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February 26, 2021

Del. Brooke E. Lierman
House Office Building, Room 311
6 Bladen St.
Annapolis, MD 21401

Delegate Lierman and the Environment and Transportation Committee,

I am writing in my capacity as President and Owner of Schreiber Brothers Development LLC to express our enthusiastic support for HB 1239, establishing the Appraisal Gap From Historic Redlining Financial Assistance Program. I would also strongly encourage that the funding amount be increased to at least $10 million per year.

As a for-profit real estate developer focused on the revitalization of historically redlined communities with large swathes of vacant homes, I can attest that this program is absolutely critical to the future wellbeing of the State of Maryland. The legacy of "redlining" and the long-term detriment to our communities – particularly those with people of color representing the majority – is well-established and does not bear reexamination here. Indeed, many others testifying on behalf of this legislation have likely focused quite a bit of attention on the legacy of racism and how deeply it has damaged so many communities across the state.

The intent of my testimony, rather, is to speak from the position of a private sector practitioner, where financial calculations are by necessity balanced against our other social mission-driven goals. The legacy of redlining has resulted in what this legislation appropriately deems an "appraisal gap." In short, it is not feasible for even the most mission-driven developer to renovate vacant or even partially blighted buildings at a meaningful scale without financial assistance. The only options, at present, are to either raise a highly cumbersome level amount grant funding and donations, or to assemble immense sums of private investment. Our company has worked tirelessly to demonstrate that the latter is possible in some of Baltimore's most vacant-housing-plagued neighborhoods. But even our most ambitious projects using federal sources have only been able to provide funding for 80-100 homes at a time. And even then, we are still heavily dependent on federal subsidy and tax programs because lenders can not provide the amount of debt that a home in a non-redlined area would garner.

Whereas most lenders are willing to provide anywhere from 65-85% of the as-renovated value of a home (known as Loan-to-Value), that amount is entirely dependent on the appraised value. In practice, that means that for a $200,000 renovation in a historically redlined community, a developer or home buyer might only be able to raise at most half of that cost through debt, because the home will only appraise for <u>maybe</u> $150,000 (these numbers may seem arbitrary, but they are very familiar benchmarks for single-family developers). If we assume that one must bring $100,000 in cash to the table in order to do a single $200,000 renovation, the cash-on-cash return or IRR is likely to be nearly zero. Only non-profits and those with access to massive pools of patient capital would ever undertake such a project. Our company has positioned ourselves in the latter category, so we are able to eke out returns, but only if we are able to assemble massive numbers of properties (80+).

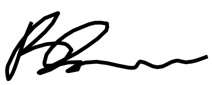
This legislation will unlock the power of the market and allow a relatively minor pot of funding to be heavily leveraged. We already know that each "comparable sale" achieved has a hugely out-sized impact within a quarter-mile radius in Baltimore City. As soon as a home sells for $200,000 when all other sales have been $50,000 or less, suddenly there is a single example that appraisers can use to jumpstart private lending at market rates. But these “comps” are hard-fought and take years to achieve. With the Appraisal Gap funding source, these comps will be substantially more efficient and easy to come by. It is absolutely critical, however, that users of this funding source can count on it to be there when they start a project, and that it is not overly cumbersome. Funding must be in the hands of a developer or in escrow (ready for closing on a sale or permanent financing) within 30 days of completion of a project. Otherwise the funding source is effectively rendered useless for most small developers and homeowners.

At a macro level, Maryland will never achieve a “healthy” vacant housing rate (roughly 3%) until substantial resources are devoted to overturning the long-term legacy of redlining. Without a funding source to help bridge that gap, at the current rate we can expect the staggering vacancy rate to remain at over 15% in jurisdictions across the state for many decades. One may be tempted to deem this a “Baltimore” problem. That is patently false. This is a problem that can be found statewide, and is just as prevalent on the Eastern Shore, in Frederick County or eastern Maryland as it is in Baltimore.

It is also worth mentioning that the private wealth-building opportunity and tax generation resulting from this leveraged funding opportunity is immense. Billions of dollars in uncollected tax revenue would be unlocked, where it currently remains in arrears.

Thank you very much for your consideration. Should you have any additional questions, please feel free to contact my on my personal cell phone at 410-979-3386 or at Brendan@SBrothersDev.com.

Sincerely,



Brendan Schreiber
President, Schreiber Brothers Development