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VACANT-PROPERTY POLICY AND PRACTICE: BALTIMORE AND PHILADELPHIA

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ABOUT THE AUTHOR

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[1] CEOs for Cities is a national bipartisan alliance of mayors, corporate executives, university presidents and other nonprofit leaders that works to advance the economic competitiveness of cities. CEOs strengthens cross-sector leadership networks, commissions research on best practices in competitiveness, and promotes findings and recommendations to key leaders locally and nationally.

TABLE OF CONTENTS

VACANT-PROPERTY POLICY AND PRACTICE: BALTIMORE AND PHILADELPHIA

I. INTRODUCTION

Deteriorated vacant houses and unimproved vacant lots, by-products of a once robust industrial-age neighborhood economy, represent one of the most important policy challenges confronting municipal governments today. For cities that lost population during the late twentieth century, designing and implementing effective responses to the problem of vacant property looms as a critical economic development issue.

In many cities, vacant real estate is concentrated in neighborhoods that had experienced rapid population growth during the late nineteenth and early twentieth centuries, when city-based manufacturing was a dominant sector of the national economy. Industrial development and expansion during this period generated strong demand for housing in close proximity to factory jobs in urban neighborhoods. Private capital financed the development of housing to address this demand. In Philadelphia, for example, as many as 600 building and loan associations financed more than $50 million in housing investment between 1849 and 1876.[2] The system of ground rent, in which homebuyers rented (rather than purchased) the land under their houses, made homeownership more affordable in many cities and has been cited as a key factor influencing Baltimore's historically high rate of homeownership.[3]

As the economy globalized and diversified during the mid- to late-twentieth century, the manufacturing sector weakened and metropolitan employment dispersed. As jobs associated with neighborhood-based factory complexes declined, many formerly vital neighborhoods steadily lost population, and housing vacancy began to emerge as a persistent and intractable problem.

Vacant property is a complex, relatively new issue for cities that have experienced post-industrial economic disinvestment. Because the neighborhoods where most vacant property lies encompass some of the weakest real estate markets in the metropolitan region, the market return on private investment is not sufficient to make large-scale rehabilitation and new construction activities feasible in most of these neighborhoods. Private capital, the resource that had funded housing development in urban neighborhoods during the industrial-age boom years, is not available in sufficient supply to address the conditions of vacancy and abandonment that exist today. For these reasons, local government has to take the lead in mobilizing available municipal resources and, where possible, leveraging other public, private, and institutional resources to respond to the vacant-property problem. Because there is no dedicated source of public funding to deal with this problem in a comprehensive manner and because other available federal and state funding is limited, city governments need to address this issue strategically and systematically.

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[2] Russell F. Weigley, *Philadelphia: A 300-Year History*. New York: W.W. Norton & Company, 1982, p. 421.
[3] Mary Ellen Hayward and Charles Belfoure, *The Baltimore Rowhouse*. New York: Princeton Architectural Press, 1999, p. 114.

This paper describes how the cities of Baltimore and Philadelphia are responding to this important challenge. Both Baltimore and Philadelphia are classic examples of cities that experienced great economic success during the industrial-age peak years; suffered from a protracted loss of population, businesses, and jobs during the late twentieth century; and did not experience a reversal of the trend of economic disinvestment during the late-1990s period of national economic prosperity. Improvements in both cities' downtowns have attracted more visitors during the past decade and have generated high-end residential development in or near the downtown areas. At the same time, conditions of blight and deterioration in many neighborhoods in both cities have worsened during this period. Both cities elected new mayors in 1999, and both Baltimore Mayor Martin O'Malley and Philadelphia Mayor John F. Street have pledged to substantially improve conditions in residential neighborhoods.

During the next few years, the vacant-property issue will test the political will, policymaking ability, and management capacity of Baltimore and Philadelphia. The new mayors in both cities have committed to change local government policy and programming related to vacant-property acquisition, conveyance, and development. Although existing problems and proposed solutions to vacant-property issues have been clearly articulated in each city, full-scale implementation of major proposed changes has yet to begin. Many of these changes—including fundamental systemic reforms as well as smaller-scale adjustments to existing program and service activities—are currently being considered by other municipal governments that are interested in learning from the experience of these major cities. Through documentation of some of this experience, this paper endeavors to provide further insight into the importance of vacant property as a critical local government issue and to stimulate further dialogue and action in response to this issue.

A paper by Paul C. Brophy and Jennifer S. Vey, "Seizing City Assets: Ten Steps to Urban Land Reform," provides a framework for examining the vacant-property strategies of Baltimore and Philadelphia.[4] Brophy and Vey's paper is the keynote publication for a series of Brookings Institution reports on the significance of vacant property as an economic development issue for cities and metropolitan areas. In their paper, Brophy and Vey identify "ten key action steps that state and local governments can take to promote faster and better redevelopment of vacant and abandoned properties, and ultimately improve the quality of urban neighborhoods."[5] The ten steps are

1. Know Your Territory;
2. Develop a Citywide Approach to Redevelopment;
3. Implement Neighborhood Plans in Partnership with Community Stakeholders;
4. Make Government Effective;
5. Create a Legal Framework for Sound Redevelopment;
6. Create Marketable Opportunities;

[4] Paul C. Brophy and Jennifer S. Vey, *Seizing City Assets: Ten Steps to Urban Land Reform*. Washington, D.C.: The Brookings Institution, 2002.
[5] *Ibid.,* p. 3.

7. Finance Redevelopment;
8. Build on Natural and Historic Assets;
9. Be Sensitive to Gentrification and Relocation Issues; and
10. Organize for Success.

In preparation for this report, discussion panels were held in Baltimore and Philadelphia in order to gain insights about vacant-property issues and comments on the “ten steps” from knowledgeable representatives of government, business, and nonprofit entities. Some of the information and comments provided by participants inform the sections that follow.

As Baltimore and Philadelphia work to address vacant-property issues, it is hoped that this report will guide those in government and elsewhere who seek to improve existing conditions, as well as educate leaders and executives in other cities that have not yet determined how to respond to this issue. The paper will hopefully also draw more public attention to vacant property as a critical challenge for many U.S. cities in general and for local and state governments in particular.

II. VACANT PROPERTY AND SLOW-RECOVERY CITIES

A. Defining Characteristics of Slow-Recovery Cities.

Baltimore and Philadelphia each continue to struggle with economic disinvestment despite the strong economy of the 1990s and despite some economic success in their downtown areas and in a limited number of "hot" neighborhood real estate markets. For example, Baltimore and Philadelphia each rank among the cities that experienced population loss during the past decade, a period in which cities such as New York and San Francisco gained residents (Table 1).

Table 1
Population Change in Selected Cities
Ranked by Percentage Change, 1990-2000

City	1990 Population	2000 Population	Percentage Change 1990 - 2000
St. Louis, MO	396,685	348,189	-12.2%
Baltimore, MD	**736,014**	**651,154**	**-11.5%**
Pittsburgh, PA	369,879	334,563	-9.6%
Detroit, MI	1,027,974	951,270	-7.5%
Washington, DC	606,900	572,059	-5.7%
Cleveland, OH	505,616	478,403	-5.4%
Milwaukee, WI	628,088	596,974	-5.0%
Philadelphia, PA	**1,585,577**	**1,517,550**	**-4.3%**
New Orleans, LA	496,938	484,674	-2.5%
Newark, NJ	275,221	273,546	-0.6%
Columbus, OH	632,910	711,470	2.4%
Boston, MA	574, 283	589,141	2.6%
Chicago, IL	2,783,726	2,896,016	4.0%
San Francisco, CA	723,959	776,733	7.3%
New York, NY	7,322,564	8,008,278	9.4%

Source: Edward L. Glaeser and Jesse M. Shapiro, "City Growth and the 2000 Census: Which Places Grew, and Why." Washington, D.C.: Brookings Institution, 2001.

Although numerous cities with past histories of economic disinvestment registered population increases during the 1990s, these gains in most cases lagged well behind the 8.7 percent median growth rate for U.S. cities during the last decade. Of the fifteen cities listed above, only New York City exceeds this rate.

Baltimore and Philadelphia also struggle with relatively high levels of unemployment, as shown in Table 2.

Table 2
Civilian Labor Force Unemployment in Selected Cities

City	Unemployment Rate, December 2001
Cleveland, Oh	9.9%
Newark, NJ	9.9%
Detroit, MI	9.8%
Baltimore, MD	**7.6%**
St. Louis, MO	7.4%
Chicago, IL	7.3%
New York, NY	7.1%
Milwaukee, WI	6.9%
New Orleans, LA	6.3%
Philadelphia, PA	**5.9%**
San Francisco, CA	5.7%
Washington, D.C.	5.7%
Boston, MA	4.2%
Pittsburgh	3.8%
Columbus	3.7%

Source: Bureau of Labor Statistics.

Of the fifteen cities listed, twelve exceeded the national unemployment rate of 5.4 percent for December 2001.

In Baltimore and Philadelphia, median income also lags metropolitan-area median income, as shown in Table 3.

Table 3
Household Median Income for Selected Cities and Their Metropolitan Areas, 2000
Ranked by City Household Income as a
Percentage of Metropolitan Area Household Income

City	2000 Median Household Income City	2000 Median Household Income Metropolitan Area	City Income as a Percentage of Metropolitan Area Income
Newark, NJ	$26,913	$56,957	47.2%
Detroit, MI	$29,526	$49,175	60.0%
Baltimore, MD	**$30,078**	**$49,938**	**60.2%**
Cleveland, OH	$25,928	$42,089	61.6%
St. Louis, MO*	27,156	$43,768	62.0%
Philadelphia, PA*	**$30,746**	**$47,345**	**64.9%**
Washington, D.C.*	$40,127	$60,731	66.1%
Milwaukee, WI	$32,216	$45,901	70.2%
Boston, MA*	$39,629	$54,340	72.9%
Chicago, IL	$38,625	$51,680	74.7%
Pittsburgh, PA	$28,588	$37,467	76.3%
New Orleans, LA	$27,133	$35,317	76.8%
Columbus, OH	$37,897	$44,782	84.6%
San Francisco, CA	$55,221	$63,297	87.2%
New York, NY*	$38,293	$41,053	93.3%

Source: Census 2000, U.S. Census Bureau
*Estimates of median household income for these metropolitan areas from the Lewis Mumford Center for Comparative Urban and Regional Research, www.albany.edu/mumford

Cities such as Baltimore and Philadelphia differ fundamentally from cities such as San Francisco, which is a higher-median-income urban area located in a relatively well-off metropolitan region. Although some of the cities listed in the above tables are better off in some respects than they were in previous decades, most of them are only partially and only gradually recovering from past decades of economic loss.

For many of these slow-recovery cities, vacant, abandoned buildings and lots are also a defining characteristic. According to current estimates, Baltimore's vacant-property inventory consists of about 14,000 houses and 12,000 lots,[6] while Philadelphia contains 26,000 vacant houses and 31,000 vacant lots.[7] For cities with similar conditions, vacant property is a critically important economic development priority. A specialized policy approach is needed in order to enable these

[6] Baltimore Department of Planning estimate.
[7] These estimates emerged from a citywide vacancy survey completed by the Philadelphia Department of Licenses and Inspections in 2000.

cities to succeed in realizing the potential economic benefits associated with the conversion of vacant property into valued assets during this decade.

B. Impediments to Vacant-Property Acquisition, Development, and Reuse.

In Baltimore, Philadelphia, and cities like them, a variety of factors impede municipal government efforts to systematically address vacant-property issues. These factors include the following:

Limited information resources. Many cities lack an accurate, readily accessible source of information about their vacant-property inventories. A substantial number of cities do not even have an up-to-date list of vacant properties owned by local government entities.

Cumbersome administrative structure. Vacant-property acquisition, maintenance, disposition, financing, and development tasks are managed differently in every city, in most instances by a collection of different agencies with overlapping responsibilities. As a result, prospective investors and developers have difficulty working with local government to pursue opportunities for vacant-property reuse.

Cumbersome legal requirements. Federal and state laws relating to property acquisition and site assemblage impose particular burdens on local government, especially with respect to the identification and notification of vacant-property owners and other parties at interest. Compliance with these requirements is time-consuming and expensive.

Funding gap. Reliable land acquisition costs money—and often, additional expenses need to be incurred in order to attract development that generates substantial economic returns. In the suburbs, some of these expenses (e.g., infrastructure costs) are supported with funding from other sources; in the slow-recovery cities, most or all of these expenses have to be supported by local government.

Low valuation. Newly-developed formerly vacant sites and newly rehabilitated formerly vacant structures located in cities are often appraised at levels substantially lower than the appraised values assigned to comparable properties in locations outside the city. As a result, less private financing can be obtained for redeveloped vacant property in cities, necessitating increased subsidy.

Under-leveraged programs. In order to obtain substantial outside funding from programs such as HOPE VI, slow-recovery cities often have to “cannibalize”—use their own funding in order to fulfill “leveraging” requirements and/or support unfunded or underfunded related expenses. For example, Philadelphia’s Capital Program is the only available source of funding to support infrastructure costs associated with the Schuylkill Falls HOPE VI development venture. As a result, Capital Program funding is not available to support more of the infrastructure costs associated with projects such as the reclamation of the North Delaware Riverfront for market-rate housing and retail development.

Unresponsive federal government. Slow-recovery cities are placed at a disadvantage by federal policies and administrative practices that may be appropriate and/or more workable in other locations. In particular, the process for conveying vacant public housing authority-owned properties and vacant HUD/FHA foreclosure properties to local government or to city-supported entities is unnecessarily time-consuming and cumbersome. In addition, HUD area-office and regional-office staffs in different locations administer programs based on widely varying interpretations of federal regulations. As a result, slow-recovery cities have difficulty obtaining federal authorization needed for some activities and may be unable to replicate "best practices" that have succeeded in other cities where HUD staff have played a supportive role.

C. The Importance of Local Political Commitment.

Unlike some cities, Baltimore and Philadelphia seek to address the issue of vacant property as a major economic development initiative. The mayors of these cities, both of whom took office in 2000, have committed themselves politically to addressing the problem. In early 2002, Baltimore Mayor Martin O'Malley announced Project 5000, an initiative to acquire 5,000 vacant properties within the next two years, either for rehabilitation or for demolition and site assemblage to support new development. Philadelphia Mayor John F. Street has secured the local-government approvals needed to issue $295 million in bonds to support implementation of the Neighborhood Transformation Initiative (NTI), a multi-year policy involving a range of activities, from demolition of dangerous buildings to rehabilitation of vacant rowhouses.

Both mayors hope to remove blight in order to improve the quality of life in their cities' neighborhoods. Mayor O'Malley has stated that "City government has a responsibility to do something about vacant houses…which come right after crime and grime as a source of neighborhood frustration and blight."[8] At the launching of NTI in 2001, Mayor Street said, "This is a defining moment in the life of our city. It is time, here and now, to draw a line in the sand against the spread of blight in our neighborhoods."[9]

Both Mayor O'Malley and Mayor Street also recognize the potential value of vacant property as a tool for promoting economic development and attracting private investment. As Mayor O'Malley has said, "Everybody is anxious to build a new Baltimore, but you can't do that if you don't have title for the land on which you need to build."[10] *A Strategy for Investment and Growth*, published in conjunction with the announcement of NTI, states that,

> The mayor is setting forth a bold agenda to enhance Philadelphia's position as an economically competitive city supported by thriving neighborhoods…Neighborhood

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[8] Mayor Martin O'Malley, "A New Neighborhood Strategy for Baltimore," November 30, 2000.
[9] Mayor John F. Street, "Building a 21st Century Philadelphia," Weekly Radio Address #8, April 21, 2001.
[10] Mayor Martin O'Malley, quoted in *The Baltimore Sun,* January 27, 2002.

> Transformation...represents the first in a series of comprehensive neighborhood growth strategies…to recast Philadelphia as a city of vibrant and competitive neighborhoods.[11]

These mayoral commitments establish the political foundation necessary for successful vacant-property reform. If these commitments are followed by systemic changes and operational improvements within municipal government, then many Baltimore and Philadelphia neighborhoods will improve their potential to achieve economic stability and possibly garner growth by the end of this decade. For slow-recovery cities, stabilizing and strengthening the neighborhood economy is the logical next step following the substantial improvement of the downtown economy that took place during the 1990s.

Starting in 2002, the first results of these mayoral initiatives will begin to make themselves apparent, providing other cities with new knowledge and valuable insights about vacant-property policy and practice. Both Baltimore and Philadelphia have set ambitious goals for vacant-property redevelopment during the coming years. At this early stage in the implementation process, it is not possible to determine with certainty the extent to which each city will be able to achieve these goals. Because there is no precedent for either Baltimore's Project 5000 or Philadelphia's Neighborhood Transformation Initiative, no established benchmarks or performance standards can be used to evaluate these mayoral initiatives. Nevertheless, although tangible results will not be immediately evident, the commitment that these political leaders have made to address vacant property is an important first step that mayors in other municipalities need to consider making on behalf of their own cities during the coming years.

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[11] City of Philadelphia, *A Strategy for Investment and Growth,* Executive Summary, April 18, 2001.

III. BALTIMORE, PHILADELPHIA, AND THE TEN STEPS

A preliminary survey of the experience of Baltimore and Philadelphia in addressing vacant-property issues can be provided by using "Ten Steps to Urban Land Reform" as a framework. Each of the ten priorities underscored in the paper has special relevance to the two struggling cities.

Step #1: Know Your Territory

As a starting point in urban land reform, municipal governments need to have ready access to basic information about the location and characteristics of vacant structures and lots within city boundaries. A wealth of address-specific information is available in both Baltimore and Philadelphia about existing characteristics of vacant buildings and lots and about city agency activities associated with these properties, from code enforcement to eminent domain acquisition. However, in both cities, as elsewhere, the transition to computerization and integration of real estate records has varied from department to department. Not all public agencies with vacant-property-related responsibilities in Baltimore and Philadelphia are fully computerized; some still remain dependent on paper records. Both cities are also beginning to aggregate real estate data into consolidated, address-specific data bases that can provide users with detailed information about a particular property on a single screen.

<u>City Policy and Strategies</u>

Philadelphia

Neighborhood Information System. Philadelphia's Neighborhood Information System (NIS) provides Internet access to municipal real estate records linked to Geographic Information Systems (GIS) software.[12] NIS, established in 1999-2000 by a University of Pennsylvania team led by Dennis Culhane and housed at Penn's Cartographic Modeling Laboratory (CML), is a warehouse of address-specific information obtained from city agencies and city utilities, made possible through a downloading of data records. At present, the downloading of information occurs on a biennial basis; plans to download on a quarterly basis are expected to be implemented this year.

Information accessible through NIS includes size of property, owner's name, date of purchase, purchase price, tax delinquency status, gas and water account status, city code violations, if any, and other data. In order to gain access to this information, an authorized user types in a specific address or selects a property by "pointing and clicking" the property location as displayed on a parcel-base GIS map. Tract-level census data is also stored in NIS, enabling a user to view simultaneously the individual "profile" of a particular property (through access to real estate records) as well as the characteristics of the census tract in which the property is located.

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12 The web address for the Neighborhood Information System is www.cml.upenn.edu/nis. Authorization is required in order to obtain access to property-specific data.

The NIS consists of three components: ParcelBase, the address-specific, GIS-linked data warehouse of consolidated real estate records, accessible to authorized users via a password-protected website; NeighborhoodBase, a system for aggregating, displaying, and mapping city and census data on housing conditions; and the Housing and Vacancy Reporter, an online storehouse of maps, reports, and data on vacant property and neighborhood revitalization issues.[13]

The development of the NIS involved extensive communication between the University of Pennsylvania and the city, including the obtainment of individual departmental authorizations for downloading data managed by each municipal agency, followed by city Law Department review of confidentiality policies to be established in connection with the operation of NIS by an academic institution.

Access to property-specific data on the NIS is currently being made available to 43 city agencies as well as to City Council members. To date, more than 100 non-governmental organizations, most of them community development corporations (CDCs) and nonprofit organizations engaged in neighborhood planning and/or real estate development, have also obtained NIS access.

Other cities that have engaged in university-city collaborations involving the management of municipal real estate records have found that an academic institution can play a valuable role in educating and training city personnel in the use of public data. CML has maintained a long-standing relationship with the Philadelphia Association of Community Development Corporations ({PACDC), the local CDC trade association through which CML staff has helped CDCs complete neighborhood property surveys, the results of which are integrated into the NIS.

NIS access is particularly valuable in neighborhood planning for activities such as housing rehabilitation. Using ParcelBase, a city development agency staff person or a CDC employee can open the records for each individual property on a particular block being considered for development and readily obtain information that will influence decisions about the nature and extent of development activities to be proposed for the block. Prior to NIS, record checking of this kind would have involved phone calls and visits to multiple city agencies over a period of days or weeks.

The development of the NIS and similar data resources is never "finished," in the sense that new opportunities to broaden the data base or develop related applications are always emerging. However, as described in Brophy and Vey's paper, cities such as Philadelphia, Milwaukee, and Los Angeles have advanced farthest in addressing this step to date.[14]

Mayor Street's Neighborhood Transformation Initiative budget includes an allocation of $5 million for the development and improvement of Management Information Systems resources, most of which have a relationship to vacant property in Philadelphia. The Vacant Property Management

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[13] Summary information obtained from Culhane, Dennis and Wernecke, "Concept Paper: The Neighborhood Information System and the Neighborhood Transformation Initiative," August 1, 2001.
[14] Brophy and Vey, p. 5.

Information System (VPMIS), which will track property acquisition, site assemblage, and disposition, will be supported by two related products: a Seamless Digital Parcel Basemap for the city, an up-to-date, parcel-specific digitized map; and a Unified Land Records Data System that contains address-specific municipal property records in a consolidated location. Additional MIS activities include the development of tracking systems to monitor the progress of NTI-related programs and computerized processing of requests for NTI-related services.[15] The city is also developing policy standards governing public access to computerized municipal records.

Baltimore

Computerization of real estate records. The City of Baltimore has consolidated municipal agency real estate records to create a data warehouse similar to NIS, and linking of this data to GIS is anticipated this year. At present, this consolidated data is not Internet-accessible and is not yet available to users outside city government. Baltimore's data warehouse will include information on certain city activities associated with a particular property such as city acquisition, code enforcement actions, expenditure of funds for demolition, rehabilitation, and/or lead paint treatment.

The experience of most cities that have pursued data consolidation, data base management, GIS linkages, and Internet access in the vein of the "Know Your Territory" principle is that political and administrative issues, rather than technical problems, are the biggest potential barriers to success. In most major cities, essential real estate records are already computerized. Achieving the commitment to interdepartmental coordination and collaboration necessary to download, consolidate, and make these records available is the more significant challenge. Because there is no precedent for interdepartmental sharing and release of computerized data, public agency staff concerns about confidentiality, legal exposure, and political fallout can stall a collaboration/coordination process indefinitely. For this reason, it is critically important that the mayor, or a senior person clearly linked to the mayor's authority, play a key role in overseeing the downloading and consolidation process leading to the creation of an integrated data system. Following this initial supervision and the establishment of the consolidated system, ongoing coordination and maintenance can become a routine, middle-management function.

<u>Implementation Challenges</u>

"Knowing Your Territory" more fully through computerization and broadened access to municipal data can provide substantial benefit to city agency managers, real estate developers and consumers, as well as significant economic benefit to the city as a whole. The associated implementation challenges facing both cities are

- To complete the transition from paper record-keeping to computerization
- To make computerized information more accessible to authorized users within and outside the public sector, and

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[15] City of Philadelphia, *NTI FY 03 Program Statement and Budget*, pp. 34-36.

- To develop more “transparent,” reliable public agency processes relating to vacant property so that interested parties can obtain access to information about the current status of a particular municipal action (the city’s commitment to demolish a dangerous vacant building, for example) that will provide a reasonable degree of certainty about how and when the action will be completed

Specific information resources that need to be developed or improved in the short term include an up to date, citywide digital parcel base map, a consolidated data base of real estate records, and a computerized monitoring/tracking system to readily determine the status of properties being processed for city acquisition or investment.

Step #2: Develop a Citywide Approach to Redevelopment

Because urban blight is widespread and because conditions in one neighborhood influence conditions in others, neighborhood revitalization policy has to be both citywide as well as market-specific. No neighborhood can be excluded or designated for “benign neglect” through government inaction. Appropriate intervention strategies must be designed to address vacant-property redevelopment opportunities as they exist in every real estate market within the city.

As the foundation for redevelopment strategies based on a citywide approach, Baltimore and Philadelphia have been pursuing an approach to neighborhood revitalization that differs significantly from local-government revitalization policies of the 1990s in several respects. The new approach adopted by these cities is

- *Citywide*, taking into account the public investment issues associated with every neighborhood in the city, rather than limited to specified geographic zones such as certified redevelopment areas or CDC service areas
- *Market-driven*, based on an assessment of housing market characteristics rather than on social needs or political demands
- *Data-linked*, drawing on census data, municipal records, and real estate market data to characterize neighborhood conditions and identify appropriate government action

City Policy and Strategies

Baltimore

Neighborhood Typology. Baltimore’s approach, known as the Neighborhood Typology or Housing Market Typology, originated with PlanBaltimore, an initiative launched in 1997 by then-Mayor Kurt L. Schmoke to create a new comprehensive plan for the city. PlanBaltimore began with a series of neighborhood meetings, conducted by the city’s Department of Planning, in which “Baltimore residents shared their hopes and dreams for our City’s future.”[16] Following these

[16] Department of Planning, City of Baltimore, *PlanBaltimore!* April, 1999, p.1.

meetings, “vision statements” were drafted for key areas of priority. For example, the vision statement for “Strengthening Our Housing and Neighborhoods” includes “civic pride, cultural awareness, and community identity…strong and active neighborhood organizations…and quality housing options for people of different incomes and needs.”[17] A draft plan was published in 1999.

During this period, Department of Planning staff responsible for the Housing and Neighborhoods element of PlanBaltimore decided that attention needed to be devoted to a more systematic organization of housing market data as the basis for establishing specific strategies for Baltimore neighborhoods (neighborhood data had not been used in the preparation of the draft plan). To address this need, Planning Department staff members designed what was initially known as the Neighborhood Typology, but is currently regarded as a housing market typology. Although the Neighborhood Typology was not put to use as a guide for planning and public investment decisions during the remainder of the Schmoke administration, Mayor O’Malley has supported its further development and use.

The Neighborhood Typology is based on aggregated housing and neighborhood data for the 271 neighborhood areas recognized by the City of Baltimore for planning and programming purposes. Because census tract boundaries do not coincide with neighborhood boundaries, the department has conflated census data in order to generate neighborhood-level census data. Using census and city data on owner-occupancy, assessed value, and vacant single-family housing, four neighborhood types were created.

- *Preservation* neighborhoods, of which Mount Washington and Mayfield are cited as examples, have high property values, high owner-occupancy, and a well-maintained housing stock. The real estate market in these places is the strongest in the city, and no housing-related public intervention is required. Parks and infrastructure are the recommended focus of public funding in these neighborhoods.

- *Stabilization* neighborhoods, such as Greater Lauraville and Ashburton, are located in the city’s outer ring and have high-owner-occupancy and low-vacancy characteristics similar to preservation neighborhoods (although owner-occupancy is not as high and vacancy is not as low as in the preservation neighborhoods). Scattered evidence of deterioration, in the form of vacant housing or deteriorated, poorly maintained occupied housing can be found. This blight, though not extensive, is cited as a reason for lower real estate values in these areas. Limited public intervention is needed in order to upgrade housing and address conditions of vacancy where they exist..

- *Reinvestment* neighborhoods, such as Rosemont and Govans, exhibit average rates of owner-occupancy, moderate real estate values, and substantial housing vacancy. Targeted intervention is needed, with an emphasis on rehabilitating vacant housing and repairing deteriorated occupied housing.

[17] *Ibid.,* p. 8.

- *Redevelopment* neighborhoods languish: They have significantly deteriorated housing stock, with dense concentrations of vacancy. The real estate market in these neighborhoods is the weakest in the city and is not expected to stabilize and recover in the short term. Accordingly, recommended public action includes vacant-property acquisition and the demolition of "surplus" vacant housing, followed by the development of cleared land for new uses, including recreation, as well as retail and other job-generating uses. Other public action includes conventional and scattered-site public housing rehabilitation and the development of CDBG/HOME-financed affordable housing.

Philadelphia

TRF Market Cluster Analysis. In April 2001, a group of Baltimore city agency staff attended the roll-out of Philadelphia Mayor Street's NTI. One of the most important events of the day was a presentation of planning work completed for the city by The Reinvestment Fund (TRF), a development finance corporation that provides funding for a variety of development and service activities and conducts policy research on related issues.[18] Based on census tract-level analysis of government and market data, TRF identified six real estate market clusters that in some ways resemble Baltimore's Neighborhood Typology.

- *Regional Choice* markets, in the downtown area and a few other locations, rank among the strongest markets in the metropolitan area. These locations flourish with high housing values, older housing stock in good condition, a mix of residential and commercial uses, a mix of owner-occupied and rental residency, and the highest resident credit scores in the city.

- *High Value/Appreciating* markets, located in various areas of the city, also have high housing values and older housing, as well as strong appreciation, market stability, and generally high credit scores. Homeownership is somewhat higher and commercial uses are somewhat lower than in the Regional Choice markets.

- *Steady* markets, many of which are located in lower Northeast Philadelphia and some portions of South and West Philadelphia, have high owner-occupancy, relatively few commercial uses, and a substantial amount of housing stock produced after World War II. Although housing values exceed the citywide median and resident credit scores are generally good, price appreciation was not strong during the 1990s.

- *Transitional* markets have higher than average housing values and post-1950 housing stock, but have experienced little appreciation during the 1990s. Deteriorated occupied housing, vacant housing, and vacant lots can be found in these locations. Owner occupancy is high

[18] This presentation may be viewed at www.phila.gov in "Neighborhood Transformation Initiative/Multimedia."

and commercial uses are few. Credit scores indicate greater risk than in the other three above markets; as a result, resident access to traditional sources of credit is more limited.

Since the time of the 2001 presentation, TRF has completed a more comprehensive analysis of transitional markets based on census block-level data. This analysis distinguishes between submarkets that indicate an upward trend, submarkets that indicate a downward trend, and submarkets in which no clear pattern of activity can be distinguished.

- *Distressed* markets have lower than median housing values, older and more deteriorated housing stock, and a large proportion of elderly residents. Although some price appreciation occurred during the 1990s, housing values remained below the citywide median in light of the fact that "baseline" housing values are significantly lower than median (the TRF presentation cites as an example the appreciation of a property from $39,800 in 1990 to $46,200 in 1999). A significant number of vacant houses, some in dangerous condition, exists in these locations, and the results of past years of demolition are evident. Low resident income and poor resident credit histories restrict access to financing from mainstream sources.

- *Reclamation* markets have the lowest housing values and the oldest housing in the city, as well as high housing vacancy and many deteriorated occupied houses. Owner-occupancy is high, and commercial uses are few. Section 8 tenancy is high, and resident credit scores in these census tracts are the lowest in the city. Although price appreciation occurred in some of these locations during the past decade, current values are well below the citywide median (the appreciation of a property from $15,900 to $20,700 between 1990 and 1999 is cited as an example).[19]

Citywide maps have been generated to show how TRF's approach applies to every neighborhood market in the city. TRF also has the ability to generate computerized overlay maps that display neighborhood market areas as well as other digitized and mapped variables, from housing foreclosures to birth rate data.

This analysis is to serve as a context for the city's application of six principles "to guide the allocation of federal, state, and local resources that are available for investment in neighborhoods."[20] The six principles are to

1. Use planning as an investment tool;
2. Balance affordable and market rate housing;
3. Invest to stimulate market activity;
4. Foster competition to get the best product;
5. Maximize private capital and minimize public dollars; and

[19] City of Philadelphia, "Program Framework: Exhibit A to the Service Agreement," January 2002, pp. 6- 7.
[20] *Ibid*., p. 5.

6. Link housing with other public and private investments.[21]

The Baltimore and Philadelphia neighborhood-typology approaches differ with respect to the number of market types delineated, the nature of the data used in the cluster analysis from which the markets were derived, and the number of variables used in this analysis. Baltimore's analysis, for example, includes unoccupied blocks, locations not included in the initial Philadelphia presentation. Philadelphia's analysis, meanwhile, includes resident credit scores as a variable, a factor not included in Baltimore's approach. Notwithstanding these differences, though, both cities' methodology and analytical framework are comparable with respect to their strong citywide, market-driven, data-linked orientation. Representatives of both cities have benefited from having had the opportunity to compare approaches and exchange information about lessons learned from their respective neighborhood market analyses.

Implementation Challenges

One of the biggest challenges facing both Baltimore and Philadelphia is employing the new analytical framework consistently to guide the politically-charged process for allocating public funds to support neighborhood revitalization activities. The coming months will be a significant test of the ability of municipal government to complete a transition from a fund-allocation process influenced by neighborhood "hopes and dreams" (to use the language contained in a 1999 summary of the status of PlanBaltimore[22]) to an approach primarily oriented to specific market conditions and opportunities.

Another major challenge is designing and implementing appropriate intervention strategies for every market in each city. The approaches of both Baltimore and Philadelphia recognize that, because urban blight is widespread and because conditions in one neighborhood influence conditions in others, neighborhood revitalization policy has to be both citywide and market-specific.

Step #3: Implement Neighborhood Plans in Partnership with Community Stakeholders

Government leaders and managers in both Baltimore and Philadelphia have recognized that success in converting vacant property into economic assets requires engagement in a planning process through which local government and community interests together determine the best use of public resources available for investment. Although local-government investment must be based on a citywide policy, related investment strategies must be established through a collaborative planning process involving neighborhood residents, organizations, businesses, and institutions.

Both Baltimore and Philadelphia have supported neighborhood planning in various forms during past years, but neither city (like most other cities) has fully implemented a consistent neighborhood planning approach that can be used systematically in neighborhoods across the city. In part due to recognition of the value of such an approach in guiding vacant-property-related

[21] *Ibid*., p. 5.
[22] Department of Planning, City of Baltimore, *Draft PlanBaltimore Executive Summary*, April 1999, p. 1.

investment decisions, each city has now designed such an approach and is pursuing implementation.

City Policy and Strategies

Philadelphia

New Neighborhood Planning Approaches. During the Rendell administration, from 1992 to 1999, the city created strategic plans to guide public investment in more than a dozen areas of Philadelphia. Although many of these plans produced positive results, they were not linked to a comprehensive citywide policy framework. As Maxine Griffith, secretary of strategic planning and executive director of the city Planning Commission in the Street administration, stated in testimony before the City Council in December 2001, "In many neighborhoods, success in creating and implementing a community plan has been uncertain and uneven" and "in some communities where no strong community development organization is present, neighborhood planning simply did not exist."[23]

In view of this, the neighborhood planning process to be implemented in Philadelphia as a key element of the Neighborhood Transformation Initiative is intended to be

- Open and inclusive, with a high degree of participation by residents, elected officials and community organizations
- Understandable and transparent
- Uniform and predictable from one neighborhood to the next
- Developed within the context of neighborhood, district, and citywide visions

In Philadelphia's approach, Planning Commission staff will review existing neighborhood plans with reference to NTI policies. In a neighborhood where no plan exists or where an existing plan requires updating and/or revision, a multi-agency team chaired by Planning Commission staff will oversee the development of the plan. Following plan completion, leadership of the team will pass to the appropriate operating agency (i.e., the city department with primary implementation responsibilities), with a Planning Commission staffer remaining as a team member.

Among the key elements of the planning process are a review of NTI goals and objectives; a review of NTI investment strategy for the area; an evaluation of available resources; review and discussion of options and alternatives, resulting in the creation of a Community Plan; and the development of an implementation strategy, identifying critical activities and assigning implementation responsibilities. Citizen participation will be supported through outreach activities, continuous information sharing, education and training as needed to promote informed participation, and efforts to resolve differences and achieve compromise wherever possible.[24]

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[23] Maxine Griffith, Testimony to Philadelphia City Council on the Neighborhood Transformation Initiative, December 11, 2001.
[24] Griffith, *Testimony*.

As of mid-2002, the City Planning Commission had identified 29 neighborhood areas as candidates for planning activities during the first year of NTI implementation and had convened an interagency team to coordinate related activities.

Baltimore

Action Plans. According to Baltimore Department of Planning staff, the city's current neighborhood planning approach, developed in 2001-02 for review and approval by Mayor O'Malley, adheres to a principle of "building from strength." This approach emphasizes city and community collaboration in the creation of Action Plans for selected neighborhoods. The proposed Action Plan process includes the following steps:

- *Collection and analysis of data on existing neighborhood conditions.* The data-driven housing market typology described above provides a context for the planning process.

- *Identification of appropriate strategies and activities.* Different strategies and activities are appropriate for different types of neighborhoods. Neighborhood residents are provided with information about the activities associated with their neighborhood type in order to ensure that expectations will be realistic.

- *Convening of a workshop attended by community members and city agency staff*. At this initial workshop, neighborhood assets, strengths, and opportunities are discussed and specific improvement strategies are proposed. The participation of all city agencies with a presence in the neighborhood ensures that discussion of proposed strategies will be subject to a "reality check" from a city staff person who is knowledgeable about the amount and availability of local-government resources needed to support strategies being discussed.

- *Convening of a follow-up workshop to fine-tune and finalize recommended strategies.* A specific product of this second and final workshop is a draft Action Plan and a matrix prepared by Department of Planning staff. The plan documents the data, assets, strengths, and opportunities discussed at the first workshop. The plan also contains a description of goals, strategies, accomplishments, and proposed future actions and their relationship to each goal of the plan.

- *Presentation to Neighborhood Cabinet. F*ollowing the second workshop, the draft Action Plan is presented to the Neighborhood Cabinet, one of several executive cabinet groups formed by Mayor O'Malley in 2001. At a meeting of the Neighborhood Cabinet, which includes department heads and appropriate staff from a variety of agencies, from Planning and Housing/Community Development to Schools and Transportation, agency heads make specific commitments to implement portions of the plan or explain why they are unable to do so. Because agency representatives have been working with neighborhood interests during plan development, all are familiar with the plan prior to the Neighborhood Cabinet meeting.

- *Presentation to Planning Commission.* The Planning Commission uses the plan as a reference in connection with preparation of the city's capital budget or in connection with the Commission's review of specific development plans.

Neighborhood planning has already been completed by the city in six communities or neighborhood-based organization service areas: Operation Reachout Southwest; Charles Village; Washington Village/Pigtown Neighborhood Planning Council; Druid Heights; Midtown/Mount Vernon Cultural District; and Cherry Hill 2000. The extent to which this approach is to be used more broadly is likely to be determined by the O'Malley administration during 2002.

East Baltimore Revitalization Plan. In addition, a major redevelopment planning initiative, based on the principles of building on the strengths of the neighborhood real estate market and directing public investment to locations where economic opportunities and potential benefits are greatest, is well under way in East Baltimore. The East Baltimore plan was created as the result of a feasibility study and an extensive review process involving city and community representatives that predates, but is consistent with, the neighborhood planning approach described above. The plan calls for large-scale redevelopment activities within a 50-acre area bounded by Broadway, Chester Street, Madison Street, and the Amtrak line. Plan elements include the following:

- Property acquisition, with limited relocation as needed to complete site assemblage

- Demolition of hundreds of vacant houses

- Development of a biotechnology park adjacent to the Johns Hopkins University medical complex, including an estimated one million square feet of office and laboratory space and the creation of 1,000 jobs

- Development of market-rate and subsidized housing through new construction on vacant land for a single-family sales market projected at $115,000 and a rental market projected at $450 to $1,450[25]

This plan was a significant departure from the late-1990s planning approach for this area that had been undertaken by the Historic East Baltimore Community Action Coalition (HEBCAC) with city support (accompanied by federal Homeownership Zone designation, with an associated award of HUD funding), emphasizing affordable housing development through vacant house rehabilitation on targeted blocks as the primary focus of investment activity.[26]

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[25] Eric Siegel, "City boosts tech park: Plan for biotechnology focuses on east side near Hopkins Hospital," *The Baltimore Sun,* May 22, 2001.
[26] James R. Cohen, "Abandoned Housing: Exploring Lessons from Baltimore" in *Housing Policy Debate,* Vol. 12, Issue 3, pp. 427-428.

***Healthy Neighborhoods Initiative*.** A new resource to support the implementation of neighborhood plans in concert with stakeholders was created in 2000, with the launching of the Healthy Neighborhoods Initiative, a partnership that includes the city and a group of foundations and lending institutions. The six communities initially selected to participate in the initiative (Belair-Edison, Garwyn Oaks, Midtown, Patterson Park, Reservoir Hill, and Southern Mondawmin) each are receiving access to three-percent rehabilitation loans for "visible" home improvements; below-market mortgages for homebuyers; the opportunity to apply for grants to support self-help and community pride projects; and operating support. Participating foundations provide funding for operating support, technical assistance, Initiative staffing (through the Baltimore Community Foundation), project costs, and lending capital. Participating lenders provide funding for below-market mortgages and purchase capital. Funding from the State of Maryland and HUD is supporting the three-percent loan program.[27]

Implementation Challenges

To implement neighborhood plans, both Baltimore and Philadelphia must put into action the neighborhood planning process that has been outlined in these cities during 2001 and early 2002. Both cities face two major challenges associated with this process: securing the ongoing participation and commitment of other city agencies that will need to play key implementation roles once the plan has been developed; and determining how best to plan for neighborhood revitalization on a citywide basis without the benefit of increased funding support from the state and federal governments. The action plan activities already completed in six areas in Baltimore, described above, represent an excellent initial response to the first challenge. Addressing the second challenge will require more state and federal government collaboration with municipal governments to execute some of the policies and strategies described in the sections that follow.

Step #4: Make Government Effective

Policy statements by the new mayors of Baltimore and Philadelphia each assume urban land reform depends crucially on reliable local government management of vacant-property-related program and service activities. Both cities therefore plan both fundamental systems changes as well as smaller-scale but equally important adjustments in process

Local government cannot effectively address vacant-property issues without departmental leadership and oversight, capable professional staff, and effective interdepartmental coordination of operational responsibilities. City government leaders in both Baltimore and Philadelphia have acknowledged the need for streamlining administration of vacant-property processing and programming and for more effective staff organization and capacity building. Each of these needs is currently being addressed through strategies that reflect local priorities in the two cities.

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[27] Baltimore Community Foundation, communication with author. A November 2001 report on the Healthy Neighborhoods Initiative, "Great Neighborhoods, Great City" by David Boehlke, may be found at www.goldsekerfoundation.org .

City Policy and Strategies

Baltimore

CitiStat. Municipal agency performance factors associated with the city's role in addressing vacant and deteriorated property conditions are among many variables measured through Baltimore's CitiStat program. Launched by Mayor O'Malley in June 2000, CitiStat is an innovative tool for monitoring city service delivery, improving performance, and increasing accountability. Modeled on the ComStat program first developed in New York City, CitiStat combines collection and mapping of data with weekly reporting and deployment of resources to respond quickly and efficiently to emerging or ongoing problems.[28]

The CitiStat process involves a departmental compilation of performance data on a biweekly basis for submission to the city's CitiStat staff. This information is then analyzed and made part of a regular biweekly meeting including the mayor, deputy mayors, and key cabinet members. Prior to the meeting, data is field-checked and compared with prior reporting-period performance data. Related issues and problems are identified, documented in a briefing book circulated to the mayor and his staff, and mapped. "Stat" processes have been created not only for city services such as trash collection but also for intergovernmental activities including coordination of public housing and the planning of economic development and capital expenditures. Most notably, the city's Department of Housing and Community Development employs CitiStat to evaluate performance with respect to activities such as cleaning and boarding of vacant buildings, housing inspector productivity, property acquisition, and demolition.

CitiStat is based on four tenets:

- Accurate and timely intelligence
- Effective tactics and strategy
- Rapid deployment of resources
- Relentless follow-up and assessment

In Fiscal 2001, CitiStat was reported to have provided Baltimore with an estimated $13.2 million in benefits, in the form of reduced absenteeism and accident time, increased revenue, reduced operational costs, reduced overtime, and termination of costly and inconsistent initiatives.[29]

[28] The summary that follows draws on information available on the City of Baltimore's web site at www.baltimorecity.gov/news/citistat/index.html.
[29] "CitiStat: FY2001 Estimate of Financial Impact" at www.baltimorecity.gov/news/citistat/fiscal.html.

Staffing and Capacity-Building. Making government more effective in addressing vacant-property issues usually requires resolving two related problems: the fragmented division of responsibility for vacant-property acquisition, maintenance, disposition, and development among a number of public and quasi-public agencies; and the large number of steps involved in municipal government processes associated with vacant property. One participant in the Baltimore panel discussion session convened in connection with this project pointed out that city management of vacant-property issues is a form of asset management and that the most efficient way to manage assets is through a single source rather than through multiple agencies. A number of participants in both panels also made the observation that vacant-property acquisition and disposition is administered differently in every city, in terms of agency structure and operational process; there is no consistency from city to city with respect to vacant-property administration.

To make government more effective in administering vacant-property-related programs and services, Baltimore has focused on increasing professional staffing and building staff capacity, as well as on reducing the time and cost factors associated with property acquisition and disposition. Some of Baltimore's goals for increasing government effectiveness can be found in recommendations of the Greater Baltimore Committee and Presidents' Roundtable that were accepted by the O'Malley administration. Recommended actions include:

- Hiring more staff to reduce a 400-unit backlog of properties in the acquisition pipeline and to eliminate the recurrence of backlogs in this process

- Assigning one staff person the responsibility of identifying vacant properties in middle-class neighborhoods and assessing the need or opportunity for proactive city response

- Setting annual acquisition and disposition goals, linked to demand for vacant properties

- Reducing processing time for property disposition to not more than six months by reducing multiple public agency/City Council approvals currently required prior to property conveyance[30]

An interdepartmental Property Disposition Task Force has been working on two key issues: shortening the time required to complete the disposition of a city property; and reviewing the approximately 2,000 city-owned properties in Baltimore to determine their potential for sale. With respect to the first issue, the Task Force is working to shorten the time required for disposition of city properties that do not involve city review of development proposals from 18 to 22 months (the 2001 level of performance) to a projected 4½ to 7 months.

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[30] See "Managing for Success: Report by the Greater Baltimore Committee and Presidents' Roundtable," at www.baltimorecity.gov/news/gbcpr/housing.html.

Philadelphia

Philadelphia Housing Reorganization. Philadelphia, like Baltimore, has focused on both organizational and operational issues. Mayor Street's NTI policy calls for reorganizing city housing agencies to consolidate responsibilities and increase efficiency. The policy center of NTI housing activity will be a new Office of Housing and Neighborhood Preservation, headed by a secretary of housing who will report to the mayor. The secretary of housing will authorize policy for two agencies:

- The Redevelopment Authority (RDA), which will continue its role as the city's housing finance agency and real estate transactions agency

- The Philadelphia Housing Authority (PHA), which will continue to operate public housing in Philadelphia

The Office of Housing and Community Development (OHCD), which had served as the policy and planning agency for Philadelphia's CDBG/HOME program, is proposed to be eliminated, as is the Philadelphia Housing Development Corporation (PHDC), a quasi-public agency that administers CDBG-funded home repair programs and has served as a real estate developer for some CDBG-financed housing ventures.

Agency Process. Process changes are equally important in Philadelphia. As an initial step toward improvement of the acquisition/disposition process, the Redevelopment Authority engaged a consultant to describe every step in this process, identify every associated public agency responsibility, and identify any related documentation. The consultant's report, which is undergoing internal review, provides graphic illustrations of how lengthy and cumbersome this process is. For example, an 18-page flow chart is required in order to show every step in the Act 94 "spot condemnation" approach for eminent domain acquisition; one representative page illustrates 13 steps in this process. (Example of one step: Research tax status in order to determine whether the property is two years or more in tax arrearages. Though completed by RDA staff, this depends on accurate and accessible information from the Revenue Department).[31]

Leaving multiple agencies responsible for vacant-property issues makes coordinated and timely action difficult, particularly when service-delivery capacity varies significantly from one agency to another (as is frequently the case in municipal government). For example, three Philadelphia public agencies with real estate-related responsibilities—the Board of Revision of Taxes (BRT), the Department of Records, and the Department of Revenue—each have a different level of capability and timeliness with respect to recording a change in property ownership. One of these agencies has the ability to record an ownership change in less than three days. For another of the agencies, the process for recording an ownership change takes about a week; for a third, the process takes about

[31] Herbert Wetzel, personal communication, March 11, 2002.

three months. As a result of these discrepancies, an attempt to verify ownership can produce conflicting information.

<u>Implementation Challenges</u>

In both Baltimore and Philadelphia, a relatively small number of senior and middle-level city agency staff possesses substantial knowledge of municipal operations relating to vacant property. These relatively few employees have the ability to “work the system” effectively to assist developers, elected officials, or other staff in moving vacant property through an often cumbersome municipal process. Nevertheless, these capable staff cannot run a high-performance vacant-property program, of the type contemplated by Baltimore and Philadelphia, by themselves. For both cities, systems improvements must be accompanied by staff recruitment, training, and capacity-building to substantially increase the number of individuals in the public sector with the level of experience and knowledge that is currently possessed by few.

Participants in the discussion panels convened for this project cited the resistance of municipal agency staff to changing long-established practices as a significant factor limiting the opportunity to make government effective. Overcoming this resistance requires strong leadership and supervision by agency directors. At the same time, those whose work will be affected by the change in process need to be provided with an understanding of why the changes are occurring and what they are intended to accomplish.

The biggest challenge for Baltimore and Philadelphia with respect to making government effective is completing needed structural and process changes during the coming months while simultaneously improving productivity. Making Mayor O’Malley’s Project 5000 a success is going to require a level of productivity substantially exceeding current performance levels. For its part, Mayor Street’s NTI will entail the reliable acquisition and disposition of many parcels, from small lots suitable for side yards to recently-vacated properties to be encapsulated for future rehabilitation, to large cleared sites to be assembled for market-rate development. Success in both cities is therefore dependent on reforming while implementing, a demanding leadership and managerial task.

Step #5: Create a Legal Framework for Sound Redevelopment

Local-government intervention to acquire vacant property for subsequent conveyance to developers is an essential element of urban land reform in cities such as Baltimore and Philadelphia. For that reason, the nature of the laws that govern such intervention can make or break such activities. Successful urban land reform depends on creating a legislative and regulatory environment within which local government can more efficiently manage vacant-property transactions.

In both Baltimore and Philadelphia, the opportunities to acquire vacant property through negotiated purchase or owner donations without government intervention remain modest, for two reasons:

- In both cities, most vacant property is not owned by local government but by individuals who are now deceased or have left the city with no indication of their present whereabouts, or by organizations and businesses that have left the city and/or may no longer exist

- In addition, private liens on vacant properties, for obligations ranging from mortgages and home improvement loans to delinquent credit card charges, can cloud title, impeding acquisition, conveyance, and development

In light of this situation, the conversion of vacant property into productive re-use requires public intervention that can be managed only by municipal government.

Both Baltimore and Philadelphia have acquired vacant property through various forms of public intervention since the urban renewal era. However, neither city has sufficient capability to respond to the current demand for property acquisition in a reliable and cost-effective manner. Recognizing this fact, both cities are taking steps to improve the acquisition/disposition process by addressing underlying legal issues that have made this process time-consuming and costly.

City Policy and Strategies

Philadelphia

Eminent Domain. For nearly a decade in Philadelphia, eminent domain—the exercise of government power to take title to real estate in order to fulfill a public purpose—has been the primary approach for city acquisition of vacant property. During the 1990s and in this decade, Philadelphia's RDA has acquired vacant structures and lots through one of two forms of eminent domain:

- Acquisition of any designated property within a certified redevelopment area (the approach used during the urban renewal period in Philadelphia and other cities during the 1960s)

- "Spot condemnation" (or "Act 94 condemnation") of blighted, tax-delinquent property on an individual basis anywhere in the city

The consistent use of eminent domain during the 1990s and afterward departed from the approach used by Philadelphia in the previous decade, during which the city relied extensively on vacant-property acquisition through "bidding in" properties at tax sale (at the tax sale auction, known as Sheriff Sale in Philadelphia, the city may place a bid in the amount of all municipal liens associated with a particular property). However, this approach proved to be unreliable, in large part because the tax sale process aimed to generate revenues for the city—rather than acquire real estate—and because related administrative responsibilities were managed by agencies such as the

Revenue Department and the Department of Public Property whose departmental priorities differ from those of the city's real estate development agencies. The former agencies seek to obtain cash compensation for delinquent taxes and dispose of real estate to new owners expected to pay property taxes in the future; the latter agencies promote development-agency acquisition (without cash payment for delinquent taxes) followed by conveyance for real estate development unlikely to generate property taxes for years. (Current legislation would extend a Philadelphia property tax abatement applicable to new construction for ten years.)

Eminent domain is the most effective way to acquire vacant property in the absence of an owner willing to sell a property with unclouded title for a price at or below market value. Once the legal determination to acquire has been expressed with a Declaration of Taking, the city can expect to achieve site control within a relatively predictable period. A property owner may contest the settlement amount through legal appeal, but this process does not slow the pace of acquisition. In Philadelphia, acquisition through eminent domain can be completed within about nine months.

But eminent domain is not without its problems. While citing a need for more extensive use of eminent domain in preference to tax sale, RDA Executive Director Herbert Wetzel has noted that the increasing absence of landowners from the redevelopment process creates a fundamental problem that requires improved legal tools. Eminent domain legislation was first instituted decades ago, before most cities were experiencing population decline and during a time when overcrowding and the improvement or replacement of substandard housing in "slums" was a primary concern. During the late twentieth century, however, abandonment—the disappearance of property owners—became the primary concern. In this environment, the owner notification requirements that had been written into eminent domain legislation decades earlier have little relevance. The current owners of record of abandoned properties—to the extent that they still exist—have no need for and gain no benefit from the legal protections that were instituted decades earlier to protect "live" owners from government intervention without prior notice. Current legislation, unchanged in many respects from that of many decades ago, in fact provides safeguards for owners that do not require protection, creating significant impediments for municipal agencies working to acquire abandoned property for productive re-use.[32]

In view of these inefficiencies, the eminent domain acquisition process clearly requires reform. In its present form it frequently requires the participation of as many as fifteen city agencies; dozens of processing steps must be completed, nearly every one of which is based on a legislative mandate. In Philadelphia, these inefficiencies are to be addressed through the housing reorganization plan and through process changes expected to follow the analytical work currently being completed.

Eminent domain is also costly, in part because of the expense associated with fulfilling some of the associated legal requirements. The following acquisition budget for five vacant houses in North Philadelphia illustrates some of these expenses. "Non-assisted" eminent domain refers to

[32] Herbert Wetzel, personal communication, March 11, 2001.

acquisition in which the RDA is paid by the real estate developer for the expenses indicated. In "assisted" eminent domain, these expenses are paid by the city; in the past, CDBG/HOME has been the primary funding source for acquisition expenses.

Eminent Domain Acquisition Budget
(five vacant two-story houses)

	Non-assisted	Assisted
Administrative fee	$5,000	-
Acquisition cost	5,000	$5,000
Acquisition appraisal	1,250	1,250
Title charge	1,950	1,950
Settlement cost	5,500	5,500
Advertising	3,000	3,000
Legal fees	5,000	5,000
Recording costs and other fees	274	274
Delayed compensation/board of view (35% acquisition cost)	1,750	1,750
Condemnation bond (200% acquisition cost)	10,000	-
Total	**$38,724**	**$23,724**

Source: Redevelopment Authority of the City of Philadelphia.

Legislative Proposals. Because the state charters redevelopment authorities, state legislation determines many of the underlying regulations governing the eminent domain process. In many instances, state legislation specifies the conditions to be met in order to designate a property as vacant or blighted and the approach to be followed in notifying a property owner and/or other party at interest (a private lienholder, for example) of a planned taking of real estate. To give local governments as much latitude and flexibility as possible in connection with vacant-property acquisition and improvement, opportunities are being pursued to enact or amend state legislation in order to facilitate the municipal role in urban land reform.

To reduce the time and cost factors associated with eminent domain acquisition, Philadelphia plans to pursue legislative changes to state urban renewal laws that would enable the city to use Act 94 condemnation to acquire

- Properties occupied by unauthorized persons

- Vacant land encumbered by a municipal demolition lien

- Property with municipal liens in the amount of 150 percent or more of market value[33]

The nonprofit Pennsylvania Low Income Housing Coalition (PALIHC) has published a series of recommended legislative reforms designed to "reverse the depopulation and decline that have marred life in Pennsylvania's cities for decades."[34] Among the recommendations for improving vacant-property acquisition and disposition in Philadelphia and other cities are proposals to

- Simplify state eminent domain and urban renewal laws

- Reform legislation governing Sheriff's Sale to reduce costs and delays

- Authorize "quick take" of vacant properties through legislation similar in some respects to that which currently exists in Maryland

- Create a new land banking law to limit liability associated with assembling and holding property for redevelopment

- Reform adverse possession law in order to provide clear title faster[35]

Other state legislation proposed or in process includes the following:

- "Right of private action" legislation enabling neighborhood organizations to seek court action to take over and improve blighted property with code violations (a bill has passed the state House of Representatives)

- A City of Philadelphia-supported version of "quick take" legislation, which would enable a municipal government to take property with liens exceeding 1 ½ times market value

- The establishment of Housing Court.

Each of the three above legislative remedies is currently available to the City of Baltimore as a result of Maryland legislation enacted previously. Provisions for quick-take acquisition and broadening the definition of what constitutes a blighted property similar to those which exist in Maryland are a particularly high priority on the City of Philadelphia's legislative agenda.

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[33] Herbert Wetzel, City Council Testimony on the Neighborhood Transformation Initiative, December 11, 2001.
[34] Pennsylvania Low Income Housing Coalition, *Rebuilding Our Communities: A Housing and Urban Revitalization Agenda for Pennsylvania*, June 11, 2001, p. 1.
[35] *Ibid*, pp. 16-19.

Baltimore

Tax Sale. Eminent domain acquisition has been used extensively in Baltimore, and more than 1,000 properties were in the city's eminent domain acquisition pipeline as of early 2002.[36] Although tax sale foreclosure has been used on only a limited basis in Baltimore, this approach is intended to be the primary vehicle for vacant-property acquisition in support of Mayor O'Malley's Project 5000 initiative.

In Baltimore, any property—whether occupied or vacant--that exceeds $100 in tax delinquency may be entered into the tax sale process (in Philadelphia, by contrast, processing for Sheriff Sale must be initiated either by city agency decision or through the payment of an $800 deposit by a private party interested in bidding at the sale). This process results in a public auction, which is subject to cancellation in the event that the property owner resolves the tax delinquency prior to the auction date. At the auction, the highest bidder receives a tax certificate, which serves as documentation of the high bidder's right to foreclose. The successful bidder must then institute a separate foreclosure action in order to achieve site control.

In the event that no bids are received for a particular property, the associated tax certificate is held by the city for a period of one to two years after the tax sale date. During this period, the city has the power to foreclose on the property or to assign the certificate to another entity, in most cases a party that agrees to pay the amount of outstanding municipal liens. The tax sale action does not eliminate city liens on a property, as is the case in Philadelphia. A separate discharge of city liens is required.

In 2000, the State of Maryland authorized special tax sales, in which

- Lower minimum bids may be set for certain properties (notwithstanding this provision, property owners remain personally liable for all liens)

- Multiple properties may be "bundled" into bid packages

In 2001, the City of Baltimore used the special tax sale approach to process 220 properties requested in advance by CDCs in various neighborhoods. All properties in the sale were successfully bid in for the intended recipients.

Legislative Support. The State of Maryland enacted "quick take" legislation in 1999, enabling Baltimore to use eminent domain powers more extensively. This legislation broadens the city's acquisition powers to include 1) properties that are unoccupied, uninhabitable, and two years or more tax delinquent; 2) properties that are unfit for human habitation and for which rehabilitation cost exceeds post-rehabilitation market value; and 3) vacant lots resulting from demolition, regardless of whether or not they are in tax arrearage. The legislation also permits faster acquisition

[36] JoAnn Copes, communication with author, March, 2002.

of occupied houses located on blocks where abandonment exceeds 70 percent and where the city has determined that a whole-block treatment is needed in order to make revitalization successful. Property owner notification requirements are reduced in quick-take eminent domain, and the public action is processed through the Housing Division of District Court, a much faster route than via Circuit Court.

A Vacant House Receivership Law enacted locally in Baltimore includes provisions similar to those proposed by supporters of “right of private action” legislation recommended by PALIHC as a statewide measure in Pennsylvania. Through Baltimore’s receivership approach, a community-based organization (or another entity working in concert with community interests) may join the city as co-plaintiff in a legal action concerning a vacant property with city code violations that are not being addressed by the owner. The court appoints a receiver that may improve the property to code standards and sell it, using the sales proceeds to repay improvement costs from the sales proceeds (the latter is made possible by the fact that the receiver’s expenses are given first lien position); alternatively, the receiver may instead sell the property as-is to a qualified buyer. The nonprofit Community Law Center has handled many receivership actions on behalf of community-based organizations and in coordination with the city.

One advantage of receivership is that, once court action is instituted, the only remedy available to a property owner seeking to regain site control is to fully rehabilitate the property to code standards. In the tax sale process, an owner may exercise a “right of redemption” within a period of up to one year after the auction date.

Notwithstanding the supportive state and local legislation described above, the tax sale, quick take, and receivership processes are expensive, time-consuming, and staff-intensive. Owner notification requirements are still a major impediment to an efficient property acquisition process, even in the more flexible quick-take approach.

Property Disposition. Increasing the efficiency of the property disposition process, through which city-owned property is conveyed to a developer, is more related to city agency structure, staffing, and process issues than to legal concerns, as indicated in the description of the activities of Baltimore’s Property Disposition Task Force in the preceding section.

Both Baltimore and Philadelphia have proposed the creation of a municipal “land bank” agency, a new entity that will acquire title to surplus properties from other public agencies, appropriately maintain vacant property in land bank ownership, and convey property quickly and efficiently when needed for city-supported development. Cleveland’s land bank, which has operated effectively for nearly two decades, has been cited as a model.[37] Brophy and Vey’s paper describes how the Fulton County, City of Atlanta Land Bank Authority (LBA), a nonprofit corporation created through a city/county cooperation agreement, improved the process for assembling and conveying property for development by private and nonprofit entities. A city-affiliated land bank with

[37] Herbert Wetzel, Testimony on the Neighborhood Transformation Initiative, December 11, 2001.

characteristics similar to LBA's could be a useful vehicle for achieving comparable results in both Baltimore and Philadelphia.

Establishment of a local land bank requires close coordination with the state, since state legislation provides the legal basis for most local government acquisition and disposition activity. The Pennsylvania Low Income Housing Coalition recommendations described earlier in this section include a proposal for supportive action by the Pennsylvania General Assembly in order to allow municipal governments to convey property to land banks without an executed developers agreement, as required by existing state law. The coalition also calls for the state to establish "safe harbor" standards to limit the legal exposure that land banks currently face in connection with acquiring and preparing vacant sites for development.[38]

Implementation Challenges

The following are among the key challenges that Baltimore and Philadelphia must address in order to achieve further success in improving legal tools for acquisition and disposition.

- Learning from and replicating legislation and legal strategies that have succeeded elsewhere. Baltimore's quick-take and receivership measures provide models for Philadelphia. According to participants in the discussion panels convened in connection with this project, New York state legislation may provide Baltimore with an approach to simplifying owner notification procedures mandated as a result of the *Mennonite Board of Missions v. Adams* case[39]

- Changing documentation requirements and/or the content of documentation (such as the Redeveloper's Agreement used by Philadelphia's RDA) in order to reduce paperwork and eliminate unnecessary obstacles for developers

- Influencing changes in the process for disposition of surplus federal properties in order to give local government better access to such properties, particularly vacant public housing authority properties or Federal Housing Administration/Veterans Administration foreclosure properties

- Seeking removal of the requirement for one-for-one replacement of housing acquired with CDBG funding support. This requirement imposes a significant monitoring/reporting burden on cities engaged in large-scale neighborhood reinvestment, with little resulting benefit to neighborhood residents, city governments, or HUD.

- Making municipal legal staff part of a reform agenda, and expanding the focus of their work to encompass not only the identification of problems, but also the design, drafting, and

[38] Pennsylvania Low Income Housing Coalition, *RebuildingOur Communities*, p. 19.
[39] For more information about this case and related issues, see Frank S. Alexander, "Constitutional Questions about Tax Lien Foreclosures" in *Government Finance Review*, June 2000, pp. 27-31.

adoption of constructive solutions. In a number of cities, the conservative approach adopted by city legal counsel with respect to the public taking of vacant property has been found to be as much as or more of a factor in lengthening the acquisition/dispostion process than state legislation and regulations.

Step #6: Create Marketable Opportunities

Reliable property acquisition and disposition processes are critically important elements of urban land reform. However, more than local-government competence in acquisition and conveyance is needed to stimulate reinvestment. To make vacant property feasible for development, local government often must take responsibility for consolidating contiguous parcels into larger development sites; for completing demolition and environmental remediation needed to prepare sites for development; for installing new infrastructure such as streets, sidewalks, and utilities; and for supporting the marketing and promotion of these sites to investors and/or developers.

Baltimore and Philadelphia, like other major cities, have decades of experience in acquiring, preparing, and conveying major parcels for large-scale development, from industrial parks to baseball stadiums. In both Baltimore and Philadelphia, non-municipal agencies—Baltimore Development Corporation (BDC) and Philadelphia Industrial Development Corporation (PIDC)—play the lead role in undertaking these responsibilities. In many instances, these agencies take the lead on such tasks as site assembly, environmental remediation, infrastructure installation, and marketing sites to prospective developers.

To help agencies comparable to BDC and PIDC succeed in creating marketable opportunities, cities such as Baltimore and Philadelphia need to blend two kinds of strategies:

- Place-based strategies, focusing on the development of specific parcels that city planning and development agencies determine offer the best prospect of generating economic value to the city

- Consumer-oriented strategies, focusing on responding to the interests of developers, real estate professionals, and individuals who want to develop, market, and/or buy a variety of properties in neighborhoods across the city

Management of these two strategies requires the ability to be both proactive as well as reactive, to detect and pursue both “macro” and “micro” opportunities.

City Policy and Strategies

Baltimore

Digital Harbor. BDC has played a key role in site assembly, environmental remediation, and development financing for the "Digital Harbor," a regional cluster of technology-driven companies centered on Baltimore's Inner Harbor. The "Digital Harbor" is an excellent example of a sustained sequence of development activities involving the dismantling of "old economy" real estate (in this instance, factories, warehouses, piers, and docks in deteriorated condition) for development and "new economy" re-use (in this case, high-tech office and laboratory space, middle-income and luxury housing, and modern retail uses).

The American Can Company venture is one of the best known Digital Harbor successes of the past decade. A five-building factory complex that was closed in 1986 and remained vacant for a decade, the project was developed by Struever Brothers, Eccles & Rouse, with substantial public funding and other support provided through BDC. With $19 million in funding, 300,000 square feet of space was developed as a retail and office center, including the Emerging Technology Center, an incubator for information technology firms.

The American Can Company venture was the first to complete the state's Voluntary Cleanup Program, enacted in 1997, which provides loans and grants for site assessments, cleanup, and site improvements. The Can Company venture was also supported with historic tax credits, state funding, and an Economic Development Administration public works grant.

Collaboration with Realtors. A successful vacant-property reuse program must link individual properties to the private real estate market in the city's neighborhoods. One effort to pursue a strategy of this kind is a collaboration between the City of Baltimore and the Greater Baltimore Board of Realtors, in which realtors will list selected city-owned vacant houses for sale in as-is condition. Houses being considered for inclusion in this strategy are located in or near neighborhoods with relatively strong real estate markets. The Board of Realtors will complete an exterior inspection and prepare a "snapshot" summary of the anticipated market potential of each house chosen for the program. The selected houses will then be bundled into groups of four to six properties and advertised for competitive bids from realtors seeking to list these houses for sale.

A number of issues await resolution before this collaborative effort is implemented, including:

- Commission (the Board of Realtors proposes eight percent, with a $2,500 per house minimum)
- The release of city liens on each property
- Access to properties that have been masonry-sealed

- Resolution of appraisal/underwriting questions associated with mortgage financing for a property in substandard condition

The Realtors' expect there are city-owned vacant houses for which the cost of as-is acquisition plus rehabilitation remains less than or equal to the price of a house in move-in condition. In Baltimore, as in Philadelphia, nevertheless, the cost of rehabilitating a three-story single-family house that has been vacant for several years can range from $90,000 to $120,000 or more. In light of these kinds of expenses, the Realtors must determine whether there is an available supply of city-owned houses in neighborhoods where the single-family market is substantially in excess of $100,000.

And Philadelphia's experience suggests the need for caution. Proposals from the Greater Philadelphia Board of Realtors to undertake a similar program in Philadelphia during the 1990s faltered because Philadelphia's city-owned vacant house inventory did not include properties with the appropriate level of after-rehab sales potential. It turned out there were no city-owned vacant houses in Philadelphia neighborhoods where finished houses sold for $125,000 or more. Even now, the market value for habitable homes remains in the $50,000 to $75,000 range, and rehab costs are likely to be high.

Maryland Building Rehabilitation Code Program. The marketing of development opportunities through the rehabilitation of existing housing in Baltimore neighborhoods is supported by the State of Maryland's Building Rehabilitation Code Program, designed specifically to "encourage the rehabilitation and reuse of older structures in our existing communities."[40] An element of Smart Codes legislation enacted in 2000, this new code 1) consolidates ten pre-existing codes governing building rehabilitation into one document; 2) establishes standards for rehabilitation distinct from new construction standards; and 3) creates a readily accessible set of regulations, the scope and number of which are proportionate to the size and complexity of a particular rehabilitation project (i.e., the smaller the project, the fewer the applicable code requirements).[41] This new code addresses some of the most significant issues that small developers and preservationists working in urban neighborhoods have identified as key impediments to vacant-property reuse.

Philadelphia

FedEx Distribution Center. PIDC played a key role, comparable in some respects to the BDC role in the American Can Company venture, in advancing a Philadelphia waterfront-area re-use project that started construction last year. An eight-acre site adjacent to the Schuylkill River in the Grays Ferry section of South Philadelphia was developed as a new, 113,000 square foot FedEx Express distribution center with $15 million in financing. PIDC assisted two small firms—an

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[40] See Maryland Department of Planning, "Maryland Building Rehabilitation Code Program Frequently Asked Questions" at www.op.state.md.us/smartgrowth/smartcode/rehab_faq.htm.

[41] See Maryland Department of Planning, "Maryland Building Rehabilitation Code Program Overview" at www.op.state.md.us/smartgrowth/smartcode/rehab_overview.htm.

industrial debris sorting company and a road-salt importer—in relocating to a nearby location, demolished a vacant roofing factory on the site, removed about 10,000 gallons of oily sludge from the site, and coordinated with city agencies to develop the river's edge for public use as a bike trail, connected with a trail system that extended into adjacent neighborhoods.[42]

The FedEx venture was supported with $1 million in city funds and $500,000 from the state's Industrial Site Reuse Program; the latter provides low-interest loans to cover up to 75 percent of the cost of completing an environmental study and implementing a cleanup plan.[43]

Homebuyer Assistance and Vacancy Prevention. Philadelphia's experience during the 1990s shows that homebuyer assistance programs can be an important element of a vacancy prevention strategy. By promoting homebuying opportunities in urban neighborhoods, more buyers can be found for for-sale properties that otherwise might remain on the market and, in some of the city's weaker real estate markets, become abandoned.

In West Philadelphia, the University of Pennsylvania launched an ambitious, university-funded employer-assisted housing program in 1998 that offered a $15,000 grant at settlement to Penn-affiliated homebuyers in a designated West Philadelphia target area. For existing Penn-affiliated homeowners, the university offered a matching grant of up to $7,500 to finance exterior improvements. By 2002, Penn's initiative had supported purchases of 276 homes in the target area, more than half at prices below $100,000, as well as home improvement financing for an additional 125 homes in the target area. This initiative produced a decisive turnaround in the neighborhood real estate market and generated a substantial increase in housing values.

The City of Philadelphia's first-time homebuyer program, instituted in 1993 with CDBG/HOME funding support, offers pre-purchase counseling for first-time homebuyers. This service is delivered by trained counselors who have been certified through a bank-sponsored program and are employed by neighborhood-based and citywide nonprofit organizations. In addition, an $800 settlement assistance grant is provided, along with a home inspection, with written report, completed by an inspector certified by the American Society of Home Inspectors (ASHI). Since 1993, the program has supported more than 14,000 settlements. According to *The Philadelphia Inquirer*, "In some years, sales involving settlement grants accounted for more than 15 percent of residential real estate transactions in the city."[44]

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[42] Henry J. Holcomb, "A onetime eyesore becomes attractive parcel," *The Philadelphia Inquirer*, January 9, 2002, p. C-1.

[43] Pennsylvania Department of Environmental Protection and Pennsylvania Department of Community and Economic Development, *Pennsylvania's Land Recycling Program: A Clear Road to Redevelopment*.

[44] Alan J. Heavens, "How neighborhood houses became homes," *The Philadelphia Inquirer*, July 8, 2001, p. M-1.

Implementation Challenges

In cities with characteristics similar to those of Baltimore and Philadelphia, relatively few vacant properties can be marketed successfully for development at any one time. As indicated above, in some instances sites need to be assembled and prepared for development before marketing can begin. In other instances, substantial upgrading of aging or inefficient infrastructure must be completed—through activities such as the construction of access roads or the installation of new water and sewer lines—before a marketing effort can be launched.

For cities such as Baltimore and Philadelphia, the biggest implementation challenges are identifying the most developable vacant properties and organizing a program of pre-development activities that will be sufficient to attract private investment and subsequent development. Because public funding resources are limited and the number of good investment prospects in any given year is relatively small, an awareness of current market conditions and an ability to respond quickly and reliably to new opportunities are essential.

Step #7: Finance Redevelopment

Agencies such as BDC and PIDC have a high level of professional expertise and an in-depth knowledge of real estate markets and associated development opportunities. However, effectiveness in pursuing such opportunities is limited by the relatively low level of public funding available for property acquisition and site preparation. Because resources are limited, financing for vacant-property acquisition and development often comes in the form of a "layering" of subsidies assembled from different government programs, no single one of which can provide all of the support needed to support a particular venture. The relative scarcity of funding also limits the number of opportunities that can be pursued in a given year. The amount of public funding available for vacant-property reuse tends to remain level from one year to the next, and no additional funds are provided to pursue the additional opportunities that can emerge when the national and regional economy are particularly strong.

Because the weak real estate market in many urban neighborhoods cannot support the full cost of reclaiming vacant property, direct or indirect government subsidies are often a prerequisite for successful redevelopment. The cost required to create a marketable site can vary widely. Pre-construction expenses that may need to be funded by government in order to stimulate "market-rate" development activity include site acquisition through the exercise of eminent domain or other public powers; demolition of vacant structures to clear the site for new construction; remediation of environmentally hazardous conditions; and installation of infrastructure such as new streets, access roads, and utility lines. In some locations, construction subsidy is also needed in order to support the total cost of developing vacant property for desired reuse.

Cities have lost the resources that were once available to support a comprehensive reclamation and redevelopment of vacant property. These resources had been available during the urban renewal era of the 1950s and 1960s, during which a substantial level of federal, state, and local funds could be obtained to complete revitalization activities in designated urban renewal areas. In these targeted areas, every property identified as substandard was either upgraded to specifications by the owner, or acquired by the public sector for development in accordance with an approved urban renewal plan. Although the urban renewal approach often involved relocation of residents and businesses followed by demolition and new construction, urban renewal funding also supported preservation-oriented revitalization. In Philadelphia, North Philadelphia's Yorktown community, developed in the early to mid-1960s, is an example of the former, and Society Hill is an example of the latter.[45]

In the current funding environment, cities such as Baltimore and Philadelphia often need to make major financial commitments in order to achieve the significant economic benefits associated with a major development venture on formerly vacant property. Unfortunately, municipal government never has access to the level of funding needed to sustain existing programs as well as pursue new development opportunities. With better access to a larger base of funding, cities with substantial vacant-property inventory could attract more development and generate substantially more economic benefit to the metropolitan areas where they are located.

City Policy and Strategies

Philadelphia

The Neighborhood Transformation Initiative. Mayor Street's Neighborhood Transformation Initiative is a creative approach for addressing this problem through an alternative use of available local resources. A core element of NTI is $295 in bond financing that will support reinvestment activities in neighborhoods across the city.

Government purpose bonds will finance:

- The demolition of up to 14,000 vacant houses as well as larger commercial and industrial buildings

- The stabilization of vacant properties designated for future rehabilitation, through activities such as cleaning and sealing, roof replacement, and repair or replacement of drainage systems

- The installation of computerized data base management and program tracking/monitoring systems described in "Know Your Territory"

Private activity and taxable bonds will finance:

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[45] A fuller description of these ventures can be found in John Kromer, *Neighborhood Recovery: Reinvestment Policy for the New Hometown*, Rutgers University Press, 2000, pp. 17-23.

- Vacant-property acquisition to attract private investment, particularly in areas where large developable sites can be assembled (a total of $50 million has been budgeted for "Land Assembly for New Development" during the five-year NTI implementation period)

- Housing investment and neighborhood preservation activities, including development subsidies, loans, and grants for home repair and improvement, and city participation in employer-assisted housing initiatives similar to the University of Pennsylvania's.[46]

Although debt service on this bond financing is to be paid from the city's operating budget, it is anticipated that the large-scale demolition proposed as one element of NTI will reduce the size of the current operating budget line item for demolition of dangerous buildings. For many years, annual city funding of demolition had not been sufficient to support the cost of demolishing all of the city's dangerous buildings. As a result, the city's Department of Licenses and Inspections (L&I), the agency responsible for such demolition, had employed a "triage" approach, focusing on properties that were in imminent danger of collapse. With the capital provided through the NTI bond financing, it is anticipated that all of the city's dangerous buildings can be demolished within a few years. The subsequent reduction in the need for L&I demolition that would result from this large-scale, citywide activity, and the corresponding reduction in the L&I demolition budget, is expected to significantly offset the city funding for NTI debt service.

Recycling of Acquisition Funds. Philadelphia is also planning to establish a mechanism for "recycling" acquisition funding used to pay off real estate tax arrearages and municipal liens (such as demolition or water/sewer liens) associated with vacant properties acquired through eminent domain. In past years, these tax and lien payoffs were disbursed to the city budget; in effect, the city was paying itself, increasing the cost of acquisition and reducing local government's capability to employ eminent domain acquisition on a larger scale.

This problem is expected to be resolved through "recycling" acquisition funds used to pay back taxes and municipal liens, returning these funds to the city's acquisition budget rather than paying them into the city's general fund. Implementation of this mechanism in connection with vacant land assembly is estimated to return approximately 82 cents of every city dollar used for vacant-property acquisition.[47]

Tax Lien Sale. One failed effort to generate financing through leveraging value associated with vacant buildings and lots was Philadelphia's 1997 tax lien sale, in which $106.3 million in delinquent real estate tax liens on 33,600 properties were sold to the quasi-public Philadelphia Authority for Industrial Development (PAID). PAID financed the purchase by issuing bonds (using the liens as collateral), with the expectation that debt service would be paid with funds generated through the collection of tax claims. The city's objectives in undertaking the tax lien sale were 1) to

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[46] City of Philadelphia, *Program Framework: Exhibit A to the Service Agreement*, January 2002, pp.17-23, 34.
[47] Herb Wetzel, Memorandum to Pat Smith, April 5, 2002.

increase tax collections by using private agencies rather than government employees; and 2) to generate immediate revenue to the city and school district.

The problems with this approach were cited in a report published in 2000 by the City Controller. According to the controller's report, the securitization approach—as opposed to a direct sale of tax liens to non-governmental entities—required the city to maintain an ongoing role in the collection process. The lien pool, which included many substantially deteriorated vacant houses and many scattered vacant lots located in weak real estate markets, was insufficient to generate the funds needed to pay debt service. In addition, because properties in the sale were widely dispersed, lien sale addresses could not be aggregated into developable sites.

As a result of these problems, many tax lien sale properties in Philadelphia neighborhoods remain vacant and cannot be acquired for development without paying a premium to the designated lien servicer or initiating a time-consuming "substitution" process, in which a new address is placed into the lien pool in exchange for the withdrawal of a property from the pool. What had been anticipated as a win-win approach for Philadelphia has resulted in the creation of a new impediment to vacant-property acquisition and development site assemblage.[48]

Keystone Opportunity Zone*.* Philadelphia has benefited more from a relatively new state program known as the Keystone Opportunity Zone Program (KOZ). In Pennsylvania's KOZ program, modeled after Michigan's Renaissance Zone program, companies that move into designated target areas are exempt from city and state business taxes until 2011 (in March 2001, the program was enlarged to include additional properties for which the tax exemption extends through 2013). The properties selected for KOZ designation, which must be authorized by local legislation and approved by the state, consist of real estate that is currently vacant and generating no taxes to the city or state. Many Philadelphia KOZs are obsolete industrial buildings or cleared industrial sites. No residentially-zoned parcels have been designated as KOZs, although state legislation permits it.

Since the inception of the KOZ program in 1999, Philadelphia reports having attracted $130 million in capital investment and $144.9 million in total investment in KOZ areas. The city reports that 2,328 jobs have been created and 1,734 jobs have been retained in these areas.[49] The biggest KOZ success to date is the construction of a one million square foot warehouse/distribution facility for TJ Maxx, bringing 1,100 jobs to the city. Prior to learning about a KOZ site in Northeast Philadelphia, the company had been actively pursuing sites in New Jersey and the Philadelphia suburbs. A full evaluation of the KOZ program to determine the circumstances under which this approach works best is not possible at this relatively early stage. However, it is clear that the biggest successes that the program has achieved to date could not have been accomplished through the use of existing development financing programs.

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[48] Office of the City Controller, "Conducting City Business Through Quasi-Public Agencies," April 3, 2000, pp. 23-28.
[49] Department of Commerce, City of Philadelphia, "Keystone Opportunity Zone Deal Status Report," March 7, 2002.

Baltimore and Philadelphia: Experience with Federal and State Programs

CDBG/HOME as Funding Sources. The need for a major new funding resource to address vacant-property issues and support economically beneficial reuse of vacant land is evident from a review of the budget of the biggest potential public funding source for this activity: the U.S. Department of Housing and Urban Development (HUD). The largest items in HUD's Fiscal 2002 discretionary budget are continued funding for income-restricted public housing programs, totaling $21.9 billion. Only two HUD programs— the Community Development Block Grant and the HOME Investment Partnerships Program—provide cities with relatively flexible funding of the type needed to acquire and develop vacant property. Funding for these two programs, exclusive of congressional set-asides, amounted to only $6.4 billion in fiscal 2002. The HUD "Brownfields Redevelopment" line item was $25 million—an average of $500,000 per state—in fiscal 2002.[50]

Public housing funds are targeted to very low-, low-, and moderate-income households, and CDBG/HOME funds, for the most part are restricted to uses that benefit households with incomes not exceeding 80 percent of area median. Almost no HUD funding is available to assist cities in developing housing for the middle class or providing other incentives for middle-income residency. This federal funding reinforces existing patterns of low-income residency without helping cities pursue income-mixing strategies.

The public housing authorities of Baltimore and Philadelphia have both received awards of funding through the HUD HOPE VI program, which provides substantial development funding grants to support the revitalization of deteriorated, vacant, and/or obsolete public housing sites into well-designed new communities characterized by pedestrian-friendly street grids, lower housing density, and a mix of housing types accommodating households with a range of income levels. Although HOPE VI is widely acclaimed as a resource for transforming some of the nation's worst public housing sites into model communities, HOPE VI awards made available to housing authorities in slow-recovery cities with relatively weak real estate markets can reduce the already limited supply of local public funding available for vacant-property revitalization, due to two characteristics of the program:

- *Leveraging.* In order to compete successfully for a HOPE VI award, a housing authority must demonstrate that the HUD funds will leverage substantial funding from other sources. Since most public housing sites in cities such as Baltimore and Philadelphia are located in weak real estate markets, little or no private capital is available for leveraging; as a result, commitments of CDBG funding (including CDBG funds borrowed through the Section 108 program), Low Income Housing Tax Credit (LIHTC) investment equity available to the city from the state, or funds from the municipal capital budget must be used to fulfill HOPE VI leveraging requirements,

[50] National Low Income Housing Coalition/LIHIS, "HUD FY 2003 Budget Chart for Selected Programs," at www.nlihc.org/news/021102chart.htm.

reducing the availability of this funding for revitalization activities elsewhere in the city.

- *Funding Shortfalls.* If HUD awards HOPE VI funding in an amount less than requested or if project development costs are found to be greater than anticipated, there is usually no alternative other than using local government resources to cover the shortfall in order to avoid losing the HOPE VI award.

These characteristics of the HOPE VI program can influence the allocation of more local funding to support public housing revitalization activities involving a relatively low level of income mixing. The value of the HOPE VI awards is offset by the reduction of the base of local funding available for the development of other vacant and/or underutilized property.

In both Baltimore and Philadelphia limited CDBG/HOME funding has been used extensively to acquire and develop vacant property. In addition, both cities have used HUD's Section 108 program to borrow funding at a low interest rate for vacant-property development ventures in neighborhoods where market values are not high enough to repay the Section 108 financing. As a result, Section 108 principal and interest is being paid from current and future years' funding, reducing the net amount available for other activities.

	Baltimore		**Philadelphia**	
	Fiscal 2002 (in millions)	Fiscal 2003	Fiscal 2002 (in millions)	Fiscal 2003
CDBG	$30.9	$30.5	$71.6	$69.4
HOME	9.0	9.0	16.3	16.3
Subtotal	39.9	39.5	87.9	85.7
Less Section 108 repayment	(7.0)	(7.0)	(14.2)	(12.5)
Net CDBG/HOME	32.9	32.5	73.7	73.2

Since past uses of Section 108 funding in Baltimore and Philadelphia are comparable to the uses being proposed for funding through NTI (for activities such as demolition, relocation, new construction and rehabilitation), both cities might benefit from a review of the scope, cost, and results of past Section 108-financed public investment in comparison with the scope and expected results of NTI.

State Funding. State funding for the treatment of vacant property in urban areas is scarce. Philadelphia's share of the Commonwealth of Pennsylvania's Housing and Community Development line item (the state funding source most similar to CDBG/HOME) was $2.3 million in Fiscal 2001 and $3.7 in Fiscal 2002. There is even less State of Maryland funding for vacant-property treatment in Baltimore. The Maryland Housing Rehab Program is available for occupied properties only. The Rental Housing Production Program provides a development subsidy, but this funding is only awarded in conjunction with Low Income Tax Credit financing of multi-family housing ventures. Neither Rental Housing Production Program funds nor LIHTC financing is set aside for Baltimore; as in other states, the city must participate in a statewide competition for funding, and only a few development ventures receive funding awards each year. Some state funding (up to $1.5 million per venture) has been made available for conversions of Class B office space to residential. However, this funding is not a new budget item, but an additional use of Rental Housing Production Program funds; any state funding of office-to-residential conversions reduces the amount available for other rental housing production.

Brownfields. Both Baltimore and Philadelphia have access to state funding for brownfields remediation associated with the development of vacant parcels such as the Grays Ferry and Can Company sites. In 2000, the State of Maryland consolidated more than 25 fragmented programs in order to create a more unified approach to brownfields development. To support participation in the state's Voluntary Cleanup Program, a property tax credit may be obtained in connection with the purchase of a qualified site, and Brownfields Revitalization Incentive Program (BRIP) funding is available for site assessments, cleanup, and site improvements at eligible locations.[51]

In Pennsylvania, grants and loans to pay the cost of completing an environmental study and implementing a cleanup plan are available through the Industrial Site Reuse Program, administered by the Department of Community and Economic Development (DCED). DCED's Infrastructure Development Program (IDP) provides grants and loans for demolition, renovation, new construction, and certain infrastructure improvements at a qualified site.[52]

Thanks to these programs, adequate state funding has been available in both Baltimore and Philadephia when needed for eligible brownfields real estate ventures. However, the lack of funding for related elements of site development has been a significant constraint. Public funding for property acquisition, for certain pre-development expenses (such as architectural and engineering studies), and for some infrastructure costs (such as the construction of new streets) remains limited.

In this regard, one major problem associated with vacant-property reclamation in residential neighborhoods is that brownfields funding is available primarily for commercial and industrial sites, not for residential properties and not for environmental remediation associated with a prior residential use. In light of this limitation, a developer seeking to implement a new construction venture on a previously residential block from which oil tanks (formerly in the basements of the houses that stood there) have not been removed does not qualify for brownfields funding. In addition, a cleared parcel with lead-contaminated soil that cannot be traced back to an industrial commercial use may not be eligible to receive brownfields funds for remediation activities, which are likely to be expensive. Soil remediation associated with the development of Dabney Square, a new-construction sales housing venture on a former umbrella factory site in North Philadelphia's Strawberry Mansion neighborhood, cost more than $1 million, an expense that was funded from the city's CDBG budget.

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[51] Baltimore Development Corporation, *Brownfields: Baltimore's incentives for reclaiming the land*.
[52] Pennsylvania Department of Community and Economic Development and Pennsylvania Department of Environmental Protection, *Pennsylvania's Land Recycling Program: A Clear Road to Redevelopment*.

Tax Increment Financing. Tax Increment Financing (TIF), a pledge of future taxes associated with a major real estate venture as a means of financing a portion of the cost of developing the venture, is being pursued for the first time in Baltimore, pursuant to state legislation enacted in 2001. A TIF will be used to finance infrastructure improvements associated with HarborView, an 86-unit waterfront housing venture. An $8.5 million TIF will finance the installation of a riverfront promenade. The completed housing is expected to sell for $450,000 to $600,000. Without the TIF, the cost of developing the promenade would have added $87,000 to the per-unit sales price. TIF has already been used extensively in Philadelphia, with about 25 TIFs approved since the late 1990s. One recent example is a $6.25 million, 20-year TIF approved in 2000 as part of the financing package for a $31 million parking garage development adjacent to new Regional Performing Arts Center. The TIF agreement for this venture contains a "clawback" provision, requiring accelerated repayment of TIF-supported debt financing in the event that the garage becomes profitable earlier than projected.

Some critics of TIFs in Philadelphia have complained that the city has been too generous in making this financing available, to the extent that some developers have come to regard TIF as a standard component of the package of local-government financial incentives. Although a developer must provide documentation to support the contention that a venture will not be feasible "but for" a requested TIF, some have been skeptical that all Philadelphia TIF deals meet this test. As a *Philadelphia Daily News* editorial stated, "Absent any controls, TIFs should be renamed 'Totally Inappropriate Financing.'"[53]

In Baltimore, the Baltimore Development Corporation is investigating the prospects for the use of a TIF in connection with the development of an East Baltimore site for middle-income housing priced at $100,000-120,000. TIFs have not been used for neighborhood reinvestment ventures in Philadelphia, in part because of the city's historically low housing market values and the long-term absence of large-scale market-rate housing development in the city's neighborhoods.

Other State and Federal Support. Discussion panels convened in connection with this project identified several state and federal actions that would help support the local government role in financing vacant-property development were identified, including the following:

- *Using HUD/FHA insurance funds to support an "eminent domain insurance" program* that would insure 90 percent of the administrative and legal expenses incurred by local government in the event that an eminent domain action is challenged by the owner of a blighted vacant property. This insurance would reduce the amount of local funds that are set aside as a contingency item in current eminent domain transactions to provide adequate coverage of legal/administrative expenses in the unlikely event that a taking is challenged.

[53] Editorial, "Totally Inappropriate Financing?" *Philadelphia Daily News,* December 7, 2000, p. 21.

- *Allocating a portion of federal and state transportation funds to support street and sidewalk construction and upgrading associated with the development of urban infill sites*. The reallocation of existing funds that such a policy would entail is relatively small, and the resultant benefits to areas such as Jones Falls Valley and the North Delaware Riverfront would be dramatic.

- *Amending CDBG/HOME regulations to enable slow-recovery cities to use up to half the CDBG/HOME award for housing development and services benefiting households with incomes of up to 115 percent.* For slow-recovery cities, income-mixing and incentives to support middle-class residency are essential.

Since the dates of the discussion panels, the City of Philadelphia, in coordination with Fannie Mae, has been investigating another prospective opportunity: adopting more flexible property valuation standards for city-subsidized construction ventures, similar to those used for new housing built by the New York City Housing Partnership. In the New York approach, appraisers are instructed to employ a definition of market value as "the most probable price which a unit…should bring without consideration of any subsidy…when there are no income restrictions imposed on a buyer."[54] Adoption of this valuation approach would result in substantially higher appraisals, and correspondingly reduced public subsidy, for city-financed housing in Philadelphia neighborhoods.

Implementation Challenges

As the preceding narrative indicates, attracting private investment to the development of vacant property depends on public money. Most real estate developers won't venture into weak and/or untested urban markets without some public-sector support that will increase the prospects for profitable results. In many instances, an offer of real estate at fair market value—or even at a nominal price—provides too little incentive. From the perspective of a "market-rate" developer with the ability to pursue investment opportunities within or outside the city, there are multiple "cost" elements that need to be included in the cost/benefit calculation.

Activities associated with these cost factors include real estate acquisition and site assemblage (consolidating ownership of multiple properties); environmental remediation; site security (a higher-expense item in the city); site insurance (a higher-expense item in the city); mobilization (e.g., locating space for storage of construction equipment; usually more expensive in the city); labor (higher in Philadelphia, due to the "commercial" rate charged by union workers on residential construction in the city, amounting to an increased housing construction cost factor of as much as 30 percent); city process (the time and expense involved in securing city administrative, legislative, and regulatory approvals); community process (the time and expense involved in connection with neighborhood review of, approval of, and/or participation in the real estate venture); and taxes (higher in the city, and an impediment to marketing developed property to buyers or

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[54]Fannie Mae, "Instructions to Appraisers For the Valuation of Newly-Constructed and Planned Construction of Units in Developments Financed With Public Funds by the New York City Housing Partnership," revised April 30, 1997.

tenants). Given the number and scope of issues to be addressed, substantial government funding resources will be needed to stimulate the development of vacant properties in cities such as Baltimore and Philadelphia.

The major challenge facing each of these two cities with respect to financing development is reconciling an ambitious citywide policy with the limited amount of public funding available to implement reinvestment goals. Public funding currently available to Baltimore and Philadelphia—including Philadelphia's NTI bond financing—remains insufficient to support the costs of the reinvestment policies proposed by the mayors. Investing strategically, pursuing leveraging opportunities, and reducing city expenses associated with implementation activities are therefore the most effective ways to address the challenge.

A more comprehensive cost/benefit analysis of vacant-property development ventures—both past and proposed—that more precisely assessed the relationship between up-front investment and subsequent economic benefit would assist the public sector in assessing the merits of various investment opportunities. At present there is no "apples-to-apples" methodology that can be used to compare the economic benefits (particularly in terms of increased property values and property tax revenues) associated with the array of public investment programs available to support the development and reuse of vacant property. Future vacant-property-related policy and program options cannot be evaluated intelligently without such a methodology. If, for example, more were known about the return on investment associated with Empowerment Zones, Enterprise Zones, Homeownership Zones, Keystone Opportunity Zones, and the financing programs associated with these target areas, then subsequent public investment could be targeted more effectively with better prospect for increased economic benefit.

Step #8: Build on Natural and Historic Assets

In recent years, both Baltimore and Philadelphia, like many other older cities, have attempted to promote economic development in a manner that reconciles two divergent but equally important priorities. On the one hand, older cities need to strive to become widely recognized as "first class cities," as places where modern office and retail space and new market-rate housing can be found. Success in gaining this recognition is often achieved through attracting "name" real estate developers that produce state-of-the-art accommodations for high-end retailers and office tenants and for middle-to upper-income residents. Development for these markets often consists of new construction of modern structures that are similar or identical to comparable products located in the suburbs or exurbs.

At the same time, older cities must also find the best ways to preserve and enhance those elements of the urban environment that make them special—that distinguish them from any other location in the region and nation. To this end, preservation and enhancement strategies often involve prohibiting or restricting new construction and promoting adaptive reuse of older buildings.

A built-in tension arises from these dual agendas. Advancing the "first class city" priority by offering cleared sites for suburban/exurban-style development can lead to further opportunities to attract new investment and additional development in the short term. Advancing the "preservation" priority through the retention and reuse of existing natural and built assets, meanwhile, can provide greater long-term benefit in terms of creating a distinct identity for the city and in promoting the positive quality-of-life characteristics of the urban environment. For example, the Pennsylvania Convention Center and the hotels developed in Philadelphia's downtown during the 1990s generated substantial new business-travel revenues for Philadelphia. These structures, comparable in scale, design, and amenities to convention centers and hotels located in other cities and metropolitan regions, are generating significant economic benefit to downtown Philadelphia and the city as a whole. However, what visitors to the city during this period liked most was not these newly-developed properties but the city's older historic buildings and interesting streetscapes, those qualities that gave the city a special, unique identity.

Baltimore and Philadelphia are each fortunate to possess natural assets that can be used as anchors for development and promoted as amenities. The early success of Baltimore's Inner Harbor stimulated waterfront-linked development strategies in many other cities during the late twentieth century. Both Baltimore and Philadelphia are pursuing additional waterfront-related development, and both cities are exploring opportunities to develop sites within or adjacent to the thousands of acres of parkland that exist in both cities.

The experience of Baltimore and Philadelphia during recent years illustrates different ways in which local-government acquisition and reuse strategies should address historic and environmental concerns and respond to opportunities associated with the special characteristics of these sites.

City Policy and Strategies

Baltimore

West Side Revitalization Plan. One of the most ambitious and wide-ranging preservation plans to emerge in recent years is the approach proposed for the revitalization of Baltimore's West Side. This approach focuses on 28 blocks in Charles Center-University Center adjacent to the University of Maryland, an area that includes residential streets with Federal-period rowhouses, as well as retail blocks with cast iron facades and Art Deco detailing.

During the 1990s, the Schmoke administration had supported a development plan that called for large-scale demolition of historic buildings in the area followed by the construction of "big box" retail stores as well as parking and housing.[55] The plan changed radically in early 2001, when the O'Malley Administration and the Maryland Historical Trust, the state's historic preservation agency, agreed to pursue a preservation-oriented approach instead. Preservationists had set the stage for

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[55] Charles Belfoure, "In Baltimore's West Side, Preservation Story Unfolds," *The Baltimore Sun* , February 18, 2001.

this new approach through a sustained advocacy campaign that had achieved two significant milestones. In 1999, the West Side appeared on the list of "America's Most Endangered Historic Places" published by the National Trust for Historic Preservation. The demolition/new construction plan was denounced as "an ill-conceived 'revitalization' plan" and a "shocking return to the bad old days of Urban Renewal."[56] Then, in 2000, the area was designated a National Register Historic District as a result of building-survey work and the filing of nomination papers by two organizations, Preservation Maryland and Baltimore Heritage.[57]

The current plan for what is now known as the Market Center Historic District includes the preservation of 270 of 400 buildings in the area, with another 105 structures to be reviewed individually before a decision is made about whether to preserve or demolish. Development activities are to include rowhouse rehabilitation and the adaptive reuse of older Art Deco stores. Some new housing, retail, and parking will be developed on cleared sites.[58]

Although the West Side plan is still a "work in progress," with significant financing and implementation issues to be addressed, key participants in the plan anticipate substantial economic benefits, including an estimated $355 million in retail investment to support the development of 500,000 square feet of residential space and 350,000 square feet of commercial space.[59]

State and Local Historic Tax Incentives. Maryland and Baltimore both offer tax incentives to support housing rehabilitation for historic properties or properties located in designated historic areas. The state provides income tax credits equal to 25 percent of rehabilitation expenditures on owner-occupied homes and income-producing properties that are designated as historic or located in certified heritage areas.[60] In Baltimore, rehabilitation of eligible properties completed in accordance with guidelines published by the City's Commission for Historical and Architectural Preservation (CHAP) may receive a ten-year deferral of property taxes associated with the value of the rehabilitation. Using the incentives available through these programs, the developer of a $40,000 rehabilitation project at an eligible property located in Baltimore could receive a $10,000 state income tax credit (25 percent of $40,000), as well as a ten-year deferral of city property taxes associated with the increased market value of the property following completion of the rehabilitation.

During the period 1998-2001, the Maryland Historical Trust approved 66 residential projects and 28 commercial projects for the state tax credit. These projects involved total expenditures of $5.7 million and $17.8 million, respectively. Since 1996, CHAP has received 350 applications for the ten-year tax deferral in connection with residential, commercial, and institutional projects of varying sizes. A total of 140 of these projects have been completed as of June, 2002, representing a total investment of $80 million.

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[56]The National Trust for Historic Preservation, "America's Most Endangered Historic Places, 1999." Available on the web at www.nthp.org/11Most/1999/WEST_SIDE.html.

[57] Belfoure, *"In Baltimore's West Side, Preservation Story Unfolds."*
[58] *Ibid.*
[59] *Ibid.*
[60] More information may be obtained at www.marylandhistoricaltrust.net.

Jones Falls Valley. Adjacency to an attractive natural area can be an important locational advantage for many kinds of real estate development. To use this advantage effectively, a city must promote the development of marketable real estate located near parks, forests, rivers, and other natural amenities while also taking steps to protect and maintain these amenities. The need to manage this balance is reflected in the current development of a master plan for Jones Falls Valley in Baltimore. Jones Falls Valley is a regional watershed that extends from the Inner Harbor as far as northwest Baltimore County. The area includes forests located in close proximity to urban neighborhoods; a historic industrial corridor, where structures that housed flour mills and textile mills in the nineteenth and twentieth century still remain, some adapted for new uses; and many examples of modern residential, commercial, and industrial development.

The City of Baltimore, in coordination with the Baltimore Development Corporation, the Jones Falls Watershed Association, and other organizations, is participating in the creation of the Jones Falls Valley Master Plan, based on an approach that addresses four broad issue categories: environment and preservation; neighborhood stability; economic development; and accessibility and linkages.[61]

The "vision statement" prepared in connection with this planning initiative states that "the time has come to restore this regional treasure to a position of natural, historic, and economic prominence. Our efforts must build on the strength of the water, recognizing that it is still a magnet, drawing residents, visitors, and businesses to its shores, and providing the force around which the future vitality of this corridor is inspired and directed."[62]

A long list of "issues and opportunities" to address in order to realize this vision includes "lack of pedestrian access;" "inaccessibility between light rail and bus stations;" "deteriorating housing stock and marginal commercial structures;" and "lack of strategic marketing efforts."[63]

Philadelphia

Parkside Restoration. Although Philadelphia does not have a preservation-oriented revitalization plan comparable in scope to the West Side plan, many formerly vacant historic properties have been restored and reoccupied, in both the city's downtown area as well as in many neighborhoods. In the Parkside area of West Philadelphia, for example, a nonprofit organization, Parkside Historic Preservation Corporation (PHPC) collaborated with the city to restore a series of nineteenth century mansions, originally built adjacent to Fairmount Park at the time of the 1876 Centennial. These buildings had been subdivided during the twentieth century, then abandoned.

James L. Brown, IV, a local resident and builder, played the leading role in the preservation strategy for this area, first by securing National Register Historic District designation for the Parkside

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[61] AB Associates, *First Findings: A Preliminary Report on the Jones Falls Valley*.
[62] *Ibid.*, p. 2.
[63] *Ibid*. p. 3.

Avenue area, then by securing financing for a series of restoration ventures completed in collaboration with development partners. LIHTC investment equity and CDBG funding were two major sources of support for Parkside ventures completed to date, including the Brentwood Apartments, Brantwood II, and the Marlton Avenue Apartments, together totaling 84 multi-family units in structures with fully-restored exteriors.

North Delaware Riverfront. The Philadelphia City Planning Commission has published a plan for promoting the development potential of a large expanse of vacant and underused property along the northern segment of the Delaware River. In *North Delaware Riverfront Philadelphia: A Long-Term Vision for Renewal and Redevelopment*, the Planning Commission highlights the attractive features of this former "industrial backyard,"—which has been largely abandoned or used as a storage or dump site. These assets include spectacular views and distinctive river-edge features; development potential, with the opportunity to create more than 5,000 residential units and more than 3 million square feet of office and commercial space; and excellent access to I-95 and public transit.[64]

The approach proposed by the Planning Commission calls for an initial phase of activity that consists of cleaning up vacant parcels, planting meadows, and extending existing key streets out to the riverfront. In a subsequent phase, a riverside road will be constructed, intersecting with the key access streets, and a riverfront park will be developed. Following these improvements, a former factory would be developed for loft apartments, commercial/office space, and a riverfront restaurant. Additional demolition, cleanup, and environmental remediation would follow, in preparation for further stages of mixed-use river-oriented development.[65]

Implementation of the Planning Commission proposal calls for an initial investment of public capital that is not readily available from state or federal sources. In addition, because the city's borrowing capacity is limited, the municipal capital program cannot provide sufficient funding to support the ambitious first phases of implementation.

Open Space Systems in Urban Neighborhoods. Three organizations in Philadelphia have been working on a neighborhood revitalization plan that emphasizes "integrated open space systems" as a context for development in an Eastern North Philadelphia neighborhood that changed during the course of the past century from a high-density zone of factories, stores, and rowhouses to a largely vacant area with deteriorated occupied houses, scattered storefront businesses, and public or institutional properties in need of upgrading and maintenance. The approach undertaken by the three organizational sponsors of the plan, Asociacion de Puertorriquenos en Marcha (APM), the Pennsylvania Environmental Council, and Pennsylvania Horticultural Society's Philadelphia Green program, with consultant support provided by the firm of Wallace Roberts & Todd (WRT), reflects "the need to look at integrated open space systems as one critical component to furthering sustainable neighborhood revitalization….a strong open space system can leverage urban

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[64] Philadelphia City Planning Commission, *North Delaware Riverfront: A Long-Term Vision for Renewal and Redevelopment,* p. 2.
[65] *Ibid.,* pp. 44-51.

investment, improve water quality, provide needed recreational opportunities, and increase the marketability of an area."[66]

Design recommendations proposed by WRT in support of this approach include strengthening major streets while converting largely vacant small streets to alleyways; creating an open space network to link neighborhood assets, including "communal nodes, parks, and rail stations;" and developing vacant land to serve as a green buffer between the area's residential neighborhood and the nearby American Street Industrial Corridor.[67]

Implementation Challenges

For Baltimore, Philadelphia, and other cities seeking to build on natural and historical assets, the biggest impediment to success on a large scale is funding. Although the existing federal historic preservation tax credit provides a financial incentive to rehabilitate historically noteworthy properties, the financial benefit generated by the tax credit is substantially less than the total restoration cost. State "smart growth" programs do not support acquisitions associated with large-scale urban land preservation/reclamation projects As a result, this priority imposes another demand on scarce local-government funding. This limitation affects both small and large sites. The cost of acquiring more than 100 small vacant lots for the development of side yards by adjacent homeowners in connection with the open space strategy pursued in New Kensington, Philadelphia (some elements of which are being replicated in Southwest Baltimore) was funded entirely from the city's CDBG budget. To use historic sites and undeveloped open space as elements of a successful economic development strategy during the coming years, a substantial dedicated source of funding is essential.

Step #9: Be Sensitive to Gentrification and Relocation Issues

In neighborhoods that have experienced substantial economic disinvestment during most or all of the past half-century, uncertainty about the future is a constant concern. On the one hand, continued housing abandonment will reduce property values and is likely to be accompanied by increased quality-of-life nuisances and crime. On the other hand, if the neighborhood real estate market unexpectedly becomes "hot" due to changes in the national and local economy or to the influence of nearby investment, housing affordability for longtime residents may become a serious problem.

In addition, any aggressive municipal government policy to address vacant property is likely to involve some displacement of residents and businesses. In rowhouse neighborhoods, a dangerous vacant structure may be located next to a deteriorated occupied house that must be vacated because it is structurally linked to or leaning against a vacant neighboring property. On some "gap toothed" blocks where a small number of occupied houses are interspersed with a substantial number of vacant lots and deteriorated vacant houses, the most appropriate approach

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[66] Scott Page, "APM Neighborhood Revitalization Plan," Memorandum dated January 28, 2002, p. 1.
[67] *Ibid.*,pp. 3-5.

may be to vacate and clear the block for larger-scale new development that can provide significant benefit to the community as a whole.

An equitable and fair approach to relocation is essential. In a well-organized city or neighborhood strategy, displaced individuals and families are provided with opportunities to either move to a newly developed residential unit within the same neighborhood or to move to an existing residential unit within that neighborhood or within some other neighborhood that offers a living environment of equal or better quality. In cities such as Baltimore and Philadelphia, most relocation activiites are subject to the federal Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA), because federal funds are nearly always used to support acquisition and/or development activities. Local government competence in managing relocation activities in compliance with the URA, as well as in providing additional support to address specific needs of displaced residents can make a substantial difference in mitigating the effects of relocation and broadening community support for neighborhood reinvestment activities.

<u>City Policy and Strategies</u>

Baltimore

Confronting Relocation Issues. Baltimore's West Side revitalization plan (described in the narrative for Step #8) calls for the costs and benefits of vacant-property development plans to be fully reviewed with community members and for every reasonable effort to be made to secure community support for implementation activities. In the West Side, as elsewhere, a cost/benefit review of this kind is complicated when displacement is involved, due to two factors:

- Many residents remember the large-scale relocation activities that took place in many cities during the urban renewal era and the arbitrary and insensitive manner in which residents and businesses were displaced in order to make way for a highway, a housing project, or an institutional expansion. In light of this experience, today's public policy must minimize displacement and make a priority of helping relocatees move to better living accommodations in neighborhoods of their own choosing.

- In addition, although the URA provides substantial benefits to residents and businesses displaced as a result of federally-funded municipal government action, these regulations do not always give local government the level of flexibility and discretion that would be most helpful in addressing the broad range of living situations and housing accommodation needs that can be found in urban communities. For example, federal regulations provide for displaced homeowners to receive (in addition to the appraised value of the house) an award of $22,500 to be used to purchase a new home. An elderly woman living alone in her own house might prefer to rent rather than own; if she does so, however, she is no longer entitled to receive the $22,500 award. In this and other situations, all parties concerned would benefit if a wider range of relocation options could be proposed.

Philadelphia

Jefferson Square. One approach to helping displaced people move to new advantageously located housing is being undertaken in connection with the development of Jefferson Square, a large-scale new construction venture in South Philadelphia. Using relocation funds provided from nonfederal sources, the developer, Jefferson Square CDC, is implementing an approach in which 1) no relocation is to occur until the first phase of development is completed; 2) houses constructed in Phase One are to be offered to homeowners scheduled to be displaced in connection with the implementation of subsequent phases of development; and 3) for each household that accepts one of the new houses, monthly housing payments are not to exceed current housing payments. For example, if a household is currently paying the remaining eight years of a 30-year mortgage in monthly payments of $175, the monthly payment on the new house is $175 for a period of eight years.

This approach helped the CDC promote a community consensus in favor of the new venture and achieve mixed-income occupancy of the new housing during the initial development phase.

Gentrification and Displacement as Issues for Baltimore and Philadelphia

Unlike cities such as San Francisco and Boston, Baltimore and Philadelphia need an influx of more middle- and upper-income residents, and gentrification is not a significant concern. Unfortunately, both cities have been experiencing a protracted period of disinvestment—the opposite of gentrification—characterized by a loss of households with incomes at or above metropolitan-area median and an associated decline in citywide median income. At the same time, though, the experience of many cities during the 1990s shows that neighborhood markets can change quickly and unpredictably in a relatively short time, and neighborhood concerns about gentrification must be given some attention, whether or not these concerns are currently reflected in neighborhood real estate market activity. In view of these realities, then, the best policy for addressing gentrification in neighborhoods with significant concentrations of vacant property is threefold:

- *Upgrade existing affordable housing*, including HUD-insured housing developed in previous decades or public housing. Both Baltimore and Philadelphia have experienced a substantial net loss in public housing as a result of demolition activity not accompanied by replacement housing development in recent years.

- *Assemble vacant property to create sites for the development of subsidized housing*. Then, as property values increase as a result of this investment, reduce subsidy levels and pursue market-rate housing development. Through pursuing this approach in northwest Philadelphia during the 1990s, the Greater Germantown Housing Development Corporation ended the last decade as a market-rate housing developer, selling single-family homes at prices up to $108,000.

- *Make better use of available employment and training* resources that help prepare neighborhood residents for good jobs in the metropolitan economy. In both Baltimore and Philadelphia, pursuit of this goal through local political and business leadership of the Workforce Investment Board (the entity mandated to set policy for the use of federal employment and training funds) could produce substantial long-term benefits for neighborhoods currently experiencing disinvestment.[68]

<u>Implementation Challenges</u>

At the heart of the vacant-property issue lies an equally important issue that represents a significant future challenge for both Baltimore and Philadelphia: the issue of neighborhood resident employment. Vacancy was not a significant problem during the nineteenth and early-twentieth century decades when the urban neighborhood economy in cities such as Baltimore and Philadelphia was strong. As the neighborhood economy weakened with the closing of factories and the loss of jobs, vacancy began to emerge as an increasingly important issue. In this regard, the problem should can be viewed from the opposite perspective: If neighborhood resident income can be increased as a result of increased resident employment in good-paying jobs in the region (most of which are located downtown or in clusters of employment in the city and region), then neighborhood capacity to purchase, upgrade, and maintain houses will increase. To the extent that neighborhoods reduce unemployment and increase resident income, the potential for preventing property abandonment and increasing housing rehabilitation and home improvement increases. To achieve these related goals, municipal commitment to a progressive vacant-property policy must be accompanied by an equally strong commitment to advance neighborhood resident education, work readiness, training, and placement in the region's unsubsidized labor market.

Step #10: Organize for Success

Although property redevelopment is essentially a local function, successful performance is dependent on state and federal laws, administrative regulations, and supportive actions from other levels of government. A shared commitment on the part of the city, state, and federal government to address vacant property as a priority issue is essential.

For cities such as Baltimore and Philadelphia, recreating a federal, state, and local partnership can only be regarded as a long-term goal rather than as a strategy that could produce substantive results in the near future. A relationship similar to that which existed during the urban renewal era, when big cities of the Northeast and Midwest had much greater population, and correspondingly greater representation and political influence in state capitals and in Washington, is not feasible in today's environment. Weak prospects exist for establishing any major new federal or

[68] These issues and related topics are discussed in John Kromer "Gentrification and Disinvestment: Policy Choices" (presentation at November 1-2, 2001 conference on "Managing Change in Urban Neighborhoods"), available at www.neighborhoodrecovery.com.

state funding program to comprehensively address the issue of urban vacant property. Instead, organizing for success requires a staged approach that starts with improvements in local capacity accompanied by supportive state and federal actions that result in better use of available resources.

Above all, it is important that governments think ambitiously but act incrementally in addressing the issue of vacant land reform. Elected and appointed officials need to set ambitious goals, as mayors O'Malley and Street have done, and need to demand substantial improvements in local-government performance of vacant-property-related responsibilities. But to fulfill these ambitions and convert vacant property into valued assets, a sustained, long-term commitment of political support, administrative leadership, and funding is needed. There is no "quick fix" solution to the underlying problem of economic disinvestment in older cities; the task of managing an economic recovery strategy is a long-term endeavor that requires an ongoing assessment of the relationship between public action and the opportunities available in the current real estate market. To organize effectively for success, local, state, and federal governments must establish and sustain both short-term program actions as well as long-term policies to address the problems and opportunities associated with vacant-property acquisition, development, and reuse.

V. Conclusion

Baltimore and Philadelphia have initiated approaches to neighborhood reinvestment that are more ambitious than those undertaken by previous mayors of these cities, or by most other cities with similar characteristics. Because many of the vacant-property-related activities being undertaken in these cities have no precedent and no established performance benchmarks, it will not be possible to determine the effectiveness of the strategies currently being put into play by mayors O'Malley and Street for several years. During these years, the Neighborhood Transformation Initiative and Project 5000 will probably exceed expectations in some respects and fall short of projected performance in others. Capacity-building, organizational development, computerization, and new program development will be time-consuming, and some program activities will probably not produce the short- and mid-term results that are currently anticipated and hoped for. But for both cities, the alternative—a less comprehensive approach that is assigned lower political priority—is unacceptable. Other cities that have experienced population decline and a proliferation of vacant buildings and lots will need a level of leadership, ambition, and commitment comparable to that of Baltimore and Philadelphia in order to decisively improve the urban neighborhood economy during the coming years.

The greatest current challenge, the one that will decisively influence the future success of vacant-property policy and strategies in Baltimore and Philadelphia, is the need for stronger departmental leadership, better interdepartmental coordination, and more effective staff development. In each of the two cities, the mayor needs to designate a person to be "in charge" of vacant-property policy implementation and authorized to give direction to any and all of the agencies that currently play some role in vacant-property acquisition, maintenance, financing, disposition, and development. These agencies, in turn, need to be prepared to take direction, to work in concert with one another, and to upgrade staff capability in order to achieve performance goals set by the mayor and the mayor's designee. A blend of strong leadership combined with a collaborative implementation approach is likely to be the key to success for Baltimore and Philadelphia in addressing vacant-property issues during this decade.

APPENDIX

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