



Senate Government Oversight and Reform Committee

Edward Stockhausen, Senior Vice President of Advocacy and External Affairs

Substitute House Bill 96

May 14, 2025

Chair Manchester, Vice Chair Brenner, Ranking Member Weinstein, and members of the Senate Government Oversight Committee:

Thank you for the opportunity to provide testimony. My name is Edward Stockhausen, and I lead advocacy and external relations at Cleveland Neighborhood Progress. Our company is a local community development intermediary that does three things: We empower neighborhood-based nonprofits to lead development in their communities, we have a development subsidiary that leads major project across the City of Cleveland, and we have a lending arm that helps entrepreneurs grow their contracting companies and build their projects.

Today, I am offering interested party testimony on the State of Ohio's Biennial Operating Budget for Fiscal Years 2026 and 2027, requesting your and the State's continued support for our Middle Neighborhoods Investment Initiative. Because of your initial investment two years ago, we raised an

additional \$7.3 million from the City of Cleveland and over \$700,000 from corporate philanthropy. We have used those funds to transform dozens of residential homes, storefronts, and businesses with the goal of stabilizing four "middle neighborhoods" in Cleveland and positioning them for future growth,

In asking for your support for another \$3 million investment in Substitute House Bill 96, I want to share with you the progress we've made so far and our estimates for the return on investment.

What are middle neighborhoods? On the spectrum between market-rate communities and disinvested areas, middle neighborhoods occupy the steady, stable place between. They do not get the positive attention of "hot" real estate markets, nor do they get large government investments like the disinvested neighborhoods.

While some Middle Neighborhoods are doing fine, others sit closer to the disinvested communities – and, in fact, are in slow decline. We are targeting those middle neighborhoods in the City of Cleveland, and there are many lessons and practices that can be applied to other, similar middle neighborhoods elsewhere in Ohio.

The goal of our Middle Neighborhoods Investment Program is clear: Bring the markets in these neighborhoods back to healthy conditions, before things get worse and – as a result – cost more to fix in the future. Once our strategic investments take hold, the private market takes over.

We make these investments by focusing on two things: main streets and side streets.

- *On main streets, we make investments that help people do business.* We help landlords repair their buildings and storefronts so that small businesses will want to locate there. This is mainly done through a matching grant program so that the property owners have skin in the game. Together with them, we transform old, outdated storefronts to contemporary standards so that entrepreneurs and small businesses will lease them. With just a few transformed storefronts, an entire main streets can be brought back to life. And that effect is catalytic, spurring more private investment up and down the mainstreet.
- *On side streets, we're rehabbing homes with three goals in mind. First, we want to increase homeownership* in these communities. Homeownership is the primary way that Americans and Ohioans build wealth. However, in these middle neighborhoods, homeownership has been on the decline, but we can reverse that trend.

Second, we compete against out-of-state investors. We know that those investors see Ohio's housing market as a gold mine. Middle neighborhoods historically have been places with very high homeownership rates, but institutional investors are changing that landscape – and changing it for worse. Studies have shown that “the conversion of owner-occupied homes to rental properties drives negative [...] economic impacts in those neighborhoods.” This includes: declines in property values by up to 2%, lower property maintenance, lower voter engagement, and increased crime. That study also found a 2% increase in property crimes, 3% rise in violent crimes, and a 9% rise in drug-related offences.¹ All of this is related to increased purchasing of single-family homes by investors.

Last, we want to do enough work to restore healthy market conditions so that private market can take over again. As our team likes to say, this is about “rebuilding market confidence.” That's the confidence of developers who would want to build new housing on vacant lots. It's the confidence of local business owners that these are places where they can do business. And it's the confidence of existing residents in their own homes and communities.

We call this program an investment, but it's also an intervention to prevent greater losses. Without this strategy, the community would have to wait until another actor, like a land bank, had legal authority to intervene. Before a land bank could step in, costs to the community would have already accumulated, including:

- *Deferred maintenance*, which gets progressively more expensive to fix as conditions get worse and worse;

¹ Billings, Stephen B. and Soliman, Adam, The Social Spillovers of Homeownership: Evidence from Institutional Investors (November 30, 2023). Available at SSRN: <https://ssrn.com/abstract=4649479> or <http://dx.doi.org/10.2139/ssrn.4649479>.

- **Code violations**, which cost cities millions in enforcement, often with no guarantee of improvement.;
- **The costs of foreclosure to government and public safety systems**, which can require as much as a year-and-a-half of legal work and other governmental costs, which one study quantifies as 3.2 times as many drug calls to police, 1.8 times as many theft calls, and twice the number of violent crimes.²
- **The costs borne by neighbors**, including the loss of more than 9% of value on homes within 500 feet of a foreclosed property;³
- **Other maintenance costs**, including grass cutting, extra policing, board-up, and crime and squatters,

And after all of that, there's the cost of demolition. In Cuyahoga County, our land bank spends an average of \$15,223 on every demolition, and the City of Cleveland spends millions on demolition each year, too. In fact, before a landbank can ever acquire a home, that home has already cost the community over \$150,000 in a variety of costs – and neighbors will have lost equity in their homes.

That is why CNP's Middle Neighborhoods Investment Initiative is designed to secure, rehab, improve, and return homes to the private market in less than 12 months for less than \$100,000 per home. For each home we purchase and renovate through our Middle Neighborhoods program, we spend approximately: \$80,000 or more on acquisition and \$250,000 on renovations. The total development costs are approximately \$378k per home, which means that our work is \$120,000 less than the median price of \$498,000 for a new-construction home in Ohio. Our model also considers an average listing price of \$286,000, in which the difference between the sale price and the total development costs is supplied by our investment pool. The funds from each home sale subsequently go back into the investment pool, thereby restoring it and allowing our team to work on the next property – often just down the street from the last home.

Along the way, we build trust with neighbors about the quality and intent of our work – and they regain equity in their homes. So, with this model, we take a little hit, but the neighborhood gets a big win. House by house, we don't just bring new homeowners to the neighborhoods. We are bending the market trajectories of these neighborhoods up, in a positive direction.

Here's the key to understanding the scale of our plan: To explain our plan, I'd like to use Kamms Corners – a middle neighborhood in Cleveland – as our standard. Kamms Corners is a Cleveland middle neighborhood – not an inner ring suburb or other suburban community – so this feels like an apples-to-apples comparison. If our Middle Neighborhoods Investment Program can help get the values in the Collinwood neighborhoods to be

² National Vacant Properties Campaign. "Vacant Properties: The True Costs to Communities." (August 2005). Available at <https://files.hudexchange.info/resources/documents/VacantPropertiesTrueCosttoCommunities.pdf>.

³ Whitaker, Stephen and Fitzpatrick IV, Thomas J., The Impact of Vacant, Tax-Delinquent and Foreclosed Property on Sales Prices of Neighboring Homes, Federal Reserve Bank of Cleveland (2011).

equal to those in Kamms Corners, then the neighborhood would gain approximately \$1.32 billion in total housing value. That would mean approximately \$3.2 million more per year in property taxes for schools, libraries, and parks.

Similarly, if our Middle Neighborhoods Program can help achieve parity between the Lee-Harvard neighborhood and Kamm's Corners, then there would be an additional \$600.5 million in total housing value, and approximately \$14.65 million more per year in property tax revenue.

And if this happened in the Old Brooklyn neighborhood, there would be an addition \$536.7 million in housing value, and an additional \$13.1 million per year in property tax revenue.

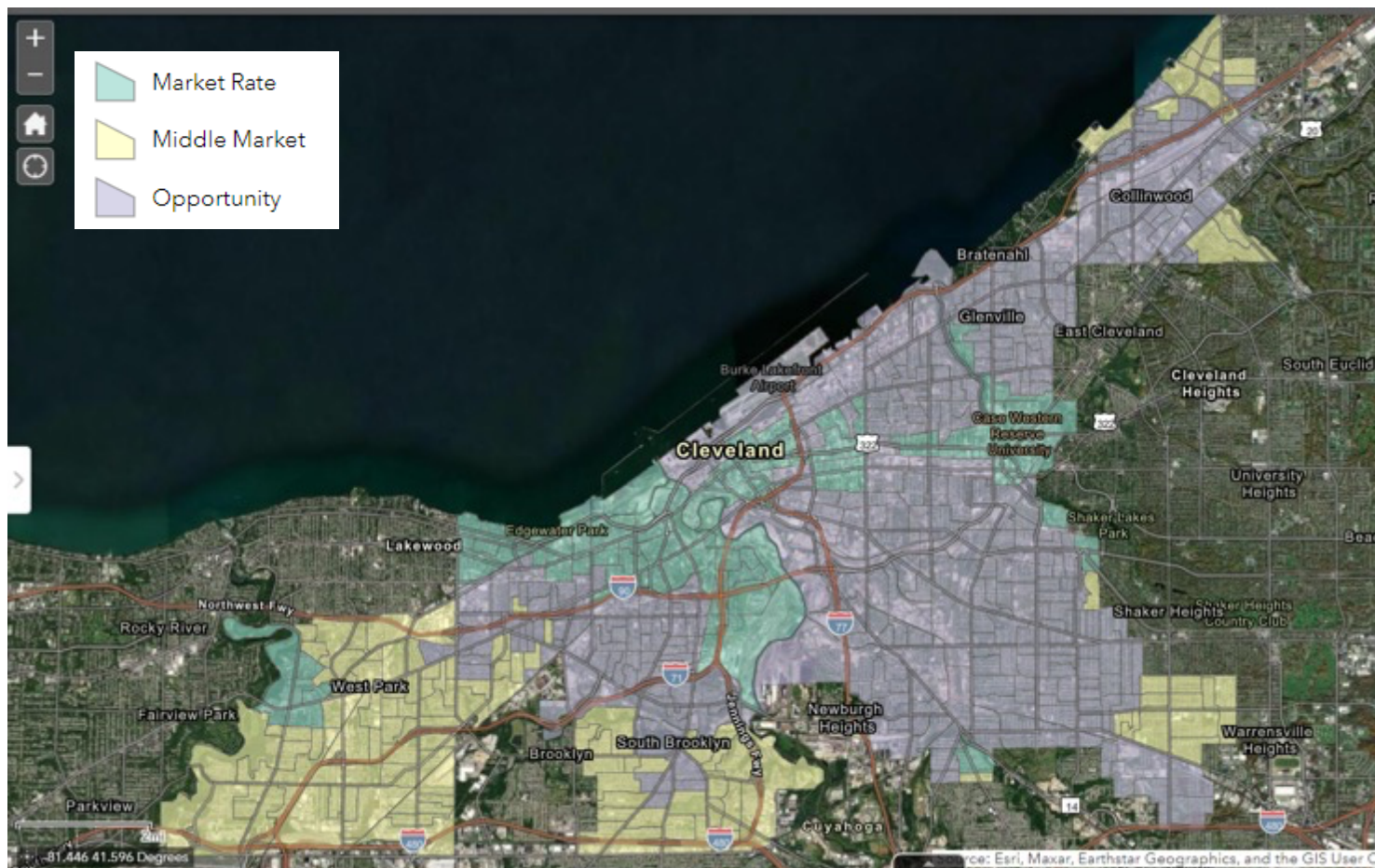
All told, that would be \$2.5 billion in potential growth and over \$30 million in new tax revenue if our program succeeds in stabilizing property values and increasing overall neighborhood value.

When these middle neighborhoods are stronger, they can do more for themselves, the City, and the State of Ohio. Stronger housing markets will attract more private investment. For example, banks, developers, and commercial investors will need fewer incentives to invest in stronger markets. And homeowners will have more equity to tap into for their own home improvements. Long-time residents would benefit by building generational wealth through homeownership, and new residents would benefit from having strong, stable communities where they can raise their families. These neighborhoods will also help Ohio solve its affordable housing crisis because they will likely score better on OHFA's QAP for affordable housing, and therefore more affordable housing would be built in these communities.

This strategic investment can be modeled for other communities,

Thank you for the opportunity to provide testimony on behalf of Cleveland Neighborhood Progress. Should you have any questions about this project, its impact, or how it could be adapted to meet the needs of your districts, we would be happy to provide additional comment and support.

Cleveland Neighborhood Typology



Ohio's Other Middle Neighborhoods

Ohio has dozens of communities that can be considered “middle neighborhoods.” The [National Community Stabilization Trust](https://ncst.org/) has a mapping tool that shows these communities according to six different interpretations of income-based data. One of those interpretations is shown here.

The various “tests” used by the National Community Stabilization Trust to determine “middle neighborhoods include:

- City Test #1: Census tracts with median household incomes between 60% and 100% of the region's largest city's city-wide median household income;
- City Test #2: Tracts between 80 - 120% of city-wide median;
- National Test #1: Tracts between 60 - 100% of national median household income;
- National Test #2: Tracts between 80 - 120% of national median;
- Regional Test #1: Tracts between 60 - 100% of regional (MSA) median household income;
- Regional Test #2: Tracts between 80 - 120% of regional median;
- Regional Test #3: Tracts between 100 - 160% percent of regional median

For more information, visit: <https://ncst.org/middle-neighborhoods/>.

