A survey of small developers of vacant homes in BRNI-targeted neighborhoods

Commissioned by the Baltimore Regional Neighborhood Initiative Partners and prepared by JoAnn Copes
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Much is known and has been written about Baltimore’s vacant house problem. Although some strides have been made in stimulating the elimination of vacant houses through strategic renovation and demolition. It would appear that, at best, the City is treading water. According to a report issued by the Abell Foundation in November 2015, an analysis of the City’s heavily promoted effort, the Vacants to Value program, has not made a dent in the overall tally of vacant houses in the City: it appears the number of homes renovated and demolished is only keeping pace with the appearance of new vacant houses.

In fairness, Vacants to Value never purported to be the solution to Baltimore’s vacant house problem. It is a program targeted to certain neighborhoods selected through use of the city’s Housing Market Typology. This targeted approach appears to have real value in decreasing the number of vacant houses in some of the communities of focus, such as Greenmount West which has seen a major reduction in the number of vacant and real community stabilization and increases in property values.

Reinvestment Fund, a local Community Development Finance Institution (CDFI), has a development lending capability and has been administering a $400,000 capital fund for subordinate development financing to small developers renovating vacant houses in select targeted neighborhoods. While this effort has helped get homes renovated and, in most cases, sold to new homeowners, the level of production is not high. In the fall of 2015, Reinvestment Fund asked what impediments stand in the way of small developers in ramping up their renovation production, and engaged a consultant to survey a sample of such developers.

Reinvestment Fund’s $400,000 loan fund was capitalized with a State grant provided through the Maryland Department of Housing and Community Development’s Baltimore Regional Neighborhood Initiative (BRNI) Demonstration and the consultant’s work focused primarily on developers working in neighborhoods where there were CDC’s that had programmatic funds through the BRNI program.

The first task was to consult with BRNI grant recipients about their perspectives, and developers in their specific target areas that should be interviewed for this study. Calls were made to Mark Sissman, President of Healthy Neighborhoods, Inc. which is financing renovations in the Reservoir Hill community and Southeast Baltimore, Ashley Wallace, Acting Deputy Director of the Central Baltimore Partnership which has focused on housing improvements in Greenmount West, Harwood and Barclay; Charlie Duff, Director of Jubilee Baltimore who is a co-developer of multifamily housing
in Greenmount West and has done other commercial development in Central Baltimore communities, Chris Ryer, Director of the Southeast Community Development Corporation working in Patterson Park, Highlandtown and some areas east of Hopkins Hospital and Station East around the new Henderson Hopkins School; and Amy Menzer, Director of the Dundalk Renaissance Corporation in Baltimore County.

Out of these conversations came a list of suggested developers to interview, not all of whom were responsive to requests for meetings, but many of which were happy to share their experiences.

In addition to BRNI grant recipients, conversations were held with Lisa Evans, Director of One House at a Time (OHAAT), the City designated receiver for vacant properties put into receivership by the Court at the City’s request after code enforcement efforts have failed to bring about desired improvement, Ernst Valery, a local, primarily multifamily and commercial developer with an interest in growing the capacity and skills of the small developer community, and City Deputy Commissioners in Baltimore Housing, Julie Day and Michael Braverman. Finally, a small roundtable discussion was held by Maryland Department of Housing officials Carol Gilbert and John Maneval to discuss the experiences of some developers in the City and their ideas of what might help make development easier and more feasible. Participating in that discussion were Jon Constable of Seawall Development, Michael Seipp Director of the Southwest Partnership, and Ed Sabatino, Director of the Historic East Baltimore Community Action Coalition (HEBCAC).

The profile of developers engaging in City vacant house rehabilitation is varied. A description of those interviewed is included in Developer Profiles at the end of this report. A number were relatively young men in their 30’s to early 40’s. They come from a variety of backgrounds and all those interviewed have been doing this work for at least two years and most much longer. Most do this work as their primary source of income, although several have other full-time or part-time employment and do this as a sideline. One developer interviewed is a teacher, one an attorney, a third is a part-time pastor. Those developers were among the smallest producers of inventory.

Many of the developers purchase and renovate homes both for resale and to create a rental portfolio. They claim to renovate to the same standard whether intended for rental or sale and, as a consequence, are able to achieve relatively high rents.
Those doing housing development as a regular business often have sideline construction related businesses that they use for their own projects but also subcontract out. One developer has a full-fledged masonry business, another a framing business.

The interviews yielded a variety of issues and impediments small developers face. Among them:

- Access to capital
- Small margins
- Lack of gap financing to bridge the divide between the cost of renovating vacant property and the ultimate resale value
- Accessing inventory
- Bureaucratic delays, both governmental and with utility providers
- Inability to utilize the State’s Sustainable Communities tax credit program to benefit a developer who wants to sell rather than rent property
- Uncertainty as to whether some buyer incentives will be available and therefore an inability to factor them into project underwriting
- Lack of police cooperation in cracking down on crime, particularly open air drug markets, in tougher areas where developers are working
- A pool of credit worthy buyers
Developers are utilizing a variety of sources of capital for acquisition, construction and related development costs. Frequently these small developers are dealing with hard money lenders supplemented by equity, or they are establishing equity partnerships with investors. While they acknowledge this is expensive money, typically 12 to 14% interest and two to three points to a hard money lender, the ease and speed with which they are able to access cash is often seen as critical. In some areas, tying up inventory is very competitive and there is no time to obtain a real estate loan even if such loans were readily available.

And, in fact, more traditional development financing is available to many of the developers who were interviewed. In Southeast Baltimore, developers acknowledged that a small local bank, Kopernik, is willing to lend at 5% and one point, but the lure of the quick money from hard money lenders, of which there seems to be an ample supply, is persuasive. In addition, they say, banks require more equity, providing only 70% financing and requiring ironclad guarantees. In addition, there are several CDFIs in Baltimore that would lend for small development projects to experienced developers, notably Reinvestment Fund, Baltimore Community Lending, and Healthy Neighborhoods, Inc.

Other than Kopernik which has been willing to do development lending, at least in the Southeast area, one of the nonprofit developers had a $400,000 line of credit from PNC Bank which it was only able to obtain with a guarantee provided by the Abell Foundation, and another nonprofit has a $500,000 revolving line of credit from Capital Bank, collateralized by various real estate holdings.

One development team interviewed (Timothy 6:18) is self-financing declaring that it has had as much as $2 million out at one time. Clearly this is not the norm and most of the developers interviewed do not have that much capital with which to work. Another from the Dundalk area is also self-financing and agrees that limits the amount of production he can do in any one year, typically around five per year. However, he says the margins in Dundalk are too thin to allow for financing fees, either from a hard money or traditional lender.

One developer is utilizing a combination of equity and loans from friends and family members and consequently is typically only producing one house at a time. A few of the developers have identified investor partners from out of the state or out of the country and indicate there is an ample supply of investment capital out there willing to invest in real estate given the state of the economy and the lack of other investment opportunities which can bring a good return.
In the case of Callow Avenue renovation in Reservoir Hill, development financing is coming through the nonprofit Healthy Neighborhoods, Inc., a local CDFI. The first eight houses are being renovated by a nonprofit community development corporation with a development consultant, utilizing a line of credit HNI obtained from M&T Bank which it is relending to the developer, the Druid Heights CDC. Gap financing is being provided through a variety of capital sources Healthy Neighborhoods has pulled together. Again, this is not the norm, and when that project is complete, much of that gap capital will be gone having been used to fill the hole between the cost to develop and what the units can actually be sold for. The next five houses to be renovated will have development gap financing through the BRNI program and again, money will have to be left in to defray the gap between cost and finished value. It is important to mention this model as there are many places in Baltimore where the market will not yet support the cost of redevelopment and lack of sources of gap financing is a huge impediment to making headway in those improving but still weak markets.

Several nonprofit developers were also interviewed, specifically People’s Homesteading Group (PHG), the Historic East Baltimore Community Action Coalition (HEBCAC), the Dundalk Renaissance Corporation (DRC) and Home Free USA. All are doing development work on a small scale, but the margins are very thin, or there is actually a deficit and a need to access subsidy dollars. DRC has from time to time accessed Federal HOME funds through Baltimore County to take on the renovations and to defray the gap which can be up to $100,000 per house. DRC says it take a year and a half to obtain a HOME commitment. All of the nonprofit developers, with the exception of PHG which acts as its own general contractor, are utilizing general contractors for construction which further cuts into very tight margins. Generally, where developers are using general contractors to do construction, the cost per square foot for the development is higher than where the developer is able to act as his own general contractor.

While all the developers interviewed would like to ramp up production, lack of capital and to some degree market absorption rates, keep their production levels low. Many prospective buyers are credit-challenged and that slows absorption, increases holding costs and adds the risk element of securing completed property until it can be transferred. Some of the developers are only developing as they pre-sell. While this limits some of the risk of sale that one has with speculative housing, it also can have an effect on cost of construction as certain efficiencies and potential cost averaging are lost by only doing one house at a time. This is true of People’s Homesteading, HEBCAC, and Whitridge Row.
Those developers who seem to be succeeding the best are acting as their own general contractors, able to control costs and scheduling, and cutting out a GC’s profit margin and overhead, helping to keep costs down and generating more funds to run their businesses.

In summary, while there may be few outlets for obtaining traditional development financing for the renovation of vacant houses in Baltimore, those small developers who are active in the current market seem to be able to find non-traditional sources and to put together the funds needed to get projects done. They acknowledge they do not take advantage of the available conventional development financing resources because the traditional sources cannot compete with the quick and easy access to capital they can obtain from hard money lenders.

One idea which was discussed during the preparation of this report, was the possibility of the State’s small business lending program providing business loans to small developers as opposed to loans underwritten as real estate transactions. This idea might have some merit. Once a loan or line of credit was established, a developer should be able to access money fairly quickly and easily, but at a lower cost.
Small Margins and Lack of Gap Financing

There is often an uncomfortably high level of risk and small margin of reward for a developer trying to renovate vacant houses in Baltimore. The developers interviewed for this report were by and large motivated to improve communities and they see their work as contributing to community stability and improvement, but they are clear they are in this to make a living and to build a business that is sustainable. The nonprofit developers are generally working in more blighted areas and are perhaps satisfied to make less money because they see themselves as fulfilling their primary mission to rebuild communities, but even the nonprofits must generate money for overhead and working capital for future projects, if they expect to continue to develop.

While almost all of the developers are happy to renovate and resell, there are a significant number who see building a rental portfolio as wealth-building for themselves for the long term. Those who are building rental portfolios currently have few units and most are self-managing. At least one developer interviewed has moved almost completely into developing single and multifamily rental although he started ten years ago renovating housing for resale and feels he contributed significantly to decreasing the number of vacant houses in Union Square, increasing the homeownership rate, and generally raising the standards and values.

As alluded to previously, it sometimes costs more to purchase and renovate houses than the market will sustain on resale. To mitigate this risk, many developers look to rental as their fallback in the event they are unable to sell. Likewise, lenders analyze the rental potential when underwriting loans. The rental market is sufficiently strong that rents will cover operating costs and throw off additional cash. The downside is that equity is often then tied up in a property, further limiting the developer’s ability to fund additional projects.

However, several developers mentioned they have been able to obtain takeout financing for rental properties once development is complete, notably from Kopernik Bank in Southeast Baltimore; Howard and Eagle Banks were also mentioned. Baltimore Community Lending (BCL) has also expressed a willingness to provide takeout loans for renovated rentals. Likely takeout terms would be a 5-year loan with a twenty-year amortization. BCL expressed a willingness to make longer term takeout loans.

Many communities and community development leaders feel that increasing homeownership is key to long term neighborhood stabilization and are not happy with the knowledge that properties bought at OHAAT auctions
or through Vacants to Value have become scattered site rentals. However, that is the reality. The Director of OHAAT estimates that the majority of houses purchased through the receivership auctions are purchased by developers or contractors who intend to use them for rental.

One community development leader voiced a criticism of the rental model, asserting that it is dependent upon Section 8 and we are just moving voucher holders around as they seek newer, nicer rentals. That is likely true in some of the weaker market areas where there may already be significant numbers of section 8 rentals and voucher holders. However, a number of developers interviewed who have created rental units have said they are able to attract market rate renters who are able and willing to pay good rents even in somewhat edgy areas. The key seems to be the level of finishes and quality of units being provided.

One of the self-financing developers indicated he was working on margins as low as 8 or 9%, whereas others are able to attain margins in the teens or even up to 20% or higher. Higher margins can be attained in the more stable communities and primarily those projects where the developer acts as his own general contractor. The developer of Station East, the Historic East Baltimore Community Action Coalition, was only able to achieve any margin on its early sales by entering into agreements with buyers to turn over the Maryland Sustainable Communities Tax Credit to HEBCAC when that tax credit is remitted (see attached sample agreement at the end of this report). Otherwise, it would have been merely a break-even development with no fee or overhead for HEBCAC as developer. Such a model would only be possible for a nonprofit with other sources of funding to cover its overhead. It is not likely a for profit developer would take that risk or be willing to wait up to a year for a return.

Often the costs of redevelopment of vacant properties are extremely high, driven by the level of deterioration due to the length of time they have been empty, fire, bad roofs and structural problems, or all of the above. The mere size of some of the housing in the targeted communities such as Reservoir Hill is daunting and drives costs up. There are cases where all that is left of a structure is a front façade, creating a need to totally rebuild. In cases like this, it is critical to be able to spread costs over a number of units to avoid a disproportionate hit to one property making it economically infeasible.

Even smaller homes, such as those in Highlandtown, typically two story rowhouses, can be expensive to renovate. Developers know that in order to be marketable, more
useable square footage must be created. This is typically achieved by digging out the 5 or 6’ basements to a Code height for habitable space, creating the ability to provide a third bedroom and bath, and some small den or office and laundry space. Everyone watches HGTV. The expectation of both buyers and renters is that completed homes will have high end, custom finishes, developers say, and that too drives costs.

If a developer is unable or unwilling to use rental as a fallback if renovated homes will not sell for at least the amount invested, or appraisals will not support that value, the only other solution is some kind of development subsidy. This would typically come from a public source enabling the developer to write down the cost of the home to market value. At one time, the City provided such development subsidies for individual house renovations; however, the sources of money available to do so (the federal HOME and CDBG programs) limited the resale market to low or moderate income buyers, that is, households with income below 80% of the area median, adjusted for household size. This was problematic for communities anxious to create some economic diversity, but it did enable some houses to get fixed and taken off the vacant house rolls. At any rate, the sources of funds for those development subsidies are no longer available from the City, and are in very limited supply in Baltimore County.

The gap has been filled in some limited cases by infusions of funds from two State programs, the Baltimore Regional Neighborhoods Initiative (BRNI) and Community Legacy, and some one-time infusions of funds obtained from the Attorney General’s office through settlements with banks over their role in the mortgage and foreclosure crises. Healthy Neighborhoods was able to provide gap financing for a number of home renovations utilizing an award of Neighborhood Stabilization Funds from the federal government. However, those capital dollars have been used and recycled and are now largely gone.

But, there is no reliable place one can go to obtain supplemental development dollars to address the development cost gaps which still exist in so many places.

Two developers interviewed who have renovated and sold houses in old Dundalk, say they are only able to continue to do so if the BRNI Buyer Boost which was available in the past, continued to be available as the margins are just too slim.
The good news, and the bad news, is that the market to purchase homes for renovation has become more competitive and prices for shells are rising according to renovators. Developers working in Southeast Baltimore neighborhoods indicate they must often act quickly to tie up a house that becomes available on the market, driving their need to access ready cash to make a deal. Those developers concentrating in specific areas such as the Highlandtown and Patterson Park communities have their ears to the ground and depend upon word of mouth to find available inventory. But, as prices to purchase shells rise, pressure on margins they are able to produce post-development also rises. Developers recognize there is an upper limit to resale value and fear they are just about at the top of it. As a result, many feel an urgency about tying up as much property as possible to keep projects feasible.

In other areas, developers are accessing private property on the Vacants to Value lists through receivership auctions conducted by the City-appointed receiver of privately owned vacant property, One House at a Time. City-owned houses are disposed of through Land Disposition Agreements in sales negotiated with the City either through unsolicited offers or City-issued Requests for Proposals. One new developer in the marketplace, focusing on Southwest and West Baltimore is the nonprofit Home Free America. It is purchasing V2V houses and purchasing bank-owned REO through the National Community Stabilization Trust.

According to the developers interviewed, purchase prices have risen for communities where significant investments have already been made and some of the developers who have traditionally focused on specific neighborhoods have expressed concern that they can no longer compete at the OHAAT auctions or foreclosure auctions. Specifically, Seawall Development remarked at a recent meeting that it is unable to obtain property in Remington at foreclosure or OHAAT auctions because prices are being bid that would preclude them from producing the high quality housing that is their hallmark and which they feel is required to improve the overall neighborhood, and still be able to resell. Seawall estimated there is now a $10 to $15,000 gap between the cost of acquiring and rehabbing a Remington rowhouse and what it could sell for given current comparable sales. They have contemplated a market rate rental program in Remington to help jump start some more renovations as their analysis is that rental numbers would work and that perhaps five or six years down the line, these could be converted to sales if overall neighborhood values have risen sufficiently.
Most of the developers interviewed are applying for the real estate tax credit available for the renovation of property in designated historic districts through the Commission on Historic and Architectural Preservation (CHAP) in the City Planning Department. This program offsets the increase in real estate taxes that would occur as a result of the improvements made to the property as part of the historic renovation. The value of the credit is calculated at the conclusion of the renovation and is subtracted from the tax bill each year for ten years. This reduction in taxes is a major advantage for the eventual buyer, and makes homes more affordable to a larger buyer pool. With the tax credit, real estate taxes may only increase in the ten years post-renovation for overall market increases established by future assessments.

Approval for the credit must be given by CHAP prior to the start of any work in a property and requires the filing of an application and a City appraisal. Developers have complained that there can be significant lapses of time from application through application review, appraisal, inspection if necessary, and ultimately an authorization to proceed. This can add four to six weeks at both the beginning and the end of the process. In addition, there is some frustration about CHAP's demand that outdated interior layouts be retained along with the retention of staircases that are too narrow and too steep, and that CHAP can be inconsistent in its application of rules. The primary complaint, however, is the loss of time awaiting the application review and approval and receipt of a final certification once the renovations are complete.

Likewise, there were some complaints about processing for building permits and the time that can take. The City disputes that time frames are lengthy and counters that often things are delayed because some component of the permit application is missing or incomplete. At any rate, the City is moving to an online permitting system in about sixty days which should enable easier tracking of applications. The estimate of time from application to permit issuance for a single family home, assuming the application is complete, is one day.

There apparently had been, in the recent past, a significant problem getting plumbing and electrical inspections from the City in a timely way. The City is now confident that problem has been resolved and inspections can occur the day following a request.

Only some of the developers interviewed are applying for the Maryland Sustainable Communities Tax Credit (SCTC) which requires yet a different application and submission prior to renovation, this time to the Maryland Historic Trust. The process, they say, takes four months from submission to approval. This tax credit is technically not available to developers but instead provides a State income tax credit equivalent to 20% of the cost of the approved renovations.
of the property to the new owner. To the extent the credit exceeds a buyer’s State tax burden in the year following renovation, the owner can actually receive a cash rebate. This can represent a significant sum of money and a real windfall for a buyer. However, developers feel that the value of the credit is often needed to help defray the cost of the development but they have no ability to access it if they resell the property. This is a source of real frustration.

To work around this dilemma and to be able to sell property once it is completed, one of the nonprofit developers has devised a contract of sale rider to be signed by buyer and seller whereby the buyer agrees to remit the amount of the SCTC to the seller when it is received subsequent to filing their Maryland income tax return. The developer indicates that so far this has worked smoothly and buyers have honored their commitment. The developer has to wait for as much as a year after selling the house to obtain the funds, and there is always the risk a buyer will not honor the contractual agreement necessitating a Court action to try and collect. All agree it would be preferable to have a mechanism by which the developer/seller could access the credit directly, and some mechanism for bridging the value of the credit during development. The availability of this credit on the development side could well mean the difference between making a project feasible or infeasible.

With both the CHAP Tax Credit and the Maryland Sustainable Communities Tax Credit program, an individual application must be filed for each property even if multiple properties are included in a project. This represents a significant paperwork effort.

Developers have also encountered serious time delays with getting necessary BGE reviews and approvals for larger projects which is a source of continuing frustration that no one seems to have been able to resolve. For a small developer, a delay of several months can mean the difference between a successful and an unsuccessful project.
There are a variety of buyer financial incentives which can come into play in trying to sell a renovated vacant house. Most are provided by local and State government. Many are geographically specific; some are geared to first time home buyers only, and yet others are targeted to low and moderate income buyers and income limits are applicable. Almost all of the incentive programs which are described fully on the Live Baltimore website, can be layered with one another. One developer described the incentives that are available to help with down payment and closing costs as critical to the ability to sell renovated vacant homes, as is the CHAP credit.

Some developers have been more adept than others in layering these incentives in order to make numbers work for both buyer and seller. But many expressed frustration at the lack of a coordinated way to identify and access the myriad of purchase incentives and the need to file separate applications for each. There is the Vacants to Value Booster grant, the Live Baltimore Trolley tour grant, the various Live Near Your Work Program grants, and the City employees purchase program. Then there is the State D-SELP program if you finance your purchase through the Maryland Mortgage Program, Abell Foundation grants for purchase of a home by full-time City teachers, first responders and policemen in the Station East development. In Baltimore County, there is the County SELP program, and the BRNI Buyer Boost for houses renovated in Dundalk. And there are various other small geographically or otherwise targeted programs. These government programs are funded annually and when an allocation is exhausted, the incentive the developer had thought would help buyers to purchase his completed homes, may well not be available.

One example of a City incentive program is that for buyers of houses which had been on the City’s Vacants to Value list who are eligible for up to a $10,000 V2V "Buyer Boost". This would include structures that are auctioned by the receiver, One House at a Time (OHAAT), or are conveyed directly by the City through a Land Disposition Agreement, and are then renovated and resold. If you are a City employee, you can also take advantage of the City Employee’s Purchase Program. If you obtain a mortgage through the Maryland Mortgage Program, you are eligible for a Deferred Settlement Expense Loan of between $5,000 and $7,500. The higher loan is available if the seller is in CDA’s Builder Developer Incentive Program and matches it with $2,500 closing cost assistance.

Perhaps the most generous buyer incentive is the Johns Hopkins Live Near Your Work (LNYW) grant which any full-time employee of the hospital or university or related entities can access if buying a home in defined geographic areas generally proximate to the hospital or university. The grants are tiered by neighborhoods and range from $5,000 to $25,000 and can be used for down payment and closing costs.
One community development activist argued that the Hopkins LNYW program should not perhaps be an employee benefit program, but instead made available to any buyer in the areas defined by Hopkins as eligible for its current LNYW incentive. The argument made was that it is in the institution’s best interest to improve those communities it has designated as eligible for the current LNYW program and to build home ownership whether or not the buyer is a Hopkins employee. Such a change would have a dramatic impact on developers’ ability to take on renovation projects in areas where the market needs to be built to a level that justifies the amount of investment which has to be made.

As it stands, LNYW as an employee benefit program, cannot be factored into a developer’s project underwriting because there is no way to know in advance (unless units are pre-sold, which is difficult when you are dealing with vacant houses) whether the buyer will be eligible for the incentive program.

There is a fairly long list of local employers who also sponsor LNYW programs for employees, however, the sums available are generally much more modest than the Hopkins program and therefore do not factor in as significantly.
Lack of Police Support and City Coordination in Redevelopment Areas

A number of developers interviewed expressed tremendous frustration around what they see as a lack of coordination of City services in areas in which they are working such as sanitation, street repairs and the like, and in particular police attention in more difficult redevelopment areas where general crime and open air drug markets sometimes flourish. Despite reports to Police and requests for a focus on clearing drug markets, they say they get little to no response resulting in thefts of tools and materials, and vandalism at worksites, and making it nearly impossible to sell renovated units. This discourages developers from taking on more difficult projects in more troubled areas, and adds to their costs. Typically, they are unable to get insurance to cover these risks.

There was also criticism that the City does not follow up closely enough with regard to houses it has sold, either directly or through receivership to assure promised repairs are being made, and that can undermine some of their efforts to sell houses they have renovated. Furthermore, they feel more code enforcement is required for some of the other property in V2V neighborhoods which, while occupied, may be in generally dilapidated condition or have sanitation issues of trash and debris in yard.
Whether or not a small developer accesses capital from a traditional lending resource, or a hard money lender, for many of the people interviewed who are engaged in developing vacant houses, there is probably a ceiling as to how much can be done at a given time, or in a year, dictated by the net worth of the developer and his business. Real estate lenders typically will require a personal and/or business guarantee, or both. To the extent a small developer has a modest net worth, the ability to provide those guarantees is limited and is going to limit his access to capital.

When interviewing Baltimore Community Lending’s new director, Bill Ariano, he related that BCL has lent to one small developer whose development loan is guaranteed by a hard money lender. Presumably that is because the developer did not have sufficient wherewithal to provide the required guarantee himself. So, even though he was accessing conventional capital, he was still dependent on a hard money lender, although likely the cost to him and his project would be less than borrowing directly from the hard money lender. The answer may be that the more competent developers will ramp up production to the extent that they can financially, dictated by their borrowing capacity, but the bigger answer to getting more vacant houses renovated is to perhaps grow the development community. There are two groups locally who are interested in doing that and who are working directly with small, emerging developers to give them the education and technical assistance they need to capably engage in the development business, and some hands on experience as well. They are the Harbor Bank Community Development Corporation under the direction of John Lewis, and Ernst Valery of Ernst Valery Investments.

Both of these entities are currently working with people they have identified who would like to build a vacant house renovation business. Both are focused on providing actual education on the development process and evaluating a project’s feasibility, and both expect to provide hands-on experiences in actually taking a project from inception to completion for those who successfully complete the education program.

Many of the developers interviewed for this report are not necessarily renovating in the most troubled areas, nor are they renovating the typical boarded up long term vacant house. At least three are focused on Southeast Baltimore and are acquiring property that is unoccupied, but not always vandalized shells which are more common in areas that have seen decades of disinvestment but are now being reclaimed. Despite not grappling with the most troubled properties, these developers are, however, building value in some more stable areas, creating visible improvements

General Conclusions
which in turn help to stabilize the communities and can lead
to more investments as people come to believe they can get
a return on that investment and that communities are on the upswing.

The edgier, more troubled communities typically need
some kind of financial support at least initially to grow the
market values to a point where they would cover renovation
costs and provide a reasonable return to the developer.

RECOMMENDATIONS

1. A variety of grant, loan and tax incentives should be
explored to make it financially feasible for row home developers to increase the volume of their work. One example would be a tax credit that benefits the developer relative to sales of properties in certain designated impacted neighborhoods.

2. Currently the State’s Sustainable Communities Tax Credit can only benefit the eventual home buyer. Perhaps the idea with the most potential to make renovation of more vacant houses feasible is to create some path for small developers to directly access that Tax Credit for vacant houses renovated to the State’s historic standards for sale. Although one developer has figured out a way to try and capture the monetary value of that credit to defray its cost of development, the mechanism is awkward, and somewhat risky. In addition, applications must be prepared for each individual property. Given that renovation of multiple rowhouses in one block or one neighborhood is likely to involve the same specifications, it would be helpful if a developer could seek approval on a project basis, rather than one house at a time. Improving review times for tax credit applications would also be critical to its usage by small developers.

3. A roundtable of providers of various buying incentives should be convened to ascertain if one unified application can be developed to meet everyone’s needs, eliminating the need to approach multiple sources and to complete repetitive paperwork, and if there would be a way to align systems in different political jurisdictions. This could perhaps be done under the auspices of Baltimore Housing’s Home Ownership Office.

4. The requirement to provide loan guarantees will continue to limit the borrowing capacity of small developers who, by their very nature are not well-capitalized. It would be worth exploring whether a
guarantee fund could be established to supplement personal and business guarantees, giving small developers more access to traditional capital and perhaps encouraging lenders to reduce their equity requirements.

5. Streamline the CHAP initial review and final approval processes, and/or provide additional staffing to reduce the review times. As with the Sustainable Communities Tax Credit, a mechanism for submitting a whole project for approval should be considered.

6. The Mayor’s Office should pull various agencies together to demand that better coordination of services in targeted V2V communities be provided. Typically, if the housing can be improved and get occupied in a given area, many of the crime problems will move elsewhere, sanitation will improve and other investments will be stimulated. But until that happens, more police, sanitation and code enforcement attention needs to be brought to bear and this should be monitored through Citistat.

7. Solving problems with BGE reviews and processing would likely take a concerted effort by high level officials at the City in discussion with high level personnel at BGE to analyze the process and determine how it can be streamlined.

8. Properties sold through receivership or Land Disposition Agreements must be monitored more closely to assure buyers are proceeding with renovations. Timelines should be established for buyers and strictly enforced.

9. Although many of the nonprofit community development corporations provide housing counseling, it would appear their efforts are insufficient to produce enough credit-worthy buyers. Housing counseling, while it covers the need for good credit, is primarily aimed at buyer education of the buying and borrowing processes. In many cases, those interested in purchasing a renovated home need more than counseling; they need someone to work with them on credit repair. There often is not a widespread understanding that credit issues can preclude one’s ability to purchase a home and credit repair can be a lengthy process and requires some knowledge and skill. It is typically beyond the services provided by the CDCs. While there are for profit credit repair operations, they are expensive and not all are reputable. Potential City buyers might benefit from a concerted public service campaign to hammer home the need to be proactive if you want to buy a home and to encourage potential buyers to obtain housing counseling and undertake credit repair efforts aimed at becoming mortgageable. This might be spearheaded by a Citywide organization such as the Community Development Network.
The following small developers were interviewed for this report. All are developing in BRNI designated communities. They do not, however, represent all such developers in BRNI communities. Below is a summary of key information provided by each:

**Charm City Builders, Tyler Banks, principal**
- In business since 2007. Office and five paid employees.
- Developing in City zip codes 21224, 21230, 21231 and 21206, and Dundalk
- Acts as his own general contractor.
- Capital though hard money lenders and equity
- Completed 32 houses last year and will do 35 this year. Mostly selling property but would like to build up a rental portfolio of contiguous property. Could probably do 40 houses with existing personnel. To grow he would need to have a bigger construction operation and be able to access money at a better rate.

**Chance Development, Brian Chance, principal**
- Focused on SE Baltimore – Patterson Park, Highlandtown
- Acts as his own general contractor
- Capital through hard money lenders and equity partnerships
- Has 3 rentals currently and would like to build rental portfolio
- Completed houses last year.
ACC Development, Alex Coleman, principal

- In business 5 years. No office or employees
- Developed 5 houses in EBDI (1000 block McDonogh Street), focuses on Canton, Brewer’s Hill, Loch Raven & Northern Parkway
- Acts as own general contractor
- Capital through hard money lenders and equity. Has accessed financing through Kopernik Bank in the past.
- Does about 5 houses per year. Biggest challenge to growing is access to capital and ability to tie up inventory. Would like to double in size. Feels he would need help in developing systems and processes to manage a larger business, and would have to hire someone.

Timothy 6:18, Kevin Heerdt and Chuck Davies, principals

- In business since 2010.
- Developed on Broadway, Greenmount West, Auchentoroly Terrace
- Hire general contractors
- Self-finance
- Have completed 20 houses since inception, most in Greenmount West. Have sold 6, have 1 for sale, and the remainder are rentals.
- Access to inventory serious problem. Unable to access more inventory in Greenmount West so done there.

The AZ Group, Aziz Housseini, Principal

- On his own for two years Acted as Development Manager for a nonprofit previously. Has office and one employee
- Focusing on CAREs area in East Baltimore; acting as development consultant for Callow Avenue redevelopment in Reservoir Hill for Druid Heights Community Development Corp.
- Except for Reservoir Hill project, acts as his own general contractor and self performs carpentry through his related AZ Commercial Contracting which has 4 employees.
- Financing through Reinvestment Fund and an investor partner to provide equity, and HNI for Reservoir Hill
- In 2016 expects to do 10 units for sale and 10 for rental. Expects to grow by getting into commercial development and multifamily development for rent. Interested in developing a rental portfolio.

People’s Homesteading Group, Michael Mazepink, Executive Director

- Nonprofit. Has been operating for more than 30 years. Office and 5 employees.
- Focused on Barclay and East Baltimore Midway
- Act as own general contractor and self-performs demo work
- Line of credit of $550,000 for up to 3 houses at a time from Capital Bank. Has Community Legacy and BRNI funds
- Doing one house per year but would like to do six per year.
- Would need additional operating support to ramp up production.
Dundalk Renaissance Corporation, Amy Menzer, Executive Director

- Nonprofit. Office and staff.
- Focused on old Dundalk, Main Street area
- Utilizes general contractors
- Financing through County HOME program and BRNI
- Has completed 12 houses since 2005. Lack of HOME money and time it takes to access funding, and the market gap precludes doing more.

Home Free USA, Harry Sewell, Baltimore Director

- Nonprofit. Office and staff
- Focused on Southwest and West Baltimore
- Utilizes general contractors. Acquires property through National Community Stabilization Trust, donations, and Vacants to Value.
- Currently doing approximately two dozen properties per year with goal of expanding to fifty to seventy-five per year.
- Access to capital is an issue.

Historic East Baltimore Community Action Coalition (HEBCAC), Ed Sabatino, Director, Jeff Thompson, Assistant Director

- Nonprofit. Office and staff.
- Focused on East Baltimore.
- Utilizing general contractors in Station East project
- With current level of staffing, could handle 12 to 15 houses per year. Would like to double capacity.
- Construction financing slows them down. Have put together layers of financing through Reinvestment Fund, PNC Bank (with Abell Foundation guarantee), Community Legacy funds, and BRNI money.
- In early sales, only broke even at sale and had to rely on Maryland Sustainable Communities Tax Credit pass-through from buyers to cover margin.

Whitridge Row, Terry Trimble, principal

- For profit. Mr. Trimble is an attorney and this is not his primary source of income.
- Utilizes local general contractor.
- Focused on Harwood area, specifically 400 block of Whitridge.
- Has relied on equity, and loans from friends and family to finance projects.
- Focus area not CHAP or MHT eligible.
- Was able to access funds through Strong City Baltimore from Attorney General settlement. Otherwise projects would be under water.
- Only able to manage one renovation at a time.
- Has a small rental portfolio as well.
Chesapeake Custom Properties and Dundalk Custom Homes, Charlie Wolinski, Principal

- For profit company. Mr. Wolinski is a high school teacher and does this work as a sideline during the school year and over the summer. Partners with his brother, and occasionally friends.
- Acts as own general contractor. Renovates homes and engages in new construction as well.
- Margins are too small to be able to buy and renovate in the Dundalk Renaissance Corporation's target area unless the BRNI Buyers Boost is available.
- Self finances which limits production, but feels the margins are too tight to bear financing costs.
- Has a small rental portfolio and looking to increase that.

Urban Space Developers, Chris Taylor, Principal

- For profit company. Office and staff.
- Has Canadian investor partner.
- Is able to develop with equity and investor funding.
- Has moved away from individual row house development for resale to an all-rental model, both single family and larger multifamily rentals for which he feels the market is very good. Able to achieve healthy rents with market rate renters.