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Developing Market-Rate, Infill Housing in the City of Baltimore

A Policy Forum Presented by

The Urban Land Institute Baltimore District Council
and
U.S. Department of Housing and Urban Development

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I. Introduction

On September 26, 2000 the Urban Land Institute Baltimore District Council convened a group of 37 high level, land use and real estate development experts and practitioners to participate in a one-day policy forum aimed at examining the obstacles to, and opportunities for, developing market-rate infill housing in the city of Baltimore. Co-sponsored by the U.S. Department of Housing and Urban Development, the forum is part of a larger project to analyze barriers to infill housing development and to propose solutions to improve the environment for residential development in urban areas.

Baltimore and six other major metropolitan areas have been selected to host policy forums on market-rate infill housing. The information gleaned from the Baltimore policy forum and others like it will be incorporated into ULI publications on infill housing and will assist the U.S. Department of Housing and Urban Development, the U.S. Conference of Mayors, and the National Association of Home Builders in carrying out their Building Homes in America Initiative – a program to build an additional one million new homes, over the next 10 years, in America's cities.

Like most American cities over the past 30 years Baltimore experienced strong suburban development that drew many middle-class households away from the central city. More recently, increased interest in downtown civic and recreational activities, along with a growing demand for housing near employment centers, has helped refocus interest on living in the city. Today, Baltimore's target market for multi-family product largely comprises students, young professionals, visiting executives, artists, some empty-nesters and some elderly. In addition, the multifamily housing market varies widely within the city.. While not recession-proof, Baltimore is not as vulnerable to economic downturns as other metropolitan areas due to the nature of its major employers—universities and medical centers.

A few deterrents to increased downtown housing development in Baltimore are the perception of crime, the easy access of Baltimore's suburbs to downtown activities, and poorly performing schools. While statistics indicate a strong decline in criminal activity throughout Baltimore over the past few years, developers must still deal with the perception of crime when marketing their projects. Security features such as alarms, secured garages, lighting and increased levels of policing have proven to be effective amenities in attracting residents.

Baltimore is unique among other major metropolitan areas in that its suburbs enjoy direct access to downtown employment centers and recreational activities.. As a result, suburbanites, particularly empty-nesters, have little incentive to sell their homes and relocated downtown. More in line with trends around the country, however, Baltimore has been unable to attract young families downtown due to poorly performing schools. Those young families that do reside in urban

neighborhoods often feel compelled to relocate to suburban communities noted for better-quality public education.

Baltimore has been very successful at providing infill housing for mostly young professionals, students and long-time urban residents. Recent development response has included new residential development near transit centers; rehabilitation in older neighborhoods; and adaptive use of well-located retail, office and industrial buildings. Three case studies of successful infill housing projects were presented at the forum. These projects serve as models to learn from and catalysts for continued revitalization and new housing development in the City. The presentations generated a group discussion on ways in which infill housing policy can play a more effective role in promoting residential development (particularly middle-income housing) within the context of “smart growth.”

Specifically, the forum considered the following:

- The city can play a role in creating opportunities for higher-density development through revision of current zoning codes and redevelopment laws.
- The city can and should provide leadership in the identification and assembly of infill sites.
- The public and private sectors should consider supporting the city’s efforts to pursue enabling legislation that would establish a private land bank with municipal powers of condemnation.
- State, federal and local agencies need to provide innovative financing tools to support the building of market-rate infill housing targeted to middle-income residents.
- Credit enhancement tools should be created to reduce interest rates for small developers and allow them the opportunity to participate in small-scale infill development.
- To reduce development time and cost, the city needs to revise its convoluted structure for land acquisition which currently involves three different agencies for approvals.
- For infill development to have the greatest impact on a neighborhood’s revitalization, the city needs to revisit geographic boundaries, which currently define neighborhoods in terms of blocks. That is, the city needs to recognize that communities are formed around schools, churches, libraries, etc., which need to be considered during land assembly for infill development.

ULI and HUD wish to thank the participants for taking time out of their busy schedules to discuss infill issues, identify barriers, and propose solutions. In particular, we wish to thank the Honorable Martin O'Malley, Mayor of the city of Baltimore, for participating in the forum and sharing his views on the importance of urban housing to Baltimore's future.

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** Speakers*

III. Lessons Learned

Case Study I: The Atrium at Market Center, Multi-family Rental Rehab Project

David Hillman, President, Southern Management Corp.

Company Description:

Southern Management Corp. is the largest private owner of rental housing in the Baltimore-Washington area, and currently ranks fifteenth in the U.S. Headquartered in Vienna, Virginia, the company owns and manages 23,000, mostly middle-income, rental housing units. SMC came to Baltimore five years ago and today has nearly 4,000 apartment homes, making it the greatest provider of downtown rental housing. SMC typically acquires, renovates and repositions older properties with the intent of holding them for long periods of time.

Project Description:

Number of units: 173 rental units

Market: Class A rental market

Construction: Rehabilitation in process, with leasing expected to start at the beginning of 2001 and occupancy in March or April of 2001.

Location: West Side Downtown
118 North Howard Street
Baltimore, Maryland

Description: The former Hecht Company department store building was constructed in the early 1920s as a classic flagship store. An addition was completed in the 1940's and Hecht's corporate headquarters was located in a third building (not part of the project site, but presently occupied by a pharmaceutical company).

The eight-story, two-basement structure consists of a total of 250,000 square feet of space. The first floor has been renovated into a Rite Aid drug store. The upper floors have been mostly vacant for 20 years, although Baltimore City had offices in the building for a period of time.

The upper floors are being renovated into 173 rental apartments ranging in size from studios to four bedroom, three and a half bath

lofts. The apartments will be finished to Class A standards and will feature individually controlled heating and air conditioning, upgraded kitchens, baths and flooring. The common areas will be luxury level and the lobby will have a desk attendant. Secure indoor parking is provided in an adjacent garage with direct access into the building.

Obstacles:

1. **Convoluted ownership structure/legal obstacles to acquisition.** The eight-story condominium building was last owned by Rite Aid. Each of the eight floors was considered a condominium under the ownership of a Delaware Trust, which required SMC to acquire the trusts and file forms in New York, Delaware, New Jersey, and Maryland to complete the transaction. SMC acquired the entire property for approximately \$4.6 million and assumed a mortgage for the \$3.5 million attributed to the first floor. The net cost for the other seven floors and the basement was approximately \$1.1 million. The convoluted ownership structure required sophisticated legal advice as well as considerable time to negotiate the issues.
2. **Length of development process.** The acquisition of the property required a special exception to the zoning code, which in turn led to architectural and environmental studies beyond the standard analysis. Staying the course required patience and the ability to maintain credibility with both the planning department and historic preservation professionals. Two years elapsed from when SMC first considered renovation of the building to when it initiated work on the structure.
3. **Historic preservation guidelines:** SMC faced significant challenges concerning the building's location and design of window design. These challenges are relatively common in historic preservation projects. Ultimately, SMC resolved the window issue by commissioning the (costly) design of windows that resemble their historic predecessors and incorporate modern safety features..
4. **Challenging configuration of space in building.** The developer experienced difficulties configuring space (structural columns were particularly problematic) to reflect the needs and expectations of modern-day residents. The architect eventually created an internal, open atrium to break open the space and add marketability.
5. **Historic tax credits.** When SMC began the development process, Maryland and Virginia did not offer reciprocity for historic tax credits. Hillman encouraged legislators to allow reciprocity of credits between the two states.

6. **Financing.** Financing was initially problematic because of the project's location, which was perceived to be in a crime-ridden neighborhood, even though statistics did not bear out local perceptions. In the end, various banks competed to finance the project.
7. **Environmental issues.** The building had significant amounts of asbestos and lead paint that required expensive abatement.
8. **Building codes.** Modern building codes are often not compatible with older buildings. Building permit professionals tend to want to treat renovations as new buildings. For example, the fire code prohibited the "punching out" of new windows in what previously was a solid wall. A variance on this code resulted in delays.
9. **Perception of crime:** Crime statistics for this neighborhood did not bare out rumors. SMC went to the city to ask for assistance in avoiding loitering and received great support.

Case Study II: Camden Crossing, New Townhouse Development

Olusola Seriki, President, METROVENTURE/USA

Company Description:

METROVENTURE/USA began identifying opportunities for infill housing in the mid-90's and produced a white paper for HUD describing the market and conditions for success. The paper identified and ranked 13 sites ripe for infill development. To make homeownership attractive, METROVENTURE/USA suggested the following conditions for selecting optimal sites:

1. Sites should be large enough to create a critical mass and draw the attention of the buyer market.
2. Sites should have natural boundaries (highways, railroad tracks, water features etc..) to provide communities with definition.
3. Sites should be located within the inner ring or suburban edge of a city, where fairly stable housing patterns exist.
4. Sites should be located in areas characterized with a respectable rate of homeownership.
5. Sites should have access to major highways and public transportation.
6. Sites should offer the potential for racial and economic integration.

Project Description:

Number of Units: 150 market-rate, for-sale townhomes

Market: Middle-income professionals; the proposed selling price for the three-bedroom, garage townhomes is in the low \$100,000's; the target market is the downtown worker employed by major institutions, the City of Baltimore, or large private sector employers.

Some the buyers will be eligible for the various homeownership incentive programs offered by the City of Baltimore and the Empowerment Zone, including the Housing Venture Fund, Live Near Your Work Program, Public Safety & Teachers Homeownership Program, The SELP Program, and various mortgage programs available through the State of Maryland. Use of these programs will enhance the affordability of the units.

Construction: Rehabilitation in progress.

Location: Barre Circle/Washington Village

Description: Based on its analysis for HUD, the developer ranked the Camden Crossing site highest on its list of 13 potential sites. The project is on an eight acre site surrounded by public streets one block off of MLK, giving it access to University Center. In addition there is an existing homeownership pattern dating back to the late 1970's and early 1980's, and surrounding communities are well established. The community is fairly diverse in terms of its racial and economic profile. The developer allowed market research to drive the design of this townhouse community.

The preliminary development program for Camden Crossing calls for the construction of approximately 150 market rate three-bedroom, three-story garage townhomes providing an average of 1,650 square feet of livable space in addition to the garage. The community is designed around neo-traditional site planning principles and includes features such as rear accessed garages, central park, pocket parks, tree-lined streets, and historic architecture.

To integrate the project into the neighborhood, the developer petitioned for the reinstatement of the original street grid. All of the homes front public streets and have brick accents. To create a sense of community, the developer has planned for pocket parks and a central green space as well as six foot setbacks.

Located in the Barre Circle/Washington Village district of southwest Baltimore, the site has direct access to downtown Baltimore via Pratt and Lombard Streets and is therefore accessible to the large institutional employers and government and private sector offices. The site also has direct access to I-95 via Martin Luther King Boulevard and is close to the Inner Harbor, the Convention Center, Oriole Park at Camden Yards, the new Ravens football stadium, and Federal Hill shopping districts. Located on a federally designated Empowerment Zone, Camden Crossing has access to a myriad of incentive programs.

Obstacles:

1. **Condition of site:** Located on the former factory site, the structure was full of debris from the site's original buildings. Debate continues over demolition standards and the abatement or removal of the on-site debris..
2. **Legal processing:** One year elapsed in resolving the ownership issues associated with the 17-parcel site..
3. **Environmental process:** The developer was working through the Response Action Plan for the remediation of environmental problems associated with the site, when in mid-stream, leadership at the environmental agency changed. The agency is currently reviewing previously approved actions..
4. **Marketing:** Infill sites require creative marketing to attract prospective residents. Camden Crossing has established an aggressive marketing campaign which takes the product to prospective buyers. High product expectations in terms of appliances, finishes and amenities, which are difficult to satisfy for a middle-income project.
5. **Financing:** Financial assistance to subsidize moderate to middle-income housing is difficult to secure. The developer is currently working with the City of Baltimore to identify financing sources to reduce development costs. Income restrictions on funding programs pose barriers to middle-income housing production.

Case Study III: The Riviera, Multi-family Rehabilitation Project

Mark Dambly, Vice President, Pennrose Properties, Inc.

Company Description:

Pennrose Properties is a Philadelphia-based real estate development company specializing in urban revitalization. The company owns, operates and manages 5,000 multifamily housing units in Maryland, Washington, DC, Philadelphia and New Jersey. Eighty percent of the properties are lower and affordable income housing and many projects have combined commercial and civic activities. Pennrose specializes in multi-layered financing for its projects. The company entered the Baltimore market two and one half years ago in order to expand its business.

Project Description:

Number of units: 55 apartments

Market: Mixed-income renters, with 85 percent of units restricted to tenants earning no more than 80 percent of the area median income and 15 percent of the units will be rented to households earning up to 115 percent of the area median income.

Financing: HUD provided a \$2.2 million Upfront Grant (typically granted to HUD projects under foreclosure but in stable real estate markets); the city of Baltimore provided \$1.925 million; the Baltimore Community Development Financing Corporation provided \$1.61 million; and \$2.4 million in equity was raised from the syndication of federal and state historic tax credits.

Construction: Rehabilitation near completion.

Location: Reservoir Hill, 901 Druid Park Lake Drive
Baltimore, Maryland

Description: Built in 1915, the Riviera was one of four luxury early 20th Century apartment buildings in the Reservoir Hill neighborhood which overlooks Druid Park Lake in the City of Baltimore. The Riviera characterizes the rich architectural style of the early 20th Century with its eclectic combination of Beaux-Arts and Renaissance Revival details and is an excellent example of high style urban apartment living in Baltimore. Its prime location on one of Baltimore's most picturesque parks once attracted some of the city's wealthiest citizens.

Unfortunately, the neighborhood surrounding the Riviera deteriorated over the second half of the century, like many similar urban neighborhoods across the country, and ultimately resulted in the decline of the Riviera. After many years, and in an effort to revitalize the building, the Riviera was redeveloped into affordable housing. This attempt to stabilize the building did not succeed as it continued to decline, and eventually fell into a state of disrepair.

In 1998, HUD foreclosed on the property and partnered with the City of Baltimore to procure a developer to transform the dilapidated building into market rate apartments and restore its original grandeur.

Pennrose's concept has been to develop a mixed-income, multi-ethnic property in conjunction with the Reservoir Hill revitalization efforts currently underway. Interested tenants are working professionals 25-35 years of age with no children. A majority of applicants currently live in the city. All modern amenities (DSL lines, fitness center, security systems etc..) have been added to the structure, while at the same time retaining the architectural elements that make this building unique.

Obstacles:

1. **Site acquisition and assembly.** Scattered-site infill housing reduces the efficiencies of greenfield housing development and raises development costs. Often the developer has to deal with multiple owners, a process that can prolong the process and increase the difficulty and expense of producing housing.
2. **Gaining critical mass.** The dynamics of a neighborhood are difficult to control unless the site in questions is of significant size.
3. **Security.** Providing security for tenants and employees can be costly but is worth the effort. Security systems in each apartment can add marketability to a project while safeguarding against crimes.
4. **Maintenance of properties.** In less safe neighborhoods, controlling graffiti and general policing of scattered sites is difficult. Many times fences need to be placed around construction sites to secure equipment and employees.
5. **Delivery of services.** Scattered-site development complicates service delivery (utilities, management services etc..).
6. **Financing:** It is difficult to find financing tools for moderate-income housing.