Community Development

An Honors Creative Project (HONORS 499)

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Abstract

It is sometimes difficult to see the potential for improvement within the community in which you live. It is easy to appreciate your surroundings for what they are but looking beyond and seeing what it could be is not an everyday occurrence for residents of most communities. We become complacent with our lives and the place that we live which ultimately is detrimental to those very communities. Redeveloping those areas can only be accomplished when residents recognize the need and identify a direction for redevelopment.

Muncie and Ball State have incredible potential to provide students and residents with a new and improved community experience. I did not hesitate to join in the effort to “redefine” the Village area in Muncie.
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Introduction

“Urban renewal and redevelopment” is a term that megacities such as Chicago and New York are all too familiar with. Development commissions in cities such as these oversee many projects each year in struggling areas of the city. Many communities deteriorate in condition if they are not kept up to the highest of standards with leaders in place that will push forward initiatives for continuous improvement. This is especially true around college campuses considering the influx of residents during the nine month portion of the year when school is in session. Students have specific needs that the community should strive to deliver in order to grow that student population each year. In many university towns, the community and university have a symbolic relationship. The community thrives by catering to the needs of the university community. Places like the University of Illinois, University of Michigan, and The Ohio State University have implemented plans to build up the surrounding areas in an effort to increase populations while also increasing revenues for the city. Looking at community projects, such as the ones undertaken by these Universities, we can gain a better understanding of the economic impact of such vast improvements. The university community represents a large market which is underutilized and underserved and is a force that has the ability to improve the economic standards of most college towns.

The Ultimate Goal

The initial thought for urban renewal or community development was to only focus on the physical form. The goal for any community development project should not solely be to raze the area and build new structures as this does not truly redevelop the neighborhood but instead keeps the same neighborhood within new buildings. The true goal for a community
redevelopment project should be to encourage new attitudes and lifestyles as well as the physical transformation of the area.

These new lifestyle changes can be instituted in various ways. One initiative that has the ability to change neighborhoods is the integration of people from many backgrounds and experiences. In the plan we created, specific groups of people are not confined to certain areas but rather each area has an intended use with no clear boundaries. The open spaces within these areas also allows for the intermingling of each group with one another through various activities.

The concept of urban or community development, like any such project, needs to be defined clearly from the beginning. It could be slightly different depending on the location or demographics but in general the thought should be the same. Community development should concern bringing people together and creating a new lifestyle, not only building new structures for these people to inhabit. Without an entirely new outlook, neighborhoods will eventually fall into the same states of disrepair and the ultimate goal will not have been achieved.

University Involvement

One of the goals of the Ball State University Strategic Plan is: Ball State University will address local, state, national, and international needs through activities that foster collaboration and mutually beneficial relationships with its diverse constituents. Through this goal of the strategic plan, Ball State seeks to offer different educational, cultural, and economic development programs which will improve communities across the nation and world, not just Muncie. Ball State can test these programs in Muncie so as to offer proof that these programs work in economically distressed areas where there is significant room for economic improvement.
Along with this goal comes another goal of the Strategic Plan: Ball State University will improve the university community's quality of life. In achieving this goal, there are several objectives which have been laid out. Wellness programs, service-oriented culture, athletics, and construction and renovations on campus are just some of the ways that this goal can be implemented. These objectives are expected to positively impact community development.

The exact economic impact of these generalizations is hard to judge but is sure to be positive. Partnering the University with various entities (for-profit organizations, community development organizations, and government agencies) will benefit not only the partners but also the community as a whole, increasing quality of life for community residents. The vitality and quality of life of the student population is of utmost importance to any university. This belief is clearly stressed within the Ball State University Strategic Plan. In the coming years, Ball State is sure to make great strides encouraging projects that will cater to the changing needs of the student population and making a positive impact of the city of Muncie.

A Plan for Muncie

The neighborhoods surrounding the university were examined and classified into nine distinct areas (Exhibit 1). A combination of two areas, Ashland Street to the north, Jackson to the south, McKinley to the west, and Dicks Street to the east, was the area studied most intensively. After studying the neighborhoods surrounding the University, this area was deemed to have the most room for improvement and seemed a logical place for beginning as it is a hub of evening and weekend activity for much of the campus community. After improving this area, surrounding neighborhoods could be revitalized in a similar fashion over time. The hope is that by improving these neighborhoods, other areas would be nearly obligated to improve on their
own to compete with units in this area. Landlords would have higher standards, keep their properties in better shape and in general show a more concerted effort of caring about the Ball State community and Muncie.

Absentee ownership in this area is rather high with only a handful of owners living in the homes they own. This tends to deteriorate the quality of homes and apartments which then brings land values down for the entire area, not just that property. This has a domino effect for the city by lowering the property taxes which then means that there is less funds to use for street improvements and other city obligations. By turning these homes back over to their owners there is more of a pride factor that comes into play and the desirability of the area rises as well.

With the help of other students, predominantly Architecture and Urban Planning students, a basic plan was arrived at for the study area (Exhibit 2). This plan brings in a higher quality of architecture as well as an entirely new experience for residents which will not allow for landlords or owners that allow properties to fall into disrepair but instead increase the values in every way.

**Financing**

In any major project, financing is one of the biggest considerations to make. Virtually everyone in the area of discussion will see the benefits of the changes but few will be willing to put forth the funds and time necessary to get these projects underway. One option available that many cities choose to use is called Tax Increment Finance (TIF) districts. There are various ways to go about organizing these districts and the flexibility is nearly endless as different agreements can be made between the state and the proposed district.
The basic framework of a TIF district is that the redevelopment commission receives the incremental property tax revenue from new construction in an area for a specified period of time. The city, county, or state continues to receive tax revenue at the current rate until the end of the period when they start to receive the whole amount. These funds would then be invested back into the project for various uses. The funds can be allocated for different uses including the financing of infrastructure, land acquisition, site improvements and other improvements. In this way, the state allows for the flexibility necessary to maximize possible improvements.

To establish and receive TIF, there are a number of simple steps that must be taken. Firstly, a redevelopment commission must be created by the locality wishing to receive funds in this way. Secondly, a formal plan must be made for the area to be developed, including architectural renderings, floor plans, as well as site plans. After this plan has been created, a resolution declaring the area and approving the plan must be adopted by the commission. The next step is for this plan and resolution to be approved by the local planning commission and then the city or town council or the county commissioners, depending on the governmental structure. The final step in the process is to conduct a public hearing and adopt a confirmatory resolution approving the designated area as a TIF district. This process can be rather short, usually taking from four to eight weeks to complete.

In some places of redevelopment, bonds are issued and the yearly TIF revenue is used to pay back the bondholders. The process of issuing TIF bonds is also simple with the first step being for a financial consultant to prepare a projected TIF revenue study. A document disclosing the sale of bonds must be issued and then a bond resolution must be adopted by the
redevelopment commission. This process of issuing the TIF bonds usually takes from two to three months to complete.

All states except Arizona have tax increment financing laws which are used quite extensively. Perhaps the city with the most TIF districts is Chicago, with more than 130 as of 2005. At this time, $325 million of tax revenue came from these districts which comprised 30% of the land area of the city.

In every state with TIF regulations, there are specific criteria which must be met before it can be considered for TIF revenue. In Chicago, a minimum of five out of a list of 14 criteria must be confirmed for the district; deterioration, inadequate utilities, obsolescence, dilapidated buildings, lack of ventilation, light or sanitary facilities, excessive land coverage, and undesirable land use are among the items in this list. In areas where it is obvious that improvements should be made, it can be simple to prove that changes will benefit the area and are necessary for the success of businesses and population growth.

Many states also have legislation that says that an area cannot become a TIF district if there is growth and private investments are being made. This is sometimes called the “but for” test. For example: The Muncie Village area would be a vibrant place for opportunity but for the lack of investors willing to undertake such a major project.

In some areas, like Chicago, a “blight” study will be conducted by an outside consultant before any work can be done and before an area can be designated as a TIF district. This study is used by the city to determine the actual condition and need for redevelopment on an unbiased basis. This way, the city can be sure that a redevelopment commission is not solely moving forth with a plan to benefit an exclusive group of people.
Tax Increment Finance districts are very useful and are nearly always used in urban renewal or redevelopment projects across the United States today. Some areas, like Denver and Chicago, have embraced them to the full extent and have pushed forward with major initiatives based on these districts. These areas have been successful when pursued properly with leaders who understand the vision. The flexibility of these districts makes them suitable for all areas of the United States, whether a booming city like Chicago or smaller cities like Muncie, Indiana.

Along with TIF districts, there are other ways that communities can get outside funding for development projects. The U.S. Department of Housing and Urban Development (HUD) believes that colleges and universities offer great insight into such developments and that they are a great way for communities to build better relationships between young people and other residents.

In the late 1990s, HUD offered a program called the Community Outreach Partnership Centers (COPC) which gave grants up to $400,000 for colleges and universities wanting undertake such improvements in their communities. They gave no mention to the location of the schools or the exact allocation of the funds being provided, simply that they were used for community development projects.

Occidental College in Los Angeles, which was one of these schools, received $399,654 from HUD for activities which it wanted to undertake. These activities included developing a community data map bank, formation of business improvement districts, conducting mass outreach drives, working on community heritage activities and the creation of a buying
cooperative and community garden, among other things. Occidental College and other contributors provided an additional $1 million or more in funding of their own for these projects.

Valparaiso University in Valparaiso, Indiana was another one of the schools to receive this grant, with $399,740 in funds received. The activities planned for Valparaiso were to develop and distribute guides on volunteering in the county, enlisting volunteers, and to use residents to prepare a neighborhood development asset map to organize the neighborhood around its strengths.

Funding like the Community Outreach Partnership Centers grants are available through many government agencies and other private groups. Members of these organizations are eager to see communities, much like Muncie, grow and build to their full potential. The university community is one of the best resources that any community has because of the broad base of leadership available and the willingness of so many students to aid in bettering the community in which they attend school.

**Beginnings of Urban Development**

While looking at cities where redevelopment has been a success, we should also look into cities that have had a more difficult time adapting to change. One of the first examples of urban renewal in the United States is the city of Pittsburgh, Pennsylvania. In the 1950s, Pittsburgh was written off by many people as a failed city that had no hope of returning to glory. The Wall Street Journal, in 1944, gave Pittsburgh a "class D" rating and The Chicago Tribune wrote in 1943 that it was not a major city anymore. The Mellon family, with wealthy banking roots, saw
the opportunity in Pittsburgh which led patriarch R.K. Mellon to investigate ways to improve the city.

Changes were planned for the city; projects that had never been attempted before, especially on such a massive scale. In the 50 years since the revitalization began, Pittsburgh demolished more than 1,000 acres of land, 3,700 buildings, relocated 1,500 businesses and forced out 5,000 families in the name of urban redevelopment. While projects like this do not occur overnight, when looked at as a whole it is mind-blowing to think of these kinds of changes taking place within any city, even a large one such as Pittsburgh.

The project in Pittsburgh was a major success for the city in many respects at the time. Of the original 59 acres and 133 buildings that were razed around Penn Avenue, only $600,000 out of the $118 million cost came from public funds. The rest was provided for by private donors and developers willing to put forth the effort and money needed to improve the city.

R.K. Mellon used his connections in the government and the private sector to push many of the buildings and projects that were planned for the area. Several large companies that occupied space built during the expansion and redevelopment had plans to leave Pittsburgh before the billionaire convinced them that Pittsburgh was there they belonged.

Not all of the problems that came with this urban redevelopment could have been foreseen by planners at the time. During the postwar period, many people moved out of the city and into the suburbs which created an even greater problem for Pittsburgh, already struggling to keep residents in the area. Many companies that had been in the area for years were purchasing
land in New York and other places and planning to move eastward. Because of this and the simple fact that Pittsburgh was becoming a less attractive for businesses.

Although many of the projects that were completed during the 1960s renewal are defunct or abandoned today, one can always know that at the time it was the best possible decision that could be made. As Aldo Colautti, the mayor's aid during this time, asked, "What would Pittsburgh be like today if nothing was done and no effort was made to preserve the Downtown, improve the housing supply and extend the benefits of urban renewal into the neighborhoods?" Questions like these will always be asked when a project like Pittsburgh is not a complete success. To combat this problem, planners need to create areas that build upon each other and contribute effectively to the success of the city as a whole.

The Local Community

Changes to a community landscape can be difficult for residents to accept as a step in the right direction. Much of the time, residents are not educated about such projects and how they will benefit from the changes and other aspects of the planned improvements. To these residents, outsiders are trying to come in and change their community, and not for the better.

Marketing these projects in the best light possible is a vital part of community development. Developers, planners, and leaders can see and understand what is needed on a macro scale whereas residents might only see these changes from a lower level and therefore will be opposed in many ways.
Perhaps residents are justified in being frustrated by some developments. Planners ask for private contributions to move forward with “improvements” that could raze the neighborhoods and businesses of these contributors, disrupting the life they know. Knowing exactly how residents feel about planned changes is nearly impossible to judge until the projects are nearly complete and more tangible. For the layperson, plans and pictures are not fully acceptable and might give them a wrong impression of what is to come.

A marketing campaign for a major community development project must be well thought out and planned in advance. Residents must be made aware of how exactly they will benefit from changes made to their neighborhood as well as what those changes will be. In the event that homes or other occupied structures will be razed, residents must be informed why it is important for them to be relocated from the area.

**Filling the Space**

Enticing prospective tenants to properties within a newly created area can be a difficult undertaking. Developers and tenants will have several qualms about doing business such a different space and neighborhood that has not yet been established. For the Muncie area, this large of a project, other than the improvements to the downtown district, which is quite different than this plan, has never been seen.

Developers need assurance that this venture that they will be spending millions of dollars developing will be profitable for everyone involved. There has to be a reasonable amount of guarantee to investors that the project will not fail and leave them with empty buildings and land
waiting for another developer or tenant. Empty buildings and lots is very costly and is a signal to residents that the plan was not as thorough as possible.

The second issue that investors would have is the difference between this and anything else in the area. This space being planned is an area that is walkable, sustainable, and family friendly. It will not necessarily separate students from faculty and other persons in the community but instead bring them together in a large area where they can all enjoy the spaces created for them. Naturally each group of people has different necessities but all of these things would be available for them within the area. This variety of neighborhood has not been created for residents before and it would be an entirely new lifestyle for residents.

Another issue to look at is the other developments in other parts of Muncie and the community. As seen in Pittsburg, every factor has to be looked at, not just the immediate area. The downtown development, the Muncie Mall, along with every other business in Muncie will be effected by this large expansion. Long-lasting damage could be done to these areas if they are not planned correctly and planned in conjunction one another. These, and other, externalities must be evaluated by any investor and developer.

The sheer size of this area is the last thing that might frighten someone wishing to be involved with the project. This 24, or more, block area of the community is a major center of activity for Ball State University and the Muncie community; to virtually demolish the entire area and rebuild it will not come without much opposition, even with the new plans drawn and financial models created. The support of the public, along with the city and community leaders, must be won in order to move forward with such a vast project.
Features of the New Space

In preparing a plan for the Village area in Muncie, we looked at the various uses for land within our study area and what kinds of things we thought students and other members of the community could benefit from in addition to those already present. A movie theater, boutique hotel, child development center, and Ball State University offices are among the many things that we came up with as possible additions to this 24-block area.

This plan consisted of possible floor plans for the buildings along with several new features that the area has not seen before. The new neighborhood would not include any freestanding homes, as currently the area is filled with these types of residences. The quality in these homes is poor and the upkeep is unacceptable for future development to take place. For a new development to be financially sound, small homes like this are not as profitable as larger complexes of apartments and townhomes.

One of the major tenants of the new Village would be a boutique hotel. A boutique hotel is, by definition, a smaller and higher-end hotel where guests feel more at home and welcome. Currently, there is no such hotel in the Muncie area yet the need is present in many situations. Guests that come through the University, performers, convention guests and many other people are a prime market for a high-end hotel that is close to campus and this would offer them a great experience in the heart of this new neighborhood. The location of this hotel would be a key to its success. Our plan calls for the hotel to be located directly adjacent to the current parking structure near Sursa Hall. This location offers guests the closeness to campus and the dining and entertainment options but also keeps it secluded from the everyday residents of the community.
A movie theater is lacking in this area of Muncie which is why the plan calls for one to be located in the Village along University Avenue. The two movie theaters currently in Muncie are near the Muncie Mall and along Bethel Avenue, neither within walking distance of the campus and dorms or any of the many residences near campus. We felt that a new entertainment venue for students would be very profitable and could vary its style based on the developer or the wants and needs of residents in the area.

Another feature of the area would be a child development center and day care. This type of facility could be utilized greatly by the new population of faculty and other members of the community in this new neighborhood. The convenience and feeling of safety of having the daycare center in the neighborhood is something that we felt parents would greatly appreciate.

A large parking garage is also in the plans that were drawn. This garage would not be a typical parking garage that is not aesthetically appealing. The parking structure would be enclosed within shops and apartments or townhomes so as to disguise the feeling of an unattractive space. While a parking garage is not the optimal building for any area, it is needed in order to accommodate patrons of the new stores and restaurants as well as for residents of apartments and townhomes.

The last anchor for the area would be a grocery store. This grocery store could be more of a gourmet store that sells higher-end items as well as items that would be convenient and needed by the student population. In this livable, walkable area a grocery store is needed to fit the necessities of the residents of the community.
**Pricing Models**

To begin evaluating the financial feasibility of the project, cost estimates for the construction of the area needed to be calculated. Using RS Means, which is North America’s leading supplier of construction cost data, the data from each building were inputted in order to come out with a final cost estimate for each building type.

There were three main building types in the study area with two other estimates that needed to be made. All commercial buildings, which included retail and office space, were priced as similar structures. The plan called for the retail and office space to be interchangeable so that over time the spaces could change to fit the dynamics of the area and not define the use in the beginning stages of the building life. Using the square footage, perimeter, type of building, and construction materials, several of the commercial spaces were estimated on a per square foot basis. Exhibit 2 offers an example of an estimate created in this fashion. These estimates were then averaged to arrive at a $172.98 per square foot construction cost for the commercial spaces. We then applied this to all of these building types in the study area.

The second type of building that was estimated was the apartment which was one of the main types of housing provided for within the plan. These were priced in a similar fashion as the commercial spaces, pricing out several of the buildings and applying the average cost to the rest of the apartments. This average cost that was computed came out to roughly $140 per square foot.
The second type of housing most prevalent in our plan is the townhome. Many of the new housing options within this plan are townhomes which are similar to apartments but have a front entrance; many of these also have one or two car garages on the first floor of the home with the living space on the two floors above. These structures were priced at $96 per square foot and this figure was also used for all of the townhomes located throughout the study area.

The hotel, parking structure, and movie theater were all priced separately because of their special needs. None of these would be priced correctly if the commercial space, apartment, or townhome pricing models were used. The hotel is much different because of the upscale nature of it being a boutique hotel and the features that a hotel contains that an office building or a retail store might not. The movie theater is more basic than a retail store or office space. A movie theater’s major cost is in the film equipment and furniture needed for each of the theaters inside. The parking structure is of different material and substance altogether. This parking structure would defray some cost seeing as it is enclosed within the block of other buildings but is still much different than any of the other types of structures. The hotel, parking structure, and movie theater were priced $193, $50, and $101 per square foot, respectively.

Estimating the rental rates for each of the commercial buildings as well as the apartments and townhomes is key to judging the profitability of this project. By researching the current market rates for retail and apartment spaces we arrived at values that would be appropriate for business in the area, college students, as well as others who would be occupying the spaces. These rates also offered a premium because of the new area and lifestyle that would be created by
this neighborhood close to campus that would offer dining and entertainment options not available in other areas in the community.

According to www.loopnet.com, an online rental database, commercial properties currently available for lease are renting anywhere from $3.00 per square foot to $30.00 per square foot each year. The majority of properties are clustered around the $15.00 rate with the $30.00 and $3.00 rates being the extremes to this. A current property that is available in the Village at the intersection of Martin Street and University Avenue is on the market for $18.50. This property represents a great benchmark for our study area as it is a newer building and in the heart of the University Village. The majority of commercial properties in our plan were priced around $20 with some properties priced at $12 or $15. In this way, properties could be classified based on their locations and offerings to judge to financial outcome. The various price points also offered the ability for small shops to be available for small local business or other things that might not be able to afford the higher priced $20 options.

These values can be applied to every commercial building located in the study area. I looked at the locations of each of the buildings and classified them, mostly by the road they were on. The buildings along University Avenue in the Village have the most exposure out of any of these roads and therefore will be priced accordingly. Most of these buildings are based on $20 per square foot rent cost. Buildings along Martin Street and other areas directly off of University and Martin will be priced at $15. All other commercial areas will be priced at $10 per square foot, at the low end of the spectrum but still slightly higher than the other low-end rents available in the Muncie area.
In a similar fashion, a rent structure was needed for the housing options available to residents. With three distinct housing types, a uniform approach was needed in which values could be used for multiple buildings and still be an accurate estimate of the rent that would be charged in these prospective units. A figure per square foot seemed to be a suitable way of going about this process so as not to price each individual apartment or townhome. Each building or area could be classified as to its location and housing type and this number used to calculate the rental revenue expected. The figures come up with ranged from $1.00 for the student apartments up to $1.15. To put this in perspective, using this model, an 1,100 square foot apartment, assumed to contain three bedrooms, would generate revenue of $1,100 per month in rent or $367 per person.

This figure is not out of line considering a premium for the new neighborhood and construction. Also, prospective residents would take into account the lesser amount of driving that would be necessary to and from campus and also perhaps the lack of need for the price of parking on campus each day. The convenience factor would also take a place in this price for living in the area. New green spaces, restaurants, and other entertainment options would be close to these apartments which would make them much more attractive to students.

These rates are also flexible depending on the market and how much developers believe that residents would be willing to pay for these apartments or living areas. The template created makes it simple to insert different rental rates and see the comparison if a higher or lower rate is used for construction and rent and many other variables. In this way, it is easy to gauge the
sensitivity of the profitability easily while not having to change each individual building or block. Owners or developers would need to adjust these rates accordingly.

The next step in evaluating the profitability of this project is to use this data that we have collected and compile it into a useful document. A spreadsheet, using Microsoft Excel, was used to insert each block with the buildings planned, the costs and rents expected for each. Using this data, along with tax revenue data provided, we calculated the estimated cost and revenue for each block along with the expected tax revenue for each block. The tax rate was based on tax data provided by the city of Muncie for the properties in the study area. The funds that would be available from the TIF district were also calculated as to see what kinds of financing problems or benefits might come about if a TIF district were establish.

Using this analysis, the total cost for the 24-block area of the Village, including infrastructure, was roughly $340 million. This figure would include keeping some of the current commercial locations in the Village along with a few of the residential buildings that are in good shape as of now. This price also includes the purchase of each block and demolishing the current structures on many of the properties. This figure would certainly change as more research is conducted and cost estimates were adjusted for current prices at the time of construction.

The rental revenues, as calculated in the above procedure, can be summed using a vacancy rate and a yearly rental income figure reached. Using a fifteen percent vacancy rate and occupancy cost, the rental income for the entire 24-block area would be roughly $25 million. This figure includes the revenues from all of the apartments, townhomes, and the commercial spaces within the Village.
**Benefits**

The benefits of such a large scale project on a city like Muncie, Indiana can be countless. Improving a whole neighborhood area adjacent to a college campus can have implications well beyond the immediate area. The economy of the entire city can be affected in many ways including sales taxes and jobs, among other things. The Bureau of Economic Analysis through the U.S. Department of Commerce publishes a file called the Regional Industrial Multiplier System (RIMS) that is an indicator the impacts of such changes in an area’s economy.

An obvious benefit of building such a large expansion to an area is the increase in tax revenue. Such a great area will bring in new businesses to the area and increase taxes for the city, state, and county. Residents in this area will be out eating, buying products and services and other things in this area, bringing much needed money to the project.

The second increase in tax revenue will be in the form of property taxes. Land values in the area will grow substantially, as will this revenue. As discussed previously, it is likely that part of these funds would likely come back to the project in the form of a TIF district but after a certain time period, this money would then go back to the city, state, and county who then will have the responsibility of continuing the upkeep of the area.

Jobs will also be a benefit of a new addition to any area under redevelopment. In the village plan, many jobs would be created in the various stages of the project. During the building of the project, many construction-type jobs would be available which are currently not as prominent in this area of the state. Other kinds of jobs created in this project would be
professional positions, spaces for doctors’ offices, law firms and almost any type of office or business possible. Many of these spaces would also be businesses where students could find jobs during school, internships and even careers for after graduation.

The RIMS multipliers, released by the Bureau of Economic Analysis, give a large project like this an estimate of the impacts on the surrounding areas. Many projects completed by the government and other large corporations have used these multipliers in order to gauge their effects. The city of Fort Wayne, Indiana used these multipliers in their study of the proposed Harrison Square project in downtown. In the report for the city, made by Crowe Chizek, a consulting firm in Fort Wayne, the benefits of this major revitalization project were analyzed. They documented what the estimated economic impact would be on the city of Fort Wayne and the surrounding area. This was a major part of the process for the project. If it were deemed to not have a significantly positive impact on Fort Wayne, the decision to go through with Harrison Square would have been compromised and changed.

Proficiency Using Capitalization Rates

One way that many developers judge the economic profitability of a project is through use of the capitalization, or cap, rate. This rate is a very simple and quick way to evaluate profitability. It is found by dividing the total cost of the project by the annual cash flow. The capitalization rate, if known, can also help an investor to know how much they should pay for a potential property. Like a price/earnings ratio where a person knows that if the P/E is 35, it will take 35 years to receive their money back, similar figures can be seen with a cap rate. By dividing the net operating income of the property by the capitalization rate, the resulting figure is an
approximation of the value of the property. For instance, if a property has a net operating income of $200,000 with a cap rate of 9% then the property has a value of $2.2 million. This is merely an estimate but is a starting point for any investor looking at a new property.

According to Ryan Chittum of the Wall Street Journal, cap rates are lower than they have historically been, according to a 2004 article. In the past, cap rates have been consistent at around nine percent yet recent economic activity has lead investors to require a lower return on their investment. As of March 2008, cap rates for offices in central business districts averaged 5.96% while apartment building construction projects had a cap rate of 6.08%.

The cap rate for our project as a whole was calculated simply using the rental revenue and the construction costs as stated earlier which lead to a figure of 9.33%. This number does not take into account TIF revenue but it does include the infrastructure costs of the entire 24-block area. If the infrastructure costs are not included in this, our rate becomes 10.80%. If we include the infrastructure costs as well as the TIF funds as a revenue then the capitalization rate raises again to 11.47%.

**Sensitivity Analysis**

Sensitivity analysis is an integral part of the financial observations to view the effects of different scenarios. The sensitivity analysis for our project was done by taking the rental revenue for each block and testing the effects of lower and higher rates and also a vacancy rate from 15% up to 50%.
In this way I was able to look at the revenue for many different options. If I wanted to see what the effect on a 10% decline in rental rates was on a 10% vacancy rate, I could look at the spreadsheet created. In this scenario, the revenue would be around $14 million.

Using this sensitivity analysis we can also find a best-case and worst-case scenario. The best-case would be a 10% vacancy rate with a premium rental rate. These conditions provide for revenue around $28 million each year on the entire study area. The worst-case scenario would include a 50% vacancy rate and a 20% decline in rental rates. Under this set of conditions would generate revenues of just $8 million.

Sensitivity analysis is essential in any major project. The effects of different changes in the basic structure of a project need to be projected and analyzed to see how much the changes impact the final outcome. In this study, the difference between the worst and best-case scenarios is quite different and creates a major change in the capitalization rate for the project. This worst-case scenario is highly unlikely and something in between these two numbers is more likely to occur but all of these must be looked at to evaluate the project.

**Conclusions**

Community redevelopment and urban renewal has been around since the 1950s when the city of Pittsburgh, Pennsylvania first started a plan to revitalize the failing city. Since then, most large cities and many smaller cities have made great efforts to bring residents back to targeted neighborhoods and to build up the business bases of those areas.
This sounds easy in concept but is actually a quite involved process whereby architectural plans are rendered, and financial feasibility studies completed. This study of the Muncie, Indiana and Ball State University Village area completed these three tasks in order to find if a redevelopment of the 24-block area south and east of the campus was a feasible plan. By looking at the different uses for structures currently in the area, we were able to forecast changes necessary for an influx in the population through apartment buildings, townhomes, and small bungalow-style homes.

A variety of residents, namely students, faculty, and retired persons as well as families wishing to change their lifestyle and live in a new, more urban atmosphere that has not yet been seen in the Muncie area, would be necessary for this area to be a success. This concept has great potential, both culturally and economically and with the correct leadership could forever impact the entire Ball State and Muncie community.
Exhibit 1: Defining the Neighborhoods
Exhibit 2: Neighborhood Study Area Plan
### Exhibit 3

#### Square Foot Cost Estimate Report

<table>
<thead>
<tr>
<th>Estimate Name:</th>
<th>MUNCIE, IN</th>
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</thead>
<tbody>
<tr>
<td>Location:</td>
<td></td>
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<tr>
<td>Building Type:</td>
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</tr>
<tr>
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<tr>
<td>Labor Type:</td>
<td></td>
</tr>
<tr>
<td>Basement:</td>
<td></td>
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<tr>
<td>Included:</td>
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</tr>
<tr>
<td>Story Height</td>
<td></td>
</tr>
<tr>
<td>(L.F.):</td>
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</tr>
<tr>
<td>Floor Area</td>
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</tr>
<tr>
<td>(S.F.):</td>
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<tr>
<td>Data Release:</td>
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<tr>
<td>Cost Per Square Foot:</td>
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<tr>
<td>Building Cost:</td>
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</tbody>
</table>

Cost are derived from a building model with basic components. Scope differences and market conditions can cause costs to vary significantly.

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<thead>
<tr>
<th></th>
<th>% of Total</th>
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<td>A Substructure</td>
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<td>B Shell</td>
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<tr>
<td>C Interiors</td>
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<td>$11.01</td>
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<td>D Services</td>
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<td>$24.11</td>
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<td>E Equipment &amp; Furnishings</td>
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<td>$0.00</td>
<td>$0</td>
</tr>
<tr>
<td>F Special Construction</td>
<td>0.00%</td>
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<td>$0</td>
</tr>
<tr>
<td>G Building Sitework</td>
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<td>$0.00</td>
<td>$0</td>
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<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
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<td>Contractor Fees (General Conditions, Overhead, Profit)</td>
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<td>User Fees</td>
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<tr>
<td>Total Building Cost</td>
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References


