

Case Study

Transforming a Brownfield in Baltimore

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Many American cities with a legacy of heavy industry and manufacturing—cities like Cleveland, Baltimore and Detroit—have lost jobs and population over the past half-century for a variety of reasons. As a result, blight and environmental hazards stemming from abandoned industrial areas pockmark the once vibrant landscapes of these great historical communities. Even smaller cities in economically vibrant regions—Richmond, California, for example, which developed primarily as a shipbuilding town during WWII—face challenges in redeveloping shuttered factories and contaminated sites.

In select areas, though, things are changing. Over the past decade, the rise of state brownfield voluntary cleanup programs, brownfield reuse incentives, and historic rehabilitation tax credits have stimulated redevelopment interests in vacant and abandoned sites. Waterfront properties or buildings close to gentrified neighborhoods have been remediated and redeveloped successfully; the resulting mixed-use projects attract stylish restaurants, bars, and high-end condo buyers.

But the differences between reuse projects in an up-market area—where industrial buildings seemingly turn into high-end and high-tech condos overnight—and those in a down-market area are striking. With much of the success of brownfield redevelopment being driven by the real estate mantra “location, location, location,” hundreds of brownfields remain idle, particularly those in low-income and disadvantaged areas. Funding constraints and limited demand for new housing make it difficult to pencil out deals in weak market areas, especially when environmental remediation costs are added in. Even when pioneering developers do choose to take on sites in these communities, redevelopment remains tricky and can have unintended consequences. For example, rather than strengthening an area, even a well-intentioned redevelopment project can sometimes erode the charm and charisma of neighborhood life. A very real threat exists that longtime residents will be “priced out” and no longer be able to afford to live in their own neighborhood.

How, then, can brownfield redevelopment take place in disinvested neighborhoods and actually strengthen the fabric of a community? At the former HF Miller Tin Can and Box Company site in Baltimore, a for-profit developer team took on just this challenge. Donald and Thibault Manekin developed a project designed to transform a decaying 80,000 square foot manufacturing facility adjacent to a disadvantaged neighborhood into a structure that supports nonprofits and provides affordable workforce housing.



The HF Miller Tin Can and Box Company in Baltimore. This site is being transformed into workforce housing and nonprofit incubator space.

The Vision

Built at the turn of the 20th Century, the HF Miller plant had been abandoned for many years, and nearby residents expressed concerns about the unsafe conditions—such as falling glass and metal—caused by the dilapidated building. After discussing these issues with neighborhood leaders and holding a community “open house,” the Manekins developed a plan for the building that would incorporate both social and environmental goals into the redesign. Now in the demolition phase, the redevelopment plan calls for 35,000 square feet of office space to accommodate nonprofit organizations working in the education and human services sector. The remainder will be divided into 40 one-, two-, and three-bedroom apartments for first-time teachers, many of whom are tackling some of our country’s most challenged schools by participating in the federally backed Teach for America Program.

The development scheme grew out of a recognition that educational non-profits often need to work in collaboration with one another, but their offices were spread throughout the city. The rehabilitated HF Miller building will bring the groups under one roof. To help the organizations save limited resources, the Manekins have incorporated a shared kitchen, shared conference areas, and ample common space. Thibault explained that, “The non-profits groups loved the concept. These folks often work within a pretty tight budget. Sometimes if you want to meet with somebody, you have to go to a

coffee shop because they simply didn't have enough space; or, the groups would be putting a lot of their budget into square footage. They would have to be leasing a facility with a kitchen, conference room, etc." In total, 5,000 square feet will be combined commercial area, a design that calls for a costly "dig-out" wherein the garden-level floor is lowered by 18 inches. Non-profit groups not only approve of the concept—they've signed on; after only a few conversations with non-profit groups, 100 percent of the office space is spoken for. The developers hope to open the building to tenants by June of 2009.

Getting a Brownfield Project to Pencil

The Manekin family has long been associated with large-scale development projects in the Baltimore area, but this second- and third-generation duo are just cutting their teeth with some complicated state and federal incentive programs to redevelop the HF Miller site. According to Thibault, without the availability of a laundry list of state and federal incentives "the high price of rehabilitation never would have penciled out."

The overall budget for the site is approximately \$20 million, which includes a significant line item dedicated to environmental remediation. Along with asbestos insulation, leaky electrical transformers, and countless layers of lead paint, the building's courtyard capped two massive—and leaking—underground storage tanks. With help from the Baltimore Development Corporation, the Manekins secured an EPA Brownfield Site Assessment Grant of \$30,000 to help pay for initial environmental assessments. To ensure that the cleanup would be done properly and to dispel threats of future environmental litigation, the developers entered Maryland's Brownfield Voluntary Cleanup Program (VCP). Participation in the VCP gives the site eligibility for state brownfield remediation tax credits—a juicy incentive that drastically offsets the cost of cleanup.

State and federal historic tax credits were also "must have" incentives. The property's designation as a historic site allowed the developers to capitalize on preservation tax benefits of \$2.7 million from Maryland and \$2.8 million from the federal program. The developers leveraged the combined \$5.5 million in historic tax credits with \$6 million in New Market Tax Credit (NMTC) dollars to give the project the equity position the developers needed to transform the site.

Being awarded the NMTC dollars was a major accomplishment. The New Markets Tax Credit program, enacted by Congress in 2000, channels investment dollars into low- and moderate-income census tracts. Areas qualifying for this tax credit must have a poverty rate of greater than 30 percent, income level below 60 percent of area median

income, and an unemployment rate 1.5 times greater than the U.S. average. In addition to these strict eligibility criteria, the NMTC is operationally difficult, since the tax credit does not go to the developer or business owner entering a disadvantaged neighborhood. Instead, the credit actually goes to an investor who gives money to a Community Development Entity (CDE). The CDE can then pass the investment dollars on to businesses or development projects located within "qualified census areas." The CDE can make loans or provide grants—really get as creative as they want—in order to make transactions work. In exchange for the contribution to the CDE, the initial investor gets a hefty 30 percent tax credit.

Obtaining NMTC funding is extremely competitive. Since Congress caps the availability of NMTC funds, only the most downtrodden neighborhoods or the most creative project/business ideas have fared well in obtaining funds. As part of the application process to CDEs with an allocation of credits, the Manekins were asked to "tell a good community story." Evidently, the Manekins' concept scored well with the NMTC process, and two CDEs have come forward to provide a total of \$6 million in equity.

Before rehabilitation can move on to the construction phase, the project must overcome one major hurdle: the fact that traditional lenders are hesitant about the potentially risky deal. So far, the project is self-financed. Thibault Manekin has found that bankers' ideas of a sound project differ greatly from the ideals behind NMTCs. "There is a huge contradiction between the banks and the use of New Markets Tax Credits," he said. "With New Markets you have to be willing to do business in challenging neighborhoods, areas that elicit skepticism from a lot of banks." However, the Manekins are confident that as they wrap up the demolition phase and get an environmental approval from the state, traditional financing will come through. The brownfields remediation tax credits, historic preservation tax credits and NMTCs boost give the project a loan-to-value ratio that should please most loan officers.

Conclusion

Baltimore has one of the highest rates of vacant and abandoned structures in the country, which has contributed to low property values and a diminished tax base. But Donald and Thibault Manekin have aimed to spark investment in the city through the creative reuse of a brownfield in one of the city's neglected communities. They hope that their redevelopment efforts will contribute overall to renewed opportunity and vibrancy in the city. Moreover, they show that environmental remediation and the restoration of brownfields can be accomplished in tandem with social objectives that benefit the local community. 