



Re-Engineering the Community Development Housing Sector for Increased Effectiveness and Long-Term Sustainability

September, 2009

Prepared by Paul Brophy

Overview

The nonprofit organizations in the community development system have become important developers and owners of housing for low-and moderate-income people and those with special needs. While the nonprofit housing world is always evolving, the current recession is triggering a new round of activity that is demanding new configurations in many cities.

Living Cities has a major opportunity to play a leadership role at this crucial juncture in the community development sector by identifying and building on innovation in the field. This memo explores several intriguing strategies: the creation of partnerships among organizations to produce more affordable housing; new mechanisms for reducing the operational costs of housing producers; and the transformation of CDCs from housing developers into broader community improvement organizations.

In some locations, the community development field has been adapting from an approach where neighborhood-based CDCs were the primary affordable housing providers to a system that is combining the talent of these neighborhood-based groups with that of housing producers that have capacity and mission to work in multiple locations. This approach, along with others described in this memo is an indication that in some locations the field has been reinventing itself programmatically and in its business model.

This memo focuses on the changes to CDCs' business models that are underway, and on how Living Cities can advance the approaches that make good business sense. Smart and targeted interventions can help the community development field become more sustainable, effective, and strategic. It directly addresses a recently-embraced Living Cities principle that:

“Living Cities should encourage collaborations and partnerships among non-profit organizations and between non-profit and for-profit developers to ensure long-term sustainable development capacity. In some situations, Living Cities should stimulate organizational consolidations and transfers of assets.”

Reengineering is certainly needed. Many community development leaders and experts have expressed the view that CDC capacity is not optimized when it is employed to develop housing. As one local leader put it, “We need a new division of labor, with the CDCs planning, accessing social services and jobs, and fostering, community wealth building strategies and civic engagement—and less on the housing and real estate development agenda. The larger, more



specialized housing providers can do that.” Others agree that the time is ripe for tackling the long-standing challenge of improving the effectiveness and sustainability of the field.

However, helping the community development field develop new strategic configurations is a challenging assignment for several reasons:

- Re-engineering carries potentially disruptive implications for CDCs, such as loss of local control or threat to revenue streams;
- While the recession is accelerating innovation and the willingness for change, it is also creating short-term crises that sometimes crowd out longer term thinking;
- Those working on re-engineering local systems sometimes lack the tools they need to rethink their organizations, such as models for re-engineering, mechanisms for self-assessment, and “plug-and-play” tools like how-to-manuals and model documents; and
- The funder community is not currently set up to support this kind of re-engineering.

This memo recommends possibilities for Living Cities to provide additional leadership in reengineering the CDC sector; and it accompanies concurrent analysis being done for Living Cities on other segments of the affordable housing delivery system.

An Evolving Field

Nonprofit groups have been involved in producing affordable housing since the 1960s, responding to FHA programs that invited nonprofit organizations to sponsor housing. Many were faith-based; some, like Volunteers of America, had a national scope. Others, like ACTION-Housing in Pittsburgh (formed in 1957), are metro-wide organizations.

A series of Federal programs helped spawn additional nonprofit housing groups. The Ford Foundation also helped spur the emergence of CDCs in the 1960s and 70s. LISC was founded in 1980 and Enterprise started two years later, with a specific mission of building housing for the poor through community-based groups. The foundation of what is now NeighborWorks America was laid in 1978 with the passage of the Neighborhood Reinvestment Corporation Act aimed at improving neighborhoods in suffering from disinvestment.¹

The emergence of CDCs² built on the existing work of housing nonprofits. There were two key assumptions behind CDCs that distinguished them from the earlier housing nonprofits. First, CDCs worked on a broad range of activities in addition to housing in order to improve America’s

¹ For a fuller description, see, Liou, Y. Thomas, and Stroh, Robert C, “Community Development Intermediary Systems in the United States: Origins, Evolutions and Functions, Housing Policy Debate, 8(1998), 575-593. Available at [http://www.mi.vt.edu/data/files/hpd%209\(3\)/hpd%209\(3\)_liou.pdf](http://www.mi.vt.edu/data/files/hpd%209(3)/hpd%209(3)_liou.pdf)

² The National Congress for Community Economic Development defined CDCs as nonprofit groups that are characterized by their community based leadership and their work primarily in housing production and job creation and are formed by residents, small business owners, congregations and other local stakeholders to revitalize a low and/or moderate income community.

cities on a neighborhood-by-neighborhood basis. Second, because they would be developing and owning real estate, they could become financially self-sustaining — or nearly so.

Through financial support from foundations, NCDI, local and state governments, and the federal Community Housing Development Organization (CHDO) programs, the number of CDCs grew further. And, because housing finance tools were more available and accessible than funds for other activities, most CDCs zeroed in on housing production. Soon, they were measuring progress in terms of housing units developed.

By 2006, 4,600 CDCs had produced 1.3 million housing units and 126 million square feet of commercial space since 1988, according to a survey done by the National Congress for Community Economic Development, or an average of 76,500 housing units per year

There are other nonprofits and socially-motivated for-profit developers that produce housing, typically at greater scale. Stewards for Affordable Housing for the Future reports that its nine members have produced 90,000 housing units. The Housing Partnership Network's 95 members have produced 225,000 affordable housing units, and have improved or repaired another 175,000.³ There is also a robust for-profit development industry producing affordable and mixed-income housing. Many of these socially-motivated for-profit developers demonstrated their commitment and capacity as developers of scale in the HOPE VI program.

So, by its sheer numbers, the nonprofit housing sector matters. It currently serves 1.5 million households, a third of the 4.5 million served by the social housing sector as a whole, and it provides housing to populations that are not adequately served by the private for-profit market—low and moderate income households, people with special needs, formerly homeless people, recently released offenders, etc.

The question addressed here is whether the nonprofit delivery system can be re-engineered to make it more effective.

Today's nonprofit housing field has a broad array of players. There are large national organizations that produce a substantial number of units annually, mid-size producers, and groups that only develop a small neighborhood project once every few years. Most CDCs are small businesses and they generally produce fewer housing units than the larger multi-locational developers because they are focused on a particular neighborhood or a set of neighborhoods, and have scaled themselves to achieve results in that setting. They also typically have two goals—improving the lives of people in the neighborhood and improving the neighborhood as a place—which, while complimentary, require very different capacities. In contrast, those housing organizations working at the regional or national level are focused almost entirely on affordable housing, and, in some cases, the provision of services to residents.

³ The Housing Partnership Network operates as a peer network and business alliance of high-capacity, entrepreneurial development nonprofits. By collaborating through the Network, our members share and spread the innovations that emerge from their local practice. They obtain more flexible and better priced capital that rewards their demonstrated performance and capabilities. And they create strategies and cooperative ventures that respond to the rapidly changing regulatory, policy, and economic environment.

Compared to the larger-scale developers, the CDC small business model carries the disadvantage that the costs of developing a small housing development are often comparable to those needed for a larger development, yet they generate less income. In addition, the specialized skills needed to bring together the complex layering of financing needed for low-and moderate-income housing are often absent in a CDC, which has to pay partners or consultants to bring those skills to the table.

The concerns about the field’s effectiveness and sustainability existed before the financial crisis; but the recession has accelerated the search for changes in the business models in the field. Many nonprofits are concerned about their well being—and very existence. Surveys by the Nonprofit Finance Fund and Housing Partnership Network indicate that the vast majority of nonprofits are expecting their income to decline both from charitable donors and from operations. A report on Boston describes a level of stress among CDCs, and reports that “a number of CDCs are now actively pursuing or considering deep strategic alliances or mergers. Most of these appear to be driven by necessity.”⁴

Let’s take a closer look at how some CDCs are adapting in a challenging environment:

Re-Configuring Roles through Collaboration: Local stakeholders in some cities have reconfigured their systems to reduce or totally eliminate the role of CDCs in housing development. In 1996, the MacArthur Foundation funded the Chicago Futures Committee to analyze community development in Chicago. The result was to redesign the system so that neighborhood based groups were no longer incentivized to be in the housing production business. What made more sense, the committee decided, was for larger-scale housing providers partnering with neighborhood associations to produce housing. The neighborhood groups’ role was to ensure that the housing fits into the fabric of the community. This has led to a more effective housing delivery system, and it has freed the neighborhood associations to work on a broad range of neighborhood improvement strategies. In some of these neighborhoods, groups are implementing Quality of Life plans under the New Communities Program, forming the basis for LISC’s Sustainable Communities Initiative, considered the model initiative of its kind around the country.

CDC Mergers and Transfers of Assets: Even before last year’s financial collapse, CDCs in some markets were merging and transferring assets. Most did this out of a combination of financial necessity and a desire to increase their ability to serve their clients. In Portland, for example, some CDCs decided to merge as their neighborhoods gentrified, which had reduced the demand for their services while simultaneously raising development costs. In other markets, many CDCs that were struggling before the crisis have come to fear that they will not survive the current downturn unless they consolidate. However, mergers need to be approached carefully. As one practitioner put it: “Sometimes, when small, struggling organizations merge, you get one larger, struggling organization.”

⁴ Carl Nagy-Koechlin, “Joining Forces: Community Development Collaborations in Greater Boston: Report from the Collaboration Working Group of the Community Development Innovation Forum,” June 2009, p. 19.

Even some “re-configured” systems are exploring mergers and acquisitions. For example, the community development system in Cleveland is known as one with clearly differentiated roles:

- Neighborhood Progress Inc. (NPI), the local intermediary, provides operating support and financing to CDCs;
- The Cleveland Housing Network produces affordable housing regionally with guidance from community groups in those groups’ target neighborhoods. The community groups still produce some housing but only a few units and on a very targeted basis; and
- The Cleveland Neighborhood Development Coalition (CNDC), an industry trade association, engages in advocacy and public policy, peer interaction, and development of customized training programs.

Even with this division of labor in place, NPI and CNDC are looking to further consolidate. They recently engaged a national consulting firm to examine potential mergers and collaborations among all 25 CDCs in Cleveland. These sessions finished in June and CDC capacity and skills are now being mapped to see where geographically-based collaborations make sense. After the maps are ready, NPI, CNDC, the City and Enterprise will participate in meetings with each CDC so they can discuss their issues and what the future holds. This work is slated to start in the fall.

Shared Services: In some cities, efforts are under way to reduce costs by sharing or even centralizing common functions. These efforts may supplant or complement collaborations and mergers, and promise to reduce CDC operating costs by sharing functions including billing, grant management, event planning, bookkeeping, payroll and contract management.

Groups in Boston and Chicago are working to create management services organizations. CDCs would govern a management service organization that would provide services, at a reduced cost to each CDC. The services include financial operations such as billing, purchasing, and bookkeeping; facilities management; asset management; event planning; organizational planning; contract management; and marketing. In Chicago, a similar effort would consolidate services for a group of special needs housing providers.

The broad theme running through these approaches is that CDC and their allies can work to discover the sustainable strengths within their local systems and leverage those strengths. While these approaches are promising, a number of barriers and challenges inhibit “organic” re-engineering slowing the migration of innovation from one region to another. These barriers, and the potential roles Living Cities can play to address them, are described below.

Supporting New Approaches and the Living Cities’ Role

Barriers and Constraints

Good work is underway in a number of places to improve the effectiveness of the community development system. However, the degree of progress has been largely driven by local community development leaders and by existing collaboration and thus inconsistent across cities. Going to scale to make the national system more effective will require further intervention.

Providing national leadership to help the housing and community development field re-engineer itself will be challenging for a number of reasons:

First, *re-engineering could prove highly disruptive to local CDC communities*. The field's grassroots history has a strong commitment to bottoms-up approaches; this value is part of the field's core culture. Understandably, the boards of community-based organizations often resist changes that threaten their ability to control development in their neighborhoods. Furthermore, CDCs understandably devote their attention to ensuring that their core programs function well, which often means that the time needed for broad organizational thinking is scarce. Re-engineering activities can occupy significant staff time and energy at a time when layoffs, funding shortages, and responses to foreclosures are already stretching CDC leadership and staff thin.

This work can also be threatening to individual organizations. Spurred in part by parameters put forth by the funder community, organizations typically measure their impact by numbers of housing units produced. Many have developed their internal capacity accordingly. Moving to a system where other neighborhood improvement approaches are emphasized will require significant changes in thinking throughout the system, including identifying metrics for ascertaining the value and impact of efforts beyond housing. Depending on the implications of re-engineering for their organizations, many CDCs may have to re-invent themselves in order to survive the transition; some may not survive at all.

Current circumstances are jeopardizing these organizations anyway. Many nonprofit housing producers have business models that require income from fees for new development on a regular basis. Today's market has interrupted this stream of fees. While this is opening the re-engineering conversation in many cities, it is also provoking thinking about the survival of organizations. It demands parallel efforts to reconfigure community development systems so they thrive even in economically turbulent times.

Second, *significant knowledge gaps exist in the field*. The case for re-engineering and its potential benefits has not been made on the national stage. No one has aggregated and classified the types of re-engineering currently in play. This work is happening in individual cities but not nationally. And, few "plug-and-play" resources (e.g. how-to-manuals and model documents) are easily accessible, creating a reliance on technical assistance, which while valuable is not optimized without these resources.

Third, *few foundations are actively supporting re-engineering efforts*. Some funders may be uncomfortable making "command and control" decisions by structuring their dollars in ways that encourage or even force re-engineering activity. In other cases, the same knowledge gaps that prevent local systems from re-engineering themselves may also exist among funders.

Recommended Approaches for Living Cities

As a national collaborative that pools resources from some of the world's large foundations and corporations, Living Cities is well positioned to be a key thought leader in repositioning the community development field going forward. It has a perspective informed by almost 20 years of experience, and its previous actions have already demonstrated its capacity to influence the direction of the field.

Over the past two and a half years, Living Cities has begun to influence the field in new ways: It has aggregated capital from new sources for new purposes; accelerated the migration of knowledge to help mainstream innovation; responded early to crises, such as the foreclosure crisis, and taken advantage of nascent opportunities as exemplified by its work on energy efficiency retrofitting dollars in the stimulus package. And it has sought to deploy these strategies in an integrative way.

The following recommendations fit within the framework of existing Living Cities approaches. Some may best be done directly by Living Cities; others may best be delivered through organizations in the field. The three comprise an overall strategy of building from innovation underway: Build the field's capacity to engage in re-engineering activities; catalyze and advance local re-engineering efforts; and shift the funding paradigm for reformed neighborhood groups.

Recommendation 1: Build the field's national-level capacity to engage in re-engineering activities.

The types of re-engineering put forth in this paper have become the norm in a few places. Living Cities can take a leadership role in helping to make these approaches more commonplace. The field-building strategies at the national level are largely knowledge-oriented. Living Cities could fill key knowledge gaps by:

1. Commissioning or publishing a report that describes different re-engineering efforts under way, documents the re-engineering process (including the roles played by different types of organizations), and highlighting the benefits and challenges of this work;
2. Developing and promulgating model documents, training modules, and technical assistance to make it easier for these groups to partner; and
3. Issuing a re-engineering "toolkit" that would help local stakeholders assess their systems and identify potential approaches, partners and resources for re-engineering. National and local intermediaries and city governments are trying to make rational decisions about the potential future viability of nonprofit housing providers, but they are handicapped in doing so because there is no system to assess the strengths of housing and community development groups. The CDC field would benefit from industry standards, a coherent way of evaluating the work that groups do. It would provide nonprofits with an outside assessment of their financial health, and also give funders and financing partners a benchmark from which to gauge nonprofit housing performance. Living Cities should convene a task force to outline an approach to setting standards building on models such as Opportunity Finance Network's CARS system, and STRENGTH MATTERS Peer Benchmarking Project sponsored by the Housing Partnership Network, NeighborWorks America, and Stewards of Affordable Housing for the Future.

Recommendation 2: Catalyze or advance re-engineering activities in select localities.

Living Cities could complement a national field-building strategy by identifying specific cities or regions that appear ready to take the next step in re-configuring themselves for greater sustainability and effectiveness. Living Cities could assist these local initiatives by providing expertise directly or through local groups to develop re-engineering strategies. This approach could be tested in the Living Cities target cities and, if found to be cost effective, transferred

elsewhere. Along the way, the technical experts should be charged with developing training and document packages that could streamline the process and reduce the need for on-site assistance.

Recommendation 3: Shift the paradigm for funding neighborhood groups, both as partners in the housing development process and as neighborhood improvement organizations.

Over the past decade and a half, a consistent message was sent from NCDI and other national thought leaders that neighborhood groups were more legitimate if they were housing producers than if they were not. If systems are to successfully adapt, this long-term definition of legitimacy needs to be revisited. Consequently, to be effective partners with larger-scale housing developers and to succeed at their mission of helping to improve the lives of low and moderate income people in neighborhoods, some community-based groups will need significant financial and technical support from governments and foundations. As the leader of a collaborative of committed community development funders, Living Cities should take a leadership role in this conversation.

While the specifics of this conversation lies outside the scope of this paper, one thing Living Cities could do is document the value of the non-housing roles of community-based groups. It could convey that these roles, when executed well, are as important to improving the lives of people living in America's neighborhoods as the production of housing. This conversation should engage local foundations. A Living Cities' convening or, potentially, a Living Cities set of sessions at the Council on Foundations' annual meeting, could be effective forums for this discussion.

A Concluding Comment

In its early days, the National Community Development Initiative had the ambition of propelling the CDC field to scale, which meant many CDCs producing more housing. The Living Cities' principle quoted at the beginning of this memo uses the phrase, "sustainable development capacity." This is an important shift. The task ahead is to move the field to a more effective and sustainable system while scrutinizing the costs of production and operations as well as the outputs—and the ultimate outcomes for neighborhoods and their residents.

The innovation cropping up in some cities promises a new paradigm for local and regional community development systems—one that could secure increased effectiveness and sustainability. Living Cities can play a very important leadership role to help the field move towards this new paradigm.