AT HOME IN BALTIMORE: A PLAN FOR AN

# Inclusive City

OF NEIGHBORHOOODS

Baltimore City Task Force
on Inclusionary Zoning & Housing
July, 2006

"Development is a good thing because it improves the City. There used to be a lot of boarded up houses, and now when I ride through I'm amazed…but a lot of home prices are outrageous, especially for low-income people."

**– Debbie, Parking Lot Attendant and homeowner, Baltimore City**

"Housing costs are outrageous in Baltimore. If you have a family, you can't afford to live in the City and make less than $75,000. Getting a professional to move here is prohibitive. It's difficult to come and buy a house, buy a property…We're frustrated with housing in the City."

**– Kevin Plank, CEO, Under Armour**

"They talk about policemen, teachers and firefighters, but then forget about the rest of us. We need help too. We all want the best for our children, I tell you. Yes Lord, even the providers."

Regarding the Task Force: "Just hearing that someone is looking out for us is good for me."

**– Nakia, Day Care Provider and renter, Baltimore City**

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## Executive Summary

### I. Background

This report to the City Council comes at a time when Baltimore City faces fundamental choices about what kind of city we want to be in the future. The rising housing market in Baltimore in the past five years has created a sense of excitement and possibility that the city has not felt for decades. At the same time, this very housing market is a source of great concern to many city residents who wonder where their place and their children's place will be in the future of the city.

There is ample reason for excitement. For the first time in decades, the city appears to be increasing its population and this year faced a budget surplus, largely derived from increase real estate related revenues. In many areas, homeowners who persisted in the city through years of stagnant values are seeing their property values increase. An increasing number of Baltimore City neighborhoods are seen as desirable and competitive in the regional housing market. But this rising market is by no means uniform. In many parts of the city, newfound interest and investment is felt to be fragile and still other areas suffer high rates of abandoned houses and have witnessed little positive change on the ground. There was widespread agreement on the Task Force that, after decades of disinvestments and abandonment, Baltimore City needs more investment and growth to realize its extraordinary potential. Thus, one of the challenges for this Task Force has been to find recommendations that will sustain the city's growth – to avoid "killing the golden goose" through measures that will drive away private investment.

**[ Baltimore City needs more investment and growth to realize its extraordinary potential ]**

At the same time, there is widespread cause for concern as long-time city residents wonder whether rising housing costs will in effect force them out of the city they have called home. Low-income or fixed-income renters are especially vulnerable, as even a modest increase in housing prices can make it impossible for them to stay in their homes. While homeowners benefit from rising property values, those on fixed incomes worry about being able to sustain increased taxes along with rising energy costs. For many Baltimoreans, having family nearby is an essential part of city living. Many residents now worry their children or other family members will not be able to afford a home close by. "Gentrification" and "displacement" are fearful words for many city residents. If left unaddressed by real, tangible policies that create affordable housing as development occurs, these fears could constitute another way of "killing the golden goose." If every development is perceived negatively as an effort to displace existing community residents -who have nowhere else to go in an increasingly expensive region-then development could become so contentious and difficult that private investment would be driven away.

The Task Force has attempted to respond both to the possibility of growth and the concern that many residents have expressed. The Task Force was inspired by a belief that Baltimore's tremendous promise will be best realized through an inclusive and diverse vision of Baltimore's communities where there is a home for all people at all income levels and walks of life.

**optimism and concern**

### A. The Charge to the Task Force

The City Council established the Task Force on Inclusionary Zoning and Housing in October of 2005 to "study the prospect of creating an inclusionary zoning and housing plan in Baltimore City to increase the supply and distribution of adequate, affordable housing across the city so that we can better meet the needs and demands of current and future residents."

**[increase the supply and distribution of adequate, affordable housing across the City]**

### B. Task Force Process

The Task Force consisted of 13 voting members appointed by the City Council but involved over 100 neighborhood leaders, business and development representatives, representatives of housing advocacy groups, faith-based leaders and City officials. The process was intensive, covering a period of seven months and including:

- ★ **Six background sessions on topics related to Inclusionary Housing**
- ★ **Ten full Task Force sessions to consider and vote on strategies**
- ★ **14 strategy workgroup meetings with over 50 participants**
- ★ **40-one-on-one interviews with Task Force members, participants and City Officials, November-June, 2006**
- ★ **Five cost modeling sessions with 11 developers and two additional strategy sessions with developers on a menu of cost-offsets**

Our city owes a profound thanks to the Task Force members and many other participants who volunteered their time, talent and creativity to help shape this report. They are examples of what makes Baltimore a great place to live.

### C. The Market Context:

**background sessions**

One of the Task Force's first efforts was to establish a broad and common understanding of what is happening in the Baltimore City housing market. The city housing market varies widely from neighborhood to neighborhood, containing some of the regions hottest real estate submarkets and some of the region's most forgotten ones. Baltimore City is considering an Inclusionary Housing policy in a context of tremendous pressure on home costs for moderate and lower income families. For the full Baltimore region, the median home price rose by 99% from 2000 to 2004 while wages rose by 19%. Overall, the supply of housing affordable to families lower on the income scale has been shrinking and in some counties disappeared altogether in 2005. At the same time, there has been a rising imbalance between where jobs are growing and where homes at moderate and lower price levels are available.

The result is a regional housing market that is increasingly like a car dealership with only Hummers and Cadillacs, and no mid-price sedan, or a grocery store that only sells filet mignon, but no macaroni and cheese.

### D. The Baltimore City Housing Market: Some Key Points

The Task Force considered a wide range of information about the market in Baltimore City, a few highlights of which are listed below:

★ Baltimore City has a large proportion of its citizens at the lower end of the wage scale. Almost two-thirds of Baltimore City households earn less than 80% of the Area Median Income (for 2005, AMI was $72,000 for a family of four)

★ Many Baltimore residents face severe pressures meeting the costs of housing. Among homeowners, 72% of extremely low-income households, 48% of very low income, and 29% of low income households are "housing burdened," while renters face similar challenges. "Housing burdened" means paying more than 30% of gross income on home/rental payments.

★ Apart from single homes that are being renovated and constructed, about 95% of all development occurring and anticipated, contains developments with more than 30 units.

★ The city has 39,315 units of assisted rental housing, with enormous waiting lists for the programs that provide this housing.

★ The city can accommodate an additional 71,000 households with current basic infrastructure.

★ Foreclosure remains a major challenge to maintaining affordable housing, with more than 3000 foreclosure filings in 2005.

### E. Economic Realities: The Gap between Costs and What Families Can Afford to Pay

The Task Force sought to address three economic realities:

1. **the cost of developing or rehabbing a home:**
2. **what families can afford to pay; and,**
3. **what factors can cause an affordable unit to be lost.**

The Task Force held cost modeling sessions with over 12 for-profit and nonprofit developers of different types of housing during the course of its work. Typical costs can include investment in underlying infrastructure, land, construction, financing, fees and overhead. For a basic inclusionary unit, land costs can vary dramatically from $10,000 to $160,000 for a basic lot, while construction costs range between about $140,000 and $230,000. This means the total cost for a basic inclusionary unit could be anywhere between $150,000 and $390,000.

There is a large gap between this cost to build or rehab a basic home, and what low and moderate-income families can afford. For a family making $21,000 per year, an affordable sales price would be $66,000, while for a family making $57,000 an affordable sales price would be $176,000. This gap represents a fundamental challenge for creating an inclusionary city.

Finally, maintaining the good-quality affordable housing that now exists is another critical economic challenge. A family experiencing severe hardship can rapidly lose their home to foreclosure, which, in the case of Baltimore City, leads to a significant loss of affordable homes on an annual basis. At the same time, Baltimoreans who rent their homes are subject to rising costs or often to substandard conditions where costs remain low.

### II. Goals for an Inclusionary Housing Plan

The Task Force recommendations were guided by a set of 10 goals for an Inclusionary Housing policy developed during the process. These goals reflect a belief that Baltimore's great promise will be best realized through an inclusive and diverse vision of Baltimore's communities where there is a home for all people at all income levels. In summary, the goals include:

1. **Strong inclusionary growth and development**
2. **Housing development coordinated with investment in other vital community assets**
3. **Sustaining healthy, mixed-income neighborhoods**
4. **Balancing both homeownership and rental opportunities**
5. **Preserving as well as creating affordable homeownership and quality affordable rental options**
6. **Making use of a wide range of tools to achieve a complement of affordable housing**
7. **Inclusionary housing linked and adjusted to the economic realities of development costs.**
8. **Efficient community review process**
9. **Appropriate implementing mechanism and measurements of inclusionary housing**
10. **Effectively addressing differing neighborhood market conditions.**

**Baltimore's great promise will be best realized through an inclusive and diverse vision of Baltimore's communities where there is a home for all people at all income levels.**

*See page 26 for the full list of goals.*

**inclusive and diverse**

## III. Main Recommendations of the Task Force

### Recommendation 1: Increase Resources Available to Support Inclusionary Housing

A. **Establish an Inclusionary Housing Trust Fund using 20% of City transfer taxes and recordation fees** to promote economically diverse housing in city neighborhoods by increasing and improving the supply of affordable housing to working families and other persons of very low, low and moderate incomes. At least half the households that receive assistance through this fund should have incomes at or below the Baltimore City median income, which is at 60% of AMI.

- Establish clear strategic priorities.
- Maintain flexibility in usage to maximize impact. The Task Force recommends a wide range of possible uses for the fund.
- Study further the possibility of using 20% of the increase in property taxes collected by the city over a previous year; excess revenue from TIF districts; a proportion of proposed impact fees as per the Comprehensive Master Plan in congested neighborhoods.

B. **Expand and Streamline City Acquisition/Disposition of Land**

- Expand and streamline City acquisition and disposition of land to ease the availability of the land for development. The Task Force recommends significant reform of the tax sale forfeiture process and recommends that the City examine its current practices of holding land, including condemnation, acquisition, and disposition, with an eye toward streamlining and easing the availability of that land for development.
- Study further supporting public investment of vacant or underutilized property in community-based "master limited partnerships" that would include inclusionary units.

C. **Increase State Level Support**

- Fund the State Workforce Housing Grant Program with at least $50 million.
- Partner with State officials and Baltimore's State delegation to support a State-level Site Preparation Bond Fund.
- Study further amending authorization for the Brownfields Revitalization Incentive Program to give priority to developments that include affordable units.

D. **Coordinate Investments and Incentives**

- Study further establishing a process and criteria to coordinate investments in community infrastructure that support inclusionary growth.

## Recommendation 2: Create a Framework for Inclusionary Development

### A. Ensure at least 20% Inclusionary Homes where there is Major Direct Public Subsidy

- Major direct public subsidy would include negotiated city contributions of funds or resources toward a particular project that has a housing component, without which the project would not occur.
- Inclusionary units should be accessible at the following income levels:
  - At least 10% at a lower price: below 80% AMI (teacher, physician's assistant) for homeownership; below 60% AMI (carpenter, lab technician) for rental
  - At least 10% at a moderate price: Distributed fully across a range of incomes between 80% AMI and 120% AMI for homeownership, and between 60% AMI and 120% AMI for rental.
  - One-third of the inclusionary homes should be set aside for city designated nonprofits or the city to purchase or rent for the purpose of maintaining them perpetually affordable. At least half of these units should be affordable to households at 30% AMI and below (home health aide, school bus driver).
- There should be appropriate "grandfathering" provisions for when these requirements would take effect.
- Inclusionary homes should be complementary in exterior design and well integrated into the development plan, and should blend in and be compatible in appearance with the market rate housing units.
- Initial preference for inclusionary homes should be given to purchase or rent to qualified residents who were relocated in connection with a project or live within a half-mile.

### B. Ensure Inclusionary Housing Where There is Significant Rezoning

- Where there is rezoning or other land use action initiated by a unit of city government, the new zoning designation should include a requirement that 20% of the increased number of units be Inclusionary:
  - At least 10% affordable to lower income households (for homeownership, below 80% AMI; for rental, below 60% AMI)
  - At least 10% affordable to moderate income households (distributed fully between 80% AMI and 120% AMI for homeownership and 60-120% AMI for rental)
  - One-third of the inclusionary units should be set aside for city designated nonprofits or the city to purchase or rent for the purpose of maintaining them perpetually affordable. At least half of these units should be affordable to households at 30% AMI and below (home health aide, school bus driver).
- Recognizing this requirement may make infeasible some projects, the City should attempt to provide cost-offsets to developers or subsidies to buyers/sellers to make the project feasible in the existing market.
- There should be appropriate "grandfathering" provisions for when these requirements would take effect.
- Initial preference for inclusionary homes should be given to purchase or rent to qualified residents who were relocated in connection with a project or live within a half-mile.

### C. Ensure Inclusionary Housing Where there is No Major Direct Public Subsidy or Significant Rezoning

- The Task Force recommends an inclusionary requirement for developments with more than 30 units where there is no major direct public subsidy or significant rezoning, adhering to the following principles:
  - – Sufficient offsets should be made available to at least hold the developer harmless.
  - – A flexible menu of cost offsets should be available for developers.
  - – An appeals process should be in place that would allow developers to seek a requirement reduction if they demonstrate the cost-offsets do not make a project financially feasible.
  - – Developments with less than 30 units would have access to the same cost-offsets available to larger developments if they include a 10-15% affordable complement.
- With a menu of cost offsets in place, the Council should establish a base requirement for developments over 30 units where there is no major direct public subsidy or significant rezoning of 10% of units at a price affordable to a household making 120%AMI, while additional offsets should be automatically available to encourage additional units or a lower income target of up to 20% of units at a price affordable to a household making 60% AMI.
- Recommended base requirements for the cost-offsets would be a rebate to the developer of transfer and recordation fees for all units in the development, as well as a direct subsidy of $30,000 for each inclusionary home.
- The Task Force recommends that the Baltimore City Council immediately convene a group to build on the Task Force's cost offset framework and develop specific offsets and legislation for implementing this recommendation.
- City-designated nonprofits and/or the city should have the first right to purchase or rent up to one-third of the inclusionary homes to keep them perpetually affordable. At least half of these homes should be affordable to households at 30% AMI and below (e.g. the home healthaide, school bus driver).

### Overarching Issues for Creating Inclusionary Homes

- There should be appropriate "grandfathering" provisions for when these requirements would take effect.
- Inclusionary homes should be complementary in exterior design and well integrated into the development plan.
- Included for consideration are four potential options for a control period of inclusionary homes.
- There should be a clear and efficient appeals and exceptions process in appropriate situations.
- There should be clearly outlined responsibilities through a governance and accountability framework with an emphasis on sustaining strong, mixed-income neighborhoods.
- To address other important goals, the number of required inclusionary units could be reduced if the homes are more expensive because they are specially designed for people with disabilities or built to be substantially energy efficient.

## SUMMARY OF RECOMMENDATION 2: ENSURE INCLUSIONARY DEVELOPMENT

| | Size | Percent of Units and Income Target | |
|---|---|---|---|
| **A. Major Direct Public Subsidy** | 30+ Homes | At least 20% Inclusionary Homes with at least 10% at a lower price (below 80% AMI for homeownership-e.g. teacher, physician's assistant; below 60% AMI for rental-e.g. carpenter, lab technician) and at least 10% at a moderate price distributed fully across a range of incomes (from 80-120% AMI for homeownership and from 60-120% AMI for rental). | Right of first refusal on one-third of inclusionary homes for City-designated nonprofits or Administrator, with focus on lower-income families (e.g. home health aide, school bus driver). |
| **B. Significant Rezoning** | 30+ Homes | At least 20% Inclusionary Units with at least 10% at a lower price (below 80% AMI for homeownership, below 60% AMI for rental) and at least 10% at a moderate price distributed fully across a range of incomes (from 80-120% AMI for homeownership and from 60-120% AMI for rental). | Same as A. |
| **C. No Major Direct Public Subsidy or Rezoning** | 30+ Homes | At least 10% of Units affordable to households making 120% AMI, with additional offsets available to encourage additional units for lower AMIs, up to 20% of units at less than 60% AMI. | Same as A. |

**DESIGN AND APPEARANCE:** Inclusionary homes should be complementary in exterior design and well integrated into the development plan, and should blend in and be compatible in appearance with the market rate housing units.

**APPROPRIATE GRANDFATHERING PROVISIONS:** There should be appropriate "grandfathering" provisions for when these requirements would take effect.

**APPEAL AND EXCEPTION PROCESS**: There should be a clear, efficient, time-limited process through which developers can seek modifications or exemptions to an on-site affordability requirement in certain circumstances.

**INCLUSIONARY PREFERENCE FOR NEARBY RESIDENTS:** In conjunction with fair housing and other applicable requirements, in contracting for purchase or in rental of inclusionary units, for an initial period, preference should be given to purchase or rent-qualified residents who were relocated in connection with a project or live within a half-mile of the project site.

**REDUCTION IN REQUIREMENT FOR GREEN OR SPECIALLY DESIGNED UNITS:** The number of required inclusionary units could be reduced if the units are more expensive because they are specially designed for people with disabilities or substantially built to be energy efficient.

**CONTROL PERIOD:** A control period should balance the community's interest in keeping homes affordable with the homeowners interest in family wealth creation.

**The Baltimore region has experienced rapidly rising home prices and shrinking supply of lower priced homes.**

### Recommendation 3: Support Buyers, Owners, Landlords, and Renters to Access and Preserve Inclusionary Housing

- Strengthen the Housing Counseling Continuum by preparing renters and homebuyers, preventing predatory lending and foreclosures, and intervening to help prevent avoidable foreclosures.
- Create equity sharing and enhance second mortgage options
- Create a Home Maintenance Fund with the goals of assisting homeowners who would otherwise have trouble keeping up with regular exterior maintenance and small landlords in improving affordable rental properties while maintaining them as affordable.
- Provide tax relief/adjustment by extending the new construction tax credit for inclusionary homes and increasing the homeowner's tax credit and homestead tax credit program for low-income residents, especially seniors, on fixed income.

**[ the increasing gap between the housing haves and the housing have-nots ]**

- Ensure affordable units for families and individuals experiencing homelessness through various efforts, including looking at housing program models in Baltimore and Montgomery County; giving Baltimore Homeless Services access to 0% loan funds to help acquire units for people experiencing homelessness; and supporting advocates' efforts to gain commitments from the corporate sector to match Baltimore Housing and Community Development HOME monies.
- Expand the Housing Choice Voucher Homeownership and Family Self-Sufficiency Program to allow for services to more Baltimoreans in need.
- Support the strategic use of tenant's rights of first refusal to help families to stay in the community if they so desire.
- Enhance Home Equity Conversion Mortgages (HECM) and create a right of first purchase for the city if property is sold to someone other than an heir.
- Preserve existing affordable, quality rentals by developing an intervention strategy that ensures the preservation of below market, voucher and other publicly assisted multifamily rental housing whose affordability restrictions are expiring and whose owners may be opting out of current contracts.
- Implement condominium conversion protections passed be the State Legislature in 2006 which changes income eligibility for extend leases in Baltimore City and allows local government the right of first refusal for purchase of a rental facility.

## I. Background

This report to the City Council comes at a time when Baltimore City faces fundamental choices about what kind of city we want to be in the future. The rising housing market in Baltimore in the past five years has created a sense of excitement and possibility that the city has not felt for decades. At the same time, this very housing market is a source of great concern to many city residents who wonder where their place and their children's place will be in the future of the city.

There is ample reason for excitement. For the first time in decades, the city appears to be increasing its population and this year faced a budget surplus, largely derived from increase real estate related revenues. In many areas, homeowners who persisted in the city through years of stagnant values are seeing their property values increase. An increasing number of Baltimore City neighborhoods are seen as desirable and competitive in the regional housing market. But this rising market is by no means uniform. In many parts of the city, newfound interest and investment is felt to be fragile and still other areas suffer high rates of abandoned houses and have witnessed little positive change on the ground. There was widespread agreement on the Task Force that, after decades of disinvestments and abandonment, Baltimore City needs more investment and growth to realize its extraordinary potential. Thus, one of the challenges for this Task Force has been to find recommendations that will sustain the city's growth -to avoid "killing the golden goose" through measures that will drive away private investment.

At the same time, there is widespread cause for concern as long-time city residents wonder whether rising housing costs will in effect force them out of the city they have called home. Low-income or fixed-income renters are especially vulnerable, as even a modest increase in housing prices can make it impossible for them to stay in their homes. While homeowners benefit from rising property values, those on fixed incomes worry about being able to sustain increased taxes along with rising energy costs. For many Baltimoreans, having family nearby is an essential part of city living, and many residents now worry their children or other family members will not be able to afford a home close by. "Gentrification" and "displacement" are fearful words for many city residents. If left unaddressed by real, tangible policies that create affordable housing as development occurs, these fears could constitute another way of "killing the golden goose." If every development is perceived negatively as an effort to displace existing community residents -who have nowhere else to go in an increasingly expensive region-then development could become so contentious and difficult that private investment would be driven away.

The Task Force has attempted to respond both to the possibility of growth and the concern that many residents have expressed. The Task Force was inspired by a belief that Baltimore's tremendous promise will be best realized through an inclusive and diverse vision of Baltimore's communities where there is a home for all people at all income levels and walks of life.

### A. The Charge to the Task Force

The City Council established the Task Force on Inclusionary Zoning and Housing in October of 2005 to "study the prospect of creating an inclusionary zoning and housing plan in Baltimore City to increase the supply and distribution of adequate, affordable housing across the city so that we can better meet the needs and demands of current and future residents."

In the Resolution establishing the Task Force, the Council listed the following recitals:

- ★ In the City of Baltimore, there exists a severe housing problem with respect to the supply of housing relative to the need for housing for residents with low and moderate incomes. The city is experiencing a rapid increase in the number of city residents approaching retirement age, with consequent fixed or reduced incomes; young adults of modest means forming new households; governmental employees in moderate income ranges; and mercantile and service personnel needed to serve the expanding industrial base and population growth of the city.

- ★ In an era of constricting resources, cities have had to be creative in addressing the demand for affordable housing. Local zoning is a powerful tool that can create requirements and incentives to promote the development of affordable housing within the private market.

- ★ Inclusionary housing programs produce benefits across the community to seniors on fixed incomes, young parents and single parent families seeking communities with good schools and amenities, and businesses who need to hire and retain good employees.

- ★ The representatives of this task force will have the duty of studying best practices, analyzing the demographics and market demands, in order to decide on the feasibility of implementing an inclusionary housing plan in Baltimore City. Cities and counties, such as Montgomery County and Washington D.C., have already passed legislation for inclusionary housing, and now may be the right time for the City of Baltimore to do the same. The creation of this task force to coordinate this study would be a useful mechanism in figuring out the best plan to benefit all the citizens of Baltimore City.

*See Appendix A for a full copy of the Resolution.*

**[ to increase the supply and distribution of adequate, affordable housing across the city ]**

## B. Voting Members of the Task Force on Inclusionary Zoning and Housing

The following members were appointed to fill the slots established by the City Council resolution:

Michael A. Sarbanes, Chair
*Citizens Planning & Housing Association*

Betty Bland-Thomas
*Community Representative, Sharp Leadenhall*

Reverend Karen L. Brau
*BRIDGE*

Kathy Howard
(Steve Avelleyra served as the representative until April, 2006)
*Maryland Multi Housing Association, Inc.*

Patrick Maier
*Innovative Housing Institute*

Michael McAvinn
*Office of the Comptroller*

Caroline Moore
*Struever Bros., Eccles & Rouse, Inc.*

Andy Frank
(Evans Paull served as the representative until May, 2006)
*Baltimore Development Corporation*

David Rusk
*National Expert, Urban Policy*

Mark Shapiro
*Greater Baltimore Board of Realtors*

Councilwoman Rochelle "Rikki" Spector
*Baltimore City Planning Commision*

Councilman Bernard C. "Jack" Young
*Baltimore City Council*

Robin Zimbler
*Baltimore Housing*

### C. Task Force Process and Timeline

The Task Force met from November 14, 2005 through June 7, 2006. Over 100 people participated, including the 13 voting members, as well as neighborhood leaders, business and development representatives, representatives of housing advocacy groups, faith-based leaders and City officials. In all, this intense process included:

★ Six background sessions on topics related to Inclusionary Housing

★ Ten full Task Force sessions to consider and vote on strategies

★ 14 strategy workgroup meetings with over 50 participants

★ 40 one-on-one interviews with Task Force members, participants and City Officials, November-June, 2006

★ Five cost modeling sessions with 11 developers and two additional strategy sessions with developers on a menu of cost-offsets

The series of six background sessions established a common framework of understanding. This was essential to fostering an open and constructive dialogue around the complex and sometimes emotional issues that the Task Force was asked to consider. These background sessions covered:

★ best practices in inclusionary zoning around the Country

★ the Baltimore market

★ inclusionary housing and Baltimore in a national context

★ cost-offsets and incentives for developers

★ design compatibility and

★ marketing and sales

affordable

These background sessions were accompanied by over 40 in-depth interviews by the Chair with Task Force members, participants and City officials. These interviews sought to gather information for the Task Force to connect on the issues and questions that were of most concern to various parts of our community and to identify common ground that could form the basis for shared goals. They focused on the following question: "What would you like to see in terms of development in Baltimore City?" This question gave a basic start-point to which everyone, from very varied backgrounds, could relate and respond. These discussions about development:

★ Elicited people's views on the market situation, housing needs, neighborhood health, and public policy.

★ Elicited both optimism and concern.

– People are excited that Baltimore City is achieving economic progress and that there is growing interest outside of Baltimore to move into the city.

– There is also great concern that many who already call Baltimore home, many for generations, will not have the opportunity to be a part of this economic progress.

★ Gave participants a chance to identify their values and interests. A cross-section of public, non-profit and private sector leaders are all invested in the development of Baltimore City and have a range of goals and important ideas as to how they would like to see development happen. An inclusionary housing policy would need to take into consideration all these values and interests.

Once the series of background sessions concluded, the Task Force reviewed quotes and common themes of the interviews in a powerpoint presentation that highlighted the following categories:

★ Scale of development

★ Kind of communities development should aim to create,

★ Linkage of housing with other factors affecting quality of life, and

★ Regional context

*Appendix B includes excerpts from the power point presentation.*

Within these categories, a number of recurring themes emerged, including the need to repopulate the city, to create mixed-income, mixed-use communities, and to ensure that mixed-income communities include people of all income ranges. Based on these and other themes, and the input of Task Force members and participants, a list of goals were drafted in April 2006. The Task Force responded to the draft and formed a drafting committee to refine the list. The Task Force adopted the goals on Inclusionary Housing on April 18, 2006. See page 26 for the full list of goals.

After the goals were adopted, a series of strategy workgroups formed to begin developing recommendations for the Task Force. Over 50 people participated in a series of seven strategy workgroups that met a total of 14 times. A draft outline of recommendations was presented on May 2, 2006. On May 4, the Task Force voted to include brief language on inclusionary housing in the Baltimore City Comprehensive Master Plan. Following that, over 12 developers met twice with the Chair and available Task Force members to discuss the economic costs of development and cost-offsets to make feasible a complement of affordable housing. Finally, the Task Force voted on a full set of final recommendations over a period of four sessions, from May 25- June 7, 2006. See Appendix D for a calendar of Sessions, Strategy Workgroups and One-on-one Interviews.

## II. Economic Realities: The Market Context, the Cost of Development and What Families Can Afford.

### A. The Larger Context: The City in the Region

One of the Task Force's first efforts was to establish a broad and common understanding of what is happening in and around the Baltimore regional housing market. This required a basic understanding of material and regional trends, as well as specifics about Baltimore City. Often conversations about "the housing market" in Baltimore City seem like the story of the blind-folded men describing the elephant -with the one holding the tail saying the elephant is like a rope, and the one holding the leg saying it is like a tree. Some describe the market in terms of a surge in very high-end homes requiring six figure incomes to even be within reach. Others describe neighborhoods where there are still many moderately priced homes in good condition. Still others describe neighborhoods of widespread abandonment, where there is little investment other than speculation in vacant buildings by out of town investors. All are accurate depictions of a city housing market that varies widely from neighborhood to neighborhood, containing some of the regions hottest real estate submarkets and some of the region's most forgotten ones.

*Rising housing prices are part of a national trend:*

Baltimore's experience in the past five years has been part of a large national trend involving enormous movements of capital and population. "Own home 'out of the question' for many," read the headline of a recent front page Baltimore Sun article.[1] Fueled by low interest rates, rising land prices, and investor interest, housing prices rose rapidly throughout the country from 2000-2005, while wages rose slowly. One national expert pointed to:

*"the increasing gap between the housing haves and the housing have-nots. It becomes clear to us in this economy the labor market is producing jobs that can no longer in this housing market afford a decent place to live. The result is people go farther and farther out looking for cheaper land. The result of that is they commute longer distances and pay more for transportation, exacerbating some of the problems of urban development in this country."*[2]

*The Baltimore region has experienced rapidly rising home prices and a shrinking supply of lower priced homes.*

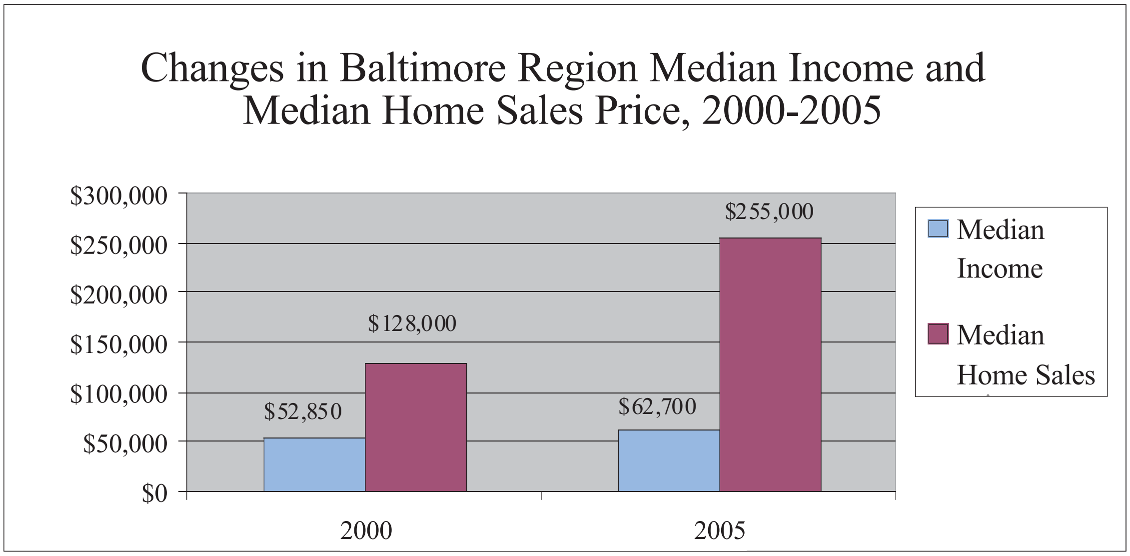
This same national trend has been evident in the Baltimore region. The Baltimore region has experienced a dramatic rise in home prices over the past five years while wage gains have been modest. The median home price in the region nearly doubled from 2000 to 2005 while wages rose by just 19%. See the chart on the next page.

In discussing the housing market, the Task Force looked at two distinct aspects of the supply of housing:

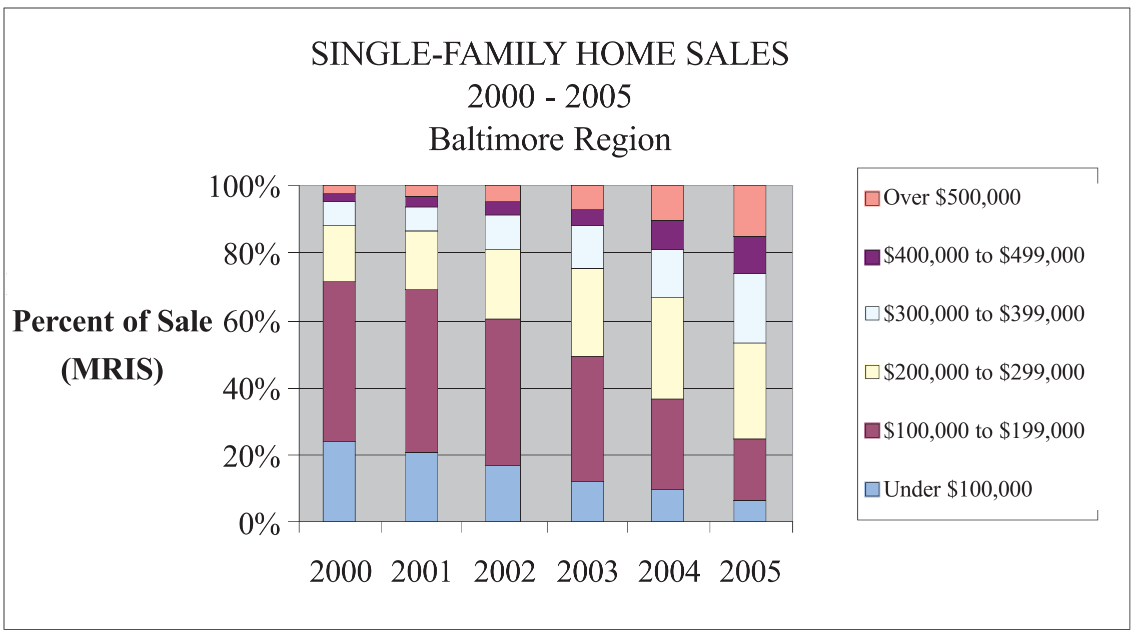
★ How many homes are available at different price points?

★ Where are these homes located?

Overall, the supply of housing affordable to families lower on the income scale has been shrinking, as the chart below makes clear. In Anne Arundel and Howard County, homes priced at or below $140,000 virtually disappeared altogether in 2005.




*Source: Baltimore Metropolitan Council*




*Source: Baltimore Metropolitan Council*

The result is a housing market that is increasingly like a grocery store that only sells filet mignon, but no macaroni and cheese, or a car dealership with only Hummers and Cadillacs, and no mid-price sedan. This escalation in home prices has potentially serious economic consequences, as well as impacts on traffic. The areas of highest projected job growth are not producing housing for the full range of their workforce. For example, Howard County, which is slated to add 35,000 jobs over the next 10 years, has seen home prices skyrocket, with the median home price topping $348,000 in 2005.

While there appears to be a recent slowing of price increases, in the longer term the pressure on housing in our region is likely to continue or increase. Uniquely in the nation, as a result of military base restructuring, the Baltimore region expects to add an additional 47,000 mostly higher paying jobs based at Ft. Meade (Anne Arundel County) and Aberdeen (Harford County), and as many as 100,000 residents between 2006 and 2012. At the same time, skyrocketing home prices in Washington, D.C. have made Baltimore the number one destination for Washingtonians looking for a home outside Washington, D.C.[3]

*Housing market currently tends not to produce a mixture of price points:*

The Task Force also looked at "where" homes at different price points exist. As Map 1 in Appendix G indicates, our housing market currently has tended to cluster different types and price points of housing in distinct areas. In general, where there are homes at high price points, there are not modestly priced homes. By the same token, in areas where there are modestly priced homes, there are not homes that attract families at higher incomes that can afford a higher price.

This pattern grows out of the interaction of public policy and the housing market. In our country, about 96% of houses are produced by private entities. At the same time, the market in which these private entities operate is profoundly shaped by public policies. While some public policies that affect the housing market, like the mortgage interest tax deduction and the city's new construction tax credit, are widely known, others are less obvious. For example, local zoning rules that require large lots for homes restrict the overall supply of developable land and push the price of homes higher and higher. Similarly, public policies have concentrated into a few areas of Baltimore City a large proportion of the region's publicly assisted homes that are affordable to those workers lowest on the pay scale.

As shown in Map 2 (Appendix G), housing in the city has tended to follow a similar pattern of clustering, although a few parts of town (northeast, Liberty Road) tend to have a wider mix of prices.

### B. The Baltimore City Housing Market: Some Key Points

The Task Force reviewed a wide range of data about the Baltimore City housing market and population. Some key points are listed below. Appendix G contains more detailed maps and data.

★ Connecting occupation, income, and housing prices: Some Basic Terms

Discussions about housing often involve technical terms that can be confusing. One of the Task Force's initial steps was to clarify the relevant terms and how they connect to everyday reality that most citizens understand.

★ **Area Median Income (AMI):** In the whole Baltimore region (Baltimore City and the surrounding five counties) half of households earn more, and half earn less. This figure is updated every year by the Department of Housing and Urban Development and has different levels for different household sizes. For 2005, the Area Median Income in the Baltimore region was $72,000 for a family of four. (The detailed chart is included in Appendix G).

★ **"Affordable":** A home is defined as "affordable" if the cost of the housing (rent or mortgage and taxes) is not more than 30% of the households gross income. The higher the income, the higher the home price or rent that would be affordable. A family that is paying more than 30% of gross income for housing is sometimes referred to as "housing burdened."

★ **"Moderate," "Low," "Very low," and "Extremely low" income:** These are official terms that are often found in discussions of housing, and correspond to different percentages of the Area Median Income.

### SUMMARY OF JOBS, INCOMES, AND AFFORDABLE HOME COSTS

| Typical Occupations | 2005 AMI Distribution | AMI (4-person household | Percent of Baltimore residents in each category* | "Affordable" Sales Price (3-bedroom unit)** | "Affordable" Rent (3-bedroom unit)** |
|---|---|---|---|---|---|
| Home Health Aide, Fast Food Clerk, Store Cashier, Parking Lot Attendant, School Bus Driver, Security Guard | < 30% AMI "Extremely Low Income" | $21,656 | 27% | $66,009 | $541 |
| Carpenters, Pest Control Workers, Correctional Officers, Truck Drivers | 50% AMI "Very Low Income" | $36,094 | 16% | $110,057 | $902 |
| Teachers, School Counselors, Police Officers, Physicians' Assistants, Insurance Claims Adjuster | 80% AMI "Low Income" | $57,750 | 23% | $176,189 | $1,444 |
| Mechanical Engineer, Database Administrator, High School Principal | 100% AMI "Moderate Income" | $72,188 | 10% | $220,237 | $1,805 |
| Optometrist, Pharmacist | 120% AMI "Moderate Income" | $86, 625 | 8% | $264,284 | $2,166 |
| | 120% Above | **** | 17% | **** | **** |

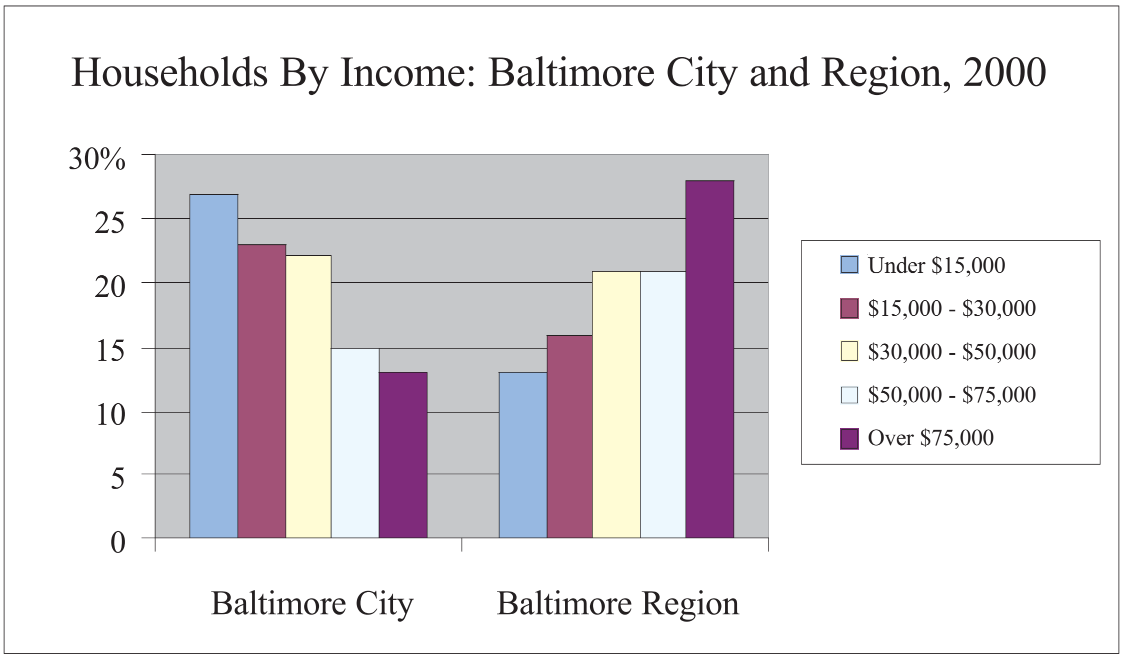
*Source: Baltimore Housing

** Approximate based on the following assumptions: 6% interest rate, 5% of sale Price down payment, 5% of sales price closing costs, and .25% of sales price monthly taxes and insurance.

★ Low earnings are a major challenge for many Baltimore families

– About two-thirds of Baltimore City households earn less than 80% of the Area Median Income. Fully half the cities households made less than $30,000 in the 2000 Census.[4] The city still has a large proportion of the lower-priced homes in the region, with 30% of active listings in May, 2006 priced below $150,000. However, a large percentage of households in Baltimore City earn very low incomes and even these relatively affordable homes are beyond these families' reach. Ongoing efforts to increase incomes through more jobs and higher wages are thus an essential complement to a plan for inclusionary housing in Baltimore.

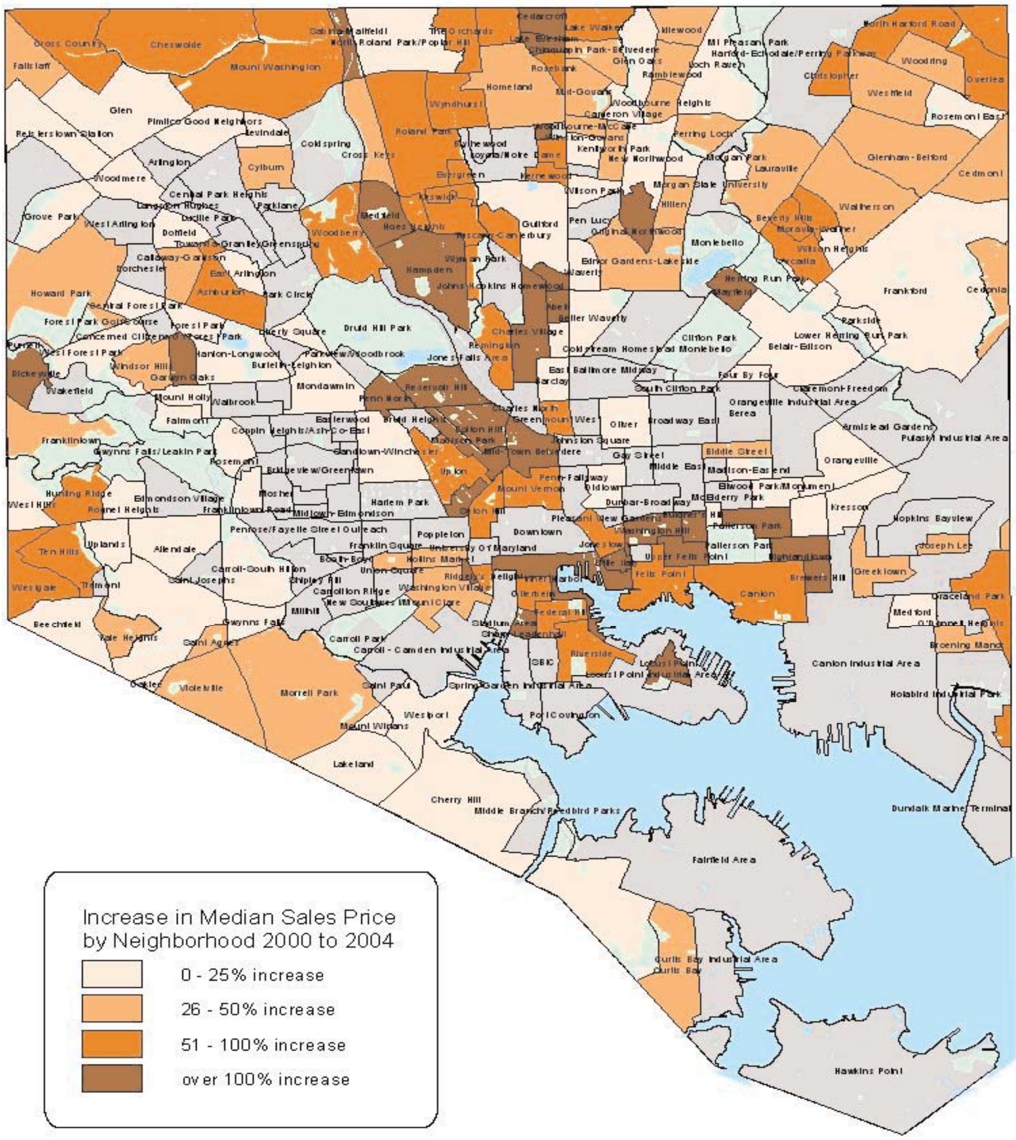
– The median income for Baltimore City is about 60% of the median income for the Baltimore region.




*Source: 2000 US Census*

★ Lower income households in Baltimore face serious housing affordability problems, and for many families housing is a recurring crisis. According to the 2000 Census, among both homeowners and renters, 72% of extremely low income households (<30% AMI) pay more than 30% of household income for housing, while 48% of very low income households (30-50% AMI) and 29% of low income households are similarly "housing burdened." It is likely that the recent rise in home costs will make even more families housing burdened.

★ There has been widespread appreciation in home values in Baltimore City over the past five years, but there is wide disparity in neighborhood market conditions. Of Baltimore's 231 neighborhoods with home sales in 2000 and 2004, 48 neighborhoods saw median values climb by more than 30% while another 80 neighborhoods saw median values climb by more than 50%. 103 neighborhoods experienced slower or stagnant values, with prices rising by 0 to 30% over this five-year period.



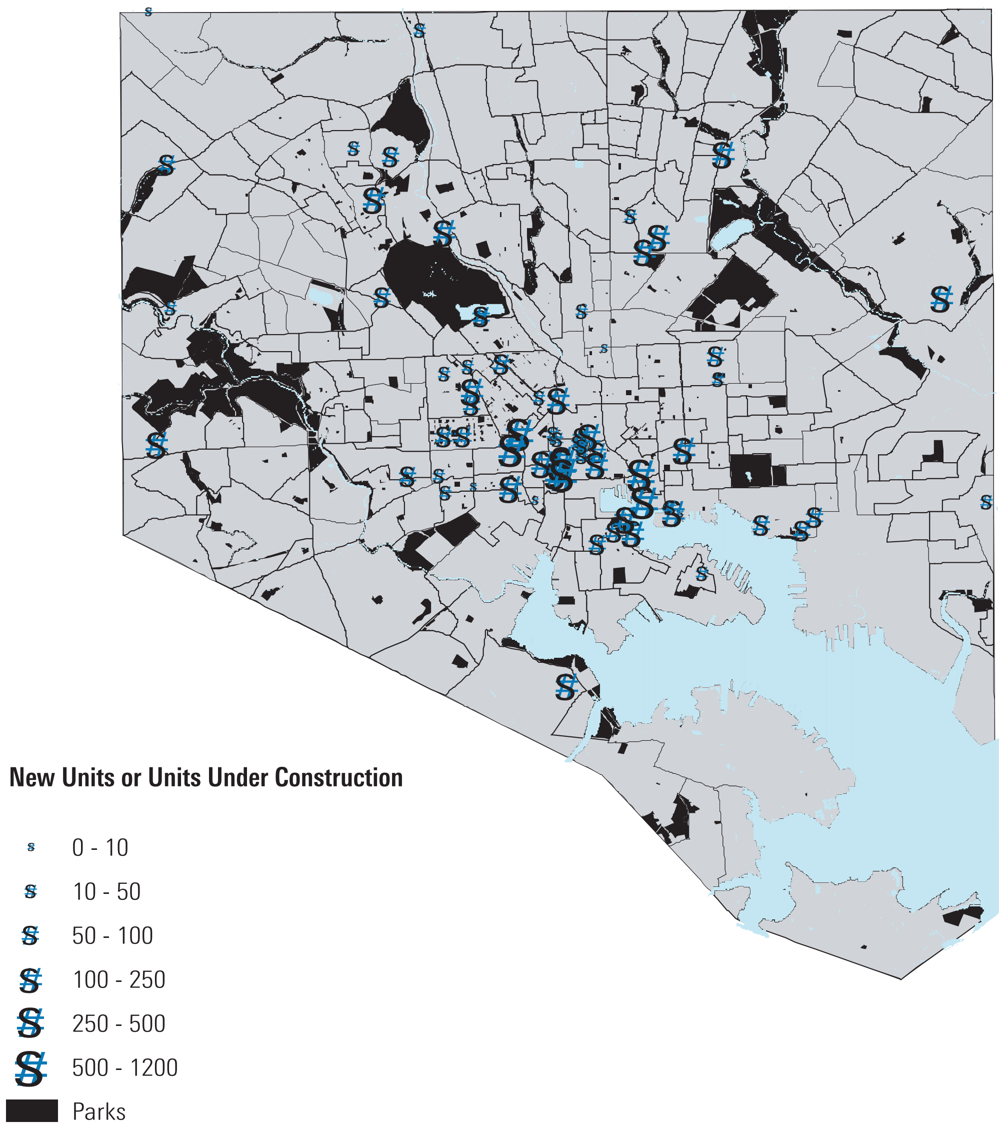

*Source: Baltimore Housing*

– The Baltimore City Department of Planning and Baltimore Housing have constructed a "housing market typology" map combining a number of factors to form an overall characterization of the market in different block clusters throughout the city. At a glance, this demonstrates the wide variety of market conditions throughout the city and the complexity of talking about a single "Baltimore market." (See Appendix G for map).

★ Most development in the city, other than single units, tends to be larger scale. Apart from single homes that are being renovated or constructed, about 95% of all development now occurring and anticipated is in developments with more than 30 homes as indicated in Appendix H.

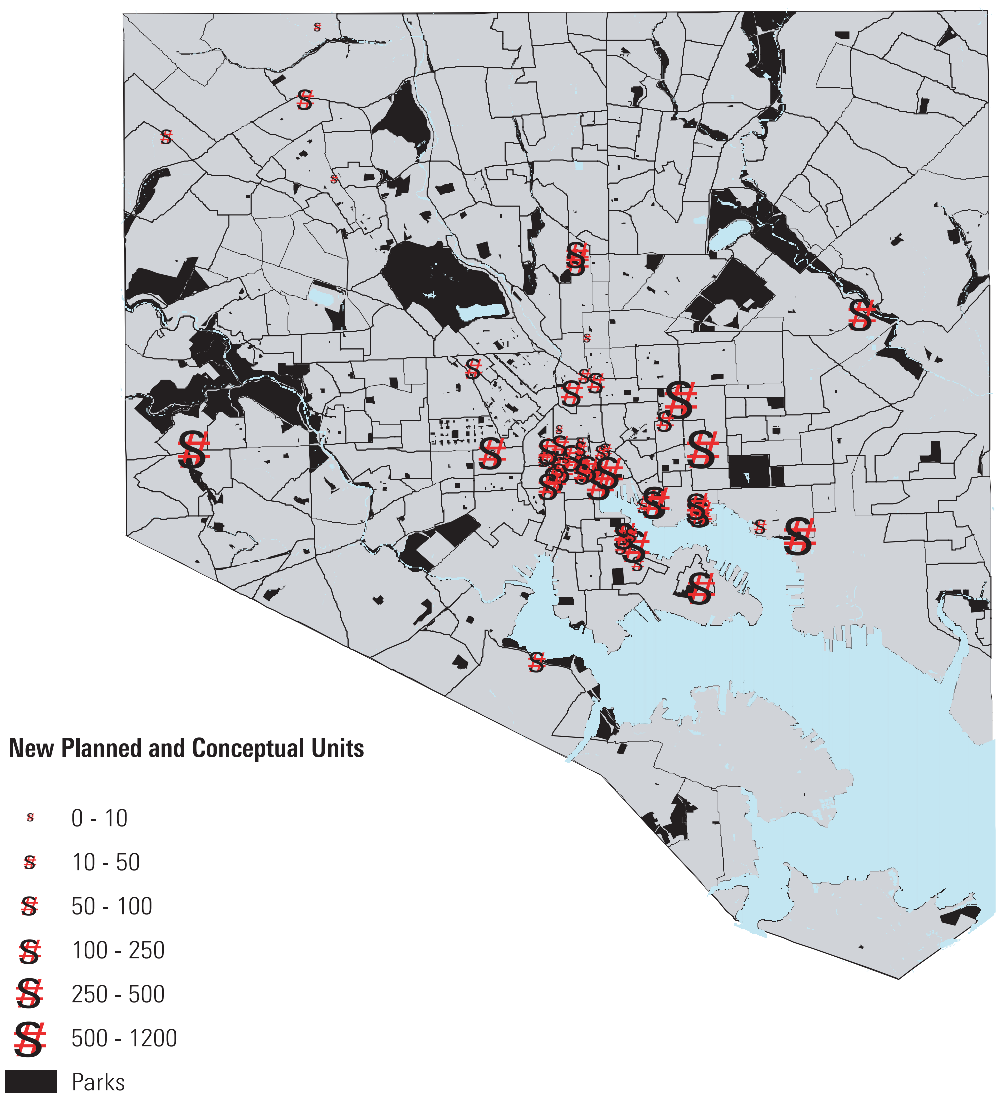
★ Recent development projects and those in the planning stages, are clustered around the downtown and harbor, with some projects in outlying neighborhoods.

# New Units Since 2000 or Units Under Construction




*Source: Baltimore Housing*

# New Planned and Conceptual Units




*Source: Baltimore Housing*

★ The city has 39,315 units of assisted rental housing, with enormous waiting lists for the programs that provide this housing. This includes Public Housing (10,808 units and 1440 scattered site, with a waiting list of 17,000 households); Section 8 Project Based units (10,049 units); Low Income Housing Tax Credit units (4225 units); and a range of other programs. In addition, there are 10,491 Housing Choice vouchers administered by Baltimore City, with a waiting list of 15,000 households.

★ The city can accommodate another 71,000 households with current basic infrastructure. According to an analysis of "holding capacity" by the Department of Planning, as part of the city's draft Comprehensive Plan, 71,000 additional households could be accommodated in locations that are abandoned or "underutilized" now.

★ Foreclosure remains a major challenge to maintaining affordable housing, with over 3,000 filings in 2005. While this represents a decrease from 2000, it far outstrips the 500 affordable units produced annually by non-profit and for-profit developers and the 600 families that are helped to purchase homes with city grants and loan incentives. In some cases, foreclosures arise because buyers "get in over their heads," taking on more costs than they can really afford at the time of purchase. In other cases a family emergency, illness or loss of job places a family at risk of foreclosure even when the initial loan was manageable.

**Lower income households in Baltimore face serious housing affordability problems.**

★ Demolition or "aging out" of affordable apartment rentals is decreasing the supply of lower-priced rental housing. Thousands of units of assisted rental housing have been demolished or have aged out of their affordability requirement since 2000. While many of these units were dilapidated, they were not replaced elsewhere in the city or region by other low-priced homes.

★ Much of the city's affordable rental stock is in older rowhouses managed by small landlords who own fewer than five homes. Baltimore is predominantly a rowhouse city, with 52% of all homes in rowhouses. While rents are low in many of these older rowhouses, the condition of the houses is often below code and small landlords often lack the funds to invest in improving these properties.

★ Real estate purchases by investors rather than owner-occupants have risen dramatically since 2003. In 2000, there were 5805 "arms length" sales to homeowners. In 2004, the number was about the same, with 5786 sales to homeowners. However, there was a huge increase in non-owner occupied sales (i.e. investors), from 5389 in 2000 to 8198 in 2004. In 2005, nearly 81% of all sales in the city were non-owner occupied at the time of transfer, up from 51% in 2000. It is not yet clear how any of these investor sales will result in renovations and later sales to owner occupants or rehabbed rental units, and how many will result in good quality, affordable homes.

### C. Costs of development:

The Task Force was mindful that its recommendations needed to take into account three hard economic realities: the cost of developing a home, what families can afford to pay, and what factors can cause an affordable unit to be lost.

The first reality is what it costs to build a new home or substantially rehabilitate an old one. As the city renews and grows, eventually more and more housing units in the city will be newly constructed homes or substantially rehabilitated. In some places, new developments are being created on land that was previously used for industrial purposes or in areas where there were a large number of vacant and abandoned homes. In other areas, older structures are being rehabilitated, the kind of renewed investment that every older city needs periodically if it is to remain vibrant.

The Task Force – particularly members David Rusk and Patrick Maier, who have worked extensively on outlining costs with developers in other jurisdictions around the nation – held work sessions with 11 for-profit and non-profit developers of different types of housing during the course of its work. Developers were asked to outline the various factors and costs of developing a new unit. For the sake of simplicity, the basic unit that was most often discussed was an 1100 square foot rowhouse (townhouse), with three bedrooms, 1 1/2 baths, and builder quality (not luxury) appliances and amenities. The discussions around condo and rental development are somewhat more project-specific as these tend to be large projects.

In the course of these sessions, developers outlined a series of costs, which can vary significantly from project to project:

★ Infrastructure: In some situations, the underlying infrastructure around the project (sewer lines and pipes, electrical, roads) is in good shape. In others it is in need of substantial repair. This can add significantly to the cost of development for each unit.

★ Land: Land prices vary dramatically in Baltimore. For a lot suited to an 1100 sq. ft. rowhouse, for example, land costs could be anywhere between $10,000 and $150,000, depending on where in the city the land is located.

★ Construction, financing, fees and overhead: These cost factors include the many “moving parts” that developers have to consider in moving forward on a project, which can vary depending on the specifics of a particular project -architecture and engineering, predevelopment costs, construction loans, actual hard construction costs, marketing, customary profit and overhead, environmental hazards, incentives offered to purchasers. For rental and condominium projects, many factors are similar while others are different. There are also major “break points” in how much it costs to build a unit, particularly in the difference in cost between a five story building (which can be “stick built”) and a building higher than five stories which must be done in steel and concrete.

  For the basic 1100 square foot townhouse unit described above, these costs could be anywhere between $140,000 and $240,000 depending on how all the various factors interact. Interestingly, because of high administrative and labor costs, projects done using federal “affordable housing” funds can be even more expensive per unit than other projects. Substantial rehab is generally felt to be somewhat more expensive than new construction because of the unpredictable nature of refurbishing older buildings.

This meant that building a basic inclusionary unit could cost between $150,000 and $390,000, depending on the cost of land and assuming that there are no major infrastructure problems or environmental hazards.

### D. What Families can Afford:

The other economic reality that the Task Force focused on is what families can afford, taking as a start point the standard working assumption that families should not be paying more than 30% of their income for housing. This means that four-person families making $21,656 or 30% AMI, can only afford a home that costs $66,009, or $541 a month for a 3-bedroom rental; four-person families making $36,094 or 50% AMI can only afford a home that costs $110,057, or $902 a month for a 3-bedroom rental; families making $57,750, or 80% AMI, can only afford a home that costs $176,189 or $1,444 a month for a 3-bedroom rental. Finally, families making approximately $72,000, or the Area Median Income, can only afford a home that costs $220,237 or $1,805 a month for a 3-bedroom rental.

There is a large gap between what it costs to build or rehab a basic unit and what low and moderate-income families can afford. As Task Force member Caroline Moore from Struever Bros. Eccles and Rouse stated, "If developers could figure out how to deliver an affordable product and make a decent return, they'd do it. The demand is huge. The fact that it's not happening is because there's a huge gulf between what it costs to create the houses and what people can afford."

### E. What it costs to preserve affordable homes:

The Task Force also focused on the related question of how to preserve existing affordable housing. This is not so much dependent on the costs of development as it is on the costs of ongoing ownership to the homeowner or affordable rental to the landlord and tenant. These costs often relate to the financing that homeowners have used -for example Adjustable Rate Mortgages (ARMs) or interest-only loans. They also relate to the costs of maintaining a property. Many households live one paycheck away from losing their homes or being evicted, so an illness or layoff can plunge a family into crisis.

The combination of these basic economic realities formed a framework for thinking about the Task Force recommendations. To create inclusionary homes in new or rehabilitated developments, the gap between costs and what families can afford must be bridged. To preserve those homes, the factors that lead to families falling into foreclosure or eviction must be countered.

In a basic sense, the Task Force's charge was to determine how to close these gaps in one of three ways:

★ By lowering costs to developers so homes can be offered at lower price points;

★ By supporting buyers or renters so they can afford higher purchase prices or rent;

★ By countering the factors that lead to existing affordable rental and owner-occupied homes being lost as affordable.

*See summary chart in Appendix F.*

## III. Goals for an Inclusionary Housing Plan

The Task Force voted to adopt the following recommended "Goals for an Inclusionary Housing Plan for Baltimore City" on April 18, 2006:

In line with the Recitals in the City Council Resolution establishing the Task Force, the Task Force's recommendations are guided by our belief that an Inclusionary Zoning and Housing Plan should be understood as an essential aspect of encouraging businesses to locate, stay, and grow in Baltimore City. The Plan should be designed to support and sustain a healthy and growing economy in Baltimore City.

The Task Force is also guided by our belief that Baltimore's tremendous promise will be best realized through an inclusive and diverse vision of Baltimore's communities where there is a home for all people at all income levels. Baltimore's future lies in a wide variety of mixed-income, mixed-use settings in neighborhoods all across this wonderful city.

Finally, the Task Force is guided by our belief that addressing this challenge is not simply a matter for government policy alone. It requires a comprehensive solution involving public-private partnerships. A city that welcomes all and is attractive to all our people requires the ongoing involvement and commitment of a full range of people who care about Baltimore -community leaders, developers, businesses, non-profits, financial institutions, government officials, foundations, and engaged citizens.

With these guiding beliefs in mind, the following are the goals that the Task Force has adopted for an Inclusionary Zoning and Housing Plan for Baltimore City:

1. **The City of Baltimore should set a goal for strong inclusionary growth and development over the next several decades. This means clear goals for both how much and how such growth should occur:**

   a. the city should aim to grow by at least 36,000 additional households, covering a full range of incomes, over the next 20 years.

   b. growth and development throughout the city should occur in a way that promotes healthy, mixed-income neighborhoods by creating decent and well-designed housing affordable to people all along the income scale-- from minimum wage to high income-- such as the home health aide, security guard, nurse's assistant, EMT tech, artist, teacher, bank manager, computer engineer, and doctor.

   c. at a neighborhood level, as inclusionary growth promotes a mixture of incomes, it should preserve or provide a supply of affordable housing that would allow current homeowners and long-term renters who so desire to remain in the community, including those on fixed incomes.

2. **Housing development should coordinate with public and private investments in other vital community assets, particularly school improvements, parks, transportation, shopping, job training programs and other amenities.**

3. **An inclusionary housing plan should direct city services and resources and encourage community actions that sustain healthy, mixed-income neighborhoods.**

4. **An inclusionary housing plan should balance both homeownership and rental opportunities, expanding ownership opportunities for families that are prepared to own, helping homeowners make needed repairs, and supporting quality rental housing for households that prefer rental or are not yet ready for homeownership.**

5. **An inclusionary housing plan should preserve as well as create affordable homeownership and quality affordable rental options. It should constantly guard against the risk of losing quality affordable units through unanticipated pressures such as foreclosure and conversion.**

6. **An inclusionary housing plan should make use of a wide range of tools to achieve a complement of affordable housing in various neighborhood settings -subsidy, zoning, financing, site assemblage, tax policy, land trusts, etc.-and integrate these tools into a coherent strategy.**

7. **An inclusionary housing plan should be carefully linked and constantly adjusted to the economic realities of development costs. This means:**

   a. Requirements of affordability must be accompanied by cost-offsets that at a minimum leave developers in the same position, and preferably in a better position than they would be without the requirements and cost offsets.

   b. There should be an appropriate mechanism and set of criteria for developers to seek and obtain exceptions to an affordability requirement in certain circumstances.

8. **An inclusionary housing plan should have a clear, substantive and efficient community review process that allows developers to articulate their goals and the community to provide corresponding input. Community groups should have an opportunity to provide comment on particular projects within clearly delineated time periods and on clearly delineated topic areas.**

9. **An inclusionary housing plan should set out appropriate implementing mechanisms that clearly allocate both authority and responsibility to allow the efficient and timely execution of the various elements of the plan and measurements by which the effectiveness of the plan and the need for adjustments can be assessed.**

10. **An Inclusionary Housing Plan should be flexible to effectively address differing neighborhood market conditions.**

## IV. Main Recommendations of the Task Force on Inclusionary Zoning and Housing:

The following recommendations were developed through Task Force and workgroup meetings, and voted on by the full Task Force in May and June of 2006:

**Recommendation 1: Establish More Resources for Inclusionary Housing**

**Recommendation 2: Ensure Inclusionary Development**

**Recommendation 3: Support Buyers, Owners, Landlords and Renters to Access and Preserve Inclusionary Housing**

### Recommendation 1: Establish More Resources for Inclusionary Housing

**A. RECOMMEND: Establish an Inclusionary Housing Trust Fund**

Sources: (Sources should be linked to real estate prices and activity, so that if a hot real estate market is putting increasing pressure on buyers and renters, there will also be increasing resources to help buyers and renters access quality affordable housing).

**strong inclusionary growth and development**

**RECOMMEND:**

– 20% of city transfer taxes and recordation fees

**RECOMMEND FOR FURTHER STUDY:**

– 20% of increase in property taxes collected by the city over the previous year

– Excess revenue from TIF districts, if any, beyond that required for service of TIF bonds

– Portion of impact fees in congested neighborhoods (Mentioned in the Comprehensive Master Plan)

**RECOMMEND:** The Affordable Housing Trust Fund should be used to promote economically diverse housing in city neighborhoods by increasing and improving the supply of affordable housing to working families and other low and moderate income households. The Fund should be deployed so that at least half the households that receive assistance through this fund have incomes at or below the Baltimore City median income (@60% AMI and below). The Fund would balance support for homeownership and rental units and should leverage other resources where possible to maximize the number of households that can be assisted.

**RECOMMEND:** The Fund should establish clear strategic priorities to maximize its impact.

**RECOMMEND:** The Fund purposes should be broad to allow its use flexibly to maximize its impact. Authorized uses would include:

– Financing for inclusionary rental and homeownership development

– Providing rental payment assistance

– Acquiring and subsidizing rental units for people who are experiencing homelessness

– Acquisition of property and property rights

– Financial support, counseling or other measures to preserve homeownership for low and moderate -income families, particularly those facing foreclosures

– Grants, loans, revolving loan funds, equity sharing pools, or other tools for builders and households to support inclusionary ownership, rehabilitation, and preservation

– Orderly and sustainable planning, rehabilitation and development of inclusionary housing in Baltimore City neighborhoods

– Housing counseling services

– Reimbursing developers for approved projects that support affordable housing for low and moderate income households

*Please see Appendix I for a Summary of Revenue Histories of Potential Funding Sources.*

### B. Expand and Streamline City Acquisition/Disposition of Land

**RECOMMEND:** Baltimore City and its state delegation should press for changes to the tax sale process to enhance the city's ability to acquire more tax delinquent properties more quickly so that they can become part of the underlying inventory for promoting inclusionary development.

– Existing tax sale process was adopted when delinquent tax anticipation financing was not available.

– While Project 5000 has sought to maximize acquisition under current rules, the underlying process is cumbersome and resource-intensive.

– The City has been provided recommendations by the National Vacant Land Campaign on how the forfeiture process could be made more efficient and effective.

– A revamped single judicial tax foreclosure process would allow the city to acquire more tax delinquent properties more quickly so that they can become part of the underlying inventory for promoting inclusionary communities.

– Further research should be conducted on the accelerated foreclosure process on ground rents.

**RECOMMEND:** The City should examine its current practices of holding land, including condemnation, acquisition, and disposition, with an eye toward streamlining and easing the availability of that land for development.

– Support public investment of vacant or underutilized property in community-based "master limited partnerships" that voluntarily assemble vacant property into a unified ownership structure and would include inclusionary units. This tool could be particularly useful in some Growth Promotion Areas.

comprehensive

### C. Advocate for Increased State-Level Support

**RECOMMEND:** Baltimore City and its state delegation should press for major state funding for the Workforce Housing Grant program established during the 2006 session. Funding for this program should be at least $50 million to have a significant impact on statewide need.

**RECOMMEND:** The City should encourage development of a State-level Site Preparation Bond Fund.

- Create a State HCD fund supported by bonds, to create a source of long-term patient capital that can be used for site acquisition and stabilization, or clearance for the purpose of creating mixed-income communities. Current state enabling law does not allow the Community Development Administration to do this type of activity. This could be a statewide fund available to established communities in the state.

**RECOMMEND:** Study further amending statutory authorization for Brownfields Revitalization Incentive Program to address residential purposes and give priority to developments that have an affordable complement. Explore creating easy-to-use fund for relatively minor environmental hazards (e.g. non-leaking tank) that would be available for projects with inclusionary units.

*Support major state funding for the Workforce Housing Grant program*

### D. Coordinate Investments and Incentives:

**RECOMMEND FOR FURTHER STUDY:** Establish a process and criteria to coordinate investments in critical community infrastructure to support inclusionary growth and development. Examples include:

- School construction
- Recreation and parks investments
- Parking, including support for inclusionary housing as criteria for determining investments and policies of the Parking Authority. Parking investments should give extra consideration to addressing community parking needs where inclusionary development (required or voluntary) is occurring. This could include the creation of surface parking or parking structures, or shared parking arrangements.
- Transportation: major investments in the proposed Red Line provide an excellent opportunity to encourage inclusionary growth in proximity to rapid transit.

**[ press for major state funding for the Workforce Housing Grant program ]**

## Recommendation 2: Create a Framework for Inclusionary Development

### A. Ensure Inclusionary Homes where there is Major Public Subsidy

**RECOMMEND:** "Major" direct public subsidy would include negotiated City contributions of funds or resources toward a particular project that has a housing component, without which the project would not occur. Examples include:

– Sale or transfer of city-owned land substantially below appraised value

– PILOT (Payment in Lieu of Taxes)

– TIF (Tax Increment Financing) that involves residential units

– Major installation of physical infrastructure required for the project to proceed. This would not include repairs that are undertaken as part of a regularly planned infrastructure improvement.

– Direct grants and loans from the City

★ It is understood that the direct public subsidy required would be larger than if there had not been an affordability requirement.

★ In addition to these forms of direct subsidy, other types of cost-offsets (e.g. design flexibility, bonus units if applicable) should be applied to projects. This could allow more inclusionary projects to move forward with the same amount of available public subsidy.

**RECOMMEND:** Where the City is providing major public subsidy, its negotiated agreements should ensure at least 20% inclusionary units. "Inclusionary units" are units priced below market levels at levels that are affordable to extremely low through moderate-income residents in order to encourage healthy, mixed-income neighborhoods.

| MAJOR DIRECT PUBLIC SUBSIDY: | SIZE |
|---|---|
| **At least 20% Inclusionary Units:**<br>At least 10% at a lower price (below 80% AMI for homeownership-e.g. teacher, physician's assistant; below 60% AMI for rental-e.g. carpenter, lab technician), and at least 10% at a moderate price distributed fully across a range of incomes (from 80-120% AMI for homeownership and from 60-120% AMI for rental). | **30 or more units** |
| **Non-profit/Administrator setaside**<br>There should be a non-profit/administrator set-aside that gives city designated non-profits or the city the first right to purchase or rent up to 1/3 of the inclusionary units for the purposes of maintaining them as perpetually affordable. The city would be expected to use various tools to make at least half of the units obtained by the administrator/nonprofit affordable to households at 30%AMI and below (e.g. home health aide, school bus driver). | |

**RECOMMEND:** Number of inclusionary units that the city requires where there is major subsidy could be reduced by the city if these units are more expensive to construct because they are specially designed and designated for people with disabilities (e.g. wheelchair disabled) or built to be substantially more energy efficient (i.e. LEED green building standards of Silver or higher). It is understood that if the number of units is not reduced, additional subsidy will be needed to cover the additional costs associated with these special units.

**Initial preference in accessing inclusionary units for nearby neighbors:**

**RECOMMEND:** In conjunction with Fair Housing and other applicable regulations, in contracting for purchase or in rental of inclusionary units, for an initial period, preference should be given to purchase or rent-qualified residents who were relocated in connection with a project or live within a half-mile of the project site.

**Grandfathering Provisions**

**RECOMMEND:** There should be appropriate "grandfathering" provisions for when these requirements under Section A take effect.

**[ There is a large gap between what it costs to build or rehab a basic unit and what low and moderate-income families can afford. ]**

– Land Disposition. Projects involving the disposition of city property for which a Request for Proposals (RFP) or Request for Qualifications (RFQ) was issued prior to the effective date of any inclusionary housing legislation would be exempt from the requirements. Should an RFP or RFQ be reissued after the effective date of any inclusionary housing legislation, the project would be subject to the requirements.

– TIF/PILOT. Projects for which Tax Increment Financing (TIF) legislation or Payment in Lieu of Taxes (PILOT) legislation has been approved by the Mayor and City Council prior to the effective date of any inclusionary housing legislation would be exempt from the requirements.

– Grants/Loans. Projects receiving a grant or loan from the city in response to a Notice of Funding Availability published prior to the effective date of any inclusionary housing legislation would be exempt from the requirements.

### B. Create Inclusionary Homes Where There is Significant Rezoning

**RECOMMEND:** Where there is a rezoning or other land use action (including a change in an urban renewal ordinance) initiated by a unit of City government that adds additional residential units to the zoning allowed in a given area, the new zoning designation should include a requirement that at least 20% of the increased number of units be inclusionary, with at least 10% affordable to moderate income households and at least 10% to lower income households. Further detailed definition would be needed to clarify the meaning of "initiated" to avoid contract zoning. In addition, methods to calculate additional residential units and appropriate zoning designations would need to be developed in detail. Examples of rezoning include:

– Conversion from M-1-M-3 to B or R or mixed-use zoning

– Altering B-4 and B-5 conversion and lot-restriction requirements (CB06-0327)

– Increases in allowable residential units over existing zoning through changes in zoning pursuant to the Comprehensive Plan, including increases due to new categories such as university zone or transit-oriented development zones.

The Comprehensive Plan ought to provide opportunities to realize the additional increment of affordable housing units envisioned by this recommendation.

The Task Force recognizes that, depending on the market conditions, this requirement may make infeasible some projects at the margin that would otherwise be feasible at any given point in time. In such situations, at the request of the developer, the City should attempt to provide cost-offsets to the developer or subsidy to the buyer/renter to make the project feasible in the existing market. In addition, in such situations, the City may provide a major direct public subsidy to such a project (e.g. PILOT, TIF), in which case the provisions of Section A (Major Direct Public Subsidy) would supercede Section B (Significant Rezoning).

| SIGNIFICANT REZONING | SIZE |
|---|---|
| **Total inclusionary units: 20% of increased number of residential units**<br>A least 10% at a lower price (below 80% AMI for homeownership-e.g. teacher, physician's assistant, below 60% AMI for rental-e.g. carpenter, lab technician) and at least 10% at a moderate price distributed fully across a range of incomes (from 80-120% AMI for homeownership and 60-120% AMI for rental).<br>Non-profit/Administrator setaside: There should be a non-profit/administrator set-aside that gives city designated non-profits or the city the first right to purchase or rent up to 1/3 of the inclusionary units for the purposes of maintaining them as perpetually affordable. The City would be expected to use various tools to make at least half of the units obtained by the administrator/nonprofit affordable to households at 30% AMI and below (e.g. home health aide, school bus driver). | **30 or more units** |

**RECOMMEND:** Number of inclusionary units that the City requires where there is rezoning, increasing available residential units, could be reduced by the City if these units are more expensive to construct because they are specially designed and designated for people with disabilities (e.g. wheelchair disabled) or built to be substantially more energy efficient (e.g. LEEDS standards). It is understood that if the number of units is not reduced, additional subsidy will be needed to cover the additional costs associated with these special units.

**Initial preference in accessing inclusionary units for nearby neighbors:**

**RECOMMEND:** In contracting for purchase or in rental of inclusionary units, for an initial period, preference should be given to purchase or rent-qualified residents who were relocated in connection with a project or live within a half-mile of the project site.

**Grandfathering Provisions**

**RECOMMEND:** There should be appropriate "grandfathering" provisions for when these requirements under Section B take effect. There should be an 18-month period between passage of legislation enacting this requirement and its application to specific developments that are in process (i.e. a developer has committed resources to further the project). This would help assure that the application of the requirement takes into account the economic impact of the requirement on the negotiated price of land. The Department of Planning should also develop appropriate criteria to determine when a project is "in process" for these purposes and mechanisms to identify exceptional cases that may warrant a special case-by-case extension of this grandfathering period up to 24 months and provide a report to the Inclusionary Housing Advisory Council (See Governance and Accountability Section) on the reasons for delay in these cases. During the 18 month phase-in period, projects could voluntarily opt to include inclusionary units and would have access to any cost-offsets available to other developments voluntarily choosing to provide inclusionary units.

**C. Create Inclusionary Homes Where there is No Major Direct Public Subsidy or Significant Rezoning**

As the city grows, more and more areas will have a sufficiently strong market that development will occur without public subsidy or rezoning. As the Task Force has discussed, we seek to balance two goods: increased investment and growth in the city on the one hand, and offering a full range of homes at different price points for different walks of life on the other. In the absence of an inclusionary requirement, market rate developments are extremely unlikely to have inclusionary units. In addition, Task Force member David Rusk stated that in his experience around the nation, inclusionary housing policies that rely solely on voluntary incentives have tended not to produce units. However, any requirement needs to be carefully drawn so that, as Bart Harvey, President and CEO of Enterprise Community Partners, Inc., emphasized to the Task Force, the inclusionary requirement does not stifle development. This task is particularly challenging in Baltimore because in most areas, bonus units do not carry economic benefit because the allowable density is well above what the market can accommodate. See Base Density Summary in Appendix G. The recommendations below seek to identify the principles that should govern an inclusionary requirement and to recommend that there be a requirement after further study to ensure that there is a workable menu of offsets in place.

**RECOMMEND:** A requirement for inclusionary units in developments of over 30 units where there is no major direct public subsidy or significant rezoning, should adhere to the following principles:

– sufficient offsets should be made available to at least hold the developer harmless. "Hold harmless" means that the return to the developer on the overall project, including customary profit, will be the same as it would be if there were no inclusionary requirement.

– A flexible set of cost-offsets should be available to developers of projects of 30 units or more. Some cost offsets should be available that are easily quantifiable and generally applicable and are sufficient to hold the developer harmless in most circumstances in producing the base requirement of inclusionary units.

– In addition, additional inclusionary units at lower price points should be encouraged through a variable menu of cost-offsets, some of which may be significant in the context of a particular development and some of which may not. The items on the menu should be as specific and quantifiable as possible and as automatically available to the developer as possible.

– If the development includes more inclusionary units and/or reaches a lower income target, more items on the cost-offsets menu would be available to the developer.

– Through an appeals process, the developer should be able to seek a reduction in inclusionary requirement if s/he can demonstrate that the menu of cost-offsets does not "hold harmless" relative to the position the developer would have been in absent the inclusionary requirement.

– Developers with projects below 30 units should be able to voluntarily opt to include a 10-15% affordable complement and would have access to the same menu of offsets as developments over 30 units.

★ The menu and chart below provide an example of a flexible menu that seeks to meet the criteria articulated above. This was developed through multiple conversations over the course of the Task Force's work with developers, Task Force members, advocates, and public officials, about the economic realities of development in Baltimore City. While several of the items on the "menu" require further elaboration, this basic menu includes specific tangible offsets that would work economically for almost all developments. (A summary description of each cost-offset is available at Appendix J).

## ILLUSTRATIVE INCLUSIONARY HOUSING "MENU"**

| **Inclusionary Housing Set-aside** | **Income targets** | | | |
|---|---|---|---|---|
| | 120% AMI | 100% AMI | 80% AMI | 60% AMI |
| 10% units | 3 points* | 4 points | 6 points | 9 points |
| 15% units | 4 points | 6 points | 8 points | 10 points |
| 20% units | 6 points | 8 points | 10 points | 12 points |

*Minimum required inclusionary component: This minimum requirement applies only where at least a transfer and recordation tax waiver and initial direct per unit subsidy are in place and available. As described in the "Appeal and Exception Criteria and Process" below, the developer can seek exception if s/he can demonstrate that the requirement does not "hold harmless" relative to the position the developer would have been in absent an inclusionary requirement.

**Number of points available to developer would increase by 1 point for every 1% rise in prime interest rates from base year.

## ILLUSTRATIVE INCLUSIONARY HOUSING MENU

| Illustrative Cost Offsets | Points |
|---|---|
| COST-OFFSETS APPLICABLE TO ALL DEVELOPMENTS, EASILY QUANTIFIABLE | |
| Inclusionary rebate to the developer equal to the amount of City transfer tax/recordation fee | 1 |
| – on all units in development | |
| – rebated at closing | |
| Initial direct per unit subsidy to developer of $30,000 committed at appropriate time (e.g. mechanism for time frame). | 1 |
| OFFSETS THAT VARY IN VALUE OR APPLICABILITY ACCORDING TO PARTICULAR DEVELOPMENT | |
| Waiver (at closing) of recordation tax on mortgage | 1 |
| Waiver (at closing) of transfer tax/recordation fee on land | |
| based on builder filing of IZ intent with city | 1 |
| Special inclusionary financing | 1 |
| Reduction in parking requirements | 1 |
| Expedited facilitated community and government review process | 1 |
| Set-back flexibility* | 1 |
| Automatic height increase* | 1 |
| Automatic private street width reduction* | 1 |
| Conditional use flexibility | 1 |
| Priority for Brownfields funding | 1 |
| OFFSETS AVAILABLE ONLY IF INCLUSIONARY UNITS ARE AT A PRICE POINT BELOW 80% AMI FOR HOMEOWNERSHIP OR 60% AMI FOR RENTAL | |
| Bonus units equal to the number of inclusionary units | 3 |
| Bonus units equal to 2 times the number of inclusionary units | 6 |
| Additional direct per unit subsidy to developer of $30,000 per inclusionary unit | 2 |

*If set-back flexibility, height increase or private street width reduction provide bonus units at 1:1, then the requirement of a price point below 80% AMI on for-sale unit and 60% for rental would apply.

**RECOMMEND:** Before taking effect, a base requirement must be accompanied by appropriate easily quantifiable and generally applicable cost-offsets, such as a rebate to the developer of transfer and recordation fees on all units in the development and a direct subsidy of $30,000 for each inclusionary unit. The base requirement should also allow access to at least one additional offset.

**RECOMMEND:** With these cost-offsets and menu in place, the Council should establish a base requirement for developments over 30 units where there is no major direct public subsidy or significant rezoning of 10% of units at a price affordable to a household making 120% AMI, while additional offsets should be automatically available to encourage additional units or a lower income target of up to 20% of units at a price affordable to a household making 60% AMI.

**RECOMMEND:** Non-profit/Administrator set-aside. There should be a non-profit/administrator set-aside that gives City-designated non-profits or the City the first right to purchase or rent up to 1/3 of the inclusionary units for the purposes of maintaining them as perpetually affordable. The City would be expected to use various tools to make at least half of the units obtained by the Administrator/nonprofit affordable to households at 30% AMI and below (e.g. home health aide, school bus driver).

**RECOMMEND:** The City Council should immediately convene a group to build on this framework for a flexible menu of cost-offsets to carefully craft both the specific offsets and legislation that could implement this recommendation. This could be done by extending the Task Force's charge or convening the Inclusionary Housing Advisory Council recommended in this Report. (See Governance and Accountability) This group would be charged to:

– work with City agencies and for-profit and non-profit developers with experience in the field to further identify cost-offsets on the menu that can be defined to be as automatic and predictable as possible;

– review with developers how these offsets would work on particular recent projects and further assess whether the menu of offsets meets the principles stated above;

– clarify potential costs to the City of various items on the menu

– seek available additional resources that the non-profit/administrator can use to reach lower income levels;

– develop a mechanism and time frame for executing commitments under this recommendation; and

– work with Council and staff to develop specific legislative provisions that enact these principles and recommendations.



The Council should request a report out within 90 days.

**Initial preference in accessing inclusionary units for nearby neighbors:**

**RECOMMEND:** In conjunction with fair housing and other applicable requirements, in contracting for purchase or in rental of inclusionary units, for an initial period, preference should be given to purchase or rent-qualified residents who were relocated in connection with a project or live within a half-mile of the project site.

**Grandfathering Provisions**

**RECOMMEND:** There should be appropriate "grandfathering" provisions for when these requirements under Part C take effect. An 18 month period between passage of legislation enacting this requirement and its application to specific projects should be adopted. This would help assure that the application of the requirement takes into account the economic impact of the requirement on the negotiated price of land. The Department of Planning should also develop appropriate mechanisms to identify exceptional cases that may warrant a special case-by-case extension of this grandfathering period up to 24 months. During the 18 month phase-in period, projects could voluntarily opt to include inclusionary units and would have access to any cost-offsets available to other developments voluntarily choosing to provide inclusionary units.

## D. Overarching Issues for Creating Inclusionary Homes:

### 1. Design and Appearance of Inclusionary Units

**RECOMMEND:** Inclusionary homes should be complementary in exterior design and be well integrated in the development plan. Inclusionary homes may vary from the market rate offerings in any inclusionary development in that they are likely to be smaller and may not have the same level of interior amenities. These variations should not include changes that would adversely affect the energy efficiency of the inclusionary units. While the inclusionary homes may be of a different building type than some of the market-rate homes, e.g. attached townhouses rather than detached single family units, they should blend in with and be compatible in appearance with the market rate housing units.

### 2. Options for a Control Period on Inclusionary Units

The issue of how long the resale value of an inclusionary home should be controlled and what happens to any equity windfall when the control period expires and the home can be sold at a market price is a classic example of the conflict between two "goods:"

– the inclusionary homeowner's interest is best served by being able to sell the inclusionary home at a market price as soon as possible, retaining any equity windfall in full; this maximizes the "good" of homeownership as a vehicle for family wealth-creation;

– the community's interest is best served by maintaining the price control period over inclusionary homes for as long as possible, retaining the homes in the inventory of affordable housing for successive qualified low- and moderate-income purchasers; this maximizes the "good" of having a long-term supply of affordable housing.

**RECOMMEND FOR FURTHER STUDY:** The Baltimore City Task Force on Inclusionary Zoning and Housing has identified four possible options for a control period, which it recommends for further study by the City Council:

A. **5 year control period, 10 year equity sharing period (for a total of 15 years):** If the unit is resold during the first five years, the sales price would be the purchase price plus value of improvements and increment for inflation, followed by a ten year equity sharing period. A sale in the first five years would restart the control period. Approved non-profits or the city would have right of first refusal to purchase the property at a price equal to purchase price adjusted for inflation plus a share of increased equity. For inclusionary rental units, the control period should correspond to the life of the mortgage on the property, typically 25-30 years.

   **Advantages:** Given that people on average sell their homes approximately seven years after purchase, a five year control period coupled with a 10 year equity sharing period provides ample opportunity for wealth creation while not potentially encouraging unauthorized activity (e.g. the homeowner unlawfully rents the unit as he/she waits out a longer control period).

   This 5/15 matches broadly with the time frames in the State's Workforce Housing Bill, so it may make it somewhat easier to integrate and less confusing to buyers.

**Disadvantages:** Of the four options, this one would create the shortest time period of affordability of the full inventory of inclusionary homes. Given that it is difficult to use density bonuses (see Appendix G for the Baltimore Base Density Table) as a driving engine for creating inclusionary units (as per other inclusionary ordinances around the country), Baltimore will need to be extra vigilant about maintaining its inventory of affordable homes.

B. **10 year control period, 10 year equity sharing period (for a total of 20 years):** If the unit is resold during the first 10 years, the sales price would be the purchase price plus value of improvements and increment for inflation, followed by a ten year equity sharing period. A sale in the first ten years would restart the control period. For the first 10 years, approved non-profits or the city would have right of first refusal to purchase the property at a price equal to purchase price adjusted for inflation. For the next 10 years, the owner and the City would split the increased equity 50-50. After 20 years, the owner could sell the home and keep all of the increased equity. For inclusionary rental units, the control period should correspond to the life of the mortgage on the property, typically 25-30 years.

**Advantages:** It safeguards the inventory of affordable homes for a longer period than Option 1.

**Disadvantages:** It makes it more difficult for homeowners to build wealth given that most people sell their home on average seven years after purchase. It might encourage unauthorized uses of an inclusionary home (e.g. sub-letting).

C. **House Bill 1160,** which passed this year, creates a shared equity approach when public subsidy is provided to a buyer of a "Workfare Housing unit" as follows:

(A) RENTAL UNITS DEVELOPED UNDER THIS SUBTITLE SHALL REMAIN AFFORDABLE AS WORKFORCE HOUSING FOR A PERIOD OF AT LEAST 25 YEARS.

(B) IF AN INITIAL BUYER OF A HOMEOWNERSHIP WORKFORCE HOUSING UNIT DEVELOPED THROUGH THE PROGRAM TRANSFERS TITLE TO THE UNIT AT ANY TIME, THE INITIAL BUYER SHALL ASSIGN TO THE DEPARTMENT 100% OF THE COMBINED AMOUNT OF PROGRAM FUNDS AND QUALIFYING LOCAL GOVERNMENT MATCHING FUNDS USED TO DEVELOP THE UNIT.

(C) IF AN INITIAL BUYER OF A HOMEOWNERSHIP WORKFORCE HOUSING UNIT DEVELOPED THROUGH THE PROGRAM TRANSFERS TITLE TO THE UNIT:

(1) WITHIN 5 YEARS OF THE DATE OF PURCHASE, THE INITIAL BUYER SHALL ASSIGN 20% OF THE NET PROCEEDS OF TRANSFER TO THE DEPARTMENT;

(2) DURING THE PERIOD THAT IS MORE THAN 5 YEARS BUT LESS THAN 15 YEARS FROM THE DATE OF PURCHASE, THE INITIAL BUYER SHALL ASSIGN TO THE DEPARTMENT A PERCENTAGE OF THE NET PROCEEDS OF TRANSFER THAT BEGINS AT 20% AND DECLINES BY 2% FOR EACH SUBSEQUENT YEAR OF OWNERSHIP; AND

(3) DURING THE PERIOD THAT IS 15 YEARS OR MORE FROM THE DATE OF PURCHASE, THE INITIAL BUYER IS NOT REQUIRED TO ASSIGN ANY PORTION OF THE NET PROCEEDS OF TRANSFER TO THE DEPARTMENT.

**Advantages:** The homeowner can potentially build wealth at any time by only having to give a percentage of net proceeds to the City in the first 15 years of homeownership.

**Disadvantages:** Presumes that homes are not sold at below market value and that the only form of subsidy is through a cash payment. It also assumes no price limitations on the home. There is no control of price escalation in the Workforce Housing bill. There is an obligation to share the net proceeds with the State (20% declining to 0% over a 15 year period). There is also a continuing obligation to pay back the funds contributed by the State and matched by the local govt. This structure does not adapt well to an Inclusionary Housing bill for the City that may involve offsets that are available to builders for the entire development, not attached specifically to each Inclusionary housing unit as the State bill envisions.

### D. Inclusionary Homeownership Trust Fund:

The City capitalizes an Inclusionary Homeownership Trust Fund;

The City sets a perpetual price control period for inclusionary owner-occupied homes;

When an income-qualified family buys an inclusionary home, though any re-sale will be price-controlled, the family automatically becomes a beneficiary of the Home Equity Trust Fund;

If the family sells the inclusionary home within the first five years of ownership,[5] they receive only whatever equity they have built up by paying down the mortgage on the price-controlled home (the resale price would be the original purchase price adjusted for inflation (per the Consumer Price Index) plus the assessed market value of any improvements they've made;

However, after the first five years, when the family sells the home at the controlled re-sale price, they would receive not only any "paid-up equity" but also a lump sum distribution of tax-free cash from the Housing Equity Trust Fund;

The lump sum cash distribution would give them the same proportionate equity gain on the sale of their price-controlled home as if they had been an average homeowner of a non-price controlled home in Baltimore City.

**Advantages:** Maintains units as inclusionary over the long term while also allowing substantial wealth creation. Because, for the foreseeable future, affordability in Baltimore City must be achieved through significant City subsidies as opposed to a density bonus, this puts a premium on maintaining inclusionary homes as part of the affordable housing inventory while not neglecting the goal of wealth creation of homeowners through the inclusionary units.

**Disadvantages:** This requires detailed cost modeling. This idea has been raised in a few other places, but not yet adopted anywhere.

mixed-income
communities

### 3. Appeal and Exception Criteria and Process:

**RECOMMEND:** There should be a clear, efficient, time-limited process through which developers can seek modifications or exemptions to an on-site affordability requirement in certain circumstances. This would include situations when:

- **there is no direct public subsidy per Part A or significant rezoning per Part B, and the return to developer for the entire project, including all cost-offsets and customary profit, is less than it would be absent a requirement of affordable units. In these circumstances, in order to hold the developer harmless:**

  – the number of inclusionary homes could be modified or waived; or

  – the developer could be allowed to create an appropriate number of new or substantially rehabilitated inclusionary for-sale or rental units within the same elementary school district or in another location approved by the Administrator.

  – the Administrator could opt to use all transfer and recordation fees from the development to support inclusionary housing off-site and the developer would not be obligated to provide the inclusionary units; or,

- **exceptionally high ongoing occupancy costs make it infeasible to include affordable units on-site. This would pertain when high ongoing occupancy costs (monthly condo fee) add an amount to the monthly payment required of the purchaser that would make the unit unaffordable to a moderate or low income purchaser, taking into consideration any available purchaser supports (The Administrator will develop the criteria for high, on-going occupancy costs).[6] In these circumstances:**

  – The developer could be allowed to create a number of inclusionary for-sale or rental units that can be developed off-site within the same elementary school district or in another location approved by the Administrator. The developer would be able to access a cost offset up to half of the transfer and recordation fees from all the units in the development to support the development of the inclusionary units off-site, with the remaining transfer and recordation taxes from such developments paid into the Inclusionary Housing Trust Fund; or

  – The Administrator could opt to use all transfer and recordation fees from the development to support inclusionary housing off-site and the developer would not be obligated to provide the inclusionary units.

- **in a community with predominantly low-price housing, there is a community plan for mixed-income development that includes provisions that preserve affordable housing and calls for a particular completely market rate development to "jump-start" demand for market-rate units.**

### 4. Governance and Accountability

#### Governance

As the Mayor and City Council review the recommendations in this report, it is critical to carefully consider how they will be implemented. Supporting inclusionary growth will require creativity and the coordination of multiple agencies, investments and commitments by the City. It will also require purposeful advocacy and long-term commitment at the City and state level.

Mayoral attention and leadership on this issue will be vitally important. In implementing these recommendations, the Mayor's Office should designate a lead point person or create a position of Inclusionary Housing Director--to have ultimate responsibility for ensuring that measures to further inclusionary housing are coordinated across different public agencies and private partners. The public agencies will include the Planning Commission, Department of Planning, Baltimore Development Corporation, Department of Public Works, Parking Authority, and others in particular circumstances. The implementation of many of these recommendations falls within the existing responsibility of the Housing Commissioner and Baltimore Housing. For purposes of the recommendations in this report that refer to the "Administrator," the Administrator would be the Commissioner of Baltimore Housing.

**involve the ongoing participation and commitment of a full range of people who care about Baltimore**

The implementation of these recommendations should also involve the ongoing involvement and commitment of a full range of people who care about Baltimore. In particular, there should be an established Inclusionary Housing Advisory Council, consisting of public and private sector community leaders, private, non-profit and for-profit real estate professionals (developers, bankers, architects, property managers), business, organized labor, foundation, non-profit community leaders, and government officials that would:

★ Assist the City Council in translating the recommendations in this report into detailed legislation for consideration by the Council and Mayor;

★ Adopt regulations, criteria and procedures with an opportunity for public comment that the Administrator would use for reviewing requests for modifications or exceptions to inclusionary requirements;

★ Establish the funding priorities and policy goals for the Inclusionary Housing Trust Fund.

★ Provide a report annually to the Mayor and City Council assessing all efforts to create and sustain inclusionary housing in Baltimore.

This Advisory Council should be appointed as soon as possible to begin working with the City Council to draft specific legislative provisions. It should be provided staff support from City government.

### Measurements

An Inclusionary Housing Plan should include the appropriate benchmarks by which to measure the success of the plan. These benchmarks and corresponding measures would indicate how effectively various tools are working and to inform adjustments in policies and practices to address evolving circumstances. The Inclusionary Housing Advisory Council should identify specific achievable targets for each measure and report annually on success in meeting those targets. The measurements would include, but not be limited to the following:

★ The number and proportion (as total of all units developed in the city) of Inclusionary Housing units generated each year through various approaches recommended in this Report:

– inclusionary units where there is major public direct subsidy

– inclusionary units where there is a significant rezoning

– inclusionary units in developments where there is neither major public direct subsidy or significant rezoning

– inclusionary units by supporting buyers, owners, landlords, and renters

★ The number and proportion of units at different price points, including:

– units affordable to moderate, low-income, very low-income and extremely low-income residents.

– units accessible to individuals and families earning the minimum wage

– units accessible to households receiving federal and state disability assistance

– units made available to individuals and families currently experiencing homelessness

★ percent of city residents who are housing burdened (homeowner and rental)

★ percent of units in city that are occupied

★ amount and percent of residential property tax base increase

★ percent of households Baltimore City retains each year

★ growth in Baltimore City households each year

### Sustaining Healthy Mixed-Income Neighborhoods

The City should work with neighborhood organizations, property managers, City agencies, and civic groups with expertise in neighborhood leadership and community building to support the health of mixed-income developments and communities developed through these recommendations. While there is a great deal of positive experience with thriving mixed-income communities, in Baltimore City and elsewhere, a purposeful approach that proactively addresses potential challenges is important to this success. The Inclusionary Housing Director or lead point person should help to coordinate the public-private partnership that would provide this support.

### 5. Inclusionary Housing Lenders Consortium

There should be improvements in the financing approaches to support inclusionary housing. An Inclusionary Housing Lenders Consortium should be convened – possibly by Fannie Mae's Baltimore office and/or other lenders, Baltimore Housing, and non-profit groups – to further develop financing approaches that can support inclusionary housing in Baltimore City. The Consortium would do the following:

1. **Provide a forum for lenders to become comfortable with the concept of mixed-income housing and the benefits of providing financing for it.**
2. **Seek to modify existing loan products (e.g. construction loans) to be more effective for inclusionary housing.**
3. **Sponsor regular forums to help lenders and borrowers connect and build effective working relationships around the production of inclusionary housing.**

**[ Supporting inclusionary growth will require creativity and the coordination of multiple agencies, investments and commitments by the City. It will also require purposeful advocacy and long-term commitment at the City and state level. ]**

## Recommendation 3: Support Buyers, Owners, Landlords, and Renters to Access and Preserve Inclusionary Housing

While the other recommendations of the Task Force focus on the supply of inclusionary housing, it is also essential to focus on the ability of lower-income households to access and stay in quality affordable homes. To a large extent, the ability of households to attain quality housing depends on how much income they are able to earn in the local economy through work. However, given that Baltimore City lost 53,000 jobs from 1980-2000 and at least two-thirds of the growth in low-wage jobs in the Baltimore Metropolitan region is occurring outside Baltimore City, it would take decades to attract the jobs that are necessary to support Baltimore City's 73,000 low-income families, regardless of an aggressive job growth policy. As described earlier in this report, from 2000-2004, homes selling for less than $140,000 in the Baltimore region decreased from 45% to 15%. In Anne Arundel and Howard County, homes at this price level virtually disappeared in 2005. There are still affordable homes in Baltimore City, with about 30% of homes in Baltimore City listed below $150,000 in May 2006. However, the proportion of lower income families greatly exceeds the available supply even in the city. While there are efforts to increase the supply of housing in the region, such as through the work of the Baltimore Regional Housing Campaign (BRHC), these efforts will take time and families in the city are facing immediate constraints.

The Baltimore City Task Force on Inclusionary Zoning and Housing is aware that housing policy cannot completely mitigate shifting job opportunities and changing wage structures in the economy at large. However, a comprehensive, City-wide Inclusionary Housing plan is imperative for ensuring that residents feel that they have options and that the City is doing all it can to address their basic need for a "decent home in a suitable living environment".[7] This report has described recommendations for an inclusionary development framework, including development spurred by major public subsidy, significant rezoning, and appropriate cost-offsets. In addition, buyer/renter affordability is also critical to providing residents the option to stay in their homes, access new homes and existing quality rentals, and conduct the maintenance and up-keep of their home that is important for sustaining healthy, mixed-income communities. A range of these supports can help people at different income levels access homes that are produced through the recommendations above.

Supports for buyers, owners, renters, and landlords focus both on helping people get into good homes that they otherwise would not be able to afford and on staying in those homes. As one Task Force participant put it, "We need to make sure we're not trying to fill up a bucket [affordable homes] that has a huge hole in the bottom of it." Preserving good existing affordable housing is of paramount importance. Despite reaching its highest level in 2001, there were still over 3000 foreclosure filings in Baltimore City in 2005. Approximately 60-75% of these filings will eventually result in the loss of a home. By comparison, Boston had 60 foreclosures in 2005 and saw just as many in the first quarter of 2006. This prompted quick action with the city of Boston asking Bank of America, Citizens Bank and other lenders to create a $25 million consortium to offer homeowners in difficult situations better refinancing options.[8] The number of foreclosures in Baltimore City far outstrips the 500 new affordable homes produced annually by non-profit and for-profit developers, and the 600 existing affordable homes purchased by families with City grants and loan incentives. Unfortunately, there also have been sharp reductions in the number of affordable rental units as properties have aged out of affordability restrictions, converted to condo, or have been demolished.

Current buyer/renter affordability options in Baltimore City include downpayment and closing cost programs, special purchase and emergency loan programs, renovation/rehab programs, tax incentives, and housing counseling. (See live-baltimore.com for a complete list). As part of an Inclusionary Housing plan, these options should be expanded and strengthened.

In particular, the Task Force recommends the following:

**A. Strengthen the Housing Counseling Continuum**

**B. Create Equity Sharing/Enhance Second Mortgage Options**

**C. Create a Home Maintenance Fund**

**D. Provide Tax Relief/Adjustment as the City Achieves Growth Goals**

**E. Ensure Affordable Units for Families and Individuals Experiencing Homelessness**

**F. Expand Housing Choice Voucher Homeownership and Family Self-Sufficiency Program**

**G. Expand Appropriate Use of Tenant's Right of First Refusal**

**H. Enhance Home Equity Conversion Mortgages and Create a Right of First Purchase for City if Property is Sold to Someone Other Than Heir**

**I. Preserve Existing Quality Rental**

**J. Implement Condominium Conversion Protections Passed by the State Legislature in 2006 (SB815)**

### A. Strengthen the Housing Counseling Continuum

Housing counseling is an essential part of helping homebuyers prepare to buy a home and helping ensure that they can stay in that home. The Inclusionary Housing Trust Fund and other city resources should support a strong homeowner and renter counseling network and training program. Currently, there are 20 housing counseling organizations operating throughout Baltimore City. Housing counseling can be supported and strengthened in three principal areas, so as to dramatically decrease the number of foreclosure filings. These are:

a. Preparation of the renter/homebuyer.

b. Prevention of predatory lending and foreclosure

c. Intervention should a homebuyer find him or herself facing the foreclosure process.

#### a. Preparation of the renter/homebuyer

★ Provide increased support to organizations offering credit education and repair to renters, homebuyers and homeowners. Decent credit is essential to affordability. For a $100,000 home, someone with a credit score of 550 would qualify for a loan at a 10.125% interest rate. A 700 credit score qualifies someone for a loan of 7.125%, a difference of 3 percentage points. In terms of savings, an increase in credit score by 150 points from 550 to 700 can lower the monthly payment from $887 to $674 a month, an annual savings of $2556. A credit score increase from 550 to 600 would create a savings of $82 per month or $984 a year.

Support for credit education and repair can include supporting training and networking for counselors; funding for best practice research; marketing; and cash/gift certificate incentives to renters/homebuyers who attend homeownership counseling sessions.

**[ programs to help families learn how to build assets and make a suitable home purchase ]**

★ In addition, lenders in the region should be encouraged to accept non-traditional credit that takes into account recurring bill payments, such as rent and utilities, which are not reported to traditional credit bureaus. Housing counselors and the City should also work with the emerging Maryland Association of Housing Counselors (MAHC) and the Maryland Mortgage Bankers Association (MMBA) to educate consumers about documenting credit-worthiness achieved through historical rental and utilities payments. (See the Payment Reporting Builds Credit website, www.prbc.com, for more information about non-traditional credit reporting strategies.) This is important to not only Baltimore's current households, 50% of which are renting, but also for its growing immigrant population which often lacks traditional established credit.

★ Widely market existing programs to help families learn how to build assets and make a sustainable home purchase. Examples include More House for Less, CASH Campaign, IDA, EITC/Tax Assistance, homeownership pre-purchase and post-purchase counseling, and financial counseling.

### b. Prevention of predatory lending and foreclosure

Two types of mortgage loans are offered generally based on a homebuyer's credit history: "prime" and "sub-prime" loans. Prime loans are offered to buyers with excellent credit histories, generally a score of 700 and above. Sub-prime loans are offered to buyers who do not have a credit history or are generally in need of credit repair. Of important note, national studies indicate that African-American and Hispanic home buyers obtaining sub-prime mortgages are 30% more likely to pay higher interest rates than whites with similar credit ratings. Ideally, a buyer should repair his or her credit before purchasing a home, but that is often difficult for families under financial stress. As a result, there is a wide range of sub-prime loan products offered in the marketplace. Some lenders who are predatory provide sub-prime loans with high pre-payment penalties, excessive fees, and exorbitant interest rates. But there are also responsible lenders who provide a safe sub-prime loan as a decent alternative to those who cannot access a prime loan.

★ Encourage the Maryland Association of Housing Counselors (MAHC) to develop a set of protocols for responsible lending of both prime and sub-prime loans, and invite lenders to sign onto the protocols. In addition, the MAHC should develop a "seal of approval" of consistently (defined by MAHC) reliable lenders and "safe" sub-prime lenders. Residents could then reference the protocols and specifically search for lenders with the seal of approval. This would also encourage lenders to be more responsible in order to gain MAHC's seal (i.e. similar to how universities and day care centers seek accreditation). This would help to set the highest standard for lenders in the city. MAHC and the Maryland Mortgage Bankers Association should also work together to encourage loan officers in particular to adhere to the lending institution's list of protocols.

★ Home counseling organizations should develop a list of protocols for real estate agents to refer buyers to responsible lenders, and encourage local agents to sign onto the list (e.g. as per the Belair-Edison Neighborhoods, Inc.- BENI-approach. See Appendix K for BENI's Principles of Preferred Agents and a description for how to become a preferred agent).

★ Advocate for a state law limiting all pre-payment penalties, including out-of-state lenders, so that buyers are not trapped in bad loans. Seek federal and state coordination of "preemption" laws that currently hinder state and local reform initiatives. Prepayment penalties are provisions in loan contracts that require a significant payment if the loan is paid before maturity. According to a June 2006 report by the Maryland Consumer Rights Coalition, "Prepayment penalties are virtually non-existent in the prime market, but exist in 80% of sub-prime loans."

★ Build post-purchase counseling into City-supported loan products and responsible lender network so that post-purchase counseling is required before refinancing or taking out a second mortgage. Encourage prime and safe sub-prime lenders in the area to provide an incentive (e.g. a gift certificate to Home Depot or Lowes or tickets to the Baltimore Aquarium) six months to one year after purchase if the homeowner attends a post-purchase counseling session. The lender would have the incentive to participate if it means fewer foreclosures, particularly due to predatory refinancing or second mortgages.

encourage and support

★ The City should send notification, perhaps a postcard, to new homeowners that they may receive a deluge of offers, many of which are predatory or sub-standard, to refinance their home or buy mortgage insurance. The post card should indicate that all buyers should seek mortgage counseling before refinancing their mortgage. Many new homeowners are targeted by predatory lenders to refinance their loans immediately after they purchase a house. Post-purchase counseling is critical to prevent predatory lending soon after a resident becomes a new homeowner.

★ Focus on how seniors in particular are being targeted by predatory lenders and investors, and provide an incentive tailored for seniors to participate in a mortgage refresher or mortgage counseling, despite possible long-time homeownership status.

**c. Intervention should a homebuyer find him or herself facing the foreclosure process.**

★ Broadly market the forthcoming (Summer, 2006) St. Ambrose Housing Aid Center toll free number that Baltimore City homeowners can call to receive counseling when they are facing the risk of foreclosure. The Inclusionary Housing Trust Fund could provide funds to effectively market the toll free number throughout the city.

**[ Advocate for a state law limiting all pre-payment penalties, including out-of-state lenders, so that buyers are not trapped in bad loans. ]**

★ Increase awareness of and make more available safe, alternative loan options such as a Reverse Mortgage or Home Equity Conversion Mortgage (HECM) for seniors. Use an Inclusionary Housing Trust Fund to establish an equity pool to enhance privately offered HECM's and incorporate right of first refusal upon resale beyond heirs, for the City to expand the affordable housing supply (see H, page 53 for more detail).

★ Establish a City program similar to the Pennsylvania Homeowners Emergency Assistance Program (HEMAP) to provide a bridge loan to allow the homeowner to weather a financial crisis or exit from bad loan terms without losing his or her home. The City should also advocate for a similar product at the State level.

★ Encourage responsible lenders to provide a safe refinancing product to offer an alternative to the myriad of potentially dangerous loan products, including ARMs and interest-only loans. It is expected that the State will debut a reasonable refinance product this summer.

## B. Create Equity Sharing/Enhance Second Mortgage Options

Equity sharing gives the investor the opportunity to provide equity at the time of purchase. As a result, the buyer shares future appreciation with the investor and the investor realizes the appreciation at the time of refinance or sale. This helps to make up the difference between what the buyer can afford and the purchase price. This tool can provide critical support to families interested in purchasing units produced through the recommendations under "Inclusionary Development" in this report, who otherwise would never be able to access homes in new or rehabilitated mixed-income developments. It can also help families to become homeowners-and hence less vulnerable to dislocation as real estate prices rise-without incurring an unsustainable financial burden through high mortgage payments.

★ Establish a loan pool blending public, foundation, and other private capital to support shared equity products that can enhance affordability and expand choices for buyers. The Faith Fund, a Baltimore-based community development finance institution (CDFI), has done extensive product development on Home Equity Participations (HEP) and would help pilot such a program. A second mortgage would work in a similar way but would not alter the equity share for the buyer. The developer could also provide or arrange the equity share. If the developer provided the shared equity, he or she would have a share in the increased appreciation of the unit. As this tool is put into place, the control period on inclusionary homes might need to be adjusted to make equity participation feasible.

## C. Create a Home Maintenance Fund

A Home Maintenance fund, which could be supported through the Inclusionary Housing Trust Fund, would have two major goals:

1. Assist homeowners who would otherwise have trouble keeping up with regular exterior maintenance;
2. Assist small landlords in improving affordable rental properties while maintaining them as affordable.

Home maintenance is important for sustaining healthy, mixed-income neighborhoods. A home maintenance fund can go a long way in promoting community and encouraging the continued development of mixed-income neighborhoods.

★ Expand existing programs to support a low-interest loan for streetscape or exterior upkeep and repairs.

★ Determine how the existing database of the City code enforcement division at Baltimore Housing could be used to target carrots for general neighborhood upkeep, as well as the enforcement stick.

★ Pilot a block "super" program, including free or reduced rent for the block super. One unit on a square block would be home to the "super" who would perform certain cleanup and public space maintenance functions in return for reduced rent. This would make housing more affordable for the super and improve the quality of life and values on the block. This program could be supported through donation of City property, the Housing Choice Voucher program, or Shelter + Care. The City or designated nonprofits would need to develop a management structure of block supers and determine how to hold them accountable to the community, including renewal on an annual basis. This is similar to the practice of maintaining a "caretaker" in some City parks or private cemeteries.

## D. Provide Tax Relief/Adjustment

The City property tax rate is nearly double that of surrounding counties. Many Task Force participants have identified this as a major barrier to attracting and keeping middle-income families in the city. However, an upfront reduction in property taxes could lead to immediate cuts in policing, school funds, parks and recreation funds, all of which are essential for maintaining a vibrant and healthy city that is attractive to new families.

Given the Task Force recommendation of strong inclusionary growth of 36,000 additional households, the Task Force recommends that as certain benchmarks (identified by the Mayor and City Council) of the growth goals are met and the tax base increases, the City reduce property tax rates to bring them closer to those of surrounding counties. In the interim, the Task Force recommends that the City:

★ Extend the new construction tax credit for inclusionary units. This would support the owners of the affordable units in mixed-income developments. For example: the new construction tax credit, which now phases out in five years, would phase out in 10.

★ Increase the homeowner's tax credit and homestead tax credit program for low-income residents, especially seniors, on fixed income. Enact a local property tax credit authorized by HB288 in 2006 to grant tax credit for principal residences of individuals 70 years and older of limited income.

## E. Ensure Affordable Units for Families and Individuals Experiencing Homelessness.

According to Baltimore Homeless Services (BHS), it is estimated that between 3,000 and 4,000 individuals are homeless on any given night in Baltimore City. "People become homeless due to loss of income after employment lay-offs, lengthy illnesses, or the inability to afford market rent housing."[9]

Homelessness is an increasingly serious problem that the City cannot afford to ignore. Besides meeting this important need from a human perspective, an economic one indicates that a city with a large homeless population will be less attractive to potential new homeowners and investors.

★ Model a housing program for people experiencing homelessness based on other successful programs around the country, such as the Baltimore County and Montgomery County models. Such a program should be broad enough to target those who are working (a growing percentage of the homeless population), those who could work with additional social supports, and those who are disabled and/or on fixed incomes. Baltimore County developed a "Back Home" program using CDBG and HOME funds for rental subsidy. The County negotiated with local churches to provide support services. Montgomery County's Partnership for Permanent Housing uses voucher funds and HUD supportive housing funds to house families experiencing homelessness. It has also used Moderately Priced Dwelling Unit (MPDU) efficiencies and one-bedroom units to house homeless persons. Montgomery County sold a number of these units to the Montgomery County Coalition for the Homeless.

★ Give Baltimore Homeless Services access to 0% loan funds to enable CDC's and service provision agencies to acquire units for people experiencing homelessness. Such a loan pool could be a use of the Inclusionary Housing Trust Fund.

★ Support a plea of Baltimore City homeless advocates to have the corporate sector match Baltimore Housing and Community Development (HCD) HOME monies to underwrite wrap-around services for the Housing First pilot program. Such services would include counseling, transportation, support with arranging doctor's visits, setting up bank accounts, furnishing units, etc.

★ Create a formal waiting list for HUD sponsored Shelter + Care units to gain a better understanding of the demand for such units.

★ Look at all options for combining CDBG, HOME, Section 8, Shelter+Care, TANF funds, Supportive Housing HUD funds, to develop and subsidize rental units for individuals and families experiencing homelessness.

★ Designate a portion of an Inclusionary Housing Trust Fund to acquire and subsidize rental units, which would be made accessible to people experiencing homelessness.

### F. Expand Housing Choice Voucher Homeownership and Family Self-Sufficiency Program

★ The Housing Choice Voucher program allows families to use voucher payments along with their rent payments toward the purchase of a home. Through the Housing Choice Voucher program, a buyer can typically purchase at most a $120,000 home. This program, in combination with other tools, could provide a path for lower-paid workers and their families to become homeowners. It could be used in combination with tenant's right of first refusal in some situations and could be layered with equity sharing or other tools to make a wider range of units accessible to participating families.

★ The Family Self Sufficiency program disregards additional income for a period in order to encourage savings and wealth creation among participants in the housing choice voucher program. This is particularly important for families who want to prepare to purchase a home.

### G. Support the Strategic Use of Tenant's Right of First Refusal to Help Families Stay in the Community if They So Desire.

Article 13, § 6-1 of Baltimore City Code states that before the title of a single-family residential rental property is voluntarily transferred, the property's tenant must have the opportunity to purchase the property for reasonable terms. This tool could be particularly important in areas that are improving in property values, where there are significant city investments, and where it is advantageous for residents to be owners so they can benefit from appreciation of the area. To effectively make use of the Tenant's Right of First Refusal requires extensive homeowner counseling and usually subsidy because the renter may not have the money saved up for down payment or is a credit risk. Possible sources of funding are an Inclusionary Housing Trust Fund, equity participation fund, and Housing Choice Voucher homeownership program.

helping Baltimore
families

## H. Enhance Home Equity Conversion Mortgages (HECM) and Create a Right of First Purchase for the City if Property is Sold to Someone Other Than Heir

A Home Equity Conversion Mortgage (HECM) allows seniors to take the equity out of their house in a variety of ways. Unlike a Home Equity line of credit or second mortgage, it does not create repayable loans.

★ The City should seek ways to enhance HECM's in return for a right of first refusal if the property is sold by the owner or by the owner's heirs. This would be akin to a "downpayment assistance in reverse." The City would provide a relatively small payment associated with a Home Equity Conversion Mortgage. When the home is sold, if the heirs do not take possession of the property to live there, the City would have right of first refusal to purchase the unit at market rate. These properties would often be well maintained, and will not have been vacant and abandoned. They could be excellent additions to a Land Bank Authority inventory to become inclusionary units, or to a Community Land Trust for long-term affordability.

## I. Preserve Existing Quality Rental

Develop an intervention strategy that ensures the preservation of below market, voucher and other publicly assisted multifamily rental housing whose affordability restrictions are expiring and whose owners may be opting out of current contracts. The City should:

★ Strategically target properties in strong and stable market areas in the city.

– Identify properties that are at risk of exiting the inventory of affordable housing because of expiring use conditions and market pressure in the surrounding community.

★ Create and make widely available a map including when use conditions would end, and develop a strategy to maximize the possibility of keeping them as good, quality affordable homes. These homes should be a critical focus for a preservation effort.

★ Exercise it's right of first refusal to preserve existing affordable housing resources under both Federal law and the Maryland Assisted Housing Preservation Act. The City has a right under Federal and State law to exercise a right of first refusal to buy existing subsidized rental properties. It should purchase these properties as a part of a strategy to prevent the loss of additional rental properties and to anchor revitalization of the surrounding communities. The City should focus on areas that are improving or are likely to improve. Where appropriate, it should partner with private developers to create mixed-income communities, while ensuring a strong affordable complement of homes.

★ Require developers to adhere to existing Land Disposition Agreements at the end of applicable periods or require a high percentage of affordable units be preserved before allowing conversion of these units to market rate units.

★ Develop a "joint venture" fund for the purchase of quality affordable rental that is reaching expiration of affordability conditions. The City's resources would be used to ensure a complement of affordable homes even if the overall affordability mix of the development changes to a more mixed-income environment from what currently exists.

★ The City Council should consider creating a working committee to look at differing perspectives on "source of income" legislation, which would make it illegal to refuse to rent to someone who is otherwise qualified because their housing income comes in part from a Housing Choice voucher. There are various strongly held points of view on this question. The Task Force was not able to get into depth on this issue

### J. Implement condominium conversion protections passed by the State Legislature in 2006 (SB815)

The condominium conversion protection changes income eligibility for extended leases in Baltimore City to 100% AMI. Further, it allows counties and incorporated municipalities to provide, by local law, that the county, municipality, or housing agency has right of first refusal for purchase of the rental facility. If purchased by a government entity, it must remain a rental facility for at least three years, and at least 20% of the units must remain rental for at least 15 years. The City Council should take up the local enabling legislation as soon as possible.

## V. Conclusion

Through this intensive process we engaged the energies and creative talents of many Baltimoreans who love this city. Over the Task Forces' work, two major objectives were accomplished. First, the Task Force identified many practical and concrete ideas for achieving an inclusive city of neighborhoods. These ideas are set out in this report and can be readily shaped into policies and legislative proposals. Second, the Task Force established an open and honest dialogue in an atmosphere of mutual respect between people who have very different perspectives and play very different roles in our city. It is our hope that the Council will immediately take up these recommendations and continue to encourage Baltimoreans from different walks of life to help shape a set of policies that can truly make all of our residents "At Home in Baltimore."

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