The Private Sector Perspective on Working in Transitional Markets:

REDI Developers and Their Impact on Inner City Redevelopment

2016

Overview

What is REDI?
Real Estate Developer Index (REDI) is a values-based approach for investors, non-profit and community organizations, local governments, and concerned citizens to evaluate real estate developers who are principals and major shareholders of their firms.

Why REDI?
Give all community stakeholders a yardstick to measure a developer’s integrity and commitment to the communities they serve.

How?
- Design ecosystem and rating process organized around three principles:
  - Transparency & Accountability
  - Sustainability & Design
  - Community Engagement & Empowerment
- REDI metrics examine past projects and proposed projects beyond specs and assess developer’s engagement with community.
- Create platform that rates developers, and educates community members and developers to build mutual understanding.
- Goal: create next generation of informed citizens and developers that serve their communities’ needs.

Platform & Stakeholders

Government & Agencies
- Provide feedback and input into the REDI rating process
- Facilitate better selection of urban developers during the RFP process by leveraging REDI ratings

Knowledge Institutions
- Educate community members on industry and community development practices.
- Educate REDI developer community and other interested parties.
- Provide course work and educational practices in urban development to create a global standard of excellence for project looks, site and how to achieve it.

Investors
- Invest in developers with proven high integrity and commitment to communities
- DAP will create future REDI developers.
- Launch a REDI boot camp for bigger developers.
- Participate in a community of REDI developers who understand community needs and gain access to capital and best practices.

Community Members & Groups
- Better evaluate developers by providing input into the REDI rating process.
- Become certified to give developers REDI ratings.

Developers
- Develop projects for communities with high integrity and commitment to communities
- Launch a REDI boot camp for bigger developers.
- Participate in a community of REDI developers who understand community needs and gain access to capital and best practices.

Financial Institutions
- Provide financial input regarding a developer into the REDI rating process
- Leverage REDI rating information during the due diligence process

Investing in Baltimore

Total Baltimore Investments-$125.25 million

Commercial Investments
- Nelson Kohl Building - $25 million
- St. James Terrace Apartments – $26 million
- St. Michael's - $21 million
- Professional Arts Building - $20 million
- Walter’s Bathhouse - $2.5 million
- Seller’s Mansion – $3.5 million
- The Chesapeake Building - $5 million
- Park Heights Apartments - $17 million
- Developer's Apprentice Program - $750,000

Residential Investments
- Over 30 row homes purchased and sold/leased - $4.5 million

From Blight to Bright

The Nelson Kohl Building

Renderings
From Blight to Bright

The Chesapeake Building - Exterior
Before/After

The Chesapeake Building - Interior
Apartment Unit Before/After

The Chesapeake Building - Event Space
Before/After

Professional Arts Building - Exterior
Before/After

Professional Arts Building - Interior
Before/After

1800 Block of Barclay Street
Before Construction
**From Blight to Bright**

1811 Barclay Street - Construction Progress

1811 Barclay St Rear Exterior Progress 1811 Barclay St Interior Progress

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**From Blight to Bright**

1811 Barclay Street - Interior Progress

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**From Blight to Bright**

413 McAllister Street 411 McAllister Street 405 McAllister Street

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**From Blight to Bright**

400 Block of McAllister Street During Construction

Developer's Apprentice Program

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**From Blight to Bright**

St James Terrace Apartments

Before Construction

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**From Blight to Bright**

Sellers Mansion

Before Construction
What We Hope to Achieve

- REDI will eradicate the displacement of people and minimize disruptions to the environment and existing communities.
- REDI developers will be committed to building healthy and stable multi-income, multi-ethnic and multi-generational communities.
- REDI will identify, support and create a vital path for all stakeholders, by breathing new life into cities and communities poised to renew and restore the American Dream.
- A relationship and support system between Developers and the Community
- Developer Apprentice Program (DAP)
• 566 Baltimore rental properties. Add 30-50 new rental properties per year.

• 90% of tenant base is with the Section 8 program.

• Industry purchases, renovates, and stabilizes over 1,500 houses per year representing $50M of new private rehab improvements.

• 2011-2014: Acquired & renovated over 700 SFH in Atlanta, GA.

• Attend national conferences to develop “best practices”.

Dominion Properties
Building a Better Baltimore, One House At a Time.
• Manage 702 Baltimore rental properties
• Add about 50 new rental properties per year
• Specialized personnel to support working with subsidized housing programs such as Section 8, etc.
• Dozens of privately owned property management companies managing thousands of Baltimore City rentals.
• Over 50,000 investor-owned and managed Single Family houses
• Started as private (non-bank) lender to Baltimore City landlords
• This year, we will originate over **$50 million in private loans** in 35 states nationwide to single family investors.
• The private lending industry in the Baltimore region represents over **$100 million in loans** to single family investors per year.
Renovation of 2700 Block of Orleans St and 200 Block of N Belnord Ave
2709, 2711, 2715, 2717, and 2719 Orleans St
201, 203, 205, 207, 214, and 219 N Belnord Ave

Properties Sold For $140K - $172K
Before/After
Various Locations
Building A Better Baltimore, One House At A Time

• Focused on distressed housing exclusively
• Committed to create safe, affordable, healthy housing
• Focused primarily on <120% AMI price points for sale and <80% AMI for rentals
• Operate completely without subsidy
Positive Outcomes

• Gut rehabs of 1920s-1940s rowhouses at $60-65 psf hard costs
• Lead free, Central A/C, 36” hallways, large closets, modernized spaces, and open layouts
• Happy Homeowners and Tenants (prefer “Residents”)
  • 5.5+ years average tenancy duration
Market Driven Approach to Affordable Housing

• Don’t tackle full blighted blocks, secure gains and “move the line”

• Efficiencies from scale - 50-100 per year

• Don’t layer on procurement goals – Make affordable housing about affordable housing

• Not Davis Bacon, WBE, MBE, Green
Rowing The Same Direction

• Same neighborhoods, same product, same goals
• Active dialogue, open communication
• “Market Driven” ≠ Speculation, Gentrification
• We do product and process very well
  • Can work together on social services, public policy, and consensus building to create strong neighborhoods
The Private Sector Perspective on Working in Transitional Markets

Michael Braverman
Deputy Commissioner
Permits & Code Enforcement
Baltimore Housing
SFD Renovators

1. Increase capacity for SFD renovations as developers and as lenders
2. Provide real time market intelligence
3. Via competition, raise the bar for rehabs
4. Create workforce housing
5. Promote equitable development
City Life and their partners are leaders in successful community development and revitalization.
OUR MISSION

To restore and re-build housing while working with the community to make neighborhoods stronger, safer, cleaner and greener, and to provide employment opportunities to local residents.
Our History

- Began renovating properties in East Baltimore in the early 80’s
- Invested $31.5mm in historic row home renovation
- $52mm in new residential construction
- Experience in commercial development (Hoen $25mm under development)
- Never received any subsidies
- “First one in” in the distressed communities where we work
- Women Business Enterprise (WBE)- Women working in a completely male dominated environment
Public/Private Partnership

- City Life collaboration with Baltimore housing:
  - Vacants to Value Program
  - CHAP
  - Receivership Action
  - Code Violations
  - Consolidating Properties to obtain 50% of the block
  - DPW Coordination
  - RFP and Solicitations
  - Housing Swaps
  - Consolidating land for Parking
  - Strategic Demolition
Project Financing

- All City Life projects have been financed by banks/lenders
- Equity provided by City Life or Investment Partners
- Debt financing by banks/lenders (typically 80% debt financing)
- Larger development projects can be managed through revolving lines of credit
- Typical interest rates: 5-8%
- Term: 6-12 months on revolving line, converted to long-term debt or sold
- All financing contingent upon appraised values, which is challenging in emerging markets/neighborhoods
- During the recession in 2007-2012, banks refused to lend so developers reverted to private equity investors
Why Baltimore?

- Strong collaboration with Baltimore Housing, in particular, Julie Day and Michael Braverman
- Hometown Pride
- Commitment to underserved communities - not just about taking profit out
- Our social enterprise and community engagement approach fits with Baltimore Neighborhoods
- Development potential and opportunities
- Vision created by destination points (Harbor Place, Inner Harbor East, Fells Point Historic)
- Strength of Higher-Education Institutions and Medical Campuses
- Artistic Community of Baltimore
- Baltimore City has built a strong relationship with the State of Maryland, Governor Hogan has agreed to commit $18mm in C.O.R.E. funding
Mayor Rawlings-Blake’s Vacants to Value initiative is driving growth and reinvestment in Baltimore’s neighborhoods by streamlining the sale of vacant city property and providing targeted incentives for homebuyers who invest in vacant properties.
<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacants to Value Booster Program</td>
<td>$10,000</td>
</tr>
<tr>
<td>Buying Into Baltimore Grant</td>
<td>$5,000</td>
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<tr>
<td>Community Development Block Grant</td>
<td>$5,000</td>
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<tr>
<td>Good Neighbors Program</td>
<td>$5,000</td>
</tr>
<tr>
<td>Homeownership Program</td>
<td>$5,000</td>
</tr>
<tr>
<td>Settlement Expense Grant</td>
<td>$5,000</td>
</tr>
<tr>
<td>Live Near Your Work Program</td>
<td>up to $6,000</td>
</tr>
</tbody>
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For more information on the Vacants to Value Program visit: [www.baltimorehousing.org](http://www.baltimorehousing.org)
Tax Credits

- City Historic Architectural Preservation (CHAP)
- State Historic Tax Credit
- Federal Historic Tax Credit
The Triangle
Using the momentum in EBDI to create economic development “North of the Tracks”
Revitalization “North of the Tracks”

- **Transforming Vacant Row Homes** – CL, CSP, and Habitat for Humanity of the Chesapeake are partnering to acquire vacant row homes from Baltimore City and renovate them as affordable, workforce and market-rate housing. We have been awarded 7 homes from the city through the V2V program and submitted an unsolicited proposal for 23 additional homes.

- **Strategic Demolition** – Baltimore City is committed to using C.O.R.E. funding to demolish the seriously dilapidated row houses around Hoen. Demolition of the 2000 block of Biddle St. is underway to create surface parking for Hoen and Israel Baptist Church. Henneman Ave. and Prentiss Place will be demolished in late 2016 to create additional offsite parking for Hoen and Henderson-Hopkins School.

- **Artistic Transformation** – Cross Street Partners will convene a team of artists and landscape architects to enliven a series of underpasses linking the Triangle to the EBDI area.

- **Momentum in EBDI** – Influx of businesses, amenities, and residents to the area (including a park, grocery store, hotel, retail, and housing) creates positive momentum towards “spillover” revitalization.

- **Reducing Crime** – Frontline Security will provide clean and safer services during business hours and Collington Square Neighborhood Association will host quarterly meetings with the BCPD to address other issues of crime.
Demographics

Broadway East has a population of about 6,000 people of whom 98 percent are African Americans. Based on key demographic data, it is obvious that the vital signs of Broadway East are challenged.

- Median Household Income: $23,388
- Average Home Price: $16,767
- Median Home Price: $7,550
- Educational Attainment: 47.6% (with less than high school)
- Unemployment Rate: 21%
- Housing Tenure: 34% owner-occupied

The highlighted data indicates that there is a tremendous amount of need for some type of intervention in the Broadway East neighborhood. It is important that the community plan address both the physical and social needs of the neighborhood to ensure that existing residents benefit from the opportunities created.
The Hoen Lithograph Building
Hoen Lithograph Building and the Work Incubator
Local food production kitchen, café, bookstore, literacy center, and the incubator space for workforce training programs
Eastside Writers Cooperative

- Retail Bookstore
- Community writing workshops
- After-school literacy programs
- Addressing adult literacy
RETAIL / RESTAURANT

café

EXISTING HOEN BUILDING
Baltimore, Maryland
Streetscape Improvements

- **Project Cost:** $1 million for LED lighting and murals for the 8 underpasses connecting EBDI to the neighborhoods north of the tracks.
Creating Quality, Career-Track Jobs For Community Residents

15,000 New Jobs Over 5 Years

CONSTRUCTION + TECH + HEALTHCARE + RETAIL & SERVICES

TOTAL: 3,000 jobs/year = 15,000 New Jobs for Community Residents
Transforming Vacant Row Homes

- Rehabilitation of 150 vacant row homes
  - Affordable (30-60% AMI): 20%
  - Workforce (60-90% AMI): 30%
  - Market Rate: 50%

- CSP, City Life, and Habitat for Humanity will partner to create a mixed-income community, “North of the Tracks”
Baltimore City – Strategic Demolition

- City's current demolition commitment. Total amount $2 million
- Additional demolition targets under consideration. Total amount $3.4 million
Baltimore: A Model For Investment

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BACKGROUND

1. Local Developer & Operator of the East Baltimore Homeownership Center

2. Investing in Baltimore since late 1990s. Focused on East Baltimore since 2012

3. In the beginning, pricing was in 150-160K Range

4. Values $25K Each Year

5. Just settled one at 281K, and have several pending 260K-295K range

6. Specializes in creating floor and building market

7. Expertise in pre-selling shells to end-users
Part of a surplus sale that the City held and was awarded through the RFP process.

The City solicited proposals from qualified, interested developers.

The City chose one developer to revitalize the block, based on a number of factors.
Basic Formula

**Net Profit:** $74,000

- Typical split 50/50 = $37,000 divided by $186,000 investment = 19% ROI in 9 months. Annualized is 25% ROI.
- Average stock market return over the past 10 years is just over 7%. Average CD return is less than 1% over same time period.
That is Why it works!

An investor can get a **25%** return. Even if they only gain half that return, they still **Nearly Double** the typical market gain.
Community
What Makes a Community Conducive For This Type of Investment?

- **Investment from the municipality**
- **Existing anchors** -- Hopkins/Hoen Building/Food Hub/Grocery Store/Parks/Restaurants/Schools/Churches
- **Participating Partners** (LNYW/V2V/Police)
- Investor reinvestment into the neighborhood (Jobs/Clean-up/Amenities)
- Neighborhood involvement (paying people to keep streets clean/employing residents in the revitalization/partnering with non-profits)
# The Machine

<table>
<thead>
<tr>
<th>Interested Parties</th>
<th>Great homes</th>
<th>Excellent Sales or Rental team</th>
<th>Why Live Here</th>
</tr>
</thead>
<tbody>
<tr>
<td>A place where interested parties can visit to become informed about the opportunity.</td>
<td>The product must be superior to what they can get for the money in more established communities.</td>
<td>Excellent Sales or Rental team with Knowledge of:</td>
<td>We make it easy for buyers:</td>
</tr>
<tr>
<td>Centered around the opportunity to live and/or invest in the community (this can start online if necessary).</td>
<td></td>
<td>- Area/Community</td>
<td>- We will get you into a better home that you can find elsewhere.</td>
</tr>
<tr>
<td>Needs to be accessible to the community also, in some capacity, even if presence is only online.</td>
<td></td>
<td>- Amenities</td>
<td>- That better home will be at a lower payment than you would spend elsewhere.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Programs for ease of ownership</td>
<td>- We will keep your out of pocket expenses to a minimum relative to other options.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- You can participate in the design of your home.</td>
</tr>
</tbody>
</table>

The above features allow us to pre-sell shells, we make the investor comfortable. Instills confidence because they have an end buyer more than 75% of the time. We don't have to guess about what a potential buyers will want. Buyers start the process and it will have their fingerprints all over it.
Programs That Help

1. Vacants to Value
2. CHAP
3. MHT
4. FHT
5. Various Grants: FHLB, LNYW, CDBG, Smart Keys, CDA w/DSELP

Programs that can help make the investment attractive for homeowner and capital provider.
Finding Capital: It's Everywhere!!!

1. Local Investment Groups
2. Hard Money Circles/Private Investors/Investment Communities
3. Banks (after area is established)
4. REIT and Fund managers
5. Pooling small investors together

Once you have a model that works, and can demonstrate how it can be profitable, especially with support/participation from the municipality, it will line up.
This Is How We Do IT

Connecting With Community

✓ Multiple Level Connection
✓ Community Advocates
✓ Jobs
✓ Programs

Getting Private Capital committed to investing in underserved communities

✓ They do it because they want to have a great return
✓ If managed properly capital investors make 15-20%+ on your money
✓ Capital providers not necessarily committed to the community, it cares about R.O.I. – Sometimes capital providers need to be educated too

Reinvesting Within the Community

✓ Building a Community Center
✓ Partner use
✓ Local business use
✓ Community use
If you want someone like me working in your City, what do Cities need to do to be a good partner:

- Build relationships with the investors and their capital provider
- Be supportive when the investors need help - permits/crime/clean-up/code enforcement/strategic demolition
- Tell us where you are going to focus and why, so we can understand why your location is a good potential investment
- Be receptive to new investors who want to participate (Land resources/OHAAT/Surplus Sale)

“We can not direct the wind, but we can adjust the sails”