Testimony on House Bill 33
Ohio House Finance Committee

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Chairman Edwards, Vice Chair LaRe, Ranking Member Sweeney, and members of the House Finance Committee, thank you for the opportunity to offer testimony on behalf of Cleveland Neighborhood Progress and our network of Community Development Corporations in Cleveland.

My name is Tania Menesse, and I am the President and Chief Executive Officer of Cleveland Neighborhood Progress. I am here today to provide testimony in support of our request for an investment through House Bill 33, the State's Fiscal Year 2024-2025 Operating Budget, in the Middle Neighborhoods Investment Project.

Our mission at Cleveland Neighborhood Progress is to foster the equitable revitalization of Cleveland neighborhoods. Neighborhood revitalization means bringing weak or disinvested markets back to a healthy condition – and making sure that already healthy markets are places of opportunity for everyone. Cleveland is home to 34 different neighborhoods – from West Park in the far west, to Collinwood and Lee Harvard in the east. Approximately two-thirds of the city is considered disinvested, and more neighborhoods are headed that way if we don't make smart, strategic investments to turn things around.

In the first attachment that I've shared with you, you'll see how those neighborhoods and their census tracts are classified into three categories: Market rate neighborhoods, middle neighborhoods, and opportunity neighborhoods. They can be summarized in this way:

- **Market rate neighborhoods** (green on the map) are exactly what it sounds like: they are the places where *both* the housing market and main streets are healthy and strong. Banks lend here because people want to buy homes, rent, dine, shop, and spend time here. So, the private market works in these neighborhoods – and it's a very good thing that Cleveland has a few communities like this at all.
- **Opportunity neighborhoods** (purple on the map) are the opposite of market rate. The name is, admittedly, a euphemism: "opportunity" really means disinvested. These neighborhoods have been plagued for decades by red-lining, predatory lending, and out-migration. Today, two-thirds of the City of Cleveland can be categorized as disinvested. Broadly speaking, banks and the private market do not work in these neighborhoods – not for investments in homes or businesses. Yet, there is tremendous opportunity here, too – but it will take decades to turn these neighborhoods around because there is so much work to do.
- **Middle Neighborhoods:** Between the market-rate neighborhoods and opportunity neighborhoods are Middle Neighborhoods (yellow on the map). They do not get the positive attention of "hot" real estate markets, nor do they get large public investments like the disinvested "opportunity" neighborhoods. Banks are reluctant to do much lending in these neighborhoods without federal mandate or public subsidy. Middle Neighborhoods sit between

investment and disinvestment – but their position is uncomfortable and tenuous because *they are in slow decline*. This is where our Middle Neighborhoods Investment Project will focus.

That slow decline of Middle Neighborhoods can be attributed to multiple factors. For example, middle neighborhoods are where people have owned their homes for decades – resulting in fewer homes for sale, fewer comps for realtors and appraisers to use, and subsequently artificially low home values compared to identical homes in similar communities. Those same homeowners also tend to be middle- and working-class people aging in place. As they age in place, they physically become less able to do maintenance and repairs on their own homes. This happens at the same time as they retire, so they can't afford to pay someone to do major repairs or improvements if they can't do it themselves.

These factors manifest themselves in something called the "appraisal gap." If you owned a home in one of these middle neighborhoods and were able to pay for or finance a major repair or renovation, your home value would not increase by as much as you paid for the work. For example, if you owned a home in Cleveland's West Park neighborhood, it is very likely a 3-bedroom, 1-bath house valued at $125,000 with a good sized-yard, a garage, and great neighbors. If you and your husband or wife start having kids, or perhaps a mother or father needs to move in with you, it would be reasonable to want to add a bathroom and maybe expand the kitchen. If you saved up and paid $100,000 to do that work, your home value would not go from $125,000 to $225,000; rather, it might only go up to $150,000 – leaving you, the homeowner, with a $75.000 appraisal gap.

This is a problem because banks will not lend in these scenarios. The result for one home is that deferred maintenance builds up and the home becomes outdated – or neglected. The result for the neighborhood, full of these homes, is that people stop investing in their homes, either because they can't afford to, they can't get loans to do it, or because they choose to skip home repairs and move somewhere else entirely. When this happens long enough, middle neighborhoods tip the wrong way and become disinvested neighborhoods.

A similar thing happens with commercial storefronts on main streets. Older storefronts along main streets are great places for entrepreneurs and amenities that people love to have in their community. Yes, coffee shops come to mind, but so do barber shops and salons, the local bar, second-hand or consignment shops, and local bank branches. However, the stores and businesses on our main streets rely on a strong community around them to serve as a foundation of customers – and then the liveliness of the neighborhood attracts other people to the main street. In middle neighborhoods, as the housing market has stagnated, so too have the main streets.

Our work focuses on Cleveland's Middle Neighborhoods, where targeted interventions can stop stagnation, tip the neighborhoods in the right direction, and stop these neighborhoods from becoming too forgone for any investment. Our strategy is a two-prong approach that focuses on main streets, where people open businesses and shop, and side streets, where people live. Main street interventions include white-boxing of storefronts, installing outdoor "parklets" to expand customer seating and create vibrant sidewalks, and helping entrepreneurs with outfitting their stores. We have been doing this work for the last several years, and it builds on our team's strengths. Side street interventions include the strategic rehabilitation of homes. This work will require us to absorb the "appraisal" gap for the homes we rehab and return to the market – but it will quite literally become part of the data sets and "comps" that realtors, appraisers, and banks use. Block by block, this will change the trajectory of the entire neighborhood market.

We call this program the Middle Neighborhoods Investment Project because it's an investment that offers a real ROI. Dollars invested in middle neighborhoods have the three-fold impact: (1) seeing return quicker on investments, (2) increasing the tax base quicker, and (3) preventing larger, more expensive government intervention in the future. If we don't do this, I guarantee you that the yellow parts of that map will become purple in 5 to 10 years. .

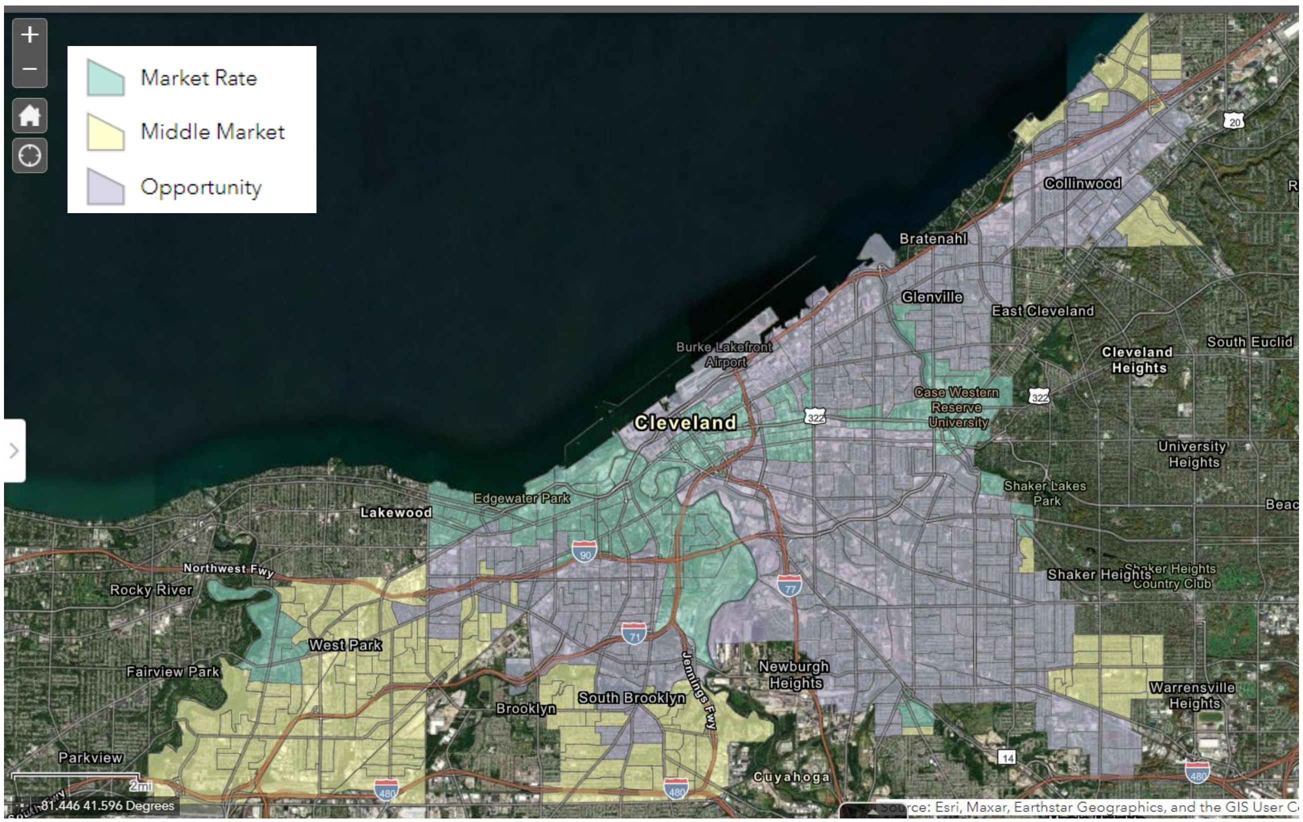
Just as we are asking for your support today for $3 million in the next biennium, I want you to know that we are seeking a match from the City of Cleveland from their ARPA funds. We are advocating through Cleveland City Council and the Mayor's Administration for a match of $12 million. We are asking for these amounts because housing and economic development are expensive enterprises, and to do this work right, we have to do it at scale.

Chairman Edwards, Vice Chair LaRe, Ranking Member Sweeney, and members of the committee: Thank you for this opportunity to provide testimony today. I am not coming to you with a request for operating dollars or an investment in a pilot program untethered from reality or real-world data. Our team is drawing on 35 years of experience doing this work across the City. Our goal is to help return all Cleveland neighborhoods to healthy market conditions that provide a high quality of life for residents, workers, and guests. Middle Neighborhoods represent the best opportunity to reverse decline, end stagnation, and tip critical markets in the right direction.

I ask for your support for this work and for our request, and I would be happy to answer any questions that you or your colleagues may have.

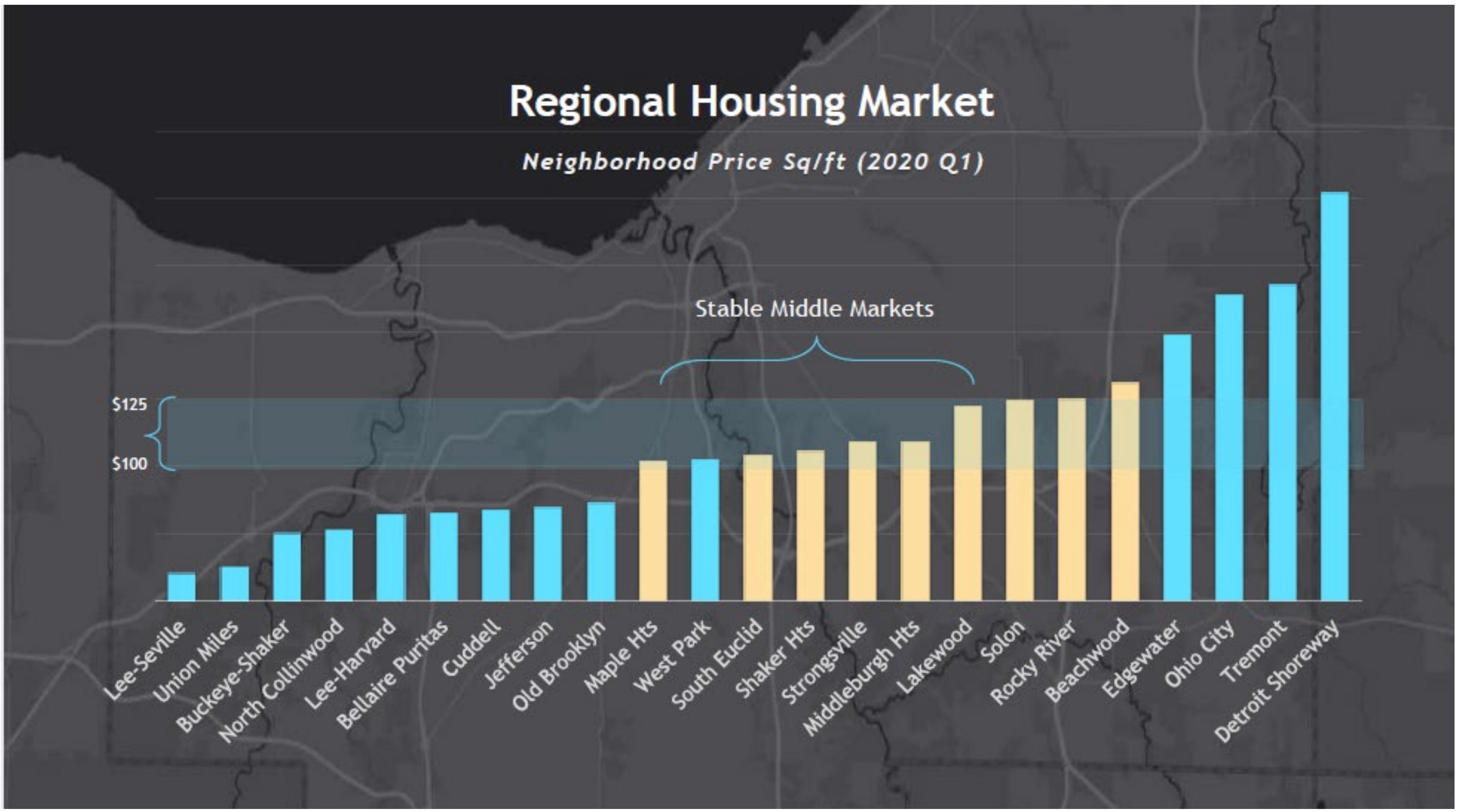
Cleveland Neighborhood Typology

Data shows that most of Cleveland is comprised of disinvested “opportunity” neighborhoods (purple). Market rate neighborhoods are limited to the small parts of West Park, the Near West Side, and University Circle. Middle neighborhoods constitute the rest of Cleveland. Though stagnant right now, strategic investments can trigger growth and prevent large-scale decline.



Cleveland’s Middle Neighborhoods are on the Edge

Most Cleveland middle neighborhoods are under the minimum price per square foot necessary for stability, compared to suburban markets.



The Appraisal Gap,

Illustrated by comparing the same $55,000 rehabilitation in a Cleveland neighborhood and an inner-ring suburb.