

# **SB859 Appraisal Gap.pdf**

Uploaded by: Ellis, Dan

Position: FAV



# Neighborhood Housing Services of Baltimore, Inc.

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February 26, 2021

Senator Paul G. Pinsky, Chair  
Education, Health, and Environment Affairs Committee  
2 West – Miller Senate Office Building  
Annapolis, Maryland 21401

**RE:** Senate Bill 859

**Position:** **SUPPORT**

Dear Chairperson Pinsky and Members of the Committee:

I am Dan Ellis, Executive Director of Neighborhood Housing Services of Baltimore. NHS, a non-profit working in Baltimore City, believes all residents deserve the opportunity for decent housing and financial opportunities for their families. We accomplish this by offering housing counseling, financial coaching, affordable loans to low and moderate income customers, conducting acquisition and renovation on vacant properties, community engagement, and helping money flow into historically disinvested communities. Last year, we helped over 450 families purchase homes, invested in the preservation of over 100 homes to help seniors age in place, and invested and leveraged over \$25 million in West Baltimore.

NHS of Baltimore **Strongly Supports** SB859. In many historically redlined sections of Maryland, sale prices for fully renovated properties lag below the cost to acquire and renovate the property. This is often referred to as the appraisal gap, which is the difference in the cost to complete a property and the amount of the sale price. The appraisal gap results in properties remaining vacant or being renovated as lower quality housing typically for rental use. In many neighborhoods impacted by the appraisal gap, vacant houses continue to sit vacant and homeownership rates decline. This leads to further destabilization of housing values and condition.

SB859 creates a fund to support properties that are impacted by the appraisal gap. This available support will allow for the development of properties in historically disinvested communities. The result will be additional homeownership opportunities and quality development of affordable units. This outcome will provide strong support to communities around the state struggling with more distressed properties. We appreciate the support from the state as we work to address the impact of public policy that directly contributed to the current distressed conditions in communities around the state.

We strongly support SB859 and respectfully request a **favorable report**.

Sincerely;

Daniel T. Ellis  
Executive Director



# **SB 859 Testimony - Senator Antonio Hayes.pdf**

Uploaded by: Hayes, Antonio

Position: FAV



THE SENATE OF MARYLAND  
ANNAPOLIS, MARYLAND 21401

March 2, 2021

**Testimony of Senator Hayes in Support of Senate Bill 859: Department of Housing and Community Development - Appraisal Gap from Historic Redlining Financial Assistance Program - Establishment**

Chairman Pinsky and Members of the Education, Health, and Environmental Affairs Committee,

The appraisal gap, defined as the amount by which the total cost of construction or renovation exceeds the price that a home can be sold for, is a relic of the Jim Crow era that communities of color continue to bear the weight of to this day. A result of redlining, appraisal gaps have condemned communities for decades of neglect, disinvestment, and declining property values.

The Maryland Department of Housing and Community Development's Sustainable Communities Program is a place-based designation offering a comprehensive package of resources that support holistic strategies for community development, revitalization and sustainability. Led by the Department, Sustainable Communities has provided local governments with a framework for promoting environmentally, economically and socially responsible growth and development in existing older communities.

The Sustainable Communities Act of 2010 established a shared geographic designation to promote efficient use of scarce State resources based on local sustainability and revitalization strategies. The Sustainable Communities program consolidated geographically targeted resources for historic preservation, housing and economic development under a single designation. The designation places special emphasis on infrastructure improvements, multimodal transportation and development that strengthens existing communities. The legislation designated the Governor's Smart Growth Subcabinet as the body charged with final approval of Sustainable Communities designations.

**Senate Bill 859** will address the appraisal gap by providing funds to help offset the costs of construction and renovation in historically redlined low-income areas.

Appraisal gaps prevent rehabilitation of abandoned and vacant properties as well as new housing developments in many low-income neighborhoods due to a lack of economic incentive to pursue these projects. Contractors know the rehabilitation will cost far more than what will be

recuperated by selling the properties. Appraisal gaps in distressed neighborhoods can range from \$60,000 to \$150,000. Simply put, free market activity will never take root in these areas without intervention to stop this vicious cycle of undervaluing.

The presence of abandoned and vacant properties in neighborhoods has been linked to numerous public health issues, increased violent crime, and has been shown to have a destabilizing effect on communities.

ReBUILD Metro, a nonprofit devoted to building new homes and renovating existing homes in two neglected Baltimore neighborhoods, has demonstrated the radical and positive change this type of targeted effort can produce. Following the nonprofit's investment in these neighborhoods, **there was a 75% reduction in abandoned properties, a 50% reduction in homicides, a 20% increase in population, and a 15% increase in household income.**

**SB 859** will establish the Appraisal Gap from Historic Redlining Financial Assistance Program under the Department of Housing and Community Development (DHCD) to provide financial assistance to affordable housing developers working in low-income census tracts.

**SB 859** will also establish the Appraisal Gap from Historic Redlining Financial Assistance Fund, a special nonlapsing fund, to provide this financial assistance.

Lastly, **SB 859** will require each county to submit a report to DHCD that details the targeted areas for homeownership that would qualify for financial assistance under this program.

There are several amendments to **SB 859**, outlined below:

- The first amendment removes the \$4,000,000 mandated appropriation.
- The second amendment provides for limitations on the way financial assistance is calculated. This language was inadvertently left out of the first draft of the bill. The amendment states that the amount of financial assistance provided cannot exceed 35% of the lesser of either:
  - (1) the qualified development cost, or
  - (2) 80% of the national median sales price for new homes.
- Other amendments include: inserting acquisition costs as a qualified expense; removing forgivable loans in the exclusions of the definition of financial assistance; adjusting the definition of affordable to mean that housing costs do not exceed 30% of a household's income where the household's income does not exceed 80% of the statewide median income instead of 140% as originally indicated in the bill.
- The final amendment included language to require DHCD to report to budget committees the number of funds deployed to census tracts with populations of over 50% minorities.

ANTONIO HAYES  
Legislative District 40  
Baltimore City

Finance Committee



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THE SENATE OF MARYLAND  
ANNAPOLIS, MARYLAND 21401

We must take responsibility for righting the wrongs of our past that continue to harm vulnerable communities in our present. This program will attract and drive investment in communities that need it most, revitalize neighborhoods in Baltimore and across Maryland while keeping them affordable, and generate new opportunities for their residents. Black and Brown people were largely excluded from the housing market when homes were cheap, resulting in entire generations missing out on the wealth and stability that comes with home ownership. If ever there was a time for us to right this wrong, it is now while so many are suffering financially due to the COVID-19 pandemic. Especially in light of the fact that people of color have been disproportionately impacted by the virus and its associated hardships.

**For these reasons, I strongly urge a favorable report on SB 859.**

Respectfully,

A handwritten signature in blue ink, appearing to read "Antonio L. Hayes".

Senator Antonio L. Hayes  
40<sup>th</sup> Legislative District - MD

# Untitled design.pdf

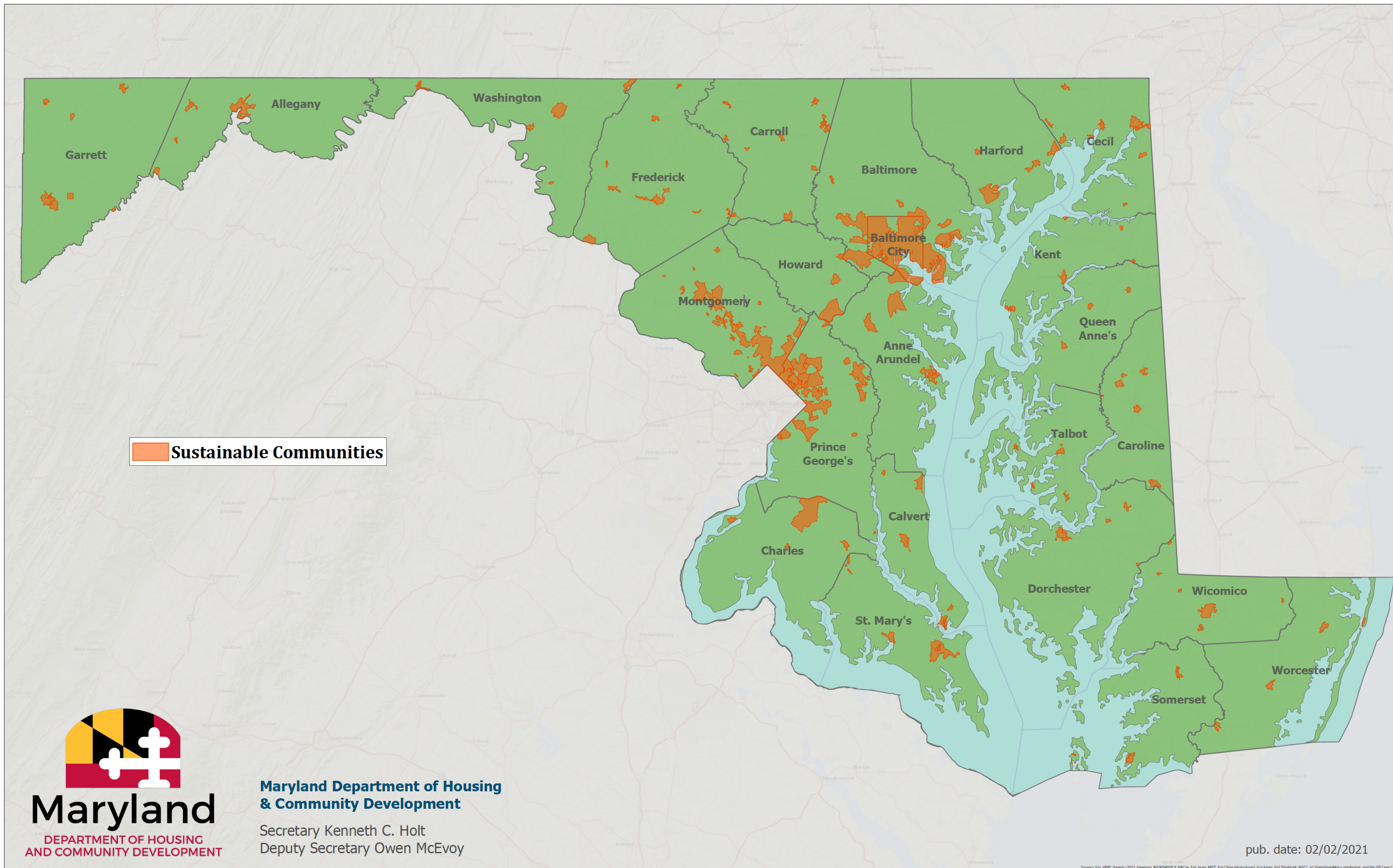
Uploaded by: Hayes, Antonio

Position: FAV



# Maryland Department of Housing and Community Development

## Sustainable Communities





# **SB0859 Testimony.pdf**

Uploaded by: Jones, Bree

Position: FAV

# PARITY

**SB0859, HB1239**

**Appraisal Gap from Historic Redlining Financial Assistance Program  
In Support**

February 26<sup>th</sup>, 2021

Education, Health, and Environmental Affairs Committee  
Budget and Taxation Committee

I am writing in support of Senate bill SB0859 and House bill HB1239, Appraisal Gap from Historic Redlining Financial Assistance Program.

My name is Bree Jones, and I am the Founder and Executive Director of Parity Homes. Parity is an equitable development company that removes systemic barriers to create space for people working across intersections to authentically and equitably rebuild historically Black neighborhoods through collective economics. Parity acquires and rehabilitates vacant and abandoned properties in West Baltimore by the block to create affordable homeownership opportunities. At the core of our work is "Development without Displacement". We practice real estate and housing development through a racial equity lens to ensure that people who have been historically disinvested of wealth are able to participate in and benefit from reinvestment into their communities. Parity takes extra steps to prevent unintended displacement of legacy residents by connecting them with legal, financial, and aging-in-place resources.

It is said that Baltimore City is the first city to use racial covenants in land policy starting as early as 1910. The practice of redlining both nationwide and in Baltimore has created an enormous racial wealth disparity, and in Baltimore specifically has resulted in the creation of approximately 16,000 abandoned and blighted buildings located mostly in the "Black Butterfly." 21223 and 21217, where I work, are two of the most economically distressed zip codes in Baltimore. In Harlem Park for example, where Parity is focused, 49.7% of families earn less than \$25K per year, 35% of buildings in the neighborhood are abandoned, and only 28% of occupied homes are owner-occupied. 53% of renters in the neighborhood are rent-burdened, and 41% of homeowners are housing burdened, meaning they pay more than 30% of their income on housing expenses. Moreover, 96% of residents are Black, highlighting Baltimore's long-standing history of segregation and

concentrated race-based poverty. Historic and modern-day redlining and racist land policies have resulted in interconnected social maladies including environmental degradation, food apartheid, meager health outcomes, struggling schools, crime, and poverty. Baltimore is not unique. Prince Georges, Montgomery County, and the Eastern Shore to name a few, are other Maryland counties that have historic and modern-day struggles with redlining, and race-based poverty and loss of land and wealth.

There are typically two trajectories for these distressed neighborhoods. In one case, the community continues to face deterioration indefinitely due to a lack of mission-focused capital. In another scenario, low housing prices attract speculative and predatory investors that pursue development that causes the neighborhood to undergo gentrification and displacement of native residents. We believe there can be a third and more equitable outcome. Parity employs an innovative but simple model to revitalizing hyper-distressed neighborhoods by creating pathways for existing and new residents to collectively buy homes together on a block by block basis as a means of community building, wealth building, and social justice. Despite our initial success, the work is incredibly difficult because of the presence of what we call the “appraisal gap.” The appraisal gap is a unique phenomenon in historically redlined communities in which the cost of development to renovate a deeply distressed building (the remnants of race-based disinvestment) exceeds the appraised after-repair value of the building, and exceeds a price at which that house can be made affordable to existing residents.

There are three reasons why housing valuations are divergent from construction costs. First, construction costs are steadily rising, and the scope of rehabilitation is substantive (new roof, floor joists, masonry, foundation, walls, structural repairs, lead and asbestos remediation, framing, and mechanical, electrical, and plumbing systems). Second, banks use market comps and appraisals to determine the value of a home before originating a mortgage against it. In historically redlined neighborhoods, there is often little to no market activity of renovated housing stock to justify market comps sufficient to meet the cost of construction. Moreover, it is precisely because of redlining that housing in historically Black neighborhoods have been stripped of value. Third, it’s important that livable housing stock in historically redlined neighborhoods remain attainable and affordable for existing residents. A rapid increase in home values would create an adverse affordability shock that would devastate already vulnerable populations.

The presence of this gap severely stunts any market activity and makes housing development in the Black Butterfly and similar communities in greater Maryland next to impossible. Myself and Senator Hayes have convened a coalition of mission-driven equitable housing development companies and community organizations that are working tirelessly each day to create affordable access to housing across the state. The

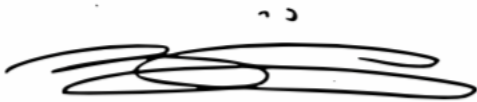
response has been overwhelming and unequivocally clear that there must be an intentional pool of capital designed to heal historic harms, and revive healthy communities across the state.

For these reasons, I request a favorable report of SB0859 and HB1239. I genuinely hope that you consider this bill as an innovative way to create an inclusive Maryland where prosperity can be attained by all.

Warm regards,

**Bree Jones**

Executive Director & Founder  
Parity Baltimore Incorporated

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end.

(914) 484-3130

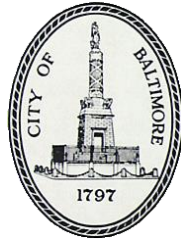
bree@parityhomes.com



# **SB0859-EHE-FWA.pdf**

Uploaded by: Mehu, Natasha

Position: FAV



BRANDON M. SCOTT  
MAYOR

*Office of Government Relations  
88 State Circle  
Annapolis, Maryland 21401*

**SB 859**

March 2, 2021

**TO:** Members of the Education, Health & Environmental Affairs Committee

**FROM:** Natasha Mehu, Director of Government Relations

**RE:** SENATE BILL 859 - Department of Housing and Community  
Development – Appraisal Gap from Historic Redlining Financial  
Assistance Program – Establishment

**POSITION: SUPPORT WITH AMENDMENT**

Chair Pinsky, Vice Chair Kagan, and Members of the Committee, please be advised that the Baltimore City Administration (BCA) **supports with amendment** Senate Bill (SB) 859.

This legislation along with its companion House Bill 1239 would establish financial assistance that would cover the gap between what it costs to build or redevelop a home and what it can be sold for. This appraisal gap is one of the most critical obstacles to homeownership in the City and is most prevalent in communities that have been historically redlined and disinvested. It is an established fact that homeownership is one of the effective paths to creating intergenerational wealth, and providing funding to cover the gap between construction costs and what the market will bear will make owning a home a reality for hundreds of city families.

Baltimore is fortunate that developers working in its historically disinvested communities would meet the legislative requirement of being located both in a low-income census tract and as a State Sustainable Community. Many of these developers are themselves small, minority-owned start up businesses who, because they are undertaking their initial projects, lack the track record necessary to access other sources of funding. Through its Community Catalyst Grants program, the City's Department of Housing and Community Development has begun to address the lack of capital and appraisal gap but is limited in the support that can be provided. A State Appraisal Gap program would leverage City and other resources, significantly increasing the number of vacant and under-utilized properties that can increase the City's tax base.

## **Amendments**

The City would like to offer two amendments. SB859 would permit completed projects to be sold to households earning up to 140 percent of the Area Median Income and does not place limits on the maximum amount of funds that can be provided to support a project. The BCA proposes:

- (1) limiting sales to households earning a maximum of 80 percent of the Area Median Income, and
- (2) limiting the maximum amount of funds to 35 percent of the Appraisal Gap or 80 percent of the National Median Sales price.

Baltimore City supports both of these conditions first, to maximize and leverage the amount of funds that can be used to support homeowners, and second because families earning 80 percent or less of the Area Median Income are the most excluded from becoming homeowners due in large part to the Appraisal Gap.

We respectfully request a **favorable with amendment** report on Senate Bill 859.

# **CHAI Sb859 Appraisal Gap Testimony[.pdf]**

Uploaded by: Miicke , Sarah

Position: FAV



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## **Support of SB859: Department of Housing and Community Development – Appraisal Gap From Historic Redlining Financial Assistance Program – Establishment**

**March 2, 2021**

### **Education, Health and Environmental Affairs & Budget & Taxation Committees**

Comprehensive Housing Assistance, Inc. (CHAI) is a nonprofit agency working to strengthen communities through housing and community development so residents of all ages and economic backgrounds can thrive. CHAI serves northwest Baltimore City and adjacent Baltimore County neighborhoods in Pikesville. Through nearly four decades of community service, CHAI has forged deep connections with the goal of making northwest Baltimore a stronger, better community in which to live, learn, and grow older. Affordable housing development is at CHAI's core as housing stability is vital to strong communities

As an example of the appraisal gap in Northwest Baltimore, CHAI is in the predevelopment stages of a block redevelopment of five houses. The properties were purchased from the city for \$5,000 or less. These properties have been vacant for over five years and some don't have all four walls or roof. They are an eyesore for the current homeowners, some of which have lived in the community for over 20 years. To renovate and sell these properties the total budget is \$1.1M with an appraisal gap of \$650,000. This project is fortunate enough to benefit from funding incentives through Video Lottery Terminal funding but without that, these properties would continue to sit vacant and deteriorate the community. With funding infused into these neighborhoods the existing residents benefit as well.

CHAI recently purchased a home from National Community Stabilization Trust because of the previous foreclosure. The property again was vacant for a significant period and was a blight to the community. While in a stronger neighborhood, to complete a quality renovation CHAI needed \$34,000 in gap funding. The project was beautifully renovated and ultimately successful because of the gap funding. The house was sold to a first-time homebuyer who can enjoy the amenities of the Cylburn community in Northwest Baltimore.



CHAI: Comprehensive Housing Assistance, Inc.

5809 Park Heights Avenue • Baltimore, Maryland 21215 • 410-500-5300 • Fax: 410-466-1996

[chaibaltimore.org](http://chaibaltimore.org)

CHAI is an agency of The Associated



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Chief Executive Officer



In distressed neighborhoods, the cost of the construction to renovate properties can be significantly more than the sales or market price, which causes the appraisal gap. This gap leads to a few possible negative outcomes including, but not limited to, vacant housing, blight, increased crime, trash dumping and no tax revenue collection for the municipality.

The appraisal gap is a direct outcome of redlining in predominantly low-income and minority communities. The lack of funding and financial resources effects this population with significantly negative outcomes. Residents that could be homeowners end up staying in a cycle of being a renter where there is no wealth or equity creation. These renters also have less of a stake in the community and make no investment in their property.

On the other hand, if properties could be renovated and sold to homeowners, it would have the opposite effect on communities. A renter becomes a first-time homebuyer, becomes connected to the community, invests in their community and participates in strengthening the communities' goals. Renters that were previously housing cost burdened can be independent homeowners and generate wealth.

For these reasons, we ask for a favorable report on SB859.



CHAI: Comprehensive Housing Assistance, Inc.

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## **SB 859.pdf**

Uploaded by: Hansen, JoAnn

Position: FWA

Founded in 1992, Habitat for Humanity Choptank is a volunteer supported 501(c)3 non-profit organization operating in Dorchester and Talbot Counties on the beautiful Eastern Shore of Maryland. Throughout our 29-year history, Habitat for Humanity Choptank has worked to empower low-income households to improve their housing conditions addressing aspects of housing needs from new construction to rehabs and repairs as well as weatherizations. Our new focus on Neighborhood Revitalization is based on the experience that building one house in a neighborhood of blight, while absolutely needed, does not have the community impact necessary to promote empowerment and sustainable change.

We are grateful to Senator Hayes for bringing forth SB 859, legislation that highlights the critical need for affordable and decent housing, which in this rural region of Maryland, is growing. An affordable home means a family can cover housing costs and still be able to provide for life's other necessities: food, health care, transportation, education. A decent home means a secure and safe home that can safeguard a family's health. Stable housing has a tremendous impact on family and community health, improved education outcomes for children and increased financial stability and opportunity. In addition to these benefits, building and repairing homes also stimulates other sectors of the economy – driving additional spending and creating more local jobs.

Unfortunately, the demand for affordable and decent housing outstrips the current supply, especially at lower tiers, and the lack of supply of affordable homes continues to be a barrier to those seeking to become homeowners, a place where generational wealth is often first created. Additional investment and revitalization is needed in communities that have suffered from past redlining and other discriminatory practices.

To this end, Habitat for Humanity Choptank supports SB 859, legislation that creates state financial assistance to close the “appraisal gap”, the difference between the cost of construction and the appraised value of the home, a gap that has played a role in handicapping the revitalization of historically redlined communities. The citizens and communities of Maryland need your leadership in supporting and investing in qualified affordable homeownership projects in LMI census tracts areas and encourage you to also support this legislation. Thank you.

JoAnn Hansen  
Executive Director  
Habitat for Humanity Choptank



# **CDN SB 859 FAVORABLE.pdf**

Uploaded by: Wilson Randall, Claudia

Position: FWA



**Testimony SB 859**

**Education, Health & Environmental Affairs Committee**

**February 23, 2021**

**Position: FAVORABLE**

Dear Chairman Pinsky & Members of the Education, Health & Environmental Affairs Committee:

The Community Development Network of Maryland (CDN) is the voice for Maryland's community development sector and serves nearly 200 member organizations. CDN focuses on small affordable housing developers, housing counseling agencies and community-based non-profits across the state of Maryland. The mission of CDN is to promote, strengthen and advocate for the community development sector throughout Maryland's urban, suburban and rural communities. CDN envisions a state in which all neighborhoods are thriving and where people of all incomes have abundant opportunities for themselves and their families.

SB 859 proposes to create state-wide financial assistance pool to close the appraisal gap experienced when the cost of development exceeds bank appraisals/affordability and encourage the development of homeownership opportunities for households making less than \$75,000 per year in sustainable communities.

Many of these communities are historically disinvested black communities across the state that have seen their housing markets decimated and have been unable to attract new residents for home ownership. The key reason that potential investors are reluctant to put money into buying and fixing up houses in these areas throughout the state is because the properties later don't appraise high enough to reflect the improvements. In fact, rehabbed properties often appraise for less than the value of the home plus the improvements, discouraging future buyers to invest in the community.

Despite the passage of the Fair Housing Act, houses in predominantly black communities have been generally appraised at lower values than houses in majority white communities. This is true even when comparing housing stocks that have the same characteristics (age, square footage, number of rooms, etc.) and neighborhoods of equal socioeconomic status.

This bill may be an excellent strategy to attract investment in long vacant communities and giving lower income community members an opportunity for ownership.

We respectfully request a favorable report for SB 859.

Submitted by Claudia Wilson Randall, Executive Director, Community Development Network of MD

# **SB 859 DHCD -Appraisal Gap (Hayes) EHEA 3.2.21.pdf**

Uploaded by: Wilkins, Barbara

Position: INFO

LARRY HOGAN  
Governor

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Lieutenant Governor



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Secretary

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Deputy Secretary

## **SENATE BILL 859 Department of Housing and Community Development – Appraisal Gap from Historic Redlining Financial Assistance Program – Establishment (Hayes)**

### **STATEMENT OF INFORMATION**

**DATE: March 2, 2021**

**COMMITTEE: Senate Education, Health & Environmental Affairs**

**SUMMARY OF BILL:** SB 859 mandates an annual appropriation in the amount of \$4 million in the Department of Housing and Community Development (DHCD), the purpose of which is to make financial assistance available to affording housing developers working in low-income census tracts (in sustainable community designated areas) in order to help close appraisal gaps that occur in historically redlined neighborhoods. “Appraisal gap” is defined as the cost of construction expenses exceeding the contract sales price upon initial sale to an owner-occupant. Affordable housing is defined as household income that does not exceed 80% of the State’s median income and the monthly housing cost does not exceed 30% of the monthly income.

**EXPLANATION:** DHCD currently has the ability based on funding availability to provide financial assistance to nonprofits through the Baltimore Regional Neighborhood Initiative program for this purpose. The Department of Budget and Management’s focus is not on the underlying policy proposal being advanced by the legislation, but rather on the mandated increase in funding for this program.

DBM has the responsibility of submitting a balanced budget to the General Assembly annually, which requires spending allocations for FY 2022 to be within the official revenues estimates approved by the Board of Revenue Estimates in December 2020.

Economic conditions remain precarious as a result of COVID-19, making revenue predictions for the remainder of FY 2021 and FY 2022 highly volatile. Many individuals and households are unemployed or underemployed, with many industry sectors operating at much less than 100% capacity. Federal stimulus programs are providing much needed relief, but the impact of the COVID-19 pandemic continues to present a significant budgetary vulnerability.

The General Assembly and Administration have successfully enacted the Governor’s emergency Recovery for the Economy, Livelihoods, Industries, Entrepreneurs, and Families Act (SB 496 RELIEF Act), which provides \$1.1 billion in direct stimulus and tax relief for Maryland working families, small businesses, and those who have lost their jobs as a result of the COVID-19 pandemic. It is incumbent upon us to allow the impact of this unprecedented relief package on the State’s economy to take effect. Further mandated spending increases need to be reevaluated within the context of an ongoing pandemic.



**For additional information, contact Barbara Wilkins at  
(410) 260-6371 or [barbara.wilkins1@maryland.gov](mailto:barbara.wilkins1@maryland.gov)**