Maryland General Assembly passes legislation to help confront real estate appraisal gap in redlined areas

By Ethan McLeod, Baltimore Business Journal, April 13, 2021

State lawmakers this past weekend sent legislation to the governor's desk that would create a public funding tool to address the stubbornly problematic appraisal gap in historically redlined and disinvested neighborhoods in Baltimore and elsewhere across Maryland.

On Saturday, Maryland's Senate unanimously approved HB1239, which would create a special fund for the state's Department of Housing and Community Development to help cover the difference between how much a developer spends to renovate or build out a new home in an economically distressed neighborhood, and how much the home sells for based on an appraisal. The legislation awaits Gov. Larry Hogan's signature.

These funds, to be made available as either grants or tax credits, would be capped at 35% of the price tag for construction costs on a given project or 80% of the national median home sales value — whichever turns out to be less. The program, dubbed the Appraisal Gap From Historic Redlining Financial Assistance Program in the bill, would target designated low-income census tracts under rules to be set by Maryland DHCD.

Another noteworthy product of the legislation: a planned disparity study, called for by House Speaker Adrienne Jones, demonstrating a pattern of racial discrimination in community investments, real estate financing or real estate appraisals in certain ZIP codes and census tracts over the last 30 years.

Advocates and bill sponsors expect the fund will provide millions annually in new subsidies to help community development corporations, nonprofits and various private developers working in areas where vacant homes abound, but developers often struggle to profit or merely break even on renovations due to low appraisals.

"We need to be creating the ability for both developers and potential homeowners to find a way to make the numbers work," said bill sponsor Del. Brooke Lierman on Monday, before the final day of the legislative session. "Just a little bit of investment by the state through a program like this will yield generations of positive returns for the homeowners and for the neighborhood."

As originally proposed, the bill would have set aside $4 million for the program. However, state Sen. Antonio Hayes, who sponsored companion legislation in the Senate, said he and Lierman retooled the language to be less specific in light of momentum for a new federal tax credit targeting such appraisal gaps. U.S. Sen. Ben Cardin, D-Maryland, has co-sponsored the proposal.

Hayes expects the funding coming down the pike will likely be higher: “It looks like the feds are prepared to do way more than $4 million.”

In interviews, Lierman and Hayes pointed to the disastrous history of redlining, in which mortgage lenders and government officials collaborated in the early 20th century to devalue mostly Black city neighborhoods’ real estate based on their racial and ethnic makeup.

Despite being outlawed by the Fair Housing Act of 1968, gaps still exist and the legacies of redlining continue to discourage redevelopment of many areas today.

Hayes worked with Parity Homes founder Bree Jones on the legislation’s language. The lawmaker first approached her about the idea in January 2019; she recalls “haphazardly” drafting up a two-page proposal in his office on a day when she was testifying on another bill of his in Annapolis. The bill sponsors then worked with Jones, CDCs and other private developers to fine-tune its language.

Jones, whose firm is targeting redevelopment of entire, blighted blocks of Harlem Park, previously described to the BBJ how the appraisal gap poses one of her most significant challenges, particularly given the high competition for foundation and public grants. She said her average gap for a renovation is roughly $70,000.

Upon learning of the bill’s passage this past weekend, “I was almost in tears,” Jones said. The legislation passed the House of Delegates 109-25 on March 10 — Lierman, a Democrat, noted it drew some some support from across the aisle — but did not proceed in the Senate for roughly a month.

“It’s just been really humbling,” Jones said. “As much as I am really excited about the housing work I do in my one neighborhood in Baltimore, I think this bill has a much wider impact at scale.”

Lierman said as much, noting the special fund could help spur homeownership redevelopment in areas like Salisbury on the Eastern Shore, Cumberland in Western Maryland and Waldorf in Southern Maryland, places that similarly have “neighborhoods that have been left behind and have amazing potential.”

Both Jones and Brendan Schreiber, whose firm, Schreiber Brothers Development, has undertaken nearly 20 homeownership renovations on the west side so far, said the special fund isn’t a one-off solution to confronting redlining. Schreiber noted the system for distributing these funds must be very nimble, since there’s typically a 30-day gap between an appraisal and the closing date for a home sale.

"We need to make sure that it’s moving in a way that it’s actually useful for the market," he said.

He also highlighted an ongoing push for reform of the appraisal industry itself, which data shows has continued to undervalue homes in Black and Hispanic neighborhoods.

But “for those who are trying to do the difficult work of establishing comps in historically redlined communities, this is an absolutely critical source of funding,” he said.

Read this article online here.