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Documenting the Slavic Village Recovery Project

An Early Review of a Model
for Neighborhood
Revitalization in Cleveland,
Ohio

Greater Ohio Policy Center

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Prepared by Greater Ohio Policy Center

I. Introduction

Slavic Village Recovery, LLC (SVR), a for-profit entity consisting of four partners, was created for the purpose of revitalizing the neighborhood of Slavic Village. Through a targeted investment strategy, the SVR partners intend to take a “holistic” approach to community redevelopment, aligning demolition and rehabilitation to eradicate blight one block at a time and supplementing its efforts with community engagement by the local community development corporation (CDC) and corporate volunteerism by the for-profit partners. It is focused on gaining access to a critical mass of real-estate owned (REO) properties and bank walkaways¹ with the intention of either demolishing or rehabilitating the vacant structures.

Slavic Village, a culturally-rich, working-class neighborhood south of downtown Cleveland, is not one of Cleveland’s most distressed areas. In fact, given its strong community institutions, diverse residents, and a very active CDC, the SVR partners recognized it as a promising opportunity for revitalization. However, the neighborhood also experienced the highest foreclosure rate in the country during the height of the housing crisis.

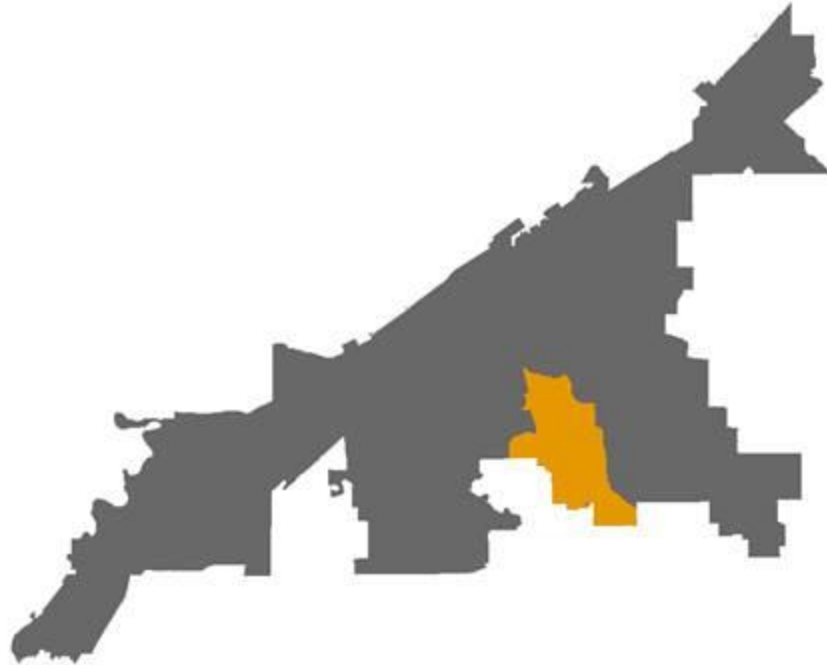
One year after the launch of the SVR Project, Greater Ohio Policy Center was tasked with documenting the model and providing recommendations regarding its potential replication in other neighborhoods. GOPC completed interviews with stakeholders and supplemented the research with available data. This Report details the “Slavic Village Recovery Project” pilot project to date, captures some early positive indicators, outlines considerations and recommendations for possible replication, and offers recommendations for strengthening the program and increasing the potential for its future sustainability.

II. Background and Neighborhood Selection

Slavic Village is a diverse neighborhood located just ten minutes south of downtown Cleveland. (See Map1 below) It has a rich cultural history as a working class community, founded by Czech and Polish immigrants. Until approximately the 1970s, the neighborhood could be characterized as stable. However, like many other urban neighborhoods, it was challenged by de-industrialization, white flight, and disinvestment. In the late 1980s, the neighborhood CDC, *Slavic Village Development* (“Slavic Village CDC”²) was established to assist in efforts related to stabilizing housing and the neighborhood market.

¹ These are properties where the foreclosure process has been abandoned.

² While Slavic Village Development is not commonly referred at as “Slavic Village CDC,” this Report uses that title in order to easily distinguish it from Slavic Village Recovery (SVR).



MAP 1: LOCATION OF SLAVIC VILLAGE NEIGHBORHOOD IN CITY OF CLEVELAND

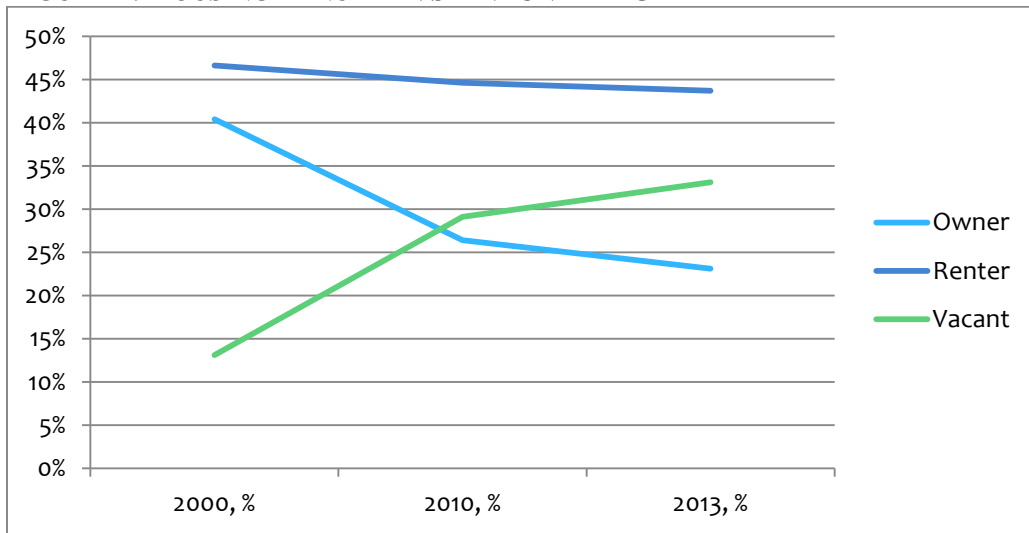
Area outlined in gray is City of Cleveland

Area outlined in yellow is Slavic Village neighborhood

Over a 25 year period, from the 1980s to the early 2000s, the neighborhood appeared to be stabilizing. During this time, Slavic Village CDC spearheaded approximately \$160 million worth of investment there. Numerous revitalization programs were launched in the community to create affordable housing and address the vacant and abandoned property challenge. Nevertheless, the neighborhood experienced devastating setbacks in the wake of the national housing crisis in the late 2000s.

In 2007, the Slavic Village neighborhood became the national poster child for the housing crisis, with the highest foreclosure rate in the country. While vacancy and blight were a challenge pre-crisis, disinvestment escalated significantly from 2007 to 2013. The number of owner-occupied homes plummeted 17 percentage points between 2000 and 2013 (compared to a decrease of 10 percentage points citywide), and vacancy rates jumped from 13% to 33%. (See Figure 1) During the same time period, the number of families in poverty increased from 27% to 43%, and unemployment rose from 6% to 23%.

FIGURE 1: HOUSING TENURE IN SLAVIC VILLAGE

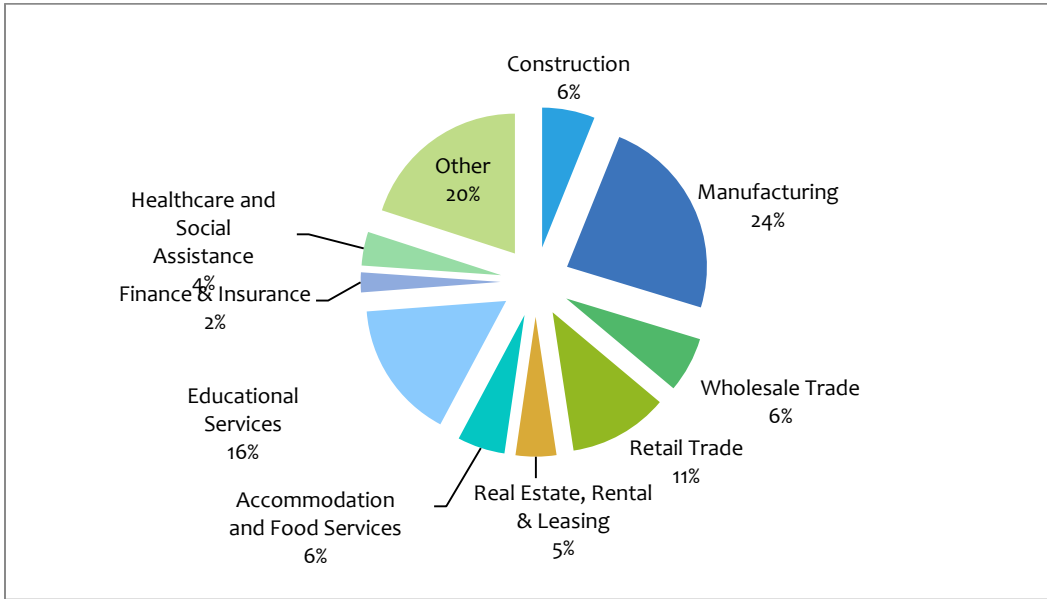


Source: GOPC with data from Census 2000, Census 2010, and ESRI current-year estimates

However, despite these challenges, the neighborhood has a number of attractive qualities that may position it for recovery, including: retail corridors; strong cultural heritage; long-standing community institutions, such as St. Stanislaus Catholic Church and the Cleveland Central Catholic High School; and a well-established CDC. The Slavic Village CDC coordinates many programs that position the neighborhood for long-term success. It spearheads community events, volunteer activities, home repair loans and other housing development and renovation programs. It also helps to facilitate housing development apart from the SVR Project, including both subsidized and market-rate housing, and supplements with financial counseling for homebuyers and corporate volunteerism by the for-profit partners.

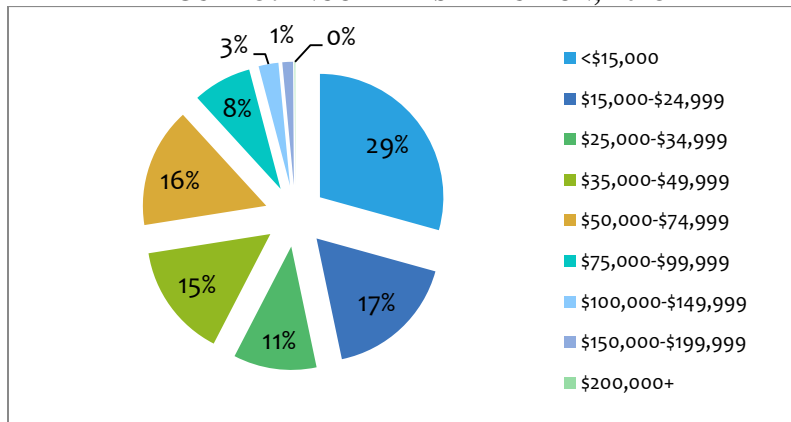
The Slavic Village neighborhood is a relatively good location for businesses and residents. Residents have employment options in a range of different sectors. (See Figure 2) Slavic Village has retained much of its retail through the challenging past decade. Some of the businesses date back a hundred years, and a viable industrial and manufacturing sector still exists. Small restaurants and retail stores are scattered throughout the Slavic Village neighborhood. Additionally, the neighborhood is now home to a variety of employment opportunities due to the presence of several larger employers, such as: MetroHealth Broadway Health Center, a comprehensive family care center offering family care, dentistry, pediatric behavioral health, and express care; Third Federal Savings and Loan bank, which recently established headquarters in the community; Arcelor Mittal, a steel and mining company; and Presrite Corp., a metal-forming plant that forges metal components, such as gears or crane wheels. Slavic Village is also near the highway and an easy commute to downtown Cleveland, offering many more employment opportunities. Given the diverse employment options, the neighborhood is not dominated by any single income-level or ethnicity. (See Figures 3 and 4)

FIGURE 2: INDUSTRIES IN WHICH SLAVIC VILLAGE RESIDENTS ARE EMPLOYED, 2013



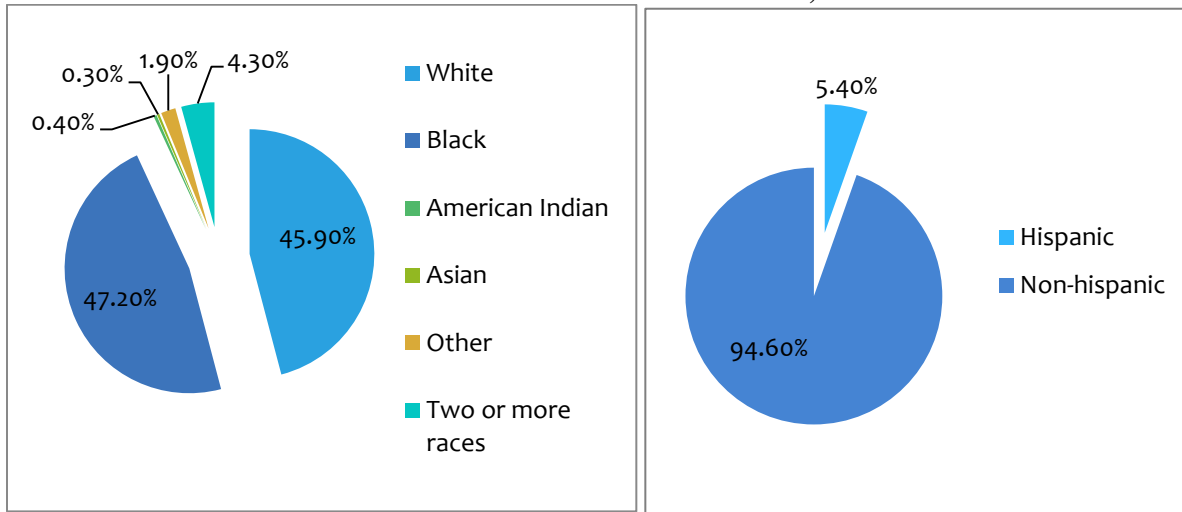
Source: GOPC with data from Dun & Bradstreet, Inc.

FIGURE 3: INCOME DISTRIBUTION, 2013



Source: GOPC with data from ESRI current-year estimates

FIGURE 4: RACE AND ETHNICITY, 2013



Source: GOPC with data from ESRI current-year estimates

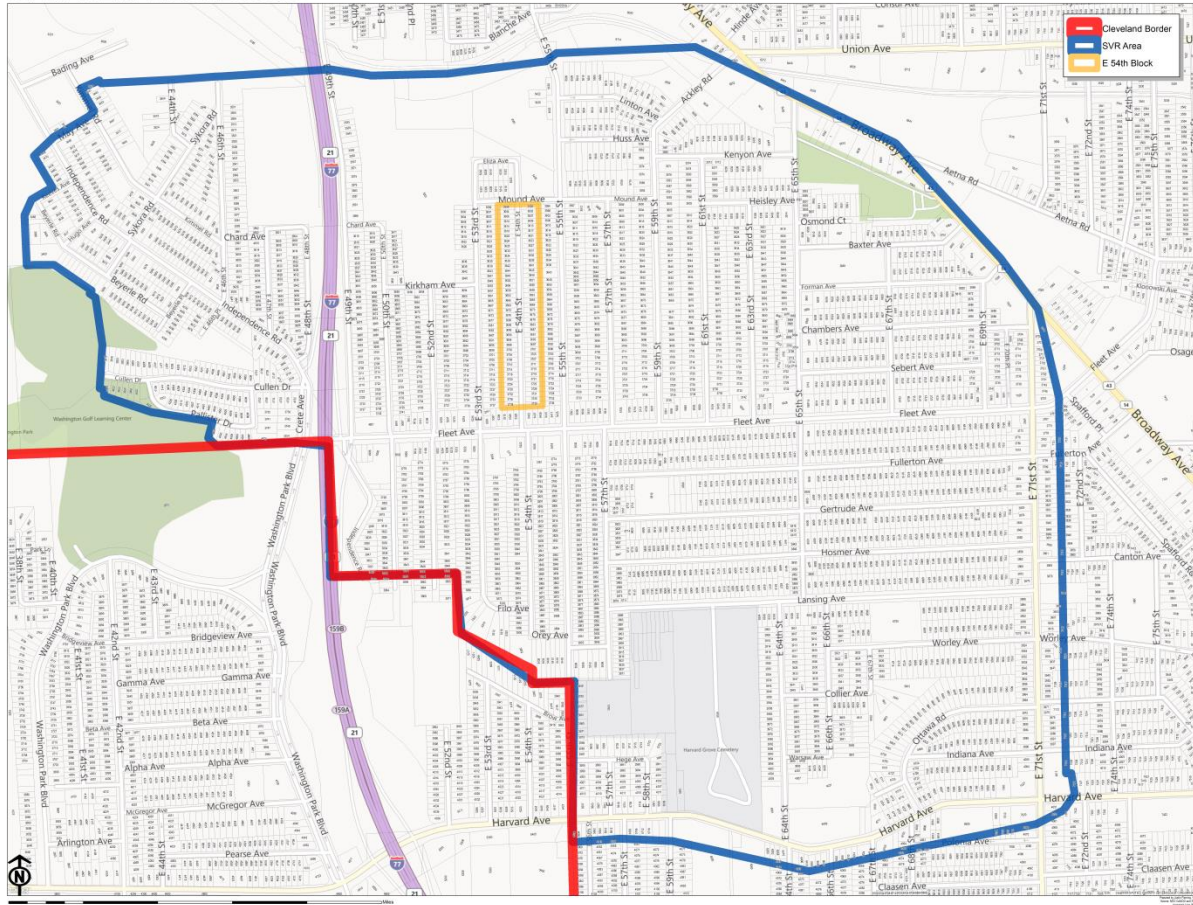
Recognizing the potential that Slavic Village’s assets presented, four partners joined to create SVR with the straightforward mission of neighborhood revitalization through physical improvements. Those partners— Cleveland Neighborhood Progress, Forest City Enterprises, Inc., RIK Enterprises, and Slavic Village Development—all contribute financial and human resources to pilot a revitalization strategy that hinges on obtaining residential properties that banks have “walked away from” to renovate at a low cost and sell for marginal profit or demolish.

The SVR Project Area (outlined in blue, with the red line boundary indicating the southwestern edge of both the city of Cleveland and Slavic Village, in Figure 5) covers some 523 acres of the Slavic Village Neighborhood, where the Project is located. This Area was chosen after careful consideration of a variety of qualitative and quantitative factors, involving a “non-traditional” analysis of housing dynamics and rehabilitation and stabilization opportunities related to an assessment of the ability to leverage existing and forthcoming neighborhoods assets. Shortly after beginning the analysis, it became clear that there were few, if any, “arms-length” transactions within the neighborhood in prior years, making impossible a traditional market analysis based on comparable sales. In the wake of the mortgage and economic crises, the vast majority of property transfers had been through post-foreclosure sheriff’s sales, or low-to-no value transfers between family and friends. Therefore, the analysis focused primarily on understanding the relationship between existing neighborhood assets and opportunities for positive intervention, such as rehabilitation, demolition, loan medication, and vacant land reuses.

Additionally, in order to maximize tangible and discernible impact as quickly as possible, the Project originally focused its efforts in and around the East 54th Street block between Mound and Fleet Avenues (the so-called “Model Block” outlined in yellow in Figure 5), as it appeared to have the best balance of intervention opportunities (i.e. properties that could be acquired relatively quickly and easily) as well as proximity to market stability and recent neighborhood investment. The Project’s plan was to establish a foothold and test the Project model within this Model Block, adapt if needed, and then expand the Project to the rest of the Project Area thereafter.

FIGURE 5: SLAVIC VILLAGE RECOVERY PROJECT AREA

SVR AREA: ADDRESSES



Source: Cleveland Neighborhood Progress

The SVR Project’s vision is comprehensive community development that benefits the neighborhood, lenders, and the city of Cleveland. The Project takes a holistic approach to development that combines strategic demolition with housing rehabilitation; in order to maximize the Project’s impact, it aims to eradicate blight entirely from a targeted area in the neighborhood and thus reach a positive tipping point one block at a time. The Project also aligns with the City’s investments and strategic code enforcement as well as with the community engagement efforts spearheaded by Slavic Village CDC.

Having a strong CDC in the neighborhood is important to the Project for many reasons. A CDC is often a trusted partner among community residents. It can offer long-term support to homebuyers, such as connections to resources that help maintain homes. Also, the supplemental programs, services, and development that a CDC can facilitate offer the potential to reinforce the SVR Project investments and build momentum.

SVR partners reported that the Slavic Village neighborhood was selected because, despite its challenges, it retains key assets. While the neighborhood admittedly has its challenges, it did not have a reputation for incredibly high crime or unemployment, like many other disinvested neighborhoods in urban areas. It also has lasting community institutions, including churches and public and private schools. Many of the

stakeholders interviewed do not believe this Project would succeed in a highly distressed community with little community capacity, or one that has been troubled by long-time crime or unemployment. Therefore, due to Slavic Village's strong community partner, neighborhood identity, and many assets, SVR Project partners determined Slavic Village would be an ideal place to pilot this Project. While on paper, the data paints a grim picture of the neighborhood, a spirit of resilience and sense of community in Slavic Village suggests it to be a place with opportunity.

III. The Partners

SVR consists of two private sector entities and two nonprofit organizations. The partnership deliberately finances the Project from non-public sources in order to allow SVR to operate as efficiently as possible and avoid the restrictions that typically accompany government financing, such as hiring requirements, approval processes, bureaucratic oversight, lengthy bidding processes, frequent reporting requirements, and restrictions on use of funds. Because the partners are all private sector entities, they are able to take a beneficial for-profit approach, which means a financially sustainable yet altruistic model that is also adaptive and nimble. Partners have exhibited flexibility and a willingness to modify components of the model to better fit the neighborhood or conditions. For example, they have been open to using a rent-to-own model in order to serve those residents interested in buying but who do not yet qualify for a mortgage. Also, early in the project homes were not being rehabilitated at a quick enough pace, and partners adapted by bringing a general contractor in-house and working with various independent contractors. These are just a couple of examples of the goal-oriented and nimble nature of partners.

All partners have a financial stake in the Project. The private sector partners contributed \$225,000 each and the nonprofit partners contributed \$25,000 each to a central account of startup capital. They then accessed a line of credit, giving SVR \$1.3 million of working capital up front. While the expectation is that each partner would receive a financial return on their investment at some point, the partners do not consider that to be a primary indicator of success and anticipate reinvesting any financial return back into continued program costs. Because the return on investment is slow and at a low level, it is important that future partners recognize the effort as altruistic in nature, at least initially, as do the current SVR partners. The inherent financial sustainability of the model should be attractive to future investors, private and nonprofit, interested in making an impact in a financially viable method over the long-term.

Each partner also contributes to the Project outside of financial support. The following outlines each of the partners and their non-financial roles.

Cleveland Neighborhood Progress

Nonprofit

Cleveland Neighborhood Progress (CNP), founded in 1988, is a citywide financial intermediary. Working in partnership with CDCs, the philanthropic community, and public and private sectors, it provides programs and services to CDCs to implement neighborhood recovery strategies, build community capacity, invest in physical development, engage new partners, increase assets for residents, and build viable neighborhoods. It believes it is critical to strategically invest in projects that contribute to the advancement of neighborhood revitalization efforts, such as the SVR Project.³

³ <http://www.npi-cle.org/about/>

As a partner in the SVR Project, CNP oversees the comprehensive data collection and analysis for the Project. CNP offers expertise on property acquisition strategies and is valued for its convening power and maintains its strong ties with public, private, and nonprofit sectors.

Forest City Enterprises, Inc.

Private Sector

Forest City Enterprises Inc., (Forest City), a real-estate company founded in Cleveland, Ohio in 1920, now holds \$10.6 billion in assets. Their portfolio includes many types of housing, business, and retail development. They are also an industry leader in mixed-use communities, adaptive reuse projects, and sustainable properties.⁴

Forest City has a motto of “doing well by doing good,” demonstrated by their willingness to invest in the SVR Project, a local commitment that offers a slow and minimal return on investment. They have a rich history of philanthropy and community engagement and have a vested interest in the vitality of Cleveland neighborhoods. Forest City was already working with some of the SVR partners in other capacities when they joined as a formal partner in SVR, bringing substantial real estate development and business expertise.

Two senior staff members of Forest City are available as-needed to advise the SVR Project Director and manage SVR Project finances. They built the financial model, secured the line of credit, manage the cash flow, and develop the pro formas.

RIK Enterprises

Private Sector

RIK Enterprises (RIK), owned by Robert Klein, was the initial convener and driving force of the SVR Project. Robert Klein is founder and chairman of Safeguard Properties and Co-founder and Chairman of SecureView. Through Safeguard’s operations, Klein developed close relationships with many financial institutions and gained valuable insight into partnering with mortgagers to return low-valued properties to productive re-use. He founded RIK Enterprises, a family office, in 2011 in order to devote more time to philanthropic and community-related activities. RIK Enterprises also focuses on pursuing entrepreneurial and investment-related opportunities.

Safeguard Properties, founded in 1990 in the suburbs of Cleveland, is the largest privately held mortgage field services company in the country. Safeguard inspects and maintains defaulted and foreclosed properties for mortgage servicers, lenders, and other financial institutions. It is supported by a nationwide vendor network trained and qualified to perform a full range of inspections, property preservation services, maintenance work, and repair and rehabilitation services.⁵

SecureView’s mission is to benefit both lenders and communities by increasing the marketability of a property while simultaneously fighting community blight and securing the asset long term. It has developed a product that is an alternative to boarding up vacant properties with plywood. The product is transparent, designed to look like windows, modifiable in size, reusable, and virtually unbreakable,

⁴ <http://www.forestcity.net/company/pages/default.aspx>

⁵ http://www.safeguardproperties.com/About_Us.aspx

addressing issues of crime, aesthetics, and blight.⁶ The SVR Project is able to procure the SecureView product at a discounted rate to secure homes awaiting rehabilitation.

The relationships that Robert Klein holds with servicers, lenders, and financial institutions are a critical component to the SVR Project. Klein has enabled SVR to partner with financial institutions by identifying the right contact within those large institutions to explain the mutual benefit of releasing low and no-valued property to a reputable community organization. RIK Enterprises has a dedicated staff member who serves as the general contractor for SVR, tasked with controlling costs, as well as identifying quality contractors and overseeing them through the renovation process. The costs are offset in part from a general contractor fee that RIK Enterprises receives for each home sold.

Slavic Village Development

Nonprofit

Slavic Village Development (Slavic Village CDC), a nonprofit CDC serving the North and South Broadway neighborhoods of Cleveland, Ohio, has invested an estimated \$160 million over the past 25 years in these areas. It has been involved in and led numerous revitalization programs in the community and been active in developing and implementing strategies to address the vacant and abandoned property challenge. Slavic Village CDC has a long history of highly successful physical development and community building, with particular emphasis on complex real estate site assembly. Slavic Village CDC has rehabilitated or built more than 1,000 housing units, including a 200+ home planned community; and more than 400 single-family homes or multi-family units for low-income households. In recent years they also have an increased focus on community arts programming and developing green space. The goal of the organization is to revitalize the Broadway neighborhoods, which include Slavic Village, through rehabilitation of existing housing, storefronts and buildings; construction of new homes; retention of existing buildings and recruitment of new ones; and provision of housing services and community organizing programs to improve the quality of life.⁷

The SVR Project could not be successful without the community relationships that Slavic Village CDC holds. They are trusted by neighborhood residents and provide important supplementary services for the households in SVR Project area. Their other work in the neighborhood in retail and other housing-related projects helps to build momentum for the SVR Project, and their community activities strengthen civic engagement and the social fabric. They also partner with organizations that specialize in home repair loans -- such as Neighborhood Housing Services, the City of Cleveland, and financial institutions -- and refer neighborhood residents as appropriate.

Slavic Village CDC houses the SVR Project Director and Sales Manager in their office. These staff members are responsible for ongoing management of the SVR Project, including managing the renovations, communicating with the four partners, managing community relationships, advertising the program, screening potential homebuyers, and assisting with closing the sales. The SVR Project staff members receive salary from the working capital committed by the four SVR partners.

Slavic Village CDC contributes a significant amount of staff resources to the project, assisting in areas such as general accounting, acquiring properties, code enforcement, and promoting the program. Slavic Village CDC is reimbursed for their staff time, as well as for the general and administrative overhead incurred by housing the SVR Project staff members.

⁶ <http://secureviewusa.com/about/our-mission>

⁷ <http://slavicvillage.org/aboutsvd>

Other key players

While the City of Cleveland is not a formal partner of SVR, it does play a critical role. The councilman representing Slavic Village and former Executive Director of Slavic Village CDC, Tony Brancatelli, is the deciding vote if a tie needs to be broken between the four partners. The City of Cleveland also aligns its investments (financial and otherwise) in other key ways, such as improving on the main thoroughfares (such as significant reconstruction pending for Fleet Avenue) and improving parks. The SVR Project has benefited from a strong code enforcement system that the City of Cleveland already had in place, through which the City partners with CDCs to streamline and prioritize code enforcement. The SVR Project area is within Slavic Village Development's priority code enforcement zone.⁸

Similarly, the county land bank, Cuyahoga County Land Reutilization Corporation (CCLRC), and the city land bank have aligned their resources with the overall SVR Project strategy, assisting in prioritizing tax foreclosures and targeting housing demolitions. While there is no formal process for coordinating with CCLRC, the SVR Project Director is notified when the land bank has acquired a new property in the project area. The Project Director then visits the property to determine whether SVR would like to acquire it for rehabilitation or recommend it for demolition and works directly with a contact at CCLRC to move forward accordingly.

SVR is a for-profit entity, with the intention that the small return on investment from home sales will sustain the Project over the long-term and may, in the far future, offer a small payout for the four investors.

IV. The SVR Revitalization Model Implementation Steps

This section outlines the primary SVR Project implementation steps as identified through GOPC's research and interviews.

1. Conduct a thorough and detailed property analysis, determining the status of each parcel or property in the neighborhood.

Selection of the project area and homes was driven first and foremost by identifying properties that can be easily and expeditiously acquired. SVR partners identified these properties through a detailed property analysis, led by Cleveland Neighborhood Progress.

The SVR Project benefitted greatly from one of the most impressive data infrastructures in the country, the Northeast Ohio Community and Neighborhood Data for Organizing, or NEOCANDO. Utilizing this tool, SVR Project partners and staff were able to work parcel by parcel through the neighborhood and identify:

- properties that are residential;
- residential properties that have structures on them; and,
- structures that are vacant.

Considering only the vacant residential structures (which amounted to 302), they then further identified:

- the foreclosure status (active or inactive) and type of foreclosure (mortgage, tax, board of revision, or tax certificate) of each unoccupied vacant property;

⁸ For additional details on Cleveland's code enforcement program, see: http://www.communityprogress.net/filebin/pdf/CLE_CE_Partnership.pdf

- the name of the servicer, lender, or financial institution acting as plaintiff in each mortgage foreclosure; and,
- which properties are eligible for tax foreclosure and thus could be acquired by the CCLRC.

From this information, they were able to make an action plan to acquire the properties. To begin the first phase of investment, the SVR partners identified properties that were owned by Slavic Village CDC, CCLRC, or a servicer with which RIK Enterprises has a relationship that could be leveraged.

2. Strategically earmark some homes for demolition and others for rehabilitation.

Based on the financial model that Forest City developed for the project, SVR partners estimated that their renovated homes would sell for \$50,000 to \$60,000. The combined acquisition and renovation costs are generally capped around \$40,000 to ensure a reasonable profit margin upon sale and to provide a continuous funding source for future project costs. The SVR Project Director examines each vacant structure to estimate the cost of renovation. A three point criteria is used to determine if demolition is necessary: if the roof, siding, and windows all require replacement, the house is earmarked for demolition. If one or two of these components are viable and the house is structurally sound, it could be a candidate for rehabilitation. If the property would be too expensive to renovate, it was earmarked for demolition. If it could be renovated within their price range, it was added to the list for potential rehabilitations.

The number of properties owned by either an SVR partner or by a financial institution with which a SVR partner has a relationship and were rehabilitation candidates totaled 38 which were the properties targeted for the first phase of investment. Five of these properties were on the same block, leading the partners to prioritize those renovations as the Model Block.

3. Acquire a concentration of properties in a targeted area for rehabilitation.

Acquisition is the most difficult piece of the model and requires an immense amount of determination and persistence on the part of the Project Director and other partners. Often, properties are the subject of legal claims from several parties and require legal action to clear the title by an individual owner, a servicer, and/or the county. SVR partners are each experienced with aspects of the property acquisition process which benefits the Project as a whole. For instance, Slavic Village CDC dedicates staff resources to locating property owners. RIK Enterprises' relationships play a critical role in releasing titles from the mortgage holders. And while not a formal project partner, CCLRC has been critically important to the acquisition process, utilizing their ability to clear title through tax foreclosure.

The SVR Project area has a total of 2,231 homes. The goal of SVR is to acquire and rehabilitate 200 homes by project completion, 50 in the first two years. Each of the homes must be acquired at little or no cost. Because a pipeline of homes owned by the CCLRC and/or the Slavic Village CDC, as well as close relationships with certain mortgage servicers, already exist, SVR has site control over 23 properties. Mortgage servicers are working with RIK Enterprises to release an additional 20 to 30 properties, and 13 of these properties are undergoing tax foreclosure by CCLRC (see Table 1).⁹

⁹ Discussions with Wells Fargo Home Mortgage indicates it is able to work closely with the Partners to release and transfer properties expeditiously, particularly when the properties are already vacant and abandoned.

TABLE 1: HOUSING SUMMARY

| <i>Category</i> | <i>Number of Homes</i> |
|--|------------------------|
| Total Number of homes in Project Area | 2,077 |
| Vacant Homes in Project Area | 302 |
| Total Demolition Goal | 102 |
| Total Acquisition and Rehabilitation Goal | 200 |
| Homes Demolished to Date | 7 |
| Homes Acquired to Date | 26 |
| <i>From Slavic Village CDC</i> | <i>7</i> |
| <i>From CCLRC</i> | <i>15</i> |
| <i>From Financial Institutions</i> | <i>4</i> |
| Homes in Acquisition Process | 33 |
| <i>From CCLRC</i> | <i>13</i> |
| <i>From Financial Institutions</i> | <i>20</i> |

Source: GOPC with data from Cleveland Neighborhood Progress and SVR

The SVR Project receives properties through many various channels. The three easiest scenarios and the ones through which the pilot properties were received, are:

- Slavic Village CDC releasing property to SVR,
- CCLRC releasing previously acquired properties to SVR, and
- a servicer, lender, or financial institution transferring the property to SVR.

Longer-term, more complicated acquisitions include the following methods:

- the County initiates a board of revision tax foreclosure, transfers it to CCLRC, which transfers it to SVR (This process is approximately 8-18 months. If the property taxes have already been certified or advertised, the process is approximately 8 - 9 months. Taxes are advertised every November, so if a recent opportunity to advertise has passed, the process will take closer to 18 months.);
- a property owner, who has abandoned the property, can be located and is willing to release the property to SVR. (0-6 months, depending on tax delinquency status); or,
- Slavic Village CDC pursues a nuisance abatement¹⁰ law suit for a home, resulting in the property owner donating the property or, if the property owner cannot be located, resulting in Slavic Village CDC being designated as receiver for the property (6-12 months, depending on whether a settlement is made or the case goes to trial).¹¹

¹⁰ A nuisance is a condition that adversely affects the health, safety, or well-being of the residents or neighbors of a property. The nuisance may arise from the physical condition of the property or from activities within it (*Alan Mallach, Bringing Buildings Back*). If the owner restores the building to adequate condition, no legal action is taken. If the owner does not abate the nuisance, receivership can be used to designate another party responsible for abating the nuisance.

¹¹ For a detailed flow chart of the acquisition process, see www.greaterohio.org/files/pdf/svr-acquisition-flowchart.pdf, created by Cleveland Neighborhood Progress.

4. Secure properties that are identified for rehabilitation to ensure they do not deteriorate any further.

After a property is earmarked for rehabilitation, it is important that the property is secured so that it does not deteriorate, become further stripped or vandalized. In the case of the SVR Project, SecureView's product, a transparent polycarbonate window and door covering that is virtually unbreakable, is utilized. This method of securing properties has several advantages:

- It is much less noticeable and more aesthetic than plywood. SecureView does not alert bystanders to vacancy as traditional boarding methods do, decreasing the chances of intrusion and that surrounding property values may not be as negatively impacted.
- If an intruder does become aware that a house is vacant, it is very difficult for them to break through the material in order to enter the house. Therefore, homes under construction are not likely to be stripped of new piping and renovations are not likely to be damaged after they have been secured.
- During renovation, it allows light in, making it easier for the contractors to complete their work safely.

All SVR properties must be secured from the time it is identified for rehabilitation until the home is sold to avoid any potential vandalism and/or damage.

5. Complete a critical mass of renovations and demolitions, one block at a time, to shift the market on that block.

It is too early in the SVR Project to identify how many properties constitute a "critical mass," and that number is likely to vary from neighborhood to neighborhood. But the strategy is to start where partners can complete the highest number of rehabilitations and demolitions in order to create a positive momentum to stabilize the market.

The renovations for the homes need to be completed at the lowest cost possible, while still offering decent affordable housing for the buyer. SVR keeps renovation costs down with the following methods:

- screening the homes for rehabilitation potential;
- using affordable materials;
- leveraging partner reputations and the project's potential growth to receive bulk purchasing rates.
- avoiding time-consuming and bureaucratic constraints, such as the restrictions that accompany public financing; and,
- absorbing the fees of a general manager and real estate agent in the working capital that pays for the SVR Project Director and Sales Manager.

Each of these components is important to keeping the renovation costs low; however, future project partners should consider whether the same methods can be utilized in other local contexts.

On the Model Block, SVR completed five rehabilitations and six demolitions within nine months. If a demolition occurred adjacent to a home that was rehabilitated, the vacant lot would be acquired as a side yard expansion. If it is not adjacent to an SVR Project home, Slavic Village CDC has other programs, apart from SVR, that work to green and maintain the vacant lot. After the Model Block is complete, they will slowly work through other concentrations of vacant property, building on the strength and momentum that will be established by each cluster.

In planning for the first full year of the SVR Project, SVR partner Forest City Enterprises developed a pro forma of estimates and projections to assist partners in predicting potential outcomes of the project and monitor their status throughout the year. Included for this Report are the estimated number of homes that would be acquired, completed, and sold throughout the year as well as the length of time that partners anticipated holding homes (see Table 2). These projections are simply early estimates, meant to assist in project planning. Projections for future years of the project would likely differ substantially (e.g. there may be many more homes in inventory in future years).

TABLE 2: INVENTORY PROJECTIONS FROM SVR PROJECT PRO FORMA, 2014

| Inventory | |
|---|----------|
| Inventory at Beginning of Year | 13 Homes |
| Number of Homes Acquired Throughout Year | 32 Homes |
| Number of Homes Completed Throughout Year | 36 Homes |
| Number of Units Sold During Year | 35 Homes |
| Inventory at End of Year | 10 Homes |

| Homes Sold During Period | |
|--|----------|
| Average Days from Acquisition to Rehabilitation Completion | 137 Days |
| Average Days from Completion to Sale | 59 Days |
| Total Average Holding Period of Homes Completed in Year | 196 Days |

6. Sell the renovated homes for at least \$10,000 to \$20,000 above the costs of acquisition and renovation, in order to receive enough return on investment to sustain the project.

In the case of the SVR Project, the target sale price was \$55,000 to \$65,000, in order to receive the necessary financial return to sustain the project. (Similar to Table 2 above, Table 3 contains early projections, not actual numbers. Actual numbers for each sale vary from sale to sale.)

TABLE 3: PROJECTED AVERAGE BUDGET PER HOME SALE

| Category | Projected Average Cost per Home | Description |
|--|---------------------------------|--|
| Purchase/Acquisition Price | (\$1,083) | Payment that SVR makes to owner of property. Sometimes owners donate property and sales range from \$1 to \$2,800. |
| Acquisition and Closing Costs | (\$369) | Cost of executing the property transfer |
| Slavic Village CDC Fee | (\$1,029) | Reimbursement for the ongoing services and resources Slavic Village CDC provides, such as staff time. (In addition to this fee per home sale, Slavic Village CDC also receives reimbursement for rent, accounting services, telephone and communications, and other administrative overhead incurred by housing the Project Director and Sales Manager.) |
| Rehabilitation | | |
| Hard Costs | (\$40,715) | Materials |
| General Contractor Fee | (\$3,923) | Usually paid to RIK to reimburse salary of in-house general contractor or, if a non-RIK contractor was used, paid directly to the contractor. |
| Carry | (\$1,294) | Cost of electric, gas, sewer, water, landscape maintenance, real estate taxes, liability insurance, and property insurance for duration of rehabilitation process |
| Total Costs | (\$48,412) | |
| Gross Sales Price | \$62,809 | |
| Closing Cost | (\$2,331) | |
| Net Proceeds | \$60,478 | |
| Net Profit* | \$12,066 | Gross sales price, minus total costs, minus closing costs. (Does not include cost of overhead.) |
| * all profit on each sale is invested back into the SVR project. | | |

SVR budgeted approximately \$26,000 for the year to market their homes for sale. They have advertised on the menus of neighborhood restaurants, local radio stations, and flyers in community institutions and gathering places. The Project also was featured on local television. Upon initial promotions, SVR received approximately 450 inquiries. SVR ran credit checks on approximately 170 people, many of whom did not qualify. The homes that have been rehabilitated through the Project are extremely affordable for buyers – an important factor in a working class neighborhood such as Slavic Village. Many potential buyers were residents who currently lived in the neighborhood and were interested in staying in the community, but were not satisfied with their current housing situation. In some cases, they were paying \$600+ a month for rent when the mortgage for SVR Project homes would be as low as \$325 a month. In other cases, their rental property had significantly deteriorated, and this was an opportunity to improve

their living conditions. The SVR Project also benefitted from CityLift, a program funded by Wells Fargo offering \$15,000 in down payment assistance to any buyer in Slavic Village while funds lasted.

A number of banks were interested in providing the mortgages for this project and the Project Director and Sales Manager pre-screened their homebuyers to ensure they were in the best position to qualify for the mortgage. While only the first handful of homes has been completed to date, those homes have sold quickly and easily.

SVR Project partners do not just want to sell homes; they want to position the neighborhood for long-term stability. They have also involved their local NeighborWorks¹² affiliate to provide homebuyer and financial counseling to ensure that the foreclosure crisis does not repeat itself in this community. They also benefit from the strong role that Slavic Village CDC plays in helping homeowners access resources to maintain their properties, strengthening the overall neighborhood fabric, applying temporary uses to post-demolition property, and improving curb appeal by fixing homeowner sidewalks and maintaining street trees.

V. Early Positive Indicators

While it is too early to assess the quantitative impact of this Project, some early outcomes indicate that the project is making a positive difference in the neighborhood.

First, the sale price of the initial homes reached the target amount of approximately \$60,000, received an appraisal value above the sale price, and sold quickly. While it is too soon to know whether or not the momentum will last long enough to tip the market, if these initial sales are indicative of future homes, then the program will be on track to make a positive impact on the neighborhood housing market and build inherent financial sustainability.

Second, as reported by Slavic Village CDC, the SVR Project Director, and the first homebuyer, community members are offering positive feedback. They appreciate that the Project Director is frequently in the neighborhood, listening to their input. Initial homebuyers report that the renovated homes are attractive. Residents are happy to have long-time nuisance properties removed and are likely to benefit from associated increase in property values. As a result, a few existing homeowners on the block have begun to make more improvements to their own homes as well, demonstrating increased confidence in the community. Slavic Village CDC assists homeowners in upgrading their homes, offering an array of programs including offering matching funds for home repairs and beautification.

Third, investment is taking place in the neighborhood apart from direct involvement with SVR. While it is unclear what correlation the recent investment may have to the SVR Project, there is speculation that the involvement of the SVR private sector partners helped to attract other investment from national businesses. Regardless, other investment is taking place. Recently, a CVS, some dollar stores, Fifth Third Bank, and a Rally's fast food restaurant have been established on the historic Broadway Avenue. The City of Cleveland is also investing \$4.2 million in streetscape improvements to Fleet Avenue, supplemented by \$1.8 million by the Northeast Ohio Regional Sewer District. The reconstruction will include sidewalk improvements, green infrastructure, and bicycle lanes.¹³

¹² NeighborWorks is a national nonprofit organization working to create opportunities for low-income families to access affordable, quality housing.

¹³ For additional details, see news article at <http://archive.wkyc.com/rss/article/227282/3/Slavic-Village-receives-grant-for-rebuilding-project>.

As the Project progresses, partners will use a combination of metrics to evaluate its success that will include indicators such as:

- positive change in appraised home values;
- fewer bank walkaways;
- fewer foreclosures;
- decreased tax delinquency;
- lower property turnover;
- increased level of property improvement in existing houses;
- reduced crime;
- fewer vacancies; and,
- stabilized or increased homeownership rates.

A milestone for the SVR Project would be banks and owners valuing properties sufficiently enough that they are no longer willing to donate them for free, symbolizing that the market is strong enough to function independently. The ultimate sign of success is a neighborhood with stable or rising prices, homebuyers (rather than investors) buying, high organic investment, low crime, and low property turnover.

A comprehensive quantitative assessment is recommended for 3 to 5 years in the future, when adequate data exists to evaluate the Project's impacts.

VI. Key Success Factors of the Model

Several strategic elements embedded in this Project model distinguish it and lay the foundation for success. First, it intentionally targets bank walkaways and REOs for acquisition and redevelopment. The knowledge and relationships that are leveraged through SVR to acquire properties are a key component to this Project's success. Second, while the Project is philanthropic in nature, it takes a for-profit approach, giving it inherent sustainability. This could be an added draw for other private sector partners to join the effort. Utilizing private sector financing, which offers significantly more flexibility, is preferable to relying on public sources, whenever such financing is available. Third, the Project targets investments and strategically links demolition and rehabilitation, which are increasingly recognized best practices in shrinking cities.

Seven specific key factors critical to the Project's success are outlined in this section. While local details may change, and other neighborhoods may have different cultures or environments, the following common factors distinguish the Project from other revitalization efforts:

- 1) A total of three to five partners that provide:
 - working capital;
 - relationships with the individuals at financial institutions who have the authority to release properties;
 - financial and business expertise;
 - community trust and reputation;
 - experience in property acquisition; and,
 - expertise in property development, renovation, and real estate.

- 2) A land bank with capacity to acquire properties through tax foreclosure and complete targeted demolitions to align with the project.
- 3) An intact neighborhood, where key assets remain and residents wish to remain or move into despite high vacancy rates. Such a neighborhood is likely to be characterized by any or all of the following:
 - recently vacant properties, rather than long-time nuisance properties;
 - low to moderate unemployment rate;
 - a high homeowner share of purchases;
 - substantial income diversity;
 - neighborhood institutions, retail, and employment opportunities; and,
 - proximity to public transit, other strong neighborhoods, anchor institutions, or the central business district.
- 4) The ability to acquire a critical mass of properties quickly and at little or no cost.
- 5) A very careful and thorough property database or ability to complete an analysis that identifies the property's status, any encumbrances to acquisition, and entities with a legal claim to the property.
- 6) A project partner, staff member, or contractor who can determine the best use for each vacant residential structure – either demolition or renovation – and track the status of each property carefully. It is very important that the right staff person occupy this position. Preferably, the person should have experience with real estate development and/or construction, maintain a pragmatic approach to keeping the project moving as well as be able to monitor renovation costs and sales prices for reasonableness for these homes. In the case of the SVR Project, the Project Director has a background working in real estate as a developer in Cleveland for 18 years.
- 7) Properties that can be acquired and renovated at low enough costs and sold at high enough prices to result in a marginal return on investment.

Additional components that strengthen the project include:

- a partner or other stakeholder who can offer financial counseling;
- a champion with city government who will advocate for supplemental city supports and aligning city services and resources;
- a city partner that is able to cut through bureaucratic codes, fees, or other regulations with which many legacy cities are burdened and that may no longer be practical for 21st century cities;
- a strategic code enforcement program;
- down payment assistance or other financial assistance to homebuyers; or,
- other place-based neighborhood momentum, such as unrelated housing development or projects, Main Street revitalization programs, and community events (e.g. volunteer events, or community festivals).

VII. Considerations for Replication or Expansion of the Model

Based on research and experience with markets throughout the state, it is GOPCs estimation that many aspects of this Project could be adapted to other neighborhoods in other cities, such as finding an intact neighborhood and a strong CDC with which to partner. However, the partner roles may shift. Perhaps a CDC would take on an even larger role. The investor may be a bank or hospital, or other anchor

institution or corporation invested in the well-being of its neighborhoods. In some contexts, the City might be a more prominent partner, contributing more in-kind resources and expertise. The renovation and sales prices may be different in another market, as long as there is still a marginal return on investment. **Most components of this project could be easily translated to another neighborhood. A few components could be challenging for replication in other contexts.**

Define ‘critical mass’ for the neighborhood context.

At the start of the Project there were 302 residential vacant properties with structures on them in the ten to fifteen block project area. SVR aimed to renovate two-thirds of them and demolish the other third. This number of properties was a larger scale than the nonprofit partners were accustomed to. However, they grew comfortable with the scale, because the private sector partners routinely work at larger scales on a regular basis. While it is too early to tell whether or not that amount of renovation and demolition will have a catalytic impact on the rest of the neighborhood, it is important that future projects set a goal from the outset.

Defining a critical mass is not entirely quantitative. It depends on factors such as neighborhood conditions, regional market conditions, morale of long-time residents, and community assets and institutions. It is also difficult to clearly define when a critical mass has been reached and tipping point has occurred. Potential signs that a critical mass has been achieved may include those outlined in section VI of this Report. While ‘critical mass’ and ‘tipping point’ are difficult to define, it is important that partners have a common understanding from the outset about their goals and set a target number or percentage of vacant homes they anticipate rehabilitating and demolishing in order to make a sustaining impact.

Evaluate capacity to acquire a critical mass of properties.

Slavic Village had the highest foreclosure rate in the country, yet only 23 properties could be quickly and easily acquired for rehabilitation. In another community, even fewer properties may be readily available for acquisition and renovation. Property acquisition takes a tremendous amount of persistence, diligence, and expertise. Potential partners in other cities should consider their capacity to dedicate resources to follow properties through to acquisition, whether that means tracking down absentee homeowners, sorting through unorganized data records, calling servicers repeatedly, patiently waiting through tax foreclosure processes, or taking an owner to court.

- **If project partners do not already have an existing pipeline of properties, additional time should be built into the project timeline for acquisition.** The SVR Project benefitted from an existing pipeline of properties. The land bank and the local CDC (CCLRC and Slavic Village CDC) positioned the SVR Project to get off the ground quickly. If this existing pipeline does not exist, it is recommended that a 12 to 18 month pre-development phase be incorporated into the project timeline to focus solely on property acquisition. If this strategy is necessary, project partners should budget additional funding to secure and maintain properties during the pre-development phase. This phase would occur before any public announcement of the Project so that once the project is actively underway, it can gain momentum and capitalize on media attention and resident excitement.

Consider the availability of data prior to replicating the Project in a new location, allowing extra time for data collection if necessary.

Northeast Ohio is unique with its impressive NEOCANDO data base. Some of the types of data used for the SVR Project, such as the vacancy rate or demographic information, also will be easily accessible in other cities. Other data, such as which properties are in the tax foreclosure process or which specific homes are unoccupied, will be monitored by some land banks and/or cities but to various degrees. Other

data, particularly information regarding which financial institutions are servicing which mortgages and details on the status of mortgage foreclosure, may be more difficult to access and synthesize in other communities.

Finding and analyzing key pieces of data is an important preliminary factor. Without a resource like NEOCANDO, the information would need to be collected from an extensive list of entities such as the county treasurer, clerk of courts, the auditor, fiscal officers, and others. If none of the project partners has the data in-house (some CDCs or land banks may already be completing some level of property analysis on a regular basis), this process could take weeks of a dedicated staff person's time. While all of the data is public information, it may not be in a format that is easily shared, and gathering it for distribution may not be the highest priority of public entities, for both practical and political reasons. Even after the data are received, it will need to be streamlined into a single format (e.g. addresses exchanged for parcel numbers or street names spelled accurately and uniformly).

When considering locations for replicating this model, it is important that a partner know how and where to get all of the necessary data. Depending on the amount of data, 3 to 6 months should be allowed for this process, depending on the amount of the data potential project partners already have. The partners would ideally not just collect the necessary data, but would put systems in place that also allow the data to be easily updated throughout the project process. Ideally, much of this data-collection process should occur before property acquisition begins.

Ensure a comprehensive approach by creating a work plan for every vacant property and having a strategy to prevent additional properties from becoming vacant during the project period.

Many revitalization efforts have rehabilitated some vacant properties in a targeted neighborhood, but a comprehensive strategy – one with the goal of ridding a targeted area of any and all abandoned properties – would be unique. The very detailed data analysis is the first step in creating a work plan for returning each vacant property back to productive use. The owner, mortgage, foreclosure status, and tax status information should then be used to create an estimated timeline and strategy for acquiring and demolishing or renovating each vacant property.

As a part of creating a holistic approach to combatting vacancy, there also must be a strategy for mitigating vacancy for the duration of the project timeline. Particularly in a weak market neighborhood, where there may be many out-of-town investors or seniors who may be leaving vacant homes behind in the near future, many homes are at-risk of becoming vacant. In the case of SVR, the task of preventing vacancy is not taken on by the partnership itself, but is complemented by the ongoing work of Slavic Village CDC.

Consider the financial capacity of homebuyers for on-going maintenance when determining the level and quality of renovation.

A key component of the SVR Project model is cost-effective renovations. Additionally, there is value in bringing new affordable housing to a neighborhood. However, it is important that the renovation of the affordable housing be at a high enough standard that the house will not deteriorate in the near term. In distressed neighborhoods, such as Slavic Village, homebuyers are likely to be low-income or very low-income and therefore, have little financial capacity to maintain an aging home over time. In order to ensure that the neighborhood market improves and properties retain a high standard maintenance, it is important that the renovations be of a high enough quality.

Complete a geographic assessment, prior to selecting both the Project Area and Model Block, in order to ensure that the renovated homes will sell.

While it may require more time upfront in identifying and acquiring properties, linking the Project's renovations and demolitions to other nodes of strength or investment within the neighborhood would help to ensure long-term success. SVR Project partners considered certain unique factors in selecting the Slavic Village neighborhood as the best fit for the Project, since few sales had taken place in recent years, so they were limited in the number of comparable sales and could not undertake a more traditional market assessment. Additionally, the Partners specific factors in selecting the Model Block *within* the neighborhood in which to begin the Project: (1) an area containing a number of properties that could be acquired quickly and easily for renovation or demolition in a short period of time and (2) its location near the center of the neighborhood. However, those factors alone do not necessarily point to where the market is best primed for such an investment.

In future replication of the model, particularly in neighborhoods where market conditions vary from block to block, such a project would benefit from a more detailed initial geographic assessment that specifically examines a wider range of market considerations, if possible. For instance, in order to identify the blocks within the target neighborhood that are the best location for investment, project partners should consider completing a block-by-block neighborhood assessment, if possible, prior to investigating potential REO or bank walkaway acquisition opportunities. The first step would be to prioritize blocks in the neighborhood with homes for which it will be easiest to retain or increase value and sell. Using this market-based approach, a critical mass of homes is not necessarily required for consideration when acquiring homes. For example, a city block with the highest home values in the neighborhood and highest homeowner rate may have only one home that needs to be acquired for the program. This investment would still make valuable impact.

This type of assessment also can help identify homes in the neighborhood that can support the costs associated with substantial or moderate renovation costs. If a section of a neighborhood is considered a second or third-tier area for acquisition (e.g. lower surrounding home values), a case may be made that renovation costs should be capped at moderate costs (for example, less than \$20,000) for this group of homes.¹⁴ Thus far, the SVR Project has had no problems selling homes. However, project partners in other places may want to consider these additional factors in selecting initial homes for investment, including the level of investment per home and in their model block and neighborhood areas, in order to ensure that they receive the greatest return on investment.

VIII. Conclusion

The SVR Project is in the very early stages of implementation; however its framework for revitalization has great potential. The proactive acquisition approach by the SVR Project partners to release properties from mortgage holders prior to and during the foreclosure process provides an accelerated pipeline for home renovations and neighborhood redevelopment. However, given the continued reduction in foreclosure rates, bank walkaways, and REO inventory, a large share of acquisitions will likely need to originate from the local land bank and community development corporation. In the long-term, ideally there would be a systematic process allowing qualified community development corporations or other neighborhood partners to acquire low-value property from financial institutions and more nonprofit leaders would learn how to communicate to mortgage servicers the financial benefits of releasing such properties; however, in the near-term the role of RIK Enterprises is critical to the project.

¹⁴ DiSalvo Development Advisors.

In the long-term, key aspects of the model, such as tying demolition to rehabilitation, making targeted investments, and utilizing private sector financing will be relevant for community development practitioners and responsible developers for years to come.

If the project were replicated in another Cleveland neighborhood, many of the key pieces already in place in Slavic Village would also be present in other neighborhoods (e.g. a land bank, a supportive city, the data infrastructure). Replicating the model in neighborhoods outside of Cleveland or Cuyahoga County is certainly possible, but is likely to take more time upfront collecting and assessing the data and securing a pipeline of properties. The long-term success of the project is yet to be proven, but early results are positive.

Appendix

A. *List of Interviewees*

- Tony Brancatelli, Councilman, City of Cleveland
- Justin Fleming, Director of Real Estate Services, Cleveland Neighborhood Progress Inc.
- Frank Ford, Senior Policy Advisor, Thriving Communities Institute
- Marie Kittredge, Executive Director, Slavic Village Development
- Bev Lingl, First Homebuyer
- Robert Kelly, Chief Financial Officer, Forest City Enterprises Inc.
- Robert Klein, Founder, RIK Enterprises, LLC
- Jeff Raig, Project Director, Slavic Village Recovery, LLC
- Al Ratner, Co-Chairman of the Board, Forest City Enterprises Inc.
- Joel Ratner, President & CEO, Cleveland Neighborhood Progress Inc.
- Edward (Ed) Rybka, Director of the Department of Building and Housing, City of Cleveland
- Mark Siegel, Vice President, Forest City Enterprises Inc.
- Tyler Smith, Vice President, Wells Fargo Home Mortgage
- Chris Warren, formerly Chief of Regional Development, City of Cleveland
- Mitch Wolf, CEO, RIK Enterprises, LLC

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