Principles for a Next Era of Community Development
What we are learning in East Baltimore

Across our nation, many older, urban communities have endured disinvestment and decline. In 2003, The Reinvestment Fund (TRF), a national leader in revitalizing America’s distressed areas, began envisioning a new approach to community development and moved from financer to planner, to on-the-ground developer. TRF set out with a long-term investment plan to use housing investments to drive neighborhood improvement and change market dynamics. With our community partners, we sought to create safe, affordable and vibrant neighborhoods.

TRF began this work in East Baltimore in one of the city’s poorest areas. With a long-term horizon that recognized that challenges confronting markets have evolved over decades and will not be resolved quickly. As the work was implemented, a new model for community development started taking shape. From what we have learned in these first nine years, we have framed nine guiding principles that will direct us – and may offer learning for others who try to drive market change in distressed neighborhoods.

1. Leading with Data as a First Step to Understanding the Market
Our first step to TRF’s community development is a comprehensive understanding of the market within which we will work. In East Baltimore, TRF gathered data and worked with local residents to complete a survey of all neighborhood parcels. The survey examined the existing conditions of every neighborhood parcel, including over 1,100 abandoned buildings or vacant lots, which had become magnets for drug trafficking and other criminal activity.

TRF also looked at demographic data from the US Census, Baltimore City Crime data and Baltimore City permit and vacant housing notices. TRF used the neighborhood data in concert with its Market Value Analysis (MVA), a tool we designed first to assist government officials (and then private investors) to identify and comprehend the various elements of local real estate markets. The MVA process objectively describes market conditions and displays the output at a very discrete level of geography; this process clearly differentiates urban space into a series of market types. Using cluster analysis, TRF identifies intervention needs based on the underlying characteristics of a location and the market type.

In combination, the survey and the MVA helped TRF develop a thorough understanding of the neighborhood. According to the data, TRF’s target area in East Baltimore had a median household income from $19,755 to $32,656, compared to the Maryland state median of $69,475. The median housing vacancy in this area was 30.5% and the median house price of $9,750. The area was home to an estimated 1,181 people, of which 94% were African American and 6% were white. Though only 20.4% of the population was younger than 18 years of age compared to the State average of 30.9%, 99% of households with children in the area were described as single heads of household, compared with a state average of 14.76%.  

1 Data courtesy PolicyMap.
2. Building from Strength to Allow a Neighborhood’s Assets to Drive Development Decisions

Armed with its unique data analysis, TRF developed a reinvestment plan that identified specific areas which were most likely to respond to capital investment. TRF created a clear investment sequence (a series of investments) that builds from the strength of major neighborhood assets out into the distressed area. TRF refers to this as a “build from strength” redevelopment model.

TRF defines “strength” as neighborhood assets, which may include major institutions that anchor a place and provide a range of employment opportunities, public or civic investment commitments, a mix of housing stock and land uses, a confluence of public transportation resources and natural amenities such as public parks and open spaces. Using the MVA and the build from strength redevelopment approach, TRF identified the specific block groups in East Baltimore poised for a successful transformation. TRF’s Preston Place redevelopment area in East Baltimore’s Oliver neighborhood is such a location. Just over a mile from prosperous Fells Point and only a two-minute walk to the Johns Hopkins Medical Center, the Preston Place redevelopment area has tremendous access to employment centers and recreation activities. TRF’s initial target area was also adjacent to the largest redevelopment effort in Baltimore known as the East Baltimore Development Inc. (EBDI), a partnership between the US Government, the State of Maryland, the City of Baltimore, the Annie E. Casey Foundation and the Johns Hopkins Institutions. Additionally, vacancy in the area was high enough that TRF could make a major investment without needing to relocate residents.

One of the advantages to the Preston Place location is that it lies in the catchment area for EBDI’s new East Baltimore Community School (EBCS), a school administered and run by Johns Hopkins University. The EBCS will not only provide excellent opportunity for Preston Place families, and it will enhance the market value of the Preston Place homes. The EBCS is illustrative of how proximity to significant assets can benefit surrounding communities. Major community assets frequently receive additional and continued investment and this predictable reinvestment can be used to benefit and enhance the surrounding community.

3. Engaging Community and Political in Redevelopment

Successful community development requires genuine voice and ownership for the local community. In Baltimore, TRF found this by partnering with the local Industrial Areas Foundation affiliate, Baltimoreans United in Leadership Development (BUILD). BUILD is a broad-based community power organization, rooted in Baltimore’s neighborhoods and churches. It engages over 20,000 members. Through BUILD, the local community participated from the very start, as they were the ones who surveyed neighborhood parcels. In addition, BUILD leaders hold regular community meetings to identify and discuss the needs and aspirations of local residents, an important way that local residents have remained engaged in the redevelopment process. The partnership with BUILD allowed TRF to establish early legitimacy in the community and helped establish relationships with the administrative and political sectors of Baltimore and Maryland governments. In addition to working with BUILD, TRF is also actively engaged with local civic and community organizations in East Baltimore. These partnerships are essential for the long-term health of the neighborhood and the community investment.
4. **Mixing Patient Debt with Smart Subsidy that can Sustain Long-Term Efforts**

In order to sustain a redevelopment effort, a mix of debt and subsidy is necessary. Subsidy is scarce and, on its own, cannot create a market. Instead, public subsidy must be used to leverage, or clear the path, for private investment. In East Baltimore, TRF approached civic leaders, foundations and religious leaders to capitalize a fund to implement the reinvestment strategy. The result was the $9.3 million TRF Development Partners-Baltimore development fund, composed of Program Related Investments from 23 public and private entities. TRF also developed an effective working partnership with the City of Baltimore to implement land acquisition and assembly; the land acquisition work follows the goals set out in the initial East Baltimore reinvestment plan. As part of this effort, TRF has been Baltimore City’s designated developer for the Preston Place section of Oliver and has secured redevelopment rights for more than 200 vacant properties in that footprint.

In the past four years, TRF has leveraged this fund to secure over $25 million of permanent financing. The average subsidy capital per unit is approximately $66,500. The subsidy capital has ensured that the homes remain affordable to households at or below 80% of Area Median Income, and covered the gap between the market value and the total development cost.

5. **Keeping Costs Efficient to Effectively Compete Given Market Values**

Current market conditions limit opportunities to reinvest because local housing values are less than the cost to redevelop or build homes, which requires securing soft financing and subsidies. The ultimate goal should be to eliminate the market gap and minimize the need for subsidy capital. When this occurs, a market could be considered “stabilized.”

A key element of closing the gap between market values and production cost is controlling costs. In East Baltimore, TRF’s cost for developing a new unit is approximately $200,000, with a market value of $140,000; rehabilitation costs are $150,000 with a market value of $120,000. TRF controls these costs largely thanks to its team of professionals who bring both design and construction experience and provide strong oversight for the project. Due to the scattered-site nature of the single-family construction project, TRF has been able to avoid large scale demolition. TRF can work with smaller contractors with lower overhead costs. TRF’s own professional staff manages control over the quality of the product while keeping the overall development cost significantly lower.

TRF’s focus has been on rebuilding the market and preserving the historic fabric of the community, which requires that we engage in both small scale in-fill construction and vacant housing rehabilitation. In many similar situations, most other developers opt to demolish vacant units and engage in larger scale redevelopment. One of the advantages to TRF’s approach is that we reuse the building’s foundation and exterior walls as well as significant amounts of the existing public infrastructure, creating another aspect of its cost controls.

6. **Staying Nimble and Flexible to Adapt to Changes in the Market**
When TRF began redevelopment in East Baltimore, we expected that the neighborhood would benefit from several hundred homes that were planned in the adjacent EBDI investment area. These higher value homes would reinforce the increased property values in TRF’s target market. Unfortunately, the EBDI production never materialized due to the struggling economy and housing market of the past several years. The national median five-year annual housing production rate fell from 1.37 million homes built from 2001 to 2005 to 0.58 million in the period 2006 to 2011. The housing market had not only slowed in terms of total unit production, but since 2009, construction has failed to keep pace with total national household formation. Maryland’s change in housing production is equally severe, falling by 65% since 2006.

The high levels of mortgage foreclosures and tighter credit environment have contributed to a shift in both the national and regional homeownership rates. Advantages of this shift include decreasing acquisition prices for vacant lots and homes, and higher demand and competition for rentals. TRF’s financing structures were flexible enough to respond to the market shift and were repositioned to accommodate the growing rental demand. Since 2009, TRF has invested over $25 million into its East Baltimore target areas, with 75% of the resources supporting rental housing, a change from the initial plan that conceived all developments as for-sale.

7. Innovating with Design to Meet Consumers’ Needs and Stay Competitive

Innovative design can create a robust and competitive housing market. In East Baltimore, TRF has focused on creating housing products with signature designs that have few, if any, comparably priced homes elsewhere in the city or region. Combining such distinctive homes with their pricing advantage enables TRF to effectively compete for the limited number of families currently in the market. These are families that have the opportunity to live in suburban neighborhoods or stronger urban areas; families whose choices are not limited to lower cost housing. TRF’s focus on quality and design has successfully allowed it to create a market area and housing products that are attractive to families with more diverse incomes.

As part of its design work, TRF has modified formerly abandoned homes to address the needs of today’s smaller families. Many row homes in TRF’s target area in East Baltimore were built to accommodate the historic needs of larger families. Certain older units had up to six bedrooms across three floors. Using contemporary designs featuring skylights and lofts, TRF repurposes these large homes to created units with beautiful open layouts that are filled with natural light.

In East Baltimore, TRF has also extended creativity to infill development by planning a new housing design that reduces density without interrupting the traditional row house streetscape. When homes were demolished, the block face clearly reflected the “gap tooth” effect, leaving former interior row houses as stand-alone units. TRF’s unique design will consolidate lots and build houses with wider interiors rather than the typical narrow ones. This will be cost efficient as fewer units are reintroduced into the market. TRF estimates that fewer than 40 homes will be constructed to recover the 123 vacant lots. Redeveloping 40 homes reduces the subsidy capital needed by $54.9 million while eliminating all gap tooth block faces in the area.

8. Creating Long-Term Affordability with Energy-Efficient Design
Energy-efficient design offers another competitive element. TRF is committed to rehabilitation or new construction that meets or exceeds Energy Star standards, dramatically lowering the operating costs. TRF homes are typically at least 30% more efficient than a typical home. In a competitive market, these energy-efficient designs offer long-term affordability for residents.

In East Baltimore, TRF builds its new housing using resource-efficient modular construction. The modularly constructed units meet rigorous construction standards, with joints and seams sealed airtight for improved air quality and insulation. TRF also replaces oil heat systems with gas fire heaters and uses direct feed hot water heaters. TRF also builds healthy homes. Our modular construction products are built in a controlled environment, which limits structural exposure to moisture, reducing the possibility of mildew, mold and infestation from posing health hazards to occupants. In addition, TRF’s vacant housing rehabilitation effort removes all lead paint, which has been linked to childhood asthma.

9. Maximizing Community Opportunities that Keep Local Residents Engaged

Growth, preservation and recovery opportunities in distressed cities must be accompanied by people-based interventions in order to maximize opportunity and change. In East Baltimore, TRF is actively engaged in creating opportunities for the larger local community. For example, TRF has partnered with Episcopal Community Services of Maryland through its workforce development program, Jericho. Jericho assists primarily non-violent male ex-offenders who are returning to Baltimore City and are motivated to participate in job training and placement. The program serves around 400 men each year and has a successful employment rate ranging from 58% to 69%. Its 10% to 18% recidivism rate among participants compares to a 47.8% recidivism rate among the general ex-offender population in Maryland. TRF works in partnership with Jericho to create opportunities for up to 20 Jericho clients in a pilot program of deconstruction/workforce development training and employment.

As of April 2012, TRF has invested over $25 million in its East Baltimore target area and created 130 occupied homes. Of the occupied homes, 24% are owner-occupied and the remaining 76% are rentals. There are an additional 50 homes currently under construction. This redevelopment activity is expected to eliminate 100% of publically held abandoned homes in the area by 2014, dramatically dropping the overall abandonment rate from 51% to 8%.

TRF’s work has created the broad coalition of and individuals and institutions necessary to command the financial resources and political will to fundamentally change market conditions. While TRF’s community development process is still evolving, the Preston Place outcomes are exceptionally encouraging. As TRF reflects on our works to date, we have captured the core elements of our learning and offer it to others who are engaged in the critical work of revitalizing distressed urban communities. We welcome engagement with others as we test whether these principles that drive our community reinvestment resonate with other successful efforts.