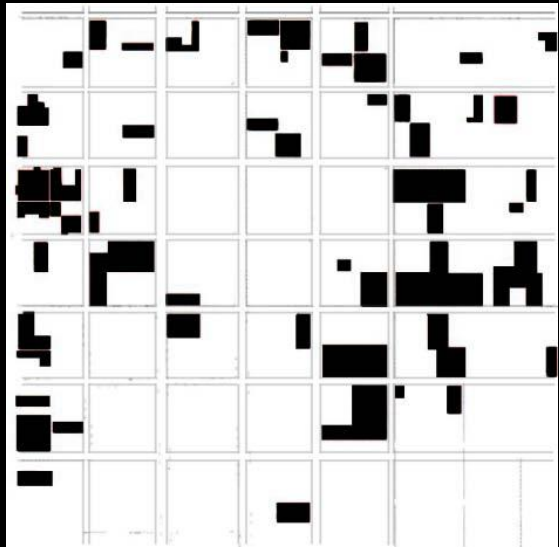
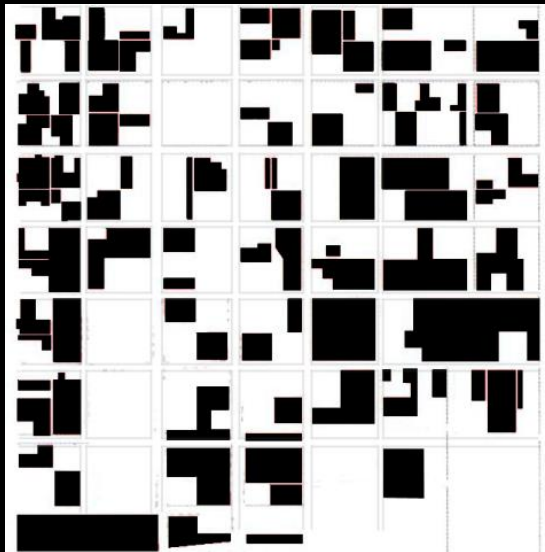
~ 75-80% of  
Muncie's "Heart  
of the City" is  
empty of human  
activity

ROW =  
20-25 % in tract  
subdivisions

30-40% in cities

# History of Parking Muncie Downtown

1996

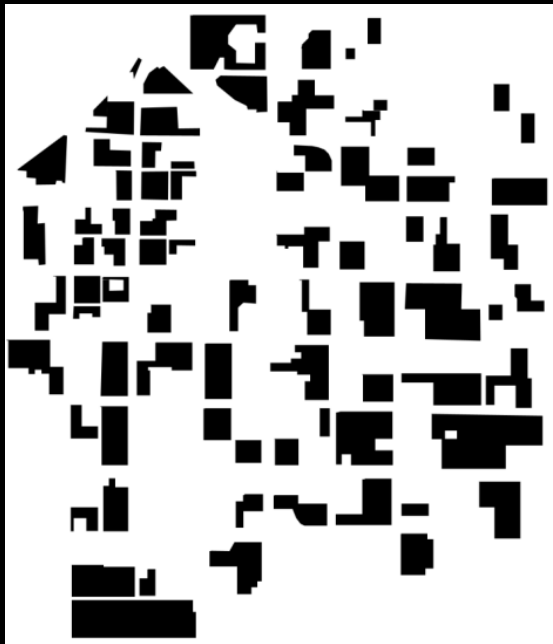


1961



1982

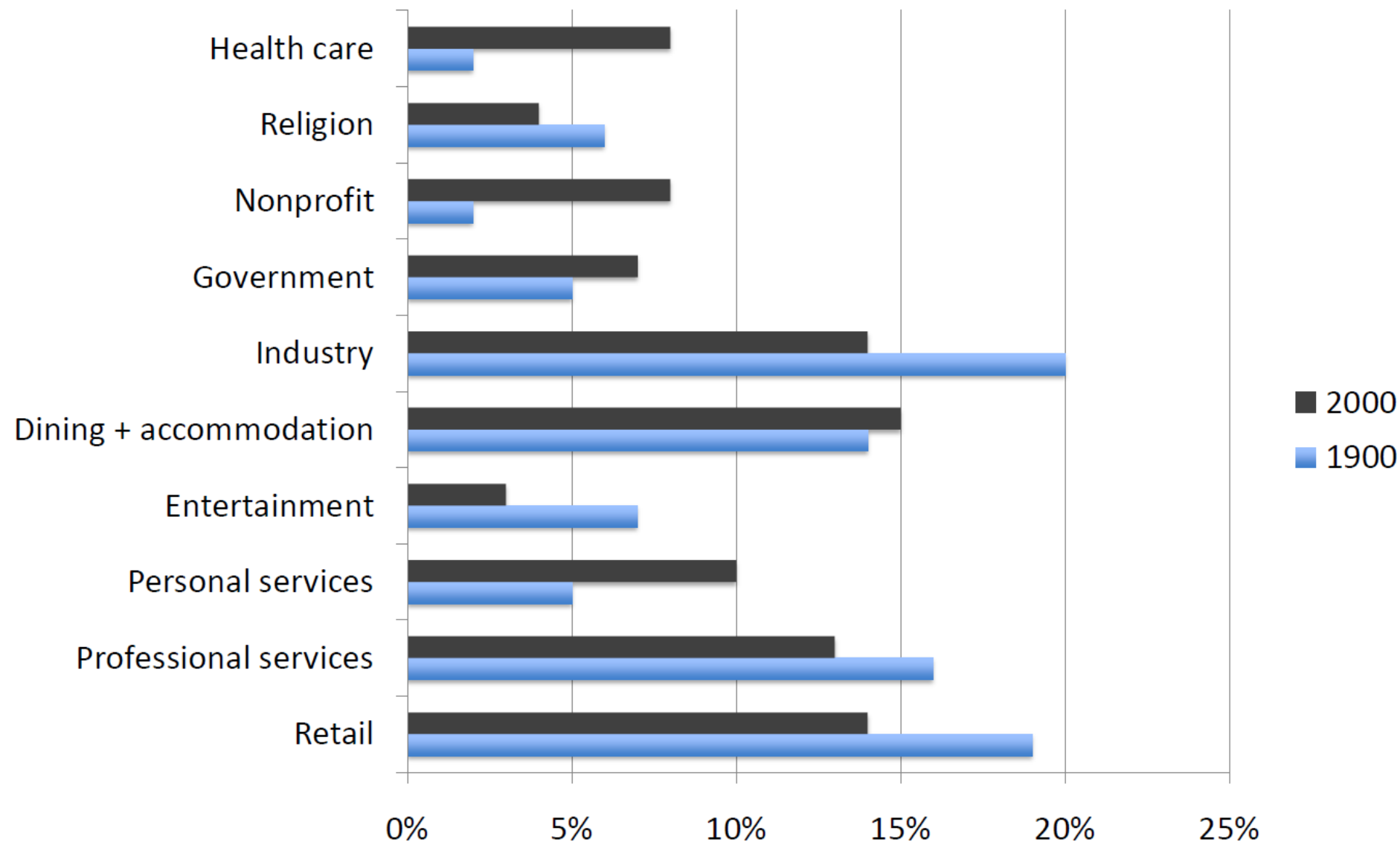
2009



4,700 spaces

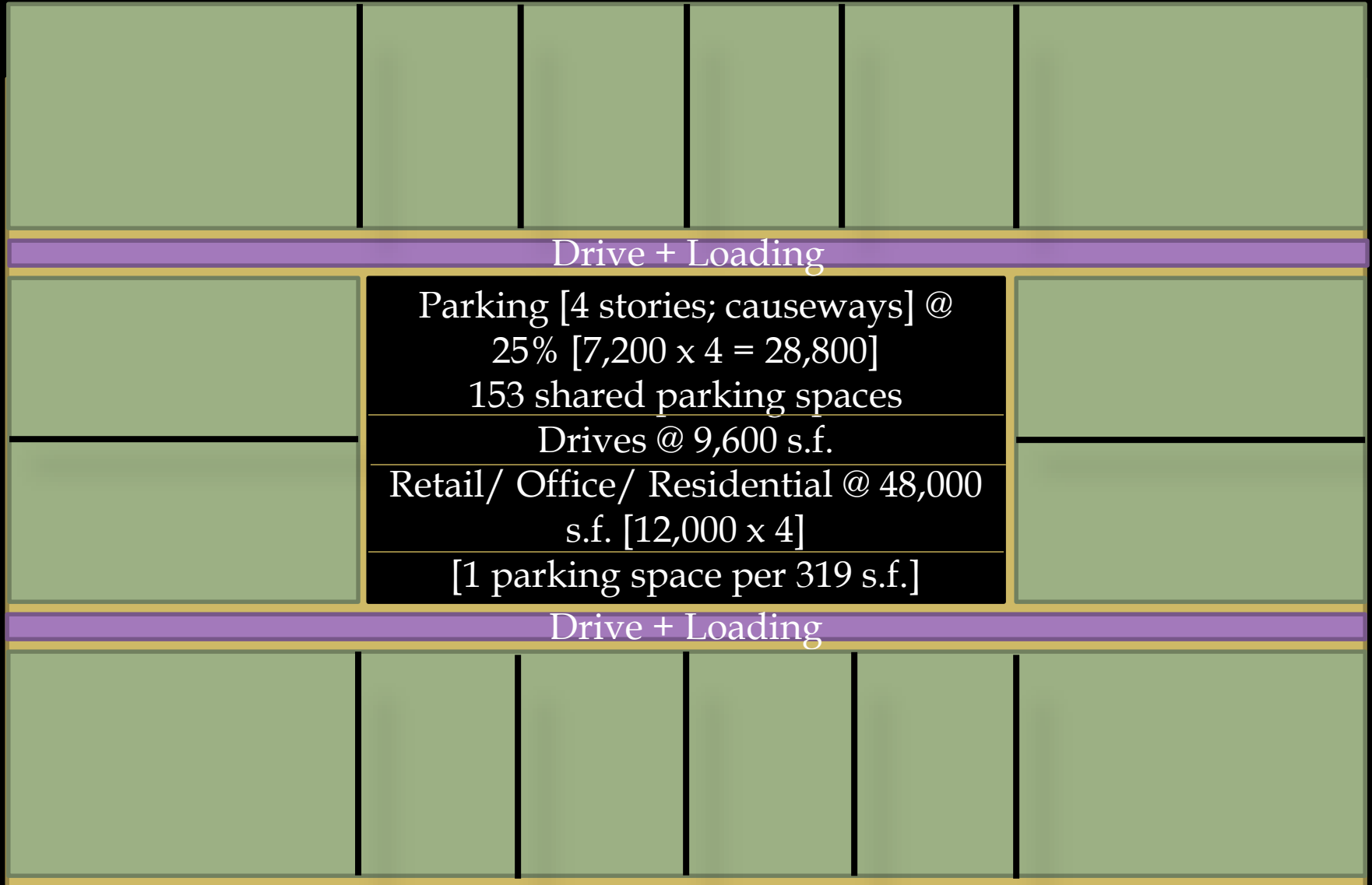


# Changes Downtown Land Uses 1900-2000

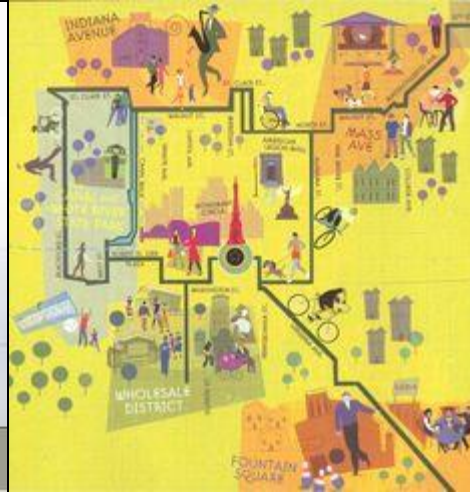


# Frankel Design [oxymoron]

240' x 120' Block = 28,800 s.f.



# 2. Public Spaces - Indy Cultural Trail



8.8 miles  
\$55M  
100% private funds  
No acquisition



after



# Barbara McCann



## ISLANDPRESS

Solutions that inspire change.



### COMPLETING OUR STREETS

*The Transition to  
Safe and Inclusive  
Transportation  
Networks*



### BARBARA McCANN

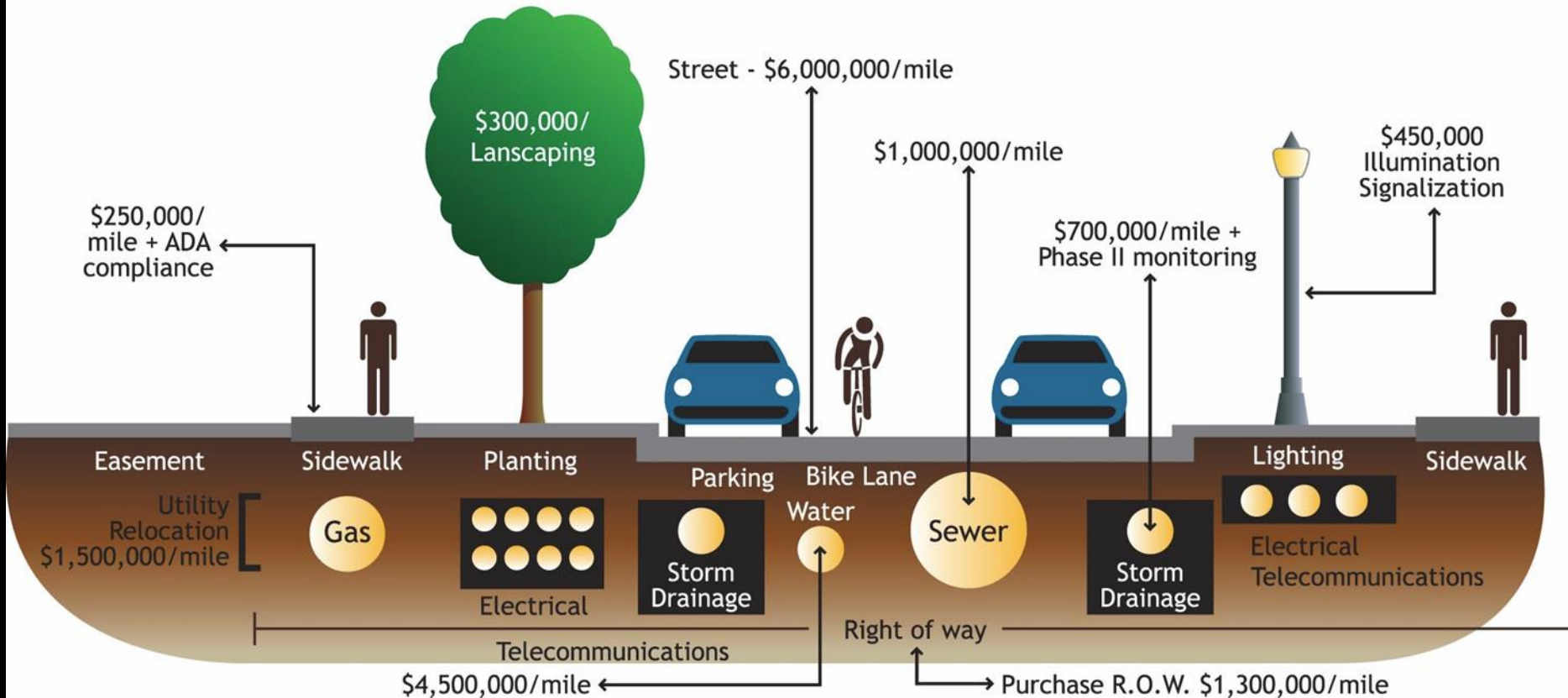


NATIONAL  
COMPLETE STREETS  
COALITION

# Complete Street Costs

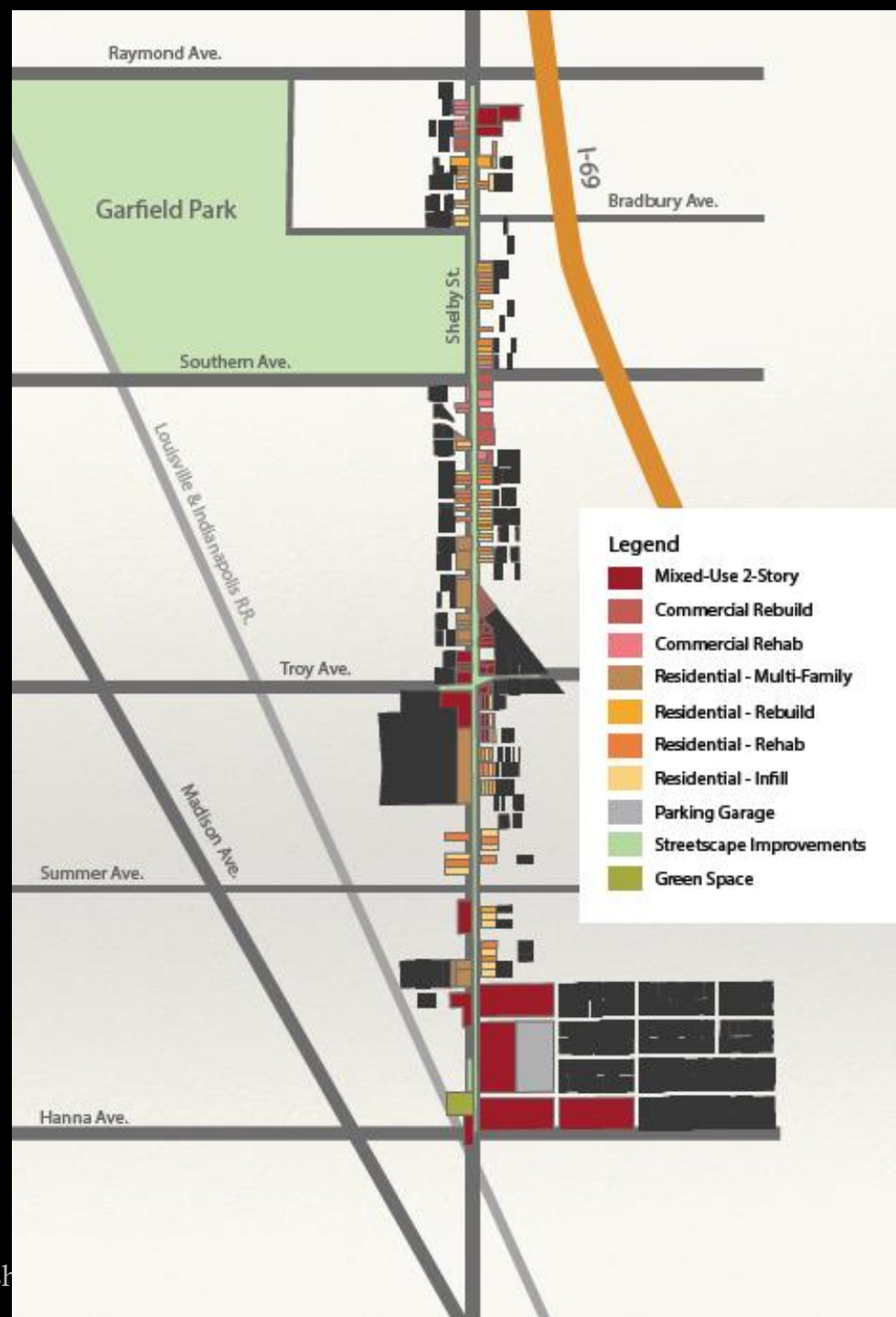
## Typical City Infrastructure Costs Today

City streets are more than pavement.



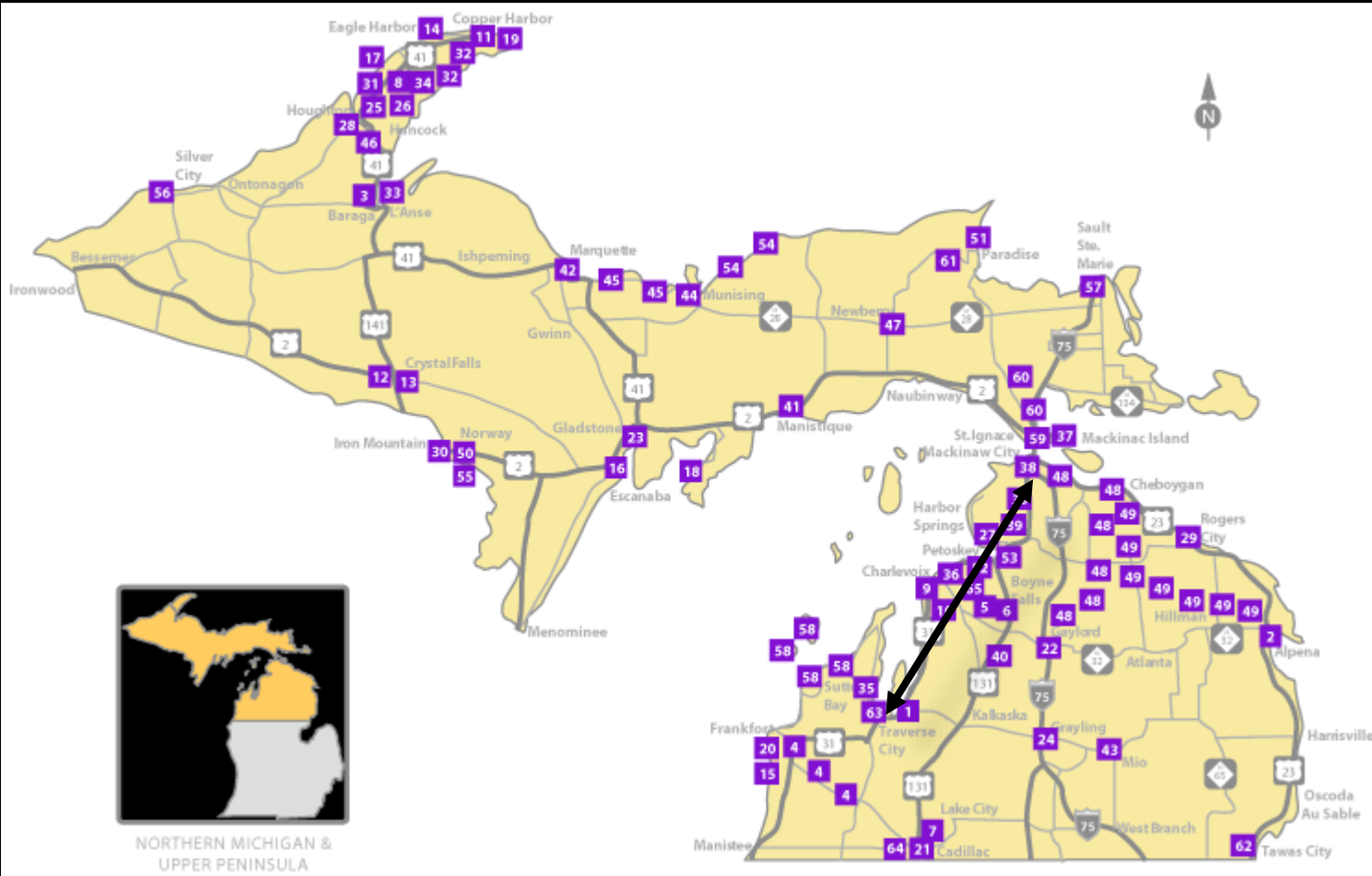
# Shelby Corridor

Connecting  
Garfield to  
Southeast &  
Cultural Trail  
Indianapolis





# Interurban Connecting Trails



Traverse City to Charlevoix to Petoskey

26 miles

ROW of US 31

Heritage Tourism

# PART C: CDBG Turns 40— The Evidence

15 years  
longer  
than  
“urban  
renewal”

## Targeting for Community Development

1974-2014

Neighborhood Redevelopment Strategy Areas [NRSA]

Demise of the Urban in HUD

1949-  
1974 =  
**25**  
  
1974-  
2014 =  
**40**

Why will this work?



# Publications on Website – Influence of Abandoned Properties on Neighborhood Property Values

## Housing Policy Debate

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/rhpd20>

## The Impact of Abandoned Properties on Nearby Property Values

Hye-Sung Han<sup>a</sup>

<sup>a</sup> Department of City and Regional Planning, University of North Carolina at Chapel Hill, Chapel Hill, NC, USA

Published online: 07 Oct 2013.

## Journal of Planning Education and Research

<http://jpe.sagepub.com/>

### Modeling Housing Appreciation Dynamics in Disadvantaged Neighborhoods

George Galster and Peter Tatian

*Journal of Planning Education and Research* 2009 29: 7 originally published online 12 August 2009

DOI: 10.1177/0739456X09334141

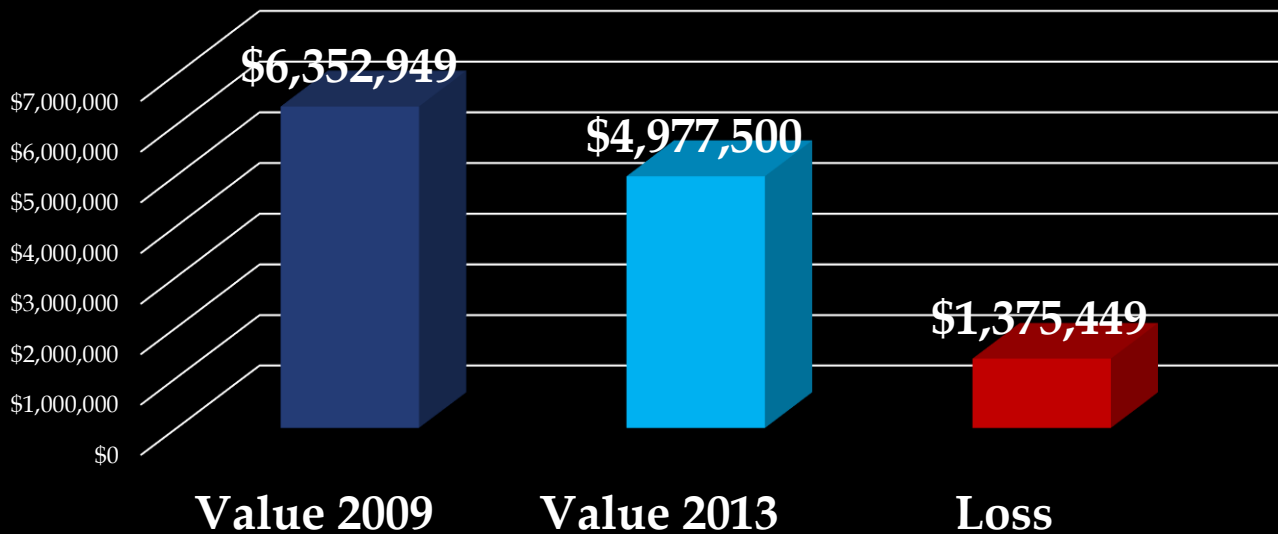
The online version of this article can be found at:

<http://jpe.sagepub.com/content/29/1/7>

April 2014  
Workshop

# Study of McKinley Neighborhood

Aggregate Residential Property Values McKinley Neighborhood



**-22% decline;**  
**-5.4% annual;**  
**-\$138K in taxes**

225 of 282 properties  
excludes demolished [21], vacant land [24], investment  
properties [12]  
Demolitions in 2010 with NSP funds, with exceptions

# Effect of Blight [Vacant & Abandoned] on Neighborhood Property Values

Strategies  
HUD  
Study Set

Website

## STRATEGIES FOR VACANT & ABANDONED PROPERTIES – HUD STUDY SET

HUD, *Evidence Matters: Transforming Knowledge into Housing & Community Development Policy*, Winter 2014

### HIGHLIGHTS IN THIS ISSUE:

- Vacant and Abandoned Properties: Turning Liabilities Into Assets
- Targeting Strategies for Neighborhood Development
- Countywide Land Banks Tackle Vacancy and Blight
- Temporary Urbanism: Alternative Approaches to Vacant Land

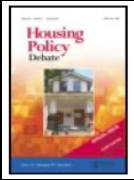
Study Baltimore 1991-2010

- Longer the blight the stronger the effect [value, geographic scope]
- Match strategy to market conditions
- Detroit, Youngstown > 30% vacant & population not stabilizing      Alternative use
- Milwaukee, < 10% vacant & population stabilizing                      Rehab/ Replace

...but, Frankel has a different take

# Publications on Website

## Neighborhood Targeting CDBG for Effectiveness



### Housing Policy Debate

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/rhpd20>

1

### The Community Development Block Grant Program Turns 40: Proposals for Program Expansion and Reform

William M. Rohe<sup>a</sup> & George C. Galster<sup>b</sup>

<sup>a</sup> Department of City and Regional Planning, University of North Carolina at Chapel Hill, Chapel Hill, NC, USA

<sup>b</sup> Department of Urban Studies and Planning, Wayne State University, Detroit, USA

Published online: 28 Jan 2014.

Broad sample



2

### Journal of the American Planning Association

Publication details, including instructions for authors and subscription information:  
<http://www.tandfonline.com/loi/rjpa20>

### Targeting Investments for Neighborhood Revitalization

George Galster, Peter Tatian & John Accordino  
Version of record first published: 05 Mar 2008.

Richmond, VA

Upper right

Study 1, 2, 3

### Housing Policy Debate

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/rhpd20>

3

### Using Community Development Block Grant Dollars to Revitalize Neighborhoods: The Impact of Program Spending in Philadelphia

Karen Beck Pooley<sup>a</sup>

<sup>a</sup> czbLLC, Bethlehem, PA, USA

Published online: 28 Jan 2014.

Philadelphia

### Housing Policy Debate

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/rhpd20>

### Assessing the Allocation of CDBG to Community Development Need

Robert A. Collinson<sup>a</sup>

<sup>a</sup> U.S. Department of Housing & Urban Development, Office of Policy Development & Research, Washington, DC, USA

Published online: 28 Jan 2014.

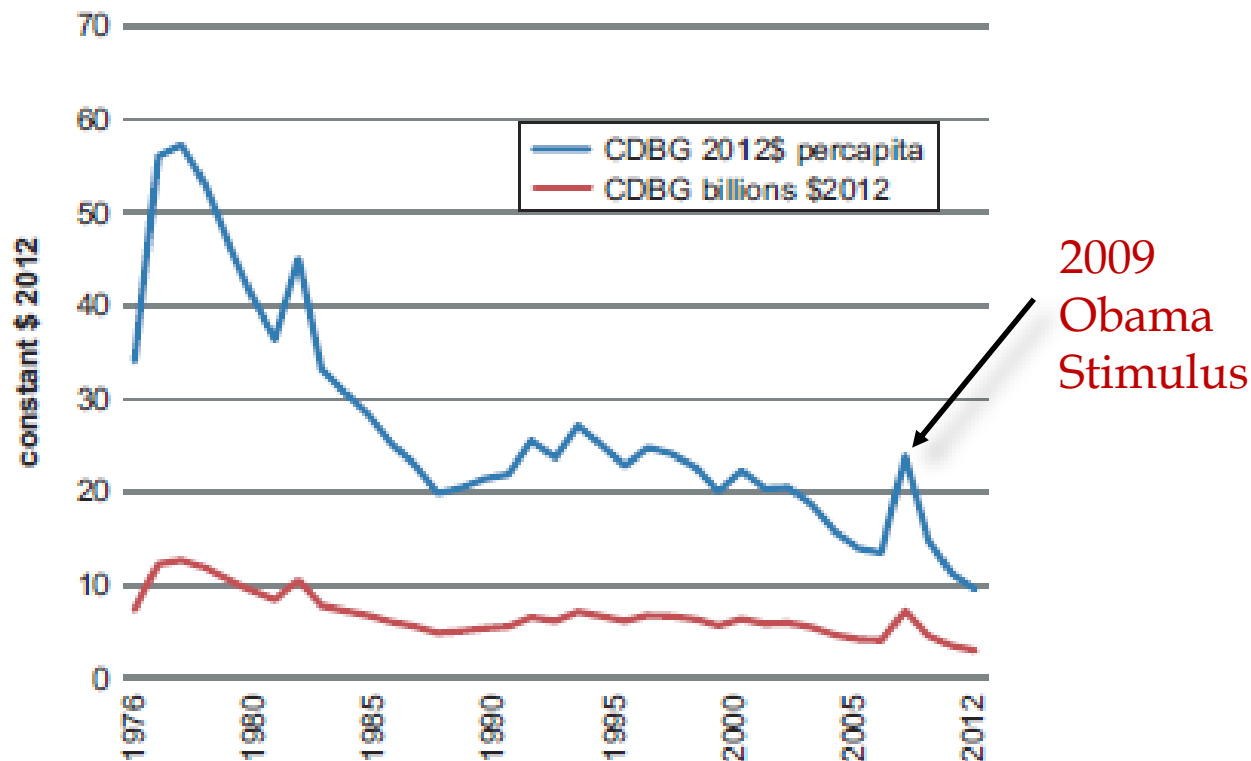
All 2014

# In 2012 Constant Dollars

1978 = \$12.7B [\$57 per capita]

2012 = \$3.0B [\$10 per capita]

Figure 1. CDBG expenditures since program inception.



*Note.* From “Public Budget Database: Budget Authority,” by the U.S. Office of Management and Budget (available at <http://www.whitehouse.gov/omb/budget/Supplemental/budauth/xls>), and “Resident Population Data,” by the U.S. Bureau of the Census (available at <http://www.census.gov/2010census/data/apportionment-pop-text.php>).

# NRSA Targeting

- ▣ 1977 – Congressional oversight noticed not enough targeting
- ▣ 1995 – only 17% expended in NRSA's
- ▣ 1997-2014 - Yet, evidence [5 studies] that private investment requires a minimum investment nearby

e.g., Galster 2004 – 17 cities; Galster 2006 of Richmond; Pooley 2014 of Philadelphia

Feds in favor of targeting; localities when accorded discretion do not target funds

\$100 – 200K CDBG for 3+ years per targeted census tract required for any noticeable leveraging

# Targeting Works

- ▣ 4 recent studies 2001-2006 that targeting works
  - New York, Denver, Portland, Camden
- ▣ 1984 blighted Chicago neighborhoods
  - Critical mass of 1/3<sup>rd</sup> neighborhood receiving investment to induce private market
- ▣ 1979-1981 of CDBG/HOME
  - 20 cities, 30 NRSA's
  - Conditions improved markedly with > average concentrated [per block] investment
- ▣ 2004 CDBG
  - 17 cities during 1990's
  - Again, > average expenditures have impact

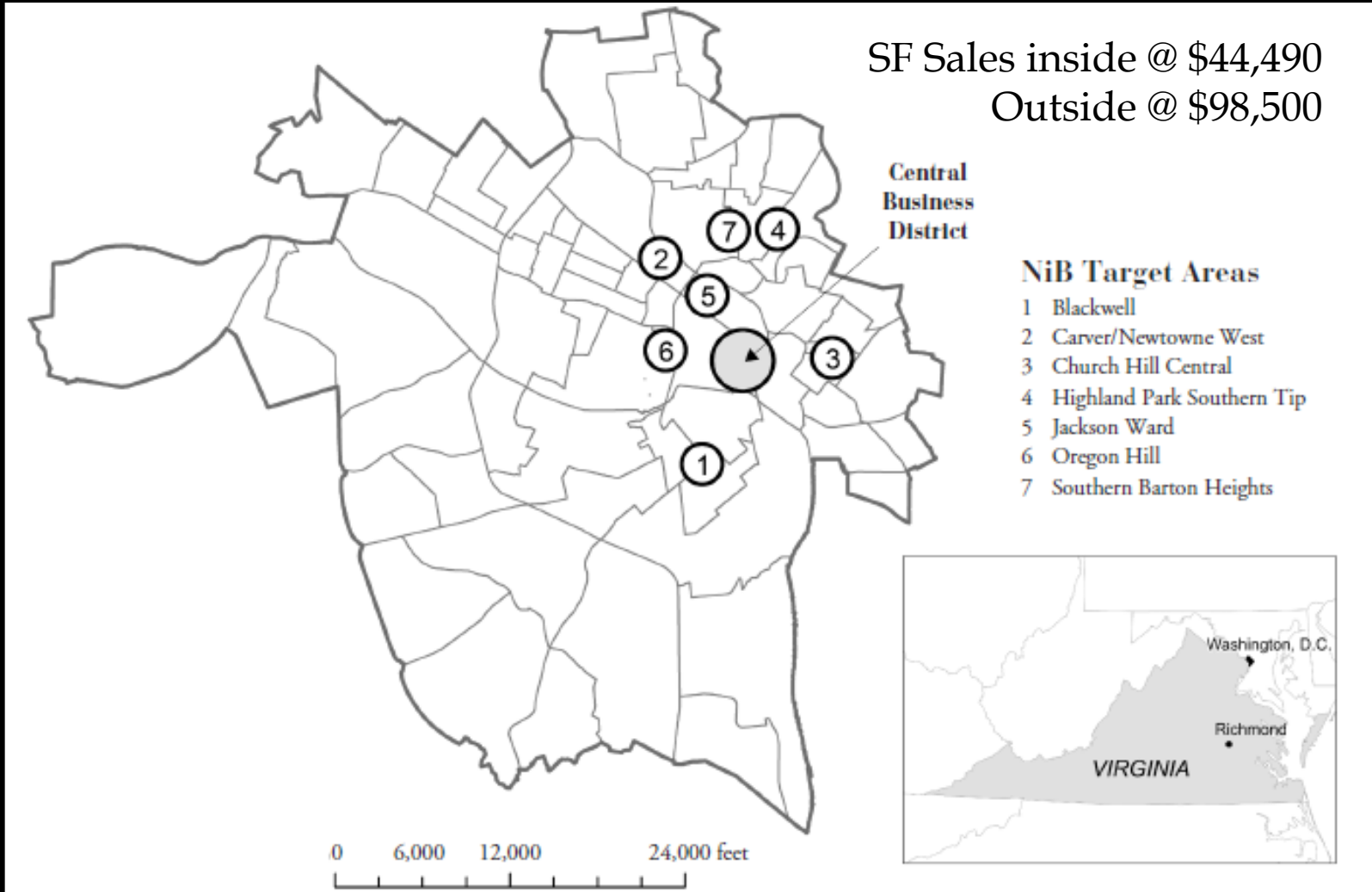


# 1999–2004 Richmond's Neighborhoods in Bloom [NiB]

- ▣ 49 neighborhoods categorized:
  - A. **Redevelop** – extensive problems, few assets
  - B. **Revitalize** – significant decline but some assets
  - C. **Stabilize** – marginal decline but considerable assets
  - D. **Protect** – few problems, good assets, but requiring reinvestment
- ▣ Block-by-block in 7 neighborhoods
- ▣ Identified a critical mass of CDBG/ HOME + LISC investments to induce private leveraging & housing appreciation




# NiB Neighborhoods



# The Investment 1999–2004

- ▣ Targeted CDBG/HOME \$13.9M [only \$2.7M outside]
  - Acquisition 27%
  - Demolition 2%
  - New construction 25%
  - Rehabilitation 46%
- ▣ LISC \$4.7M targeted
  - 2/3<sup>rd</sup> single family housing
  - 1/3<sup>rd</sup> commercial



Over 10 years from just SF home rising assessments controlled for this program the City received \$13.2M tax increment

# The Impact over 5 Years By Home Values

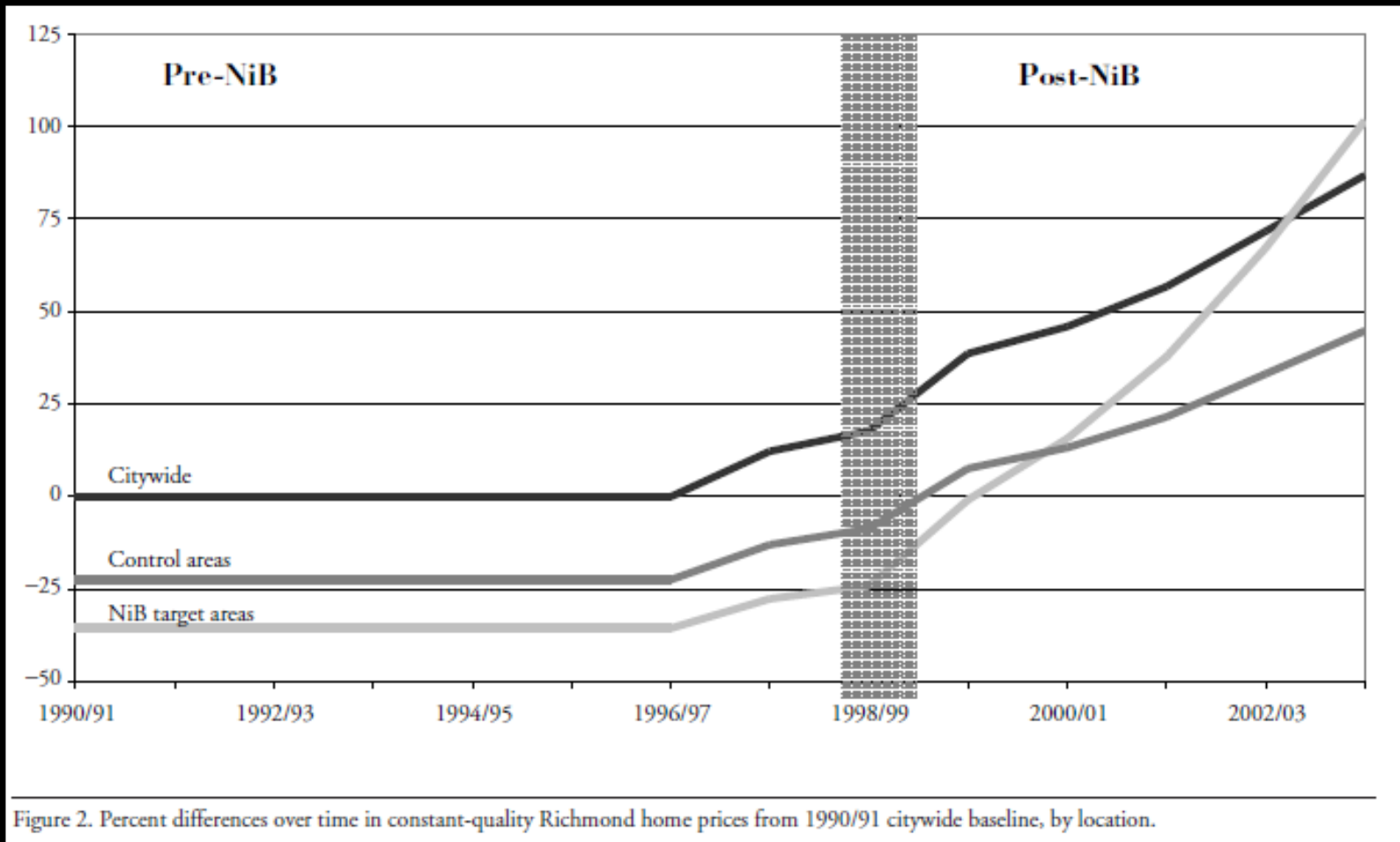


Figure 2. Percent differences over time in constant-quality Richmond home prices from 1990/91 citywide baseline, by location.

# The Home Value Impact By Intensity of Investment

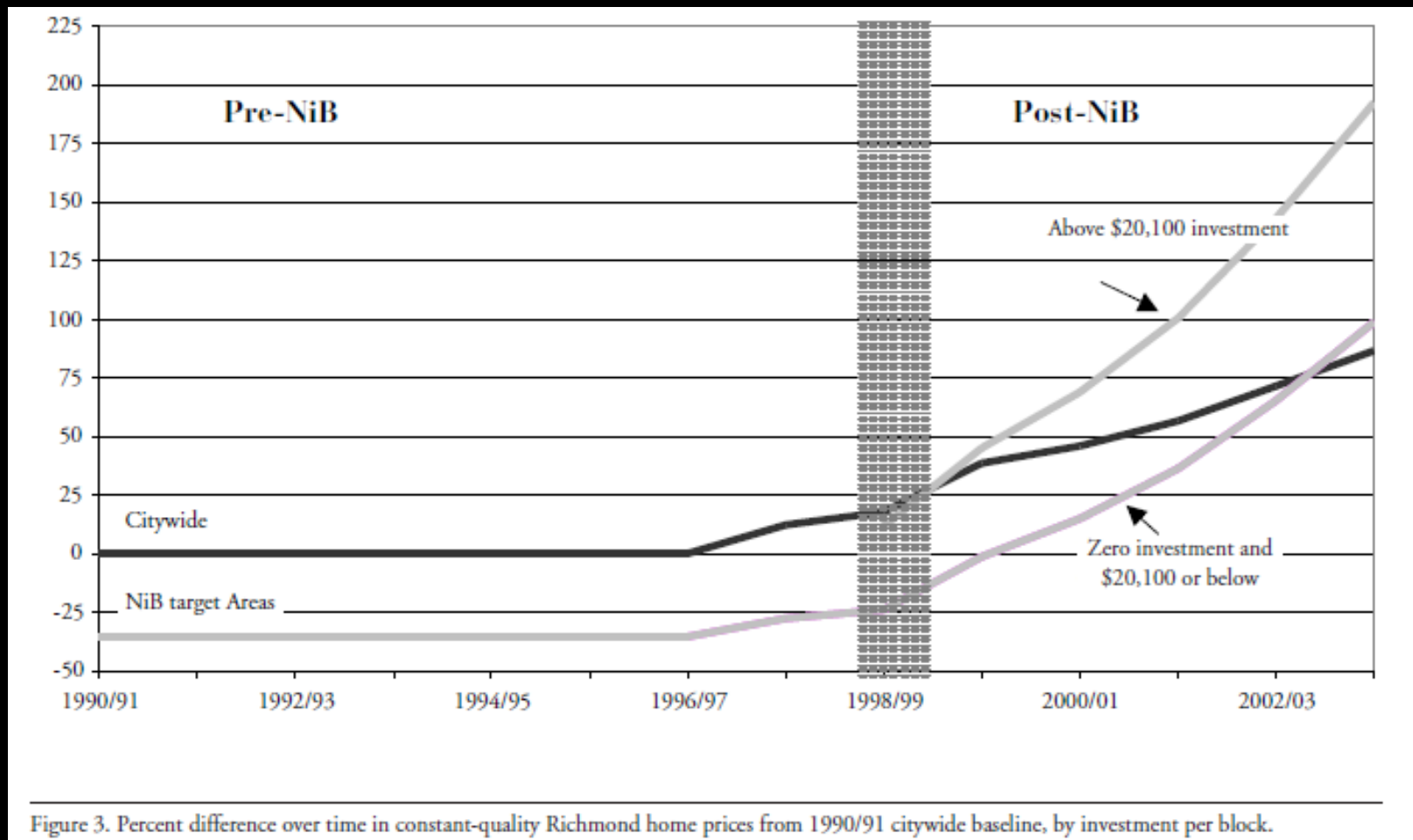


Figure 3. Percent difference over time in constant-quality Richmond home prices from 1990/91 citywide baseline, by investment per block.

# NiB Thresholds

Richmond average  
48 blocks per  
census tract

- ▣ 12 census tracts over 5 years @ \$297K/ c.t.
- ▣ 300 blocks over 5 years @ \$30K/ block

Fall Creek Place = 26 blocks  
26 \* \$30,000 = \$780,000  
In reality = \$33M over 4.5 yrs.

Richmond  
2000  
population  
@ 197,753

Galster found  
**\$20,100** per block  
over 5 years  
[2006]  
OR  
**\$86,737** annually  
per block over 3  
years  
[2004]

Vary by  
neighborhood  
conditions;  
investment  
must be highly  
visible and  
perceived

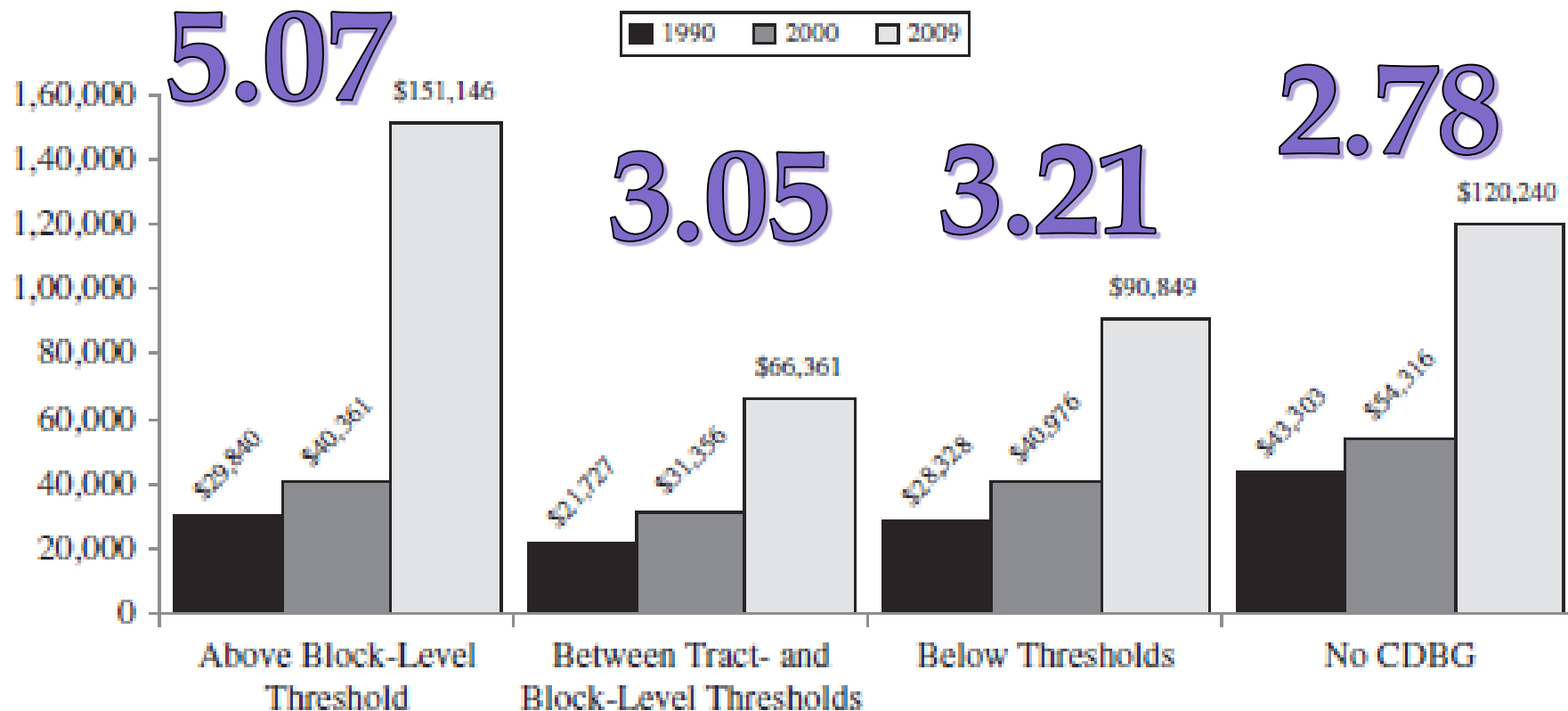


# Philadelphia

- ▣ 1990-2009 [20 years]
- ▣ 39 targeted Census Tracts
  - 21 above threshold
  - 9 \$260,211-964,800
  - 9 below \$260,211
- ▣ 318 outside targeted c.t.'s = control group
- ▣ 5 years targeting on 20 years property values
- ▣ CDBG/ HOME/ HOZ/ HOPE VI/ Sec. 108 sureties Mayor John Street Neighborhood Transformation Initiative 2002 - \$295M bonds]
- ▣ Threshold =
  - \$965K over 5 years
  - Homesteads and mix of tenure types over rental housing

# Impact on Property Values

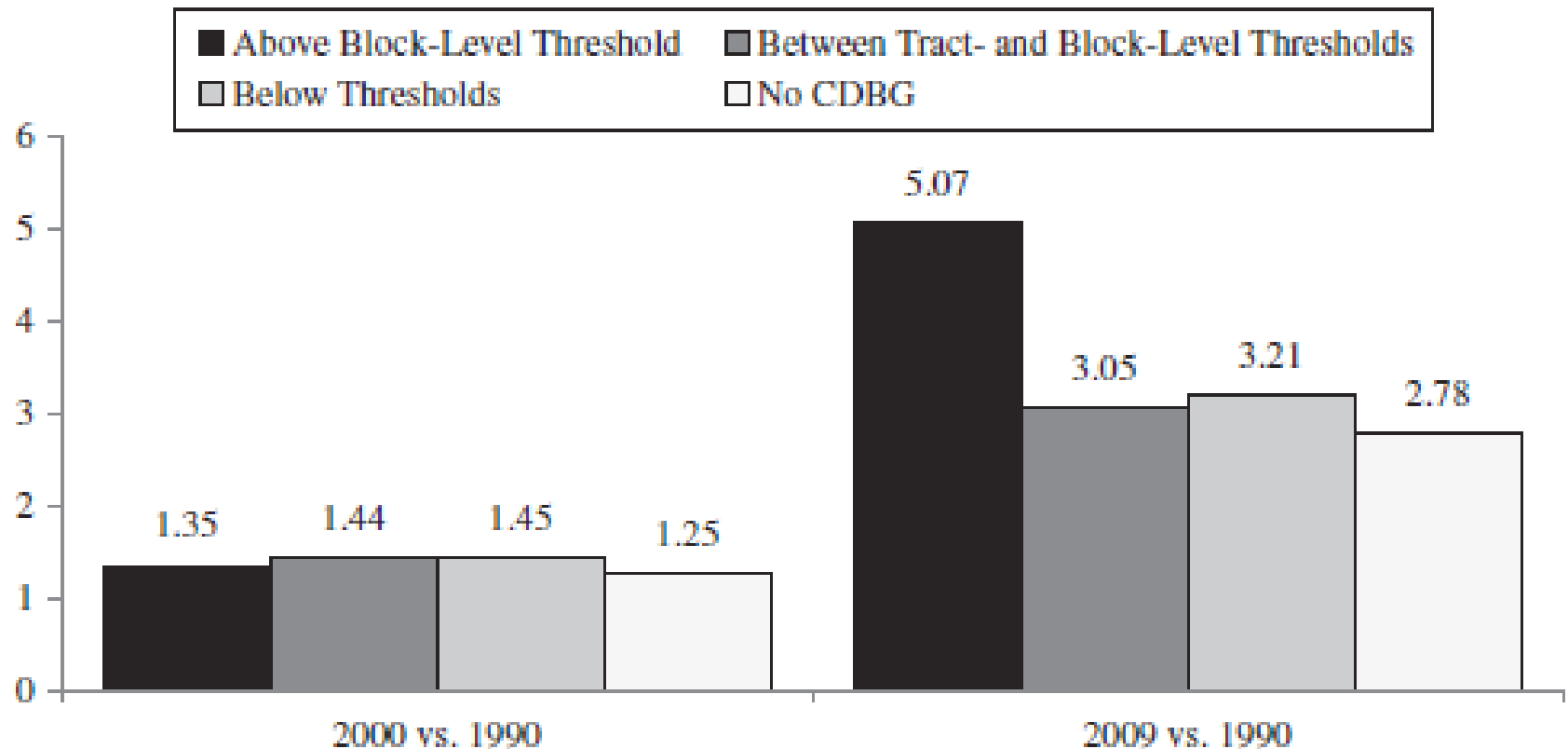
Figure 1. Average value by year and census tracts' level of CDBG investment.



Ratio Values 2009 / 1990 in bold

# Relative Impact Before & After Investment

Figure 2. Average value trends (1990s, 2000s) by census tracts' level of CDBG investment.



# PART D:

PPP as never before

## Business Plan

1. “How” as important as “What” & “Why”
2. Feasibility
  - a. Legal
  - b. Market
  - c. Finance
  - d. Operational
3. Required Subsidy
4. Required for Effective PPP

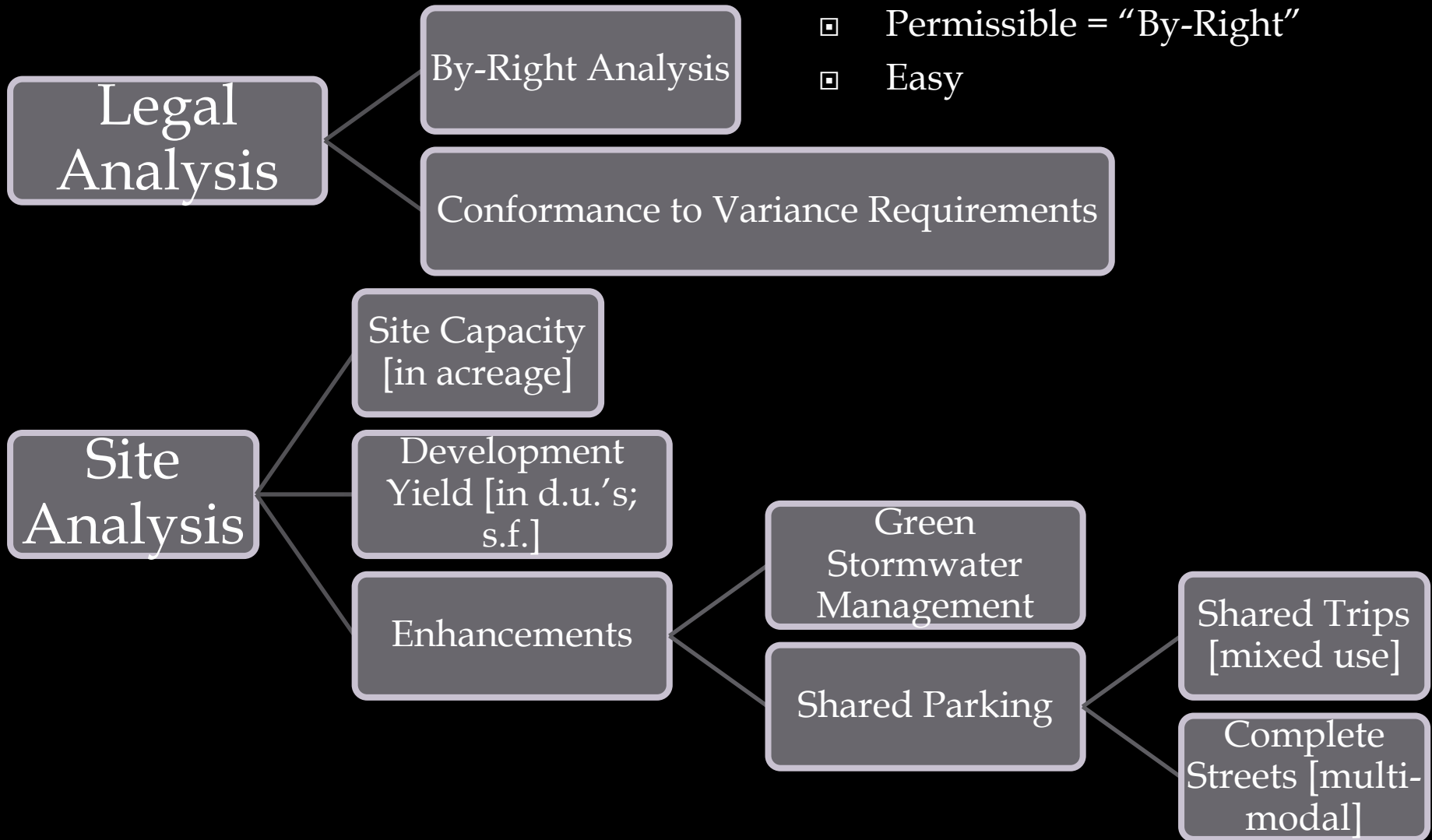
**The devil,  
as always,  
remains in the  
details.**

# “How” is missing from Plans

- ▣ What? = architectural program = development
- ▣ Why? = development impact
- ▣ How? = development feasibility
  1. Legal
  2. Market
  3. Financial
  4. Operational

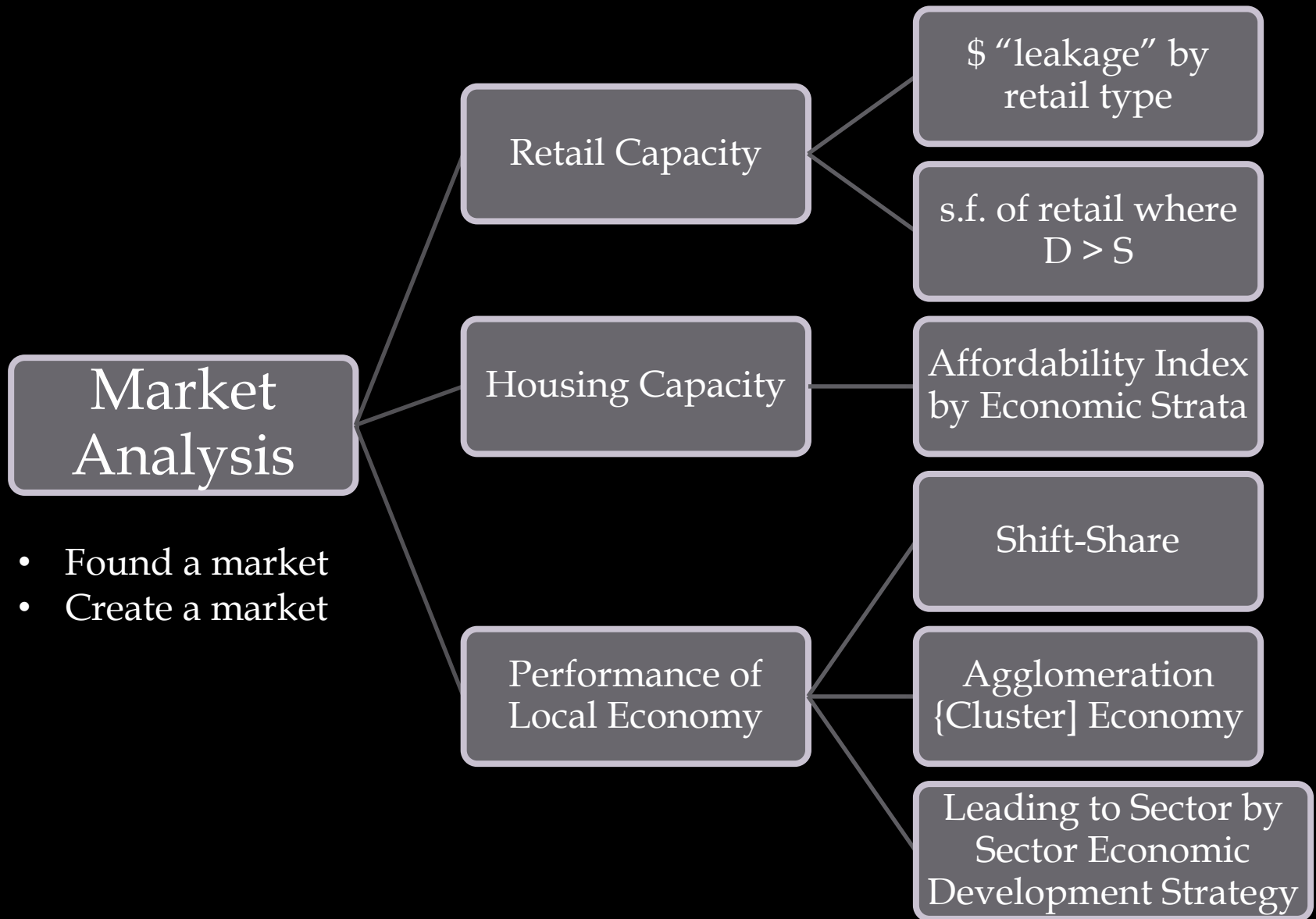


# 1 Frankel Calculators - Legal & Physical



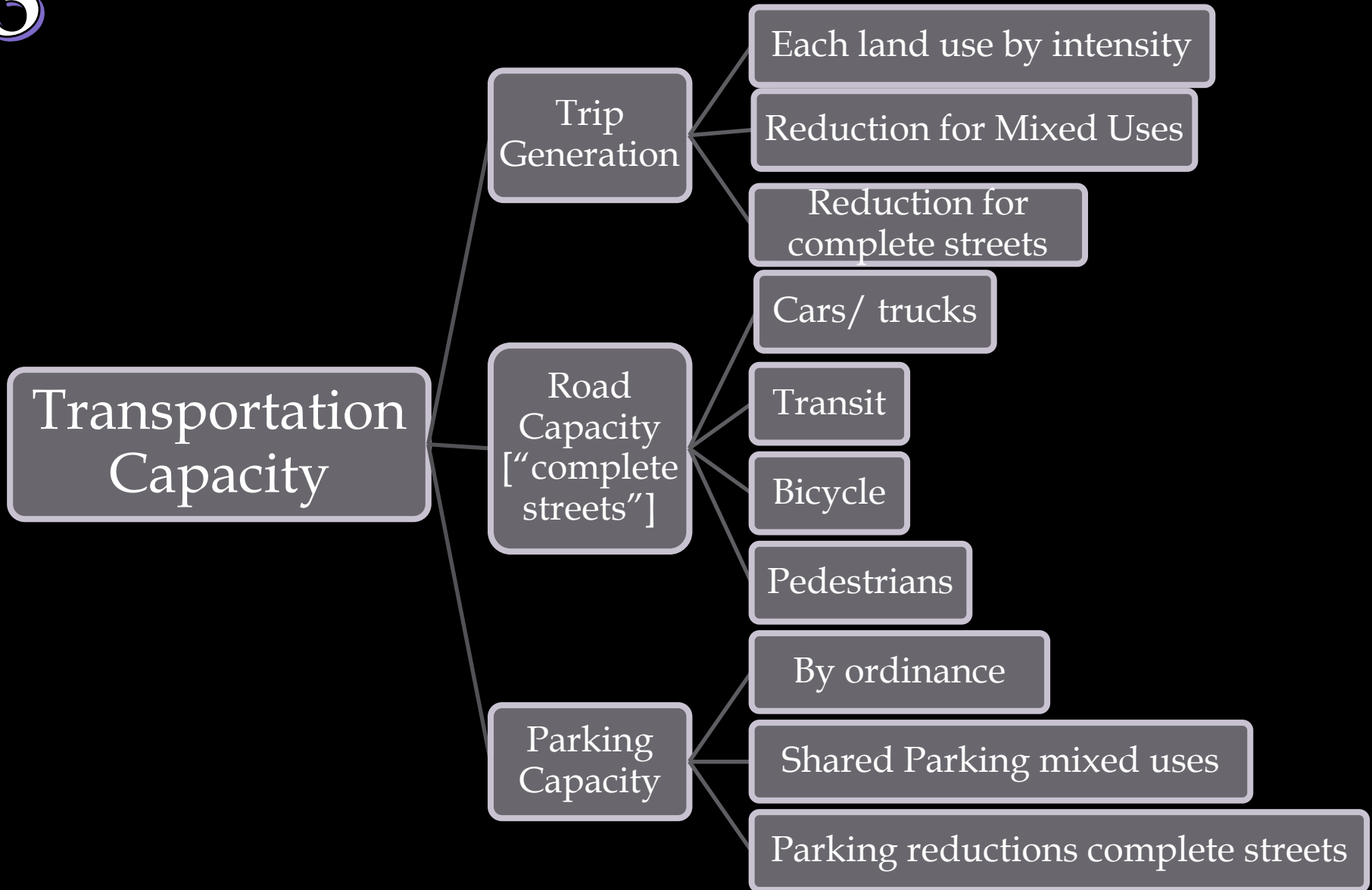
# 2

# Frankel Calculators – Market



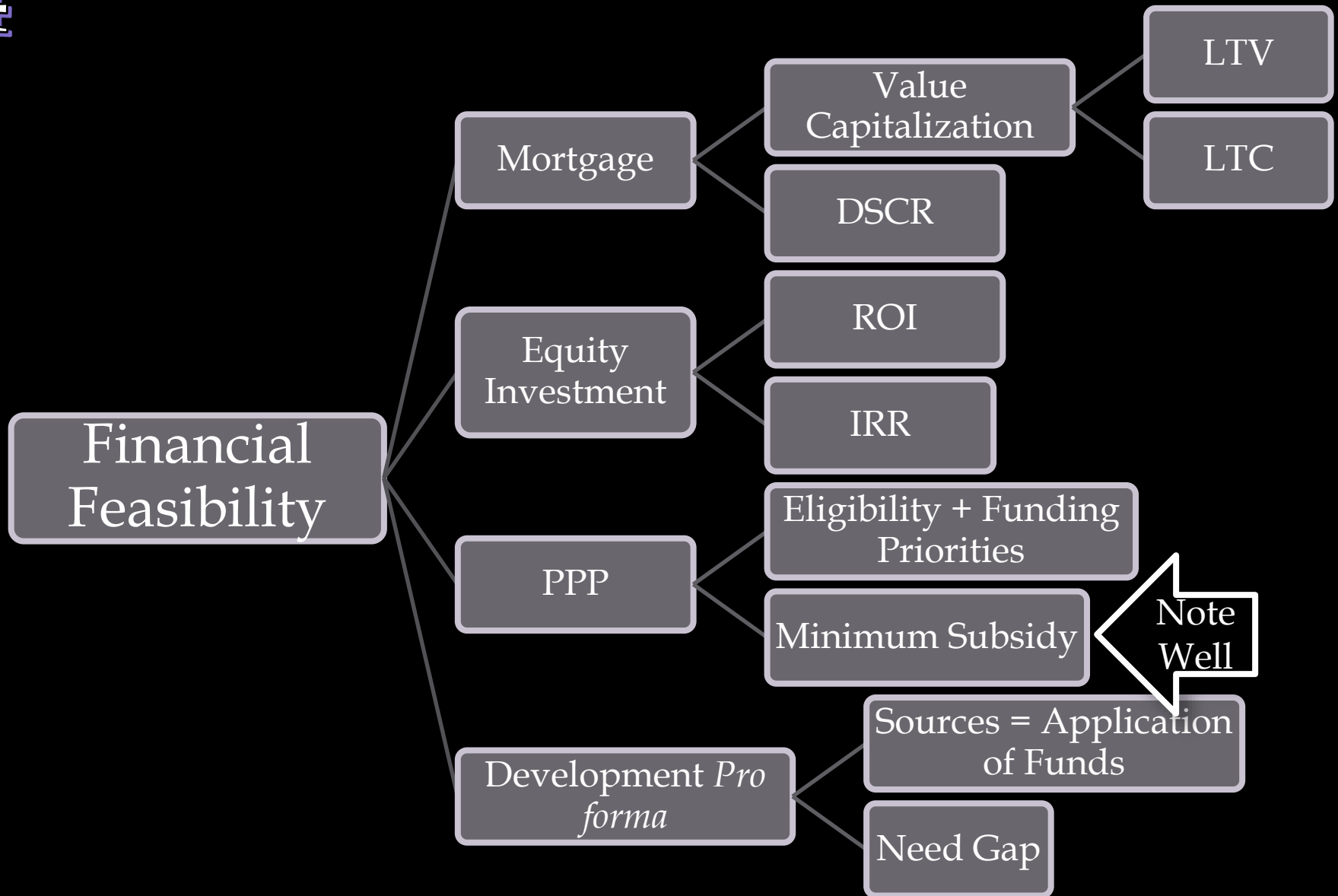
# Frankel Calculators – Transportation

3



# Frankel Calculators - Financial Feasibility

4



Come prepared for  
your PPP!

# Financial

## Current State-of-Affairs

Government bids for vendors cf. Vendor bids for governments

JW Marriott – Indianapolis

Tesla Motors Auction involving 5 states

## Need Gap Analysis

Mortgage Underwriting

Equity Investment Underwriting

Minimum Requisite Subsidy





# “Progress” PPP 1969, 1992, 2011

1. How do you determine how much public subsidy ...& equity?

## Muncie Mall 1969

- Simon pays taxes to TIF trust
- TIF pays Simon as bond-purchaser



## Circle Center Mall Indianapolis 1992 with Simon

- \$187 M capitalized through TIF as “project-based”
- City owns garage



## JW Marriott Hotel, Indianapolis [opened 2011]

- \$48.5 M City subsidy/ \$450 M [30-40% subsidy nationwide]
- “district-based” TIF
- Paid for garage + part of hotel with tax-exempt bonds
- Marriott owns both



9-1-2014

# Tesla Motors

- ▣ Prize
  - \$5B factory
  - 6,500 jobs [well-paying]
- ▣ Price
  - Minimum subsidy floor of \$500M [10%]
- ▣ Competition [known]
  - TX
  - NV ← winner
  - CA
  - AR
  - NM



Rich Pedroncelli

Where is the public's equity?

\$1.3 B in tax breaks + incentives

## Demands:

1. "Green" energy such as solar or wind at a low cost
2. Affordable and well-trained labor force,
3. Good transportation links to Tesla's Fremont assembly plant
4. Robust package of incentives.

# Smarter PPP's

## Indiana General Assembly

- HB 1020: Study of **economic development** incentives
- Anomaly of best “tax climate” without “best economy”
- Is it all supply side? Who's the bidder and “biddee”?

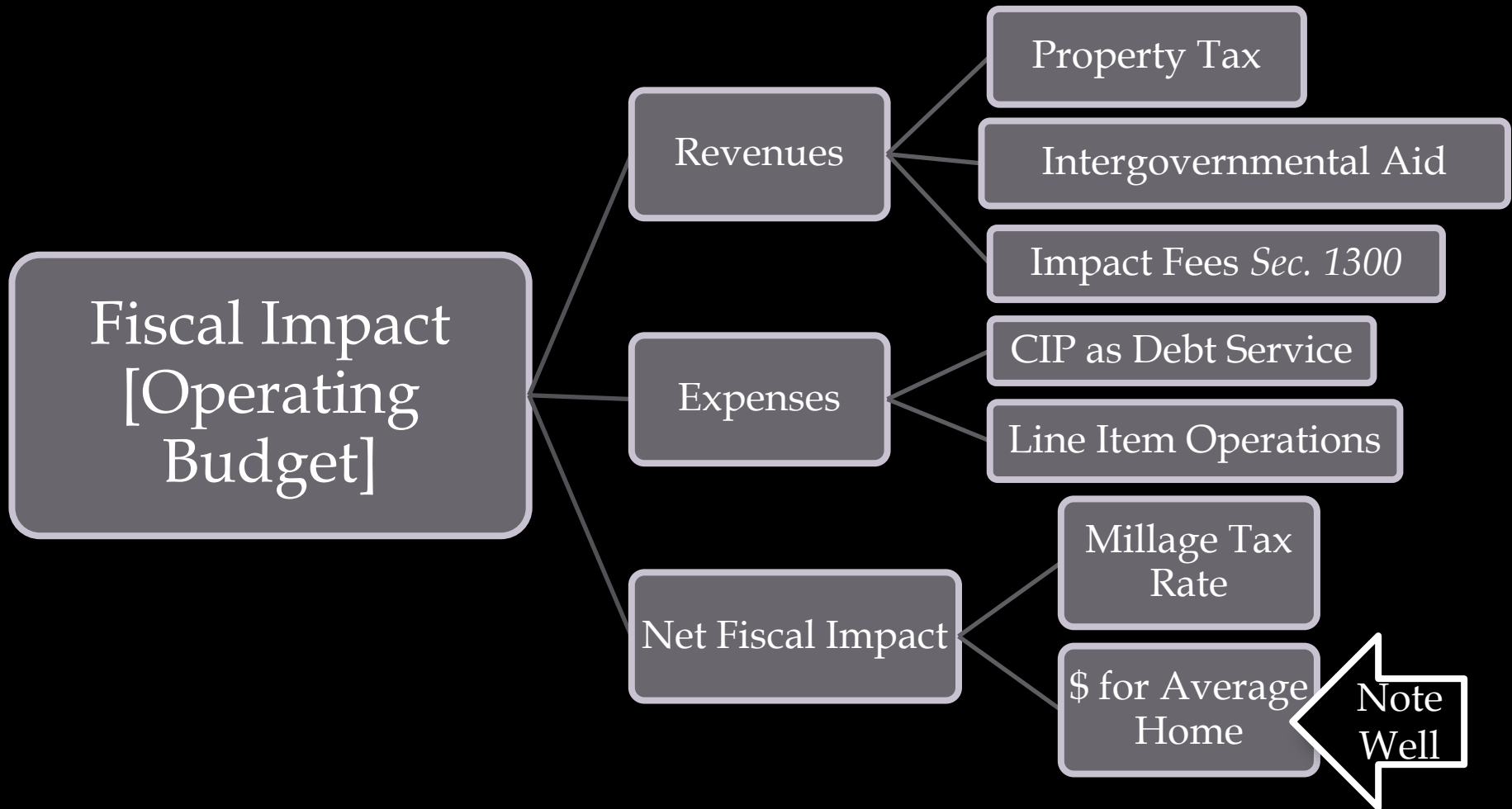
## METRO + Tri-Met Authority, Portland, OR

- 2 states, 3 counties, 26 governments
- “Value Capture”

## Faneuil Hall, Boston

- 1762, 1992
- James Rouse - master lease and developer
- City has “participating lease”

# Frankel Calculators - Fiscal Impact



Consider: without a commitment it does not become part of the plan

# Operational

Actionable plan

Organizational plan

Objectives/  
Tasks

Responsible  
Parties

Resource  
Requirements  
[\$ Budget +  
volunteers,  
donations,  
commitments]

All in a time  
sequence



# Project Business Plan

Above slides Part D with a strategy

# Thank you!...Stay in touch!

Means of contact:

*Bruce Frankel*

*Professor of Urban Planning*

*Director Real Estate Development Programs*

*Department of Urban Planning*

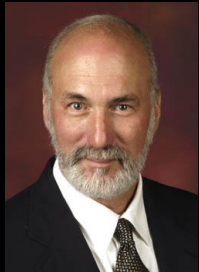
*AB 307*

*Ball State University*

*Muncie, IN 46306*

765-285-5869

[bfrankel@bsu.edu](mailto:bfrankel@bsu.edu)



<http://www.877gethope.org/blig>

<http://www.in.gov/ihcda/2340.ht>