

## ***Economic Impact of Project SCOPE***



***prepared for:***

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**Economic Impact of Baltimore City’s Project SCOPE**

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## **Executive Summary**

Project SCOPE, Baltimore City's initiative to enlist the local real estate community to move vacant city-owned, residential properties into the hands of private homeowners, will be reaching its third anniversary in fall 2006.

By the end of 2005, 174 residential units had been placed in the Project SCOPE inventory; 98 of those units were sold, with one additional unit under contract.

At its current pace, a total of some 240 units will have been a part of the program, with a projected 133 housing units sold in its first three years.

Project SCOPE is helping to spur some important reinvestments in a small portion of the city's housing stock. These investments are leading to significant improvements in individual blocks and raise the potential for transforming some larger neighborhoods.

The effects of Project SCOPE are by no means uniformly positive. Some buyers have not met their obligations to complete the necessary renovations within the program's required 18-month timeframe. Baltimore Housing officials have begun to refer lagging owners to the department's code enforcement unit. In extreme cases, matters will be taken court.

In those cases where improvements have gone forward, there are indications, from property reassessments and listing prices of renovated units now on the market, some notable increases in property values have been realized. While the evidence is limited to a small number of cases, it suggests that real benefits to the city and to the area economy can begin to be identified.

In measuring economic benefits, we have looked at three components: 1) benefits to the city government, 2) benefits to the private real estate community, and 3) benefits to the area economy.

Benefits to Baltimore City are both near-term and long-term. In the early years of Project SCOPE, the city is realizing a net gain from the sales of the properties after expenses on the order of \$1.2-million per year. Over the longer term, the city will realize increased gains from higher assessed property values and other tax revenues.

The local real estate community benefits in both tangible and intangible ways. At the current level of operations, Project SCOPE is generating brokers' sales commissions of slightly more than \$200,000 per year. In the process of selling SCOPE homes, the brokers also have the opportunity to expose their clients to a broader range of properties and city neighborhoods.

Beyond these direct benefits, the process of renovating approximately 50 to 60 properties annually, with rehab costs typically in the range of \$100,000 to \$300,000 per unit, has a broader impact on the area economy. Including both direct and indirect effects, Project SCOPE has the potential to account for as much as \$11.2-million in annual economic activity.

Neighborhood ripple effects in the form of improving property values for properties not in Project SCOPE might also be occurring. However, these effects were not explicitly accounted for in the current study. The wider neighborhood effects might be an appropriate subject for future research, when Project SCOPE is more mature and the available evidence more abundant.

Beyond these economic benefits, there is an interest in taking the lessons of Project SCOPE and institutionalizing them for all aspects of the city's disposition of its publicly-owned property. There is a general sense that the various key players involved in implementing Project SCOPE -- the Baltimore City officials, the real estate professionals, and the developer/homebuyers -- are highly motivated to make the program a success. There are also concerns, certainly evident in one host neighborhood that the hoped-for sales and housing renovations are not taking place at a fast enough pace.

In concluding this study, we examine some of the issues that have been raised by those directly involved in the Project SCOPE process. Some observations are made to take the program to the next level. These are presented with an aim toward changing the effort from being seen as an experimental or pilot program and fashion it as the model for the disposition of city-owned property of all types.

## **Introduction**

On a bright spring day, the colorful balloons bobbed from tables placed in front of the Reservoir Hill rowhouses, beckoning visitors to take a closer look at the neighborhood real estate. The two rowhouses immediately behind the tables represented a stark contrast. To the left was a 3-story brick-front property that had recently undergone a complete interior renovation; it was now on the market with a listing price of \$375,000. Adjoining it to the right was a shell, missing its second and third floors and, without a roof, open to the blue sky.

The occasion was an open house organized by one of the brokers participating in Project SCOPE, Baltimore City's program to transform vacant residential properties into occupied, tax-generated homes. The key to the program involves the active engagement of the private real estate community to help bring about that transformation.

The Reservoir Hill open house provided an excellent opportunity to view both the promise and the challenges that are a part of Project SCOPE. The house that was gutted will require an enterprising buyer with access to a substantial mortgage loan. Some buyers, in Reservoir Hill and other neighborhoods of the city, have not been able to overcome those challenges within the time parameters of the program.

The transformation of completed homes at market rates, typically in the range of \$350,000 to \$375,000, typically represents a success story for the city, the real estate broker and the satisfied homebuyer. Exactly what the extent of that success might be, in economic terms, was the assignment given to the consultant. Those findings are one part of what is presented in this report.

Beyond the economic impact, there are additional questions. Is Project SCOPE working as its proponents have hoped? Are there ways to fine-tune the program to better meet its objectives? Could Project SCOPE serve as a prototype for the city's property disposition activities, in general? Through interviews with those participating in the program, we attempt to address these questions as well.

The study depended upon the cooperation of many individuals and organizations who provided information in the form of in-person interviews, data resources and the sharing of their personal experiences. We are grateful to them for making their time available and for their cooperation. The names of those who participated in these interviews are listed in Appendix A.

## Totally Renovated Home in Reservoir Hill



OPEN HOUSE Saturday, May 13th 12-4pm. Beautiful home in Reservoir Hill renovated from top to bottom. High-end renovations include open-riser staircase, gas fireplace, granite countertops, gleaming Hardwood floors, & stainless steel appliances. Beautiful master suite w/ jacuzzi tub, separate shower, changing area, & lots of closet space. Brand new windows, HVAC, plumbing, & electric. CALL TODAY FOR A SHOWING!!!

Address	922 Newington Ave. Baltimore, MD 21217
Price	\$375,000



*Courtesy of Simone Real Estate*

## Origins of Project SCOPE

Baltimore City, in cooperation with the private real estate community, foundations and other interested parties, is using a market-based approach to reduce its inventory of vacant properties. This relatively new program, initiated by the Baltimore Efficiency and Economy Foundation (BEEF) and the Greater Baltimore Board of Realtors (GBBR), is known as Project SCOPE (Selling City-Owned Properties Efficiently). Project SCOPE is distinct from Project 5000, Mayor Martin O'Malley's initiative, designed to obtain clear title to some 5,000 vacant or abandoned properties throughout the city. While the two programs have related goals, Project SCOPE is targeted to those properties and city neighborhoods where the private real estate market is still functioning reasonably well.

Project SCOPE harnesses the expertise and business interests of the local real estate brokerage community. The program is intended to provide an expeditious means of selling vacant properties, rehabilitating them and having them converted into productive additions to the city's tax rolls. While the program is still in the relatively early stages of its implementation, initial indications have met with enthusiasm on the part of city officials, real estate brokers and the home purchasers. Some efforts to rehabilitate properties purchased through Project SCOPE have been lagging, however, and concerns have been expressed by neighboring property owners and impacted neighborhoods.

City officials have been carefully monitoring the progress of the individual properties as they move from initial listing with individual brokers and the statewide Multiple Listing Service (MRIS), to awarded contracts, settlement and, ultimately, occupancy. While some early measures of economic impact have been compiled, no overall economic impact assessment has been made. The current study provides a review of Project SCOPE transactions, based primarily on 98 completed sales through calendar 2005. With about two and a half years of experience in the program to consider, the study attempts to quantify the economic impacts already realized. Using a series of assumptions, the study also projects what those impacts might be for the remaining years of this decade.

## **Project SCOPE in Operation**

While Project SCOPE is designed to sell city-owned properties efficiently, it should be clear that an important network of collaboration is necessary to maintain the program.

Within city government, key staff members from the Department of Housing and Community Development, the Comptroller's Real Estate office and the city Law department are in regular communication. The housing department (now referred to as "Baltimore Housing") is responsible for identifying that portion of the city's inventory of vacant houses that will be included in Project SCOPE. Vacant houses identified for the project must be inspected, cleaned and provided with secure doors before the properties can be assigned to participating brokers. The housing department is also responsible for preparing estimates for the rehabilitation costs and assists the prospective buyer through Board of Estimates approval and settlement.

The real estate office is a key player, being involved in securing an appraisal for the property and establishing a listing price.

The law department reviews the contract of sale for legal sufficiency and determines whether the contract is in good order and ready to be forwarded to the Board of Estimates for final approval.

Beyond these city agencies, outside parties are an integral part of the Project SCOPE operation. Early in the process, the city engages the services of an independent nonprofit organization, the Community Law Center (CLC), to vet proposed contract offers. The CLC's role evolved from its earlier experience in dealing with unscrupulous real estate operatives, who were involved with Baltimore City's "flipping" scandal of a few years earlier. CLC conducts due diligence with respect to the prospective buyer/developer to assure that the buyer's intentions and capabilities are in line with the goals of Project SCOPE.

Another outside player is a local real estate professional who serves as an ombudsman to the process and tries to avoid complications for both brokers and buyers.

The real estate brokers themselves meet on a quarterly basis with city representatives and discuss current issues or concerns with the operation of the program.



Rounding out the picture of the program's infrastructure is the Project SCOPE Task Force that meets monthly. A combination of city representatives, local real estate professionals, and other stakeholders, the Task Force tries to focus on the big picture and set a strategic vision for the program. The Task Force is convened by David Rudow of the Baltimore Efficiency and Economy Foundation. The foundation, along with Jody Landers of the Greater Baltimore Board of Realtors, conceptualized the program and worked with various city partners to bring it into operation.

While the city agencies may see the program as meeting the city's expectations, some of those on the Task Force regard Project SCOPE as a pilot program that might serve as a prototype, serving to indicate how a variety of city-owned real estate dispositions could be handled in the future.

### **Demographics of SCOPE Buyers**

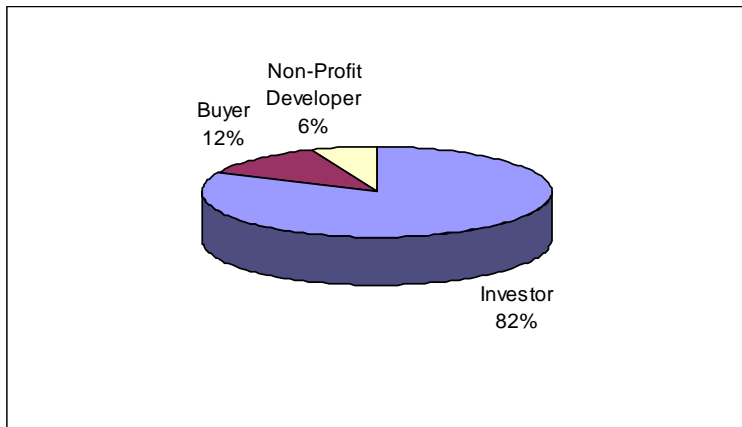
Among various issues to consider in this study, we were asked to identify the characteristics of SCOPE buyers. Are they families? Are they first-time homebuyers? Are they relocating from other neighborhoods in the city?

As it turns out, Project SCOPE does not maintain systematic records of the characteristics of the purchasers. Presumably, this information could be developed if the primary documents were made available. The SCOPE database that was made available did explicitly identify the purchasers as "Investor" or "Homeowner". In addition to this information we did research based upon what was available in the public records. We relied upon the State Department of Assessments and Taxation's real property assessment records to determine whether we were looking at a principal residence or a developer/ investor.

In the research we examined the assessment records of the 98 properties that were listed as sold by the end of 2005. Very few properties were identified as principal residences, although it is possible that the status of a property could change as the renovation process made progress. In many cases a corporate name would indicate that a private developer had purchased the property. Some of those corporations were church-related or other recognizable nonprofit developers and are represented as such in Figure 1. A small number of properties, though listed as sold in the SCOPE data, were still listed as owned by the Mayor and City Council in the assessment records,

which is mostly likely due to backlog of deeds waiting to be recorded in the City – a situation that is beyond the control of the project.

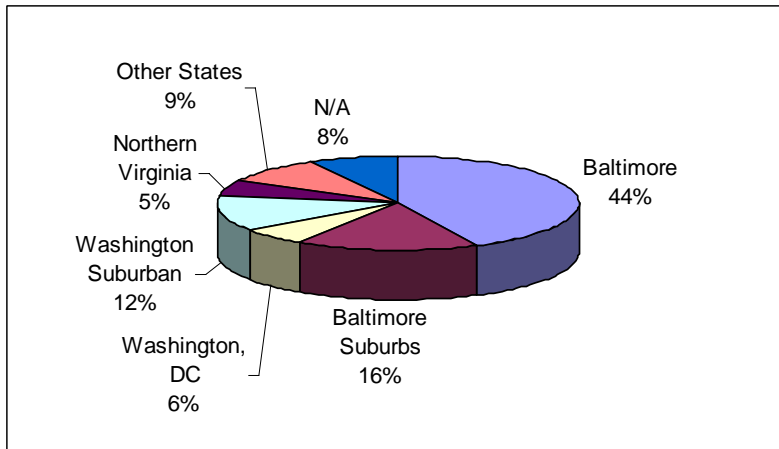
**Figure 1. Homebuyers and Investors**



This information suggests that SCOPE properties are seen primarily as investment opportunities, either by experienced residential developers or by individuals who want to gain that experience.

What is clear is that SCOPE properties have a broad geographic appeal. Based upon the mailing addresses listed on the assessment records, SCOPE buyers are coming from many parts of the Baltimore-Washington metropolitan corridor, stretching into Washington, DC and its Northern Virginia suburbs.

**Figure 2. Location of SCOPE Buyers**



It is also evident that the marketing efforts of Project SCOPE brokers and others involved in the process are casting a much wider net. Other out-of-state buyers include individuals in Massachusetts, New York, Florida and California.

### **Project Scope Achievements**

Project SCOPE was formally launched in September 2003, with the initial listing of properties and their assignment to the selected brokers. The program was seen as operating in two models: 1) **Classic SCOPE**, in which buyer/developers would typically purchase the property and be responsible for the property rehabilitation, and upon completion the buyers are free to either sell or rent the property and 2) **Homeownership**, in which the buyer is expected to be the eventual owner-occupant, or by deed restriction the buyer agrees to sell the rehabbed property to an owner occupant. The first batch of Homeownership units were identified from the city's inventory of vacant houses in Reservoir Hill.

By the end of 2005, 174 residential units had been placed in the Project SCOPE inventory; 98 of those units were sold and one additional unit was under contract. Early in January 2006, the milestone of 100 units sold was reached.

By late May, a total of 118 units had been sold, another 30 properties were under contract and 13 contracts were approved by the city's Board of Estimates, awaiting settlement. These real estate transactions, including units under contract and awarded, represented \$4.142-million in gross sales revenue to Baltimore City. In addition, an estimated \$20.872-million in rehabilitation costs would be invested in the residential properties. The total new investment would be just over \$25.0-million, or an average of \$155,366 per unit.

At its current pace of about one new sale per week, a total of 133 units will have been sold in the program's first three years. We will assume that Project SCOPE, at its current level of staffing, can maintain a rate of 50 sales per year.

In Table 1, we present a summary of all Project SCOPE sales that had reached settlement by the end of 2005. As is shown, the houses were located in a total of 26 city neighborhoods. In 17 of the neighborhoods, only 1, 2 or 3 SCOPE units were sold. In five of the neighborhoods, as many as six units had been sold, led by Reservoir Hill with a total 28 SCOPE properties in new private ownership.

**Table 1. SCOPE Sales, by City Neighborhood, 2004-2005**

<b>City Neighborhood</b>	<b>Number Sold</b>	<b>Aggregate Listing Prices</b>	<b>Aggreg. Est. Rehab Costs</b>	<b>Aggregate Sales Prices</b>
<b>Ashburton</b>	1	\$45,000	\$63,432	\$55,000
<b>Booth-Boyd</b>	8	\$31,500	\$800,000	\$128,101
<b>Canton</b>	1	\$450,000	\$293,336	\$550,000
<b>Carrollton Ridge</b>	3	\$25,000	\$233,970	\$25,000
<b>Cedonia</b>	1	\$78,900	\$100,000	\$50,000
<b>Central Park Heights</b>	1	\$5,000	\$94,861	\$5,000
<b>Coldstream/Homestead/Montebello</b>	6	\$47,000	\$504,688	\$47,000
<b>Coppin Heights /Ashburton/Coppin East</b>	4	\$15,500	\$643,754	\$26,700
<b>Druid Heights</b>	6	\$39,300	\$629,836	\$27,000
<b>East Baltimore Midway</b>	1	\$3,900	\$100,000	\$3,000
<b>Fallstaff</b>	1	\$45,000	\$100,000	\$45,000
<b>Franklin Square</b>	3	\$13,500	\$300,000	\$13,500
<b>Greenmount West</b>	3	\$12,000	\$300,000	\$12,000
<b>Harlem Park</b>	1	\$3,000	\$100,000	\$3,000
<b>Hollins Market</b>	2	\$71,000	\$145,019	\$75,000
<b>Irvington</b>	1	\$15,000	\$115,593	\$15,000
<b>McElderry Park</b>	2	\$6,000	\$200,000	\$6,000
<b>Middle East</b>	5	\$19,400	\$500,000	\$27,600
<b>Milton-Montford</b>	4	\$10,000	\$270,382	\$14,500
<b>Parkview/Woodbrook</b>	2	\$14,000	\$279,868	\$14,200
<b>Penn North</b>	7	\$35,750	\$757,689	\$36,750
<b>Reservoir Hill</b>	28	\$840,700	\$5,431,659	\$1,250,500
<b>Upper Fells Point</b>	1	\$40,000	\$67,320	\$60,000
<b>Upton</b>	4	\$60,000	\$929,742	\$80,000
<b>Washington Village</b>	1	\$24,000	\$100,000	\$30,000
<b>Waverly</b>	1	\$25,000	\$86,230	\$20,000
<b>City-Wide Totals</b>	98	\$1,975,450	\$13,147,379	\$2,619,851
<b>Reservoir Hill</b>	28	\$840,700	\$5,431,659	\$1,250,500
<b>Canton</b>	1	\$450,000	\$293,336	\$550,000
<b>Other Neighborhoods -Totals</b>	69	\$684,750	\$7,422,384	\$819,351

Source: Baltimore Housing, Asset Management and Property Disposition, December 2005.

In Table 1. above, we see that purchasers are paying a premium, on average, of 32.6 percent above the listing prices established by the city. It should also be noted that the data is somewhat skewed by a single transaction, the \$550,000 paid for a former police station located in the city's Canton neighborhood. Table 2 presents this sales data, including one unit pending settlement, by calendar quarter.

**Table 2. Project SCOPE sales through December 2005,  
By Calendar Quarter**

Quarter Ending	No. of Sales	Listing Price Totals	Rehab. Cost Estimates	Sales Price Totals	Ave. Sales Price
June 30, 2004	13	163,000	1,700,000	174,400	13,415
Sept. 30, 2004	18	102,750	1,880,000	115,000	6,389
Dec. 31, 2004	18	298,800	2,360,000	333,101	18,506
March 31, 2005	8	115,000	918,233	171,900	21,488
June 30, 2005	23	485,000	3,516,561	735,450	31,976
Sept. 30, 2005	7	588,000	989,325	661,000	94,429
Dec. 31, 2005	12	287,500	1,946,610	382,500	31,875
<b>Total Sales</b>	<b>99<sup>1</sup></b>	<b>\$2,040,050</b>	<b>\$13,310,729</b>	<b>\$2,573,351</b>	<b>\$25,993</b>

*Source: Baltimore Housing, Asset Management and Property Disposition, December 2005.*

<sup>1</sup> Includes one property under contract, but not having completed settlement by the end of 2005.

## Economic Impacts

In considering the Economic Impacts of Project SCOPE, we should recognize various possible beneficiaries. The most obvious candidates are:

- Baltimore City government, the owner of the vacant properties;
- The private real estate brokerage community; and
- The regional economy as a whole.

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This analysis will look at each of these components. Other beneficiaries include the purchasers of the properties and the impacted neighborhoods. We will regard the purchasers, whether developers or homebuyers, as the beneficiaries of acquiring what is expected to be, in most cases, appreciating assets. (Our economic impact assessment assumes that future property values will exceed the combined purchase price and estimated rehabilitation costs of SCOPE homes; only time will tell if this basic assumption is valid.) The impact on the neighborhoods is beyond the scope of the current study. It may be an appropriate subject for future study, when the number of properties in neighborhoods other than Reservoir Hill has reached a critical mass.

### Direct Impact to City Government:

The initial benefits to Baltimore City are in the form of the net proceeds from the sales of properties in the city's SCOPE inventory.

**Table 3. Net Benefits to Baltimore City**

	ACTUAL		POTENTIAL	
	2004	2005	2006	2007
<b><u>Direct Impact to City Government:</u></b>				
<b>Net Proceeds of Sales</b>	<b>\$346,471</b>	<b>\$1,594,214</b>	<b>\$1,190,000</b>	<b>\$1,190,000</b>
<b>Gross Sales Prices</b>	<b>622,501</b>	<b>1,950,850</b>	<b>1,500,000</b>	<b>1,500,000</b>
<b>Less Brokers Fees</b>	131,480	211,636	165,000	165,000
<b>Less SCOPE Administrative Costs</b>	144,550	145,000	145,000	145,000
City Agencies (est.)	100,000	100,000	100,000	100,000
Boarding and Cleaning Properties @ \$450	22,050	22,500	22,500	22,500
Community Law Center	12,500	12,500	12,500	12,500
Liaison to Real Estate Community*	10,000	10,000	10,000	10,000

Sources: Gross Sales from Project SCOPE records, Baltimore Housing; Urban Information Associates, Inc. estimates, May 2006.

\* Costs paid by BEEF through a grant from the Goldseker Foundation. Annual amount may vary based upon number of transactions involved.

The estimated near-term benefits to the city are shown above in Table 3. The estimated gross sales in future years is based on the 2004-2005 experience, adjusted for the single outlier case in Canton cited earlier.

An average of close to \$1.2-million in net proceeds from the sale of SCOPE properties will be the largest direct benefit to the city in the near term. Some additional revenue comes in the form of permit fees. The exact amounts will vary according to the size<sup>2</sup> and specific renovation requirements of a building, but at a high estimate of \$2,000/unit, this revenue source would yield up to an additional \$100,000 annually.

There may also be some savings to the city in the form of reduced costs in connection with maintaining SCOPE properties. However, city staff only responds to maintenance needs on an episodic basis and no specific costs records are retained.

The longer-term benefits result from the renovation of the properties, their likely enhanced market value and the resulting increased property assessments. To the extent that those occupying the renovated units represent net new city homeowners, there would be additional local revenue in the form of the piggy-back income tax.

In the early years of the program the impacts of the income tax would be small. However, over time the cumulative effect could become significant. We might assume that the new homeowners have net taxable incomes in the range of \$75,000 to \$100,000. Further assuming that one-third of the homeowners represent net new additions to the city and that Program SCOPE can account for a cumulative total of 180 new households by 2010, these tax revenues could, at current local tax rates, amount to between \$137,000 to \$183,000 per year at the end of the decade.

More significant over time would be the contributions of real property taxes as the result of rising real estate values. In order to estimate the real property taxes yielded by Project SCOPE properties over time, we must make some assumptions about the ability of newly renovated houses to participate in the recent rise in real estate values, as well as

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<sup>2</sup> Permits for renovations are based on the rate of \$75/ 1,000 cu. ft. of occupied space – e.g. complete renovation of a unit with 2,000 sq. ft. of floor space and 12 foot ceilings would call for a permit in the amount of \$1800; additional fees would apply to work on mechanical systems.

the future course of prices and property assessments in the local housing market.

While our assumptions could be guided by the experience of recently completed SCOPE properties, there are simply too few that have been completed to represent a significant sample. As a result, we have referred to a number of information sources, including:

- Real Property Assessment Records, for Project SCOPE properties
- Recent Sales Data, for those city blocks in which Project SCOPE houses are found as well as adjoining blocks
- Sales or resale information for Project SCOPE properties
- 2005 Median Sales Values, by City Neighborhood, as reported by Live Baltimore Marketing Center. (See Appendix B.)

These various sources were used to develop a model generating new property values that should apply for the July 1, 2006 – June 30, 2007 real property assessment period. Further details are presented in Appendix C.. We believe that our approach has resulted in a set of conservative, but reasonable estimates of new values, representing from 110 percent to 140 percent of the total investment in the form of SCOPE home purchase price and estimated costs of rehabilitation.

In Table 4. below we present the property tax consequences associated with SCOPE properties sold through 2005, their anticipated renovation and their rising property assessments. The first line presents the tax yield from full assessment of the properties. The second line reflects the application of the Vacant Property Rehabilitation Tax Credit, which provides for a five-year phase-in of the tax due as a result of the new improvements. The credit must be applied for each year. Since not all homeowners apply, the actual tax yield is likely to be within the range shown.

**Table 4. Property Tax Revenues, Projected, 2006 - 2010**  
Project SCOPE Properties Sold Through, 2005

	2006	2007	2008	2009	2010
<b>Property Tax w/o Tax Credit</b>	<b>\$61,500</b>	<b>\$121,500</b>	<b>\$221,000</b>	<b>\$391,000</b>	<b>\$411,500</b>
<b>Property Tax w/ Tax Credit</b>	<b>\$51,000</b>	<b>\$56,500</b>	<b>\$89,000</b>	<b>\$186,000</b>	<b>\$261,000</b>

Source: Urban Information Associates estimates, June 2006



To estimate the total economic impact of real property taxes through the balance of the decade, we have to account for those SCOPE properties that have yet to be sold as well as additions to the SCOPE inventory in the months and years ahead. Given the uncertainties surrounding these future actions, we used the 2004-2005 experience as a guide. We also assumed that the pace of Project SCOPE sales would accelerate somewhat, at the rate of 60 sales per year. The estimated total property tax impacts are shown in Table 4a., reflecting a significant increase as the inventory grows and values rise in the outer years.

**Table 4a. Property Tax Revenues, Projected, 2006 – 2010**

Total Project SCOPE Properties, including anticipated sales.

	2006	2007	2008	2009	2010
<b>Property Tax w/o Tax Credit</b>	<b>\$99,150</b>	<b>\$195,900</b>	<b>\$356,300</b>	<b>\$630,400</b>	<b>\$663,400</b>
<b>Property Tax w/ Tax Credit</b>	<b>\$82,200</b>	<b>\$91,100</b>	<b>\$143,500</b>	<b>\$299,900</b>	<b>\$420,800</b>

Source: Urban Information Associates estimates, August 2006

**Economic Benefits to Real Estate Brokers:**

Brokers fees for those participating in project SCOPE amounted to \$343,600 through 2005. The fees are based upon commissions at 8% or a minimum of \$2,500. Because of the large number of fees at the minimum, the median fee is also \$2,500. Brokers report being satisfied with this level of compensation. They would just like to have more opportunities to show SCOPE homes to prospective homebuyers.

There are, of course, offsetting costs related to selling SCOPE properties. However, the marginal costs of marketing these properties are largely incorporated in existing marketing budgets. Also, the ability to present SCOPE properties to prospective homebuyers serves to augment the pool of prospects for the many other choices available in the Baltimore area housing market.

## **Economic Benefits to Local Economy**

In preparing estimates of economic impacts to the local economy, both those already realized and those projected, we must make a series of assumptions. Most of these assumptions relate to the expenditure made for the physical renovation of the purchased properties.

We have used the estimated rehabilitation costs as the expenditures to be made. As a starting point, we assume that the work will take place over the 18 months after settlement. (To simplify the calculations, we use the end of the calendar quarter following the settlement date.) We further assume the expenditures would be spread evenly over that time period. For 2004 and 2005, we use the actual rehab cost estimates associated with the sold houses. For years after 2005, we make estimates based on the assumption that SCOPE sales will maintain a rate of 50 residences per year and will represent \$7.5-million in annual building renovation and related activity.

The renovation process will result in expenditures for construction labor, materials and supplies, and related services. To the extent that this spending recirculates through the area economy, we can expect additional spending across the various sectors of the economy. This type of regional economic impact analysis can be accounted for through a well-established form of regional economic modeling, using Input-Output analysis. (See Appendix E.)

Because the economic impact of construction activity is a frequent application of Input-Output economics, the National Association of Homebuilders (NAHB) has developed such a model, which can be adapted to local cases.<sup>3</sup> Using the NAHB data as a guide and the assumption of 50 SCOPE sales and renovations commencing each year, we show the ***potential*** annual economic activity generated by Project SCOPE in Table 5. An alternative scenario, which we label as more ***probable***, is presented in a following section.

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<sup>3</sup> National Association of Homebuilders, The Local Impact of Home Building in a Typical Metropolitan Area: Income, Jobs and Taxes Generated, October 2005.

**Table 5. Regional Economic Impacts, Project SCOPE Potential Scenario**

	SCOPE - Average Year		
	Total	Direct	Indirect
Construction of homes	\$11,276,631	\$7,500,000	\$3,776,631
Local Income	\$5,342,210	\$3,531,292	\$1,810,919
Local Business Owners' Income	\$1,562,916	\$1,000,666	\$562,250
Local Wages and Salaries	\$3,779,294	\$2,530,626	\$1,248,668
Local Government Revenue <sup>4</sup>	\$592,210	\$437,417	\$154,794
<b>Local Employment</b>	<b>95</b>	<b>61</b>	<b>33</b>

Source: Urban Information Associates estimates, June 2006, based on National Association of Homebuilders economic model.

### Potential Impacts, 2006 and beyond

Because there is some uncertainty about homebuyers proceeding in an orderly fashion and completing the renovations required in a timely manner, there is value in developing estimates for two scenarios:

- 1) **Potential Economic Impact**, which assumes that buyers adhere to the SCOPE timelines and fully rehabilitate their properties within 18 months after their purchase, and
- 2) **Probable Economic Impact**, which recognizes that developers/homebuyers are not always proceeding in a timely manner. This requires that we make some further assumptions about the likely completion of the rehabs, based upon observed performance.

In order to make some reasonable assumptions, we referred to a careful monitoring of the progress of rehabs of SCOPE properties on the part of the Reservoir Hill Improvement Council (RHIC). The staff of the community organization reviewed the status of 30 SCOPE properties through early April 2006. On the basis of that review, we found the following results:

<sup>4</sup> The figures shown in Table 5. are for a generic jurisdiction. The estimates for tax revenues specific to Baltimore City are presented in the text.

Properties in compliance with SCOPE timelines .....	17
Properties generally in compliance, requiring time extensions ....	4
Properties not in compliance, unlikely to realize timely rehab .....	5
Properties recently settled, too early to rate performance .....	4
<b>TOTAL .....</b>	<b>30</b>

Using this admittedly small sample, we would suggest that the following percentages for expected performance outcomes be applied citywide as we assess the economic impact. These assumptions include the fact that housing market conditions may not be as favorable as those found in Reservoir Hill.

Properties in compliance with SCOPE timelines .....	60 %
Properties generally in compliance, requiring time extensions ....	20 %
Properties not in compliance, not likely for timely rehab .....	20 %

Using these percentages, our analysis proceeds in the following manner:

- Properties in full compliance are fully renovated, a certificate of occupancy has been issued and the improvements have been recognized in a property reassessment as of July 1 in the second year after the SCOPE sale.
- The second category includes properties that are satisfactorily renovated, allowing for time extensions. The reassessed value is recognized as of July 1 in the third year after the SCOPE settlement.
- The third category consists of problem properties. The new owners did not foresee all of the challenges involved in a substantial renovation effort. Or, for a variety of reasons, unrelated to the issues of the individual property or neighborhood, the private developer/ homebuyer is unable to proceed in a timely manner. The property may eventually experience a successful rehabilitation, but the time period to achieve that goes well beyond the Project SCOPE parameters. Under these circumstances, it would not be appropriate to attribute the property's eventual transformation and its economic impact to Project SCOPE.

Under this second, and more probable, scenario, the regional economic impacts would be about 22.6 percent lower than the full potential scenario, with an annual level of activity of \$8.7-million and the equivalent of 73 jobs. These impacts are shown on the following page in Table 6.

**Table 6. Regional Economic Impacts, Project SCOPE  
Probable Scenario**

	SCOPE - Average Year		
	Total	Direct	Indirect
Construction of homes	\$8,720,595	\$5,800,000	\$2,920,595
Local Income	\$4,131,309	\$2,730,866	\$1,400,444
Local Business Owners' Income	\$1,208,655	\$773,848	\$434,807
Local Wages and Salaries	\$2,922,654	\$1,957,017	\$965,637
Local Government Revenue*	\$457,976	\$338,269	\$119,707
<b>Local Employment</b>	<b>73</b>	<b>47</b>	<b>26</b>

Source: Urban Information Associates estimates, June 2006, based on National Association of Homebuilders economic model.

\* See footnote to Table 5.

## **Issues and Concerns regarding Project SCOPE**

In the course of interviewing the various stakeholders involved in Project SCOPE, several issues arose suggesting concerns or aspects of the program in need of fine-tuning.

A key issue is the initial selection of the properties to be included in the SCOPE offerings. From a few field observations, some of the decisions to list SCOPE properties seem questionable. In particular are those properties that stand alone, or as part of a small handful of vacant units, in a given neighborhood.

The challenge becomes heightened when the properties are located in marginal neighborhoods in which recent sales activity suggests that it would be difficult to recoup the estimated renovation costs upon resale in any reasonable period of time. A group of eight units located in the 1900 and 2000 blocks of Hollins Street in the Booth-Boyd neighborhood comes to mind. While permits have been obtained for six of the eight units, little activity is evident based on field observation. (See Appendix D section for record of permit activity.)

Some listed properties have had to be removed from the inventory, based on issues relating to salability. The brokers participating in Project SCOPE have suggested that they can offer insights on questions of salability, relating to both building and neighborhood conditions. The City should use input from the SCOPE brokers' committee and receive feedback on the salability of properties proposed for new listings.

City officials note that Project SCOPE is seen by some as reducing both the time and the number of hands needed to pass through in order for the city to sell a home. These officials caution, however, that because there are always special circumstances that can delay the timeline, SCOPE sales are not in all cases shorter than prior disposition methods.

Screening by Community Law Center is seen as serving its purpose in avoiding unscrupulous buyers, avoid property "flipping" and other potential abuses. Still, issues do arise relative to the capacity of buyers and more may need to be done to screen for a buyer's capability of following through in completing the anticipated renovation process.

A common response from the broker community was that they had expected more listings. In mid-May, 2006, the available inventory of SCOPE homes had dwindled to 20. With about 12 brokers currently active with the program, it is clear SCOPE properties are not a big part of their listings.

At a meeting of the brokers' committee, one real estate agent stated that "rehab costs are way overestimated", but the comments are not uniform in this regard. Others suggested that an independent, licensed contractor be retained by the city to prepare the cost estimates. They also recommended that the 60-day period from the time the contract awarded to settlement be extended, to allow for special circumstances and possible alternative, detailed cost estimates.

Once contracts of sale are submitted, they go through various levels of review until a recommendation of an award is made. The criteria used to make those recommendations are not well-defined. Efforts to make the basis of award more transparent is another of the sentiments voiced.

Others, including one satisfied homebuyer and a concerned community association, cited the following points:

Contrary to some expectations, there seem to be very few first-time homeowners. But, given the challenges inherent in managing a substantial property renovation, the lack of first-time homebuyers may be a positive result. In most cases, Project SCOPE will be more appropriate for an experienced, knowledgeable homeowner.

One homeowner who successfully navigated the SCOPE process and is now living in a completely renovated home suggested that the 18-month timeline for completing the required improvements could be extended, perhaps to 2-3 years. Counter views indicate that a strict timeline, allowing for the possibility of extensions, is more likely to achieve the objectives of Project SCOPE.

## Opportunities to Institutionalize Project SCOPE

The rationale for including homes in the Project SCOPE inventory is not always transparent, but that may be changing. Mention was made of the Housing Typology that has been developed by the city's Department of Planning, with consulting assistance from The Reinvestment Fund, a Philadelphia-based public policy group. (See maps of Baltimore City, by Housing Typology areas, in Appendix F.)

The Housing Typology, according to the city's draft Comprehensive Plan<sup>5</sup>, uses a number of variables to perform a cluster analysis of the city's census block groups to classify the neighborhoods into the following groupings:

- Competitive
- Emerging
- Stable
- Transitional
- Distressed

The Project SCOPE office suggests that its priorities for property selection will focus on those neighborhoods in the Emerging, Stable or Transitional areas. While the current typology does not have corresponding descriptive language for each of these categories, one may infer from an earlier version of the typology the following:

Competitive areas are "healthy, attractive areas with high property values and high-owner-occupancy rates. The housing stock is well maintained and abandonment rates are very low." Consequently, there is very little need for public intervention.

Distressed areas would be characterized by "significant deterioration of housing stock with dense concentrations of abandoned buildings and vacant lots. Traditional market forces are not working in these areas, nor are they likely to be re-established soon."

Project SCOPE would not be needed in Competitive areas and the lack of a functioning private housing market would make SCOPE inappropriate for Distressed areas.

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<sup>5</sup> City of Baltimore, Department of Planning, Comprehensive Plan, May 2006 (draft), [www.liveearnplaylearn.com](http://www.liveearnplaylearn.com)



The Project SCOPE office would now be looking at those areas designated as Emerging, Stable or Transitional as the location of future additions to the inventory of SCOPE properties.

So far, the inventory of homes in Reservoir Hill seems to be the one area where a critical mass of SCOPE sales and completed renovations raises the prospect of contributing to the transformation of the neighborhood.

In subsequent rounds, new listings of homes were made in Marble Hill (summer 2005) and the Hollins Market area in 2006, which may represent the next successful clusters of active reinvestment associated with SCOPE properties.

### **Recommendations**

Target future SCOPE opportunities to city neighborhoods where other investments are already being made or are being planned. Particular priority should be given to those neighborhoods where schools are being renovated or expanded, not contracting or closing.

Consider making the program more user-friendly to the individual homebuyer, as distinct from the prospective developer. This would allow more time for renovations than the 18-month period. While it's true that extensions are possible, the compressed time period may deter some good prospects from participating in the program.

While educational opportunities are made available through such entities as GBBR and Live Baltimore, more information about financing and incentive programs should be made available to participants.

Consider Project SCOPE as part of an array of neighborhood reinvestment programs. For example, it would seem sensible to closely tie Project SCOPE to another Baltimore City neighborhood reinvestment initiative, Healthy Neighborhoods. Local foundations and a group of 10 area banks have put together a \$38-million loan fund. These resources are to be targeted to city neighborhoods that, while not among the most distressed, have lagged in the appreciation of real estate values experienced in other older parts of Baltimore. The funds are available for below-market mortgages and home improvement loans.

This targeting of resources should be accompanied by a complete strategy of neighborhood reinvestment. Prospective homeowners would be exposed to the entire set of risks and benefits they may expect. They would know that neighborhood amenities -- such as, parks and playgrounds, schools, public libraries and other community facilities, revitalized commercial areas, and new landscaping and street lighting -- were all part of the "housing bundle" in which they were making their respective investments of \$200,000 to \$300,000.

## **Summary**

Project SCOPE, approaching its third anniversary in September 2006 is an experiment offering significant promise for Baltimore City and those city neighborhoods that are teetering on the edge of reinvestment or further abandonment and decline.

It is also true that, only a small number of Project SCOPE properties (10 as of late May, 2006) have gone through the entire process successfully from initial listing to the issuance of a certificate of occupancy (CO). To realize even the more conservative level of economic activity presented in the second scenario of regional impacts, the program should now be experiencing COs at the rate of about 10 per quarter.

Before considering an expansion of the program to other parts of the housing stock or to various types of city-owned non-residential property, it may be an appropriate point for the SCOPE Task Force to engage in another round of brainstorming. The aim of such an effort would be to strike the right balance between incentives and sanctions in order to encourage the SCOPE developers/ homebuyers to achieve both their individual objectives and desirable community outcomes.