An ambitious fund seeks to buy property along bus lines and develop affordable housing in Indianapolis.

A n idea that got its start at a kick-the-tires session about the future of Indianapolis four years ago has blossomed into an at least $15 million effort to enhance transit-oriented housing development (TOD) along that city's expanding bus routes.

A transit-oriented development (TOD) loan fund run by Cinnaire and the Indianapolis Neighborhood Housing Partnership is buying land and properties along Indianapolis bus routes in order to facilitate the development of affordable housing near rapid transit. The first developments are expected to be finished in 2021.

BMO Private Bank trust officer Gary Reiter had seen a TOD effort in Denver, according to Joe Hanson, executive vice president of nonprofit Indianapolis Neighborhood Housing Partnership (INHP), who was participating on the Connectivity Committee of the city’s Plan 2020 sessions. Reiter suggested Indianapolis should plan to develop a fund to preserve affordable housing along the proposed Red Line, Hanson remembered.

Reiter was then awarded a fellowship from the city’s Plan 2020 to explore development of a TOD fund for Indianapolis.

After a trip to Denver to research the city’s TOD program made by Reiter, the INHP, Community Development Financial Institution Cinnaire, Enterprise Community Partners, city officials and others, Indianapolis’ E-TOD (the E is for Equitable) started to take shape. Partners IHNP and Cinnaire also attended transit conferences in Dallas, San Francisco and Philadelphia after seeing the potential for development shown in Denver. According to a report on the program, the Denver TOD is responsible for 910 new and rehabilitated subsidized apartments, $10.9 million in taxes for local governments, $598 million in local income, and 7,345 local jobs.
INHP, Cinnaire Partner

INHP, which is not a city agency (though it is an Indianapolis “supporting organization,” meaning the mayor appoints some of its board members), partnered with Cinnaire to get the fund started, working with executive vice president Rick Laber, who is based in Lansing, MI.

In the structure they devised, Cinnaire is the lender and INHP the borrower. Since neither is a developer, they are partnering with developers on a case-by-case basis, selling them property they can develop. Cinnaire has assembled money from a variety of financial institutions to lend to INHP.

“Think of us as a land bank,” Hanson says. “We buy property and then we hold it.” The properties can be vacant lots, or existing buildings that can either be preserved or razed for new development depending on their condition. One is a former gas station. Another is a dilapidated apartment building. There are a total of seven empty lots or vacant buildings in the land bank now, with six being acquired through the fund, according to Laber.

Having the land bank take care of the land costs may help developers qualify for Low Income Housing Tax Credit (LIHTC) awards, since land costs are not part of eligible basis for LIHTC purposes. That would increase the need for gap financing. TODs also score LIHTC points in Indiana.

Challenges the partnership says it faces is that “demand for housing near high-quality transit is growing but supply is not keeping up while prices are escalating. Seventy-five percent of HUD-subsidized affordable housing units near transit stations have expiring subsidy contracts in the next five years, and only a small proportion of LIHTC developments are built within a half mile of high quality transit stations.”

TOD goals, according to Enterprise, are to “preserve and create affordable housing units near transit, reduce car-dependency and cost of living while promoting economic mobility, connect people to employment, healthcare, child-care, education, stores, food and critical services, prevent or reduce gentrification, and improve environment and public health for all residents and riders regardless of income.”

Red, Blue and Purple Lines

Hanson is hoping some of the affordable housing will be online in 2021. The city’s “IndyGo” Red Line opened in September 2019, a 13.5 mile north-south route terminating at the University of Indiana. In construction now is a Purple Line, 14.6 miles long, which extends the Red Line to Fort Harrison, north of Indianapolis. A Blue Line will run east-west for 24 miles and link the airport with the county line.

Today’s motor buses will become electric bus rapid transit, with their own dedicated lanes and elevated stations, Hanson says.

INHP put up $2.5 million for acquisition and predevelopment costs, and the city contributed Community Development Block Grant funding. Other grants came from the Lilly Endowment ($1.5 million) and JPMorgan Chase ($500,000), according to Laber.

Buying the land before development deals are inked makes sense, Laber says, because otherwise many of the potential affordable housing locations could be acquired for commercial real estate and market-rate rentals.

The first E-TOD loan, for $5 million, closed in December 2018. The second loan, for $3.1 million, closed in 2019. Loan fund participants include First Financial Bank, First Merchants Bank, National Bank of Indianapolis, Lake City Bank, First Internet Bank of Indiana, Regions Bank and Huntington Bank.

CRA Rewards

“The banks are investing with a low rate of return,” Laber adds, in return for Community Reinvestment Act credit.

Laber says his goal is to close $12 million in total loans. Loan fund terms are five years, plus an option for a five-year renewal. “I believe we will reach our goal,” he says. The unit goal for the program is 1,000 affordable residences.

Cinnaire, which has a nine-state footprint and has been lending or investing in affordable housing for the past 27 years, has a total of $4.2 billion under management in 83 funds.

“It’s a very exciting project to work on,” INHP’s Hanson says, especially considering the opportunity it has to bring economic mobility to city residents. “It aligns with INHP’s mission, to increase affordable housing and be a catalyst for neighborhood revitalization. It is both a people and a place strategy.”

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