

Failures, Downsizings, and Mergers among Community Development Corporations

William M. Rohe
University of North Carolina at Chapel Hill

Rachel G. Bratt
Tufts University

Abstract

Over the past 30 years, community development corporations (CDCs) have become increasingly important actors in low- and moderate-income communities. One prominent view of CDCs is that they have experienced uninterrupted growth since the 1970s. Despite their growth and productivity, however, many are facing serious challenges to their continued viability. When confronted by such challenges, CDCs are likely to respond in one of three ways: go out of business, downsize, or merge with one or more other groups. The major goal of this research was to assess the causes of these failures, downsizings, and mergers.

First, we found that these changes do not appear to be isolated instances; rather, they are prevalent across the country. Second, we identified a number of contextual and organizational factors leading to CDC failures, downsizings, and mergers. Finally we suggest a series of actions CDCs, support communities, and policy makers can take in response.

Keywords: Community development corporations; Nonprofit organizations; Urban policy

Introduction

Over the past 30 years, community development corporations (CDCs) have become increasingly important actors in low- and moderate-income communities. In neighborhoods where the loss of private businesses has been endemic and where private and even public investment may be extremely low, CDCs provide housing and create jobs and economic opportunities for residents. As one of the key engines of community growth and revitalization, CDCs have been the subject of considerable study, and their continued viability and productivity are widely viewed as important in improving deteriorated neighborhoods and opportunities for residents.

One prominent view of CDCs is that they have experienced uninterrupted growth since the 1970s. Reports by the National Congress for Community Economic Development (NCCED), which has been tracking

the number of CDCs and their accomplishments since 1988, reveal that the number of CDCs has grown from an estimated 200 in the mid-1970s, to some 1,500 to 2,000 in 1988, to approximately 3,600 in 1999. Housing production has been the primary activity of the great majority of CDCs. They have developed or rehabilitated more than 550,000 housing units, 45 percent of which were produced between 1994 and 1997. Many CDCs also sponsor job creation and economic development (NCCED 1989, 1999).

Despite their increasing numbers and productivity, however, many CDCs are facing serious challenges to their continued viability. Several prominent CDCs have recently gone out of business. Some are downsizing significantly or merging with other CDCs, and some are grappling with serious financial problems, such as how to keep their housing stock affordable to low-income households while maintaining financial solvency. In addition, while many CDCs may appear to be functioning smoothly on a day-to-day basis, they are facing significant financial problems that threaten their organizational viability (Bratt et al. 1994).

While most CDCs focus on improving the quantity and quality of the neighborhood's affordable housing, ancillary impacts include improved perceptions of neighborhood safety, as well as increased community capacity (Briggs and Mueller 1997). Thus, when CDCs fail or downsize, the withdrawal of services, organizing efforts, and advocacy activities may significantly damage residents' overall quality of life.

One might question why failures among CDCs are perceived as problematic when failures among small businesses are often seen as healthy in that they cull those that are less competitive and may promote efficiency. The answer is that there are important differences between small businesses and CDCs. First and foremost, given the lack of profits to be made from providing products and services to low-income people, there are often no other organizations willing and able to pick up the activities terminated when CDCs fail. This means that those products and services may simply not be available to area residents. Other differences between CDCs and small businesses are that unlike small businesses, CDCs are less reliant on direct consumer response and more reliant on funding from foundations and government agencies, they are governed by a board of directors rather than a single entrepreneur, and their missions direct them to work in limited geographic areas and to serve low- and moderate-income households.

However, at the outset, it is important to acknowledge that not all CDCs facing difficulties should be saved. Where there are signs of widespread organizational incompetence or illegal activities, for

example, a CDC should be helped to close its doors. Also, market forces may dictate significant changes in operations. While we recognize the possibility that CDCs may need to make major changes under these circumstances, it was beyond the scope of this study to develop detailed guidelines on exactly when a CDC should contemplate such actions.

When confronted by serious challenges to organizational viability, CDCs are likely to respond in one of three ways: by going out of business, by downsizing, or by merging with one or more other groups. The major goal of this research was to assess the causes of these three responses. We look at three major research questions¹:

1. Are failures, downsizings, and mergers isolated instances, or are they part of a more general pattern among CDCs across the country?
2. What are the contextual and organizational factors that lead to these failures, downsizings, and mergers?
3. What policies and other actions are needed to respond to these changes?

CDC failures, downsizings, and mergers

To date, no comprehensive data are available on the number or rate of failures. The surveys carried out by the NCCED constitute the only national data on CDCs, but because they do not rely on a panel sample, they cannot be used to identify organizations that have changed. Currently, only anecdotal data are available on CDC failures, downsizings, and mergers.

One of the first studies to recognize the problem of CDC failure was conducted in Chicago. The report prepared by a group of local professionals knowledgeable about CDCs in the city states that during 1995, “three high-profile CDCs...terminated their development activities and essentially [went] out of business...leaving behind a troubled portfolio of low-income residential projects that they had developed and managed over the years. In addition, several other CDCs were going through unsettling leadership changes” (Futures Committee on Community Development in Chicago 1997, 3).

¹ A fourth question was included as well: How do CDC failures, downsizings, and mergers affect the communities served? Not surprisingly, there are a number of negative impacts that are discussed in Rohe, Bratt, and Biswas 2003 and in Bratt and Rohe (forthcoming).

Of the several prominent CDCs that have failed or downsized, Eastside Community Investments (ECI) in Indianapolis has probably been the most studied (Johnson and Reingold 2000; Steinbach 1999; Steinbach and Zdenek 1999). At its height in the early 1990s, ECI had a staff of more than 115 people and annual revenues exceeding \$8 million. By 1997, however, it could not meet its payroll, it had shrunk to a staff of six, and it was on the verge of financial collapse (Johnson and Reingold 2000; Rohe et al. 1998).

According to Steinbach and Zdenek (1999), ECI's problems can be traced to its reliance on developer fees to cover its costs, intense competition for Low-Income Housing Tax Credits (LIHTCs), investment in a for-profit subsidiary business, and unanticipated staff turnover.

Banana Kelly in the Bronx, NY, is another prominent CDC that has received considerable attention because of both its once-stellar record and its recent decline. Buildings owned by the CDC are reported to have deteriorated severely, with piles of garbage, cracked walls, and rat infestations. Utility bills have gone unpaid as well. Problems appear to stem from a combination of a decline in funds from foundations, government, and development projects; poor financial management; and possible inappropriate use of CDC funds for travel (Waldman 2000).

According to Proscio (1998), who edited the proceedings of a Local Initiatives Support Corporation–sponsored (LISC-sponsored) conference on six CDC failures, a key factor leading to these problems was financial and programmatic overextension. Moreover, funders and stakeholders failed to recognize these problems early enough to help CDCs rectify them. None of the groups, however, was able to identify a single “trigger” factor that transformed the situation from a problem into a full-scale crisis. Proscio notes that “serious crises, the kind that jeopardize an organization’s survival, are cumulative affairs in which individual problems, no one of which is fatal, gradually gain mass and momentum until the available forces for remedy are too little, too late” (1998, 5).

Information on the extent and causes of CDC mergers is also sparse. To our knowledge, the only article on the subject was written by Daniel Hoffman, who offers the observation that “among nonprofits, particularly those engaged in housing and community development, mergers or acquisitions by one another are rare” (2000, 36). In describing the successful merger of two organizations, the author observes that “the advantages of merging had to be exponential not simply additive” and that a key factor related to success was that neither organization was in crisis (Hoffman 2000, 38).

Beyond these isolated case studies, no systematic research project has examined what causes CDCs to fail, downsize, or merge. We reviewed the literature on the factors related to CDC success and performance, expecting that many of them are also associated with failure. While staff stability, for example, may lead to success, staff instability may lead to failure. These factors can be grouped into two categories: contextual and organizational.

The literature on CDCs and other nonprofit organizations suggests that several contextual factors are associated with performance. Much of the literature acknowledges that changing federal policy has presented challenges for CDCs (Bratt et al. 1998; Rohe 1998; Rubin 2000; Stoecker 1997; Vidal 1997). As federal dollars available for community development activities declined during the 1980s and early 1990s, the number of nonprofit organizations undertaking these kinds of initiatives grew (NCCED 1995). The federal shift from programs that offer deep subsidies to those that offer shallow ones has also increased the burdens on CDCs to raise funds from a variety of sources (Stegman 1991; Walker 1993).

The activities of national CDC intermediary organizations, such as the Enterprise Foundation and the LISC, have been shown to positively affect CDC performance. For example, Walker and Weinheimer (1998) report substantial gains between 1991 and 1997 in the organizational capacities of CDCs participating in the National Community Development Initiative, which was funded by several foundations, corporations, and government agencies. Research has also addressed the role of collaborations and partnerships in assisting and supporting CDC activities. Its findings indicate that partnerships do indeed increase CDC capacity (Glickman and Servon 1999b).

Several studies highlight the extent to which some state and local governments have developed support programs and, in some cases, sophisticated community development systems (Bratt 1989; Goetz 1993; NCCED 1995; Yin 1998). Goetz, for example, found that of 124 cities that reported having nonprofit developers, most provided administrative funding, project financing, predevelopment financing, or technical assistance (1993; see also Vidal 1992). Thus, the existence and sophistication of local support systems may be an important factor in explaining CDC failures, downsizings, and mergers.

The important connections between CDC activities and market forces have been acknowledged by a number of researchers. Strong national and local economies increase investment in CDCs and provide their clients with jobs and hence the income to pay rent or purchase homes

(Bratt et al. 1998; Cowan, Rohe, and Baku 1999; Glickman and Servon 1999a; Walker and Weinheimer 1998). There has also been some work exploring questions of how poor markets create problems for CDCs, including locating tenants who can afford the rent and maintaining buildings in high-crime areas (Bratt et al. 1994; Rohe et al. 1998).

Several organizational factors have been associated with CDC performance. The major staffing issues include size, turnover, and capacity (Vidal 1997). Not only are larger organizations more effective in terms of raw output, they also have been found to be more efficient (Cowan, Rohe, and Baku 1999; Rohe et al. 1991). Moreover, staff turnover has been found to be an important determinant of CDC performance. Cowan, Rohe, and Baku (1999) examined the factors influencing the performance of CDCs involved in the NeighborWorks Network and found that the “longer the tenure of the executive director...the more efficiently the organization will generate capital investment for its service area” (334). Turnover and burnout among key staff members also inhibit CDC performance (Bratt 1989; Cowan, Rohe, and Baku 1999; Mayer and Blake 1981).

Others have identified staff capacity as a key factor as well. For example, Gittell and Wilder (1999) discuss the importance of organizational competency, and Glickman and Servon (1999a) underscore the need for an effective executive director, in addition to competent and stable staff (see also Zdenek 1999). Among the most important tasks that a CDC must carry out is making accurate financial projections in developing housing and in the management of its housing portfolio. Unless these tasks are carried out professionally and accurately, significant problems can arise (Bratt et al. 1994).

The effectiveness of CDCs has also been linked to their boards. As Steinbach and Zdenek have observed, “The Achilles heel of many CDCs is the board of directors” (1999, 10). They further caution that “[t]he board that a CDC starts out with may not be the right board later, when its activities are more complex and the impact of decisions is more risky...Sometimes boards conflict with staff or try to micromanage. Other boards ossify, age in place. Continuity is a strength in managing an organization, but boards need turnover, too, to infuse new energy and ideas” (Steinbach and Zdenek 1999, 10).

Most CDCs are engaged in a variety of community development activities, based on their perception of their community’s needs, their staff capacity, and the availability of funds and other types of assistance (Vidal 1997). But some have cautioned that CDCs should focus on a narrow range of activities that they can do well. Steinbach and Zdenek conclude that the push to become more comprehensive should be

resisted unless key components of organizational structure are already in place (1999). Similarly, Walker and Weinheimer, while clearly articulating the rationale for CDCs to move into nonphysical community-building activities, warn, “Pushing CDCs to expand activities too fast can cause harm. CDCs as a group are still small and fragile organizations. Engaging in community-building activities is a complex undertaking for most...[and will require] a steady infusion of outside funding” (1998, 13).

One of the assumed strengths of CDCs is their bond with their local communities. Thus, maintaining an ongoing connection to the community is an important task. Some writers have argued, however, that the “bricks and mortar” aspects of CDC activities conflict with their commitment to organizing and advocacy (Schuman 1986; Stoecker 1997), but others disagree (Bratt 1989; Mott 1985). Glickman and Servon emphasize the ongoing importance of strong community participation, noting that “without a strong and active constituent base, CDCs face difficulty arguing their cause outside the community” (1999a, 527). Further, Gittell and Wilder (1999) found that all four of the successful CDCs they studied engaged in advocacy and community organizing efforts.

Before this research, then, CDC failures, downsizings, and mergers had been little studied. This research was designed to provide a better understanding of the causes of these changes. To what extent does an absence of factors associated with CDC success help explain them? Ultimately, our goal is to contribute to the development of better policies and interventions, which will promote more productive and viable CDCs. (See Rohe, Bratt, and Biswas [2003] for a complete report of the study findings.)

Methodology

This study focuses on three types of organizational change among CDCs. By our definition, a CDC that met with “failure” simply went out of business; before that, it may have accomplished some or even all of its intended objectives and benefited its target population. We could find no established definition of “downsizing” as it applies to nonprofit organizations, and we acknowledge that over their life cycles most organizations experience fluctuations, both up and down, in budgets and staffing. For this study, however, we were interested not in minor downturns that are part of a typical growth process, but rather in major reductions in resources and staffing. We defined “major” as at least a 40 percent reduction in staff size, substantially reducing capacity and hence the organization’s ability to deliver services. Finally,

“merger” was defined as the joining of two or more organizations. These mergers may be a survival strategy for organizations experiencing financial stress, or they may simply be an attempt by healthy organizations to become more efficient and provide more integrated services to their target population.

Given the nature of these objectives, we chose a systematic case study approach, which is particularly well suited to studying the kinds of organizational changes that interested us. By visiting a number of sites and carrying out in-depth interviews, we were able to develop a clear understanding of the contextual and organizational factors contributing to each CDC’s problems.

In designing our selection process, we sought two organizations that failed, two that downsized, and two that had merged within the past three years. We also wanted to select organizations in different regions of the country and in cities with varying levels of local support. Finally, we sought organizations that had varied reasons for the changes they experienced. We did not, for example, want turnover in the executive director position to be the primary reason for the change in all the sites. Also, we wanted to include groups that, we believed, had experienced the changes for reasons other than blatant organizational incompetence or possibly illegal operations.

With these criteria in mind, we began to identify candidate CDCs by conducting telephone interviews with key informants around the country. We generated a list of about 60 persons at universities and local, regional, and national nonprofit organizations reputed to be knowledgeable about CDCs. Sometimes these informants referred us to others; in total, we spoke with more than 100 key informants. From these interviews, we identified 103 CDCs that appeared to meet our criteria: 46 had failed, 41 had downsized, and 16 had merged.

We narrowed our list of potential CDCs by considering only CDCs located in cities with populations of 100,000 or more and those that had been in operation for at least four years and had actually produced or managed a significant number of affordable housing units. We found a number of CDCs that had failed before they were able to produce much in the way of affordable housing, and there did not seem to be as much to learn from them. The candidate sites were then arrayed in a matrix by the major selection criteria. We further narrowed the list by selecting two to four cities with multiple candidate organizations in each of the four major regions of the country. We contacted key government, intermediary, or foundation representatives in 11 cities to learn more about these organizations, such as their size and the circumstances that led to change. On the basis of those interviews and the willingness

of candidate organizations to participate in this study, we selected six that met our basic criteria and whose stories seemed to offer valuable lessons.

The two failed organizations we selected were the Community Development Corporation of Wisconsin (CDCW) in Milwaukee and the Whittier Housing Corporation (WHC) in Minneapolis. The two downsized organizations were the Oak Cliff Development Corporation (OCDC) in Dallas and the Advocate Community Development Corporation (ACDC) in Philadelphia. The two merged organizations were the Albina Community Development Corporation (Albina) in Portland, OR, and the Slavic Village Development (SVD) in Cleveland.

To learn more about the factors contributing to CDC failure and downsizing, we also selected comparison organizations for the two organizations that failed and the two that downsized by asking local informants at each site to identify financially healthy organizations that were as similar as possible, in terms of size and major activities sponsored, to the organizations under study. By examining these comparison organizations, we hoped to better understand the reasons for the failures or downsizings. We did not select comparison organizations for the two merger examples, because appropriate comparisons were not available.

We made three-day site visits to each city to conduct interviews with key informants and to collect relevant documentation. These interviews were guided by a schedule that included questions on the history and characteristics of the organization under study, the events that led to the change, the contextual and organizational factors causing the change, and other topics.

Case summaries

Community Development Corporation of Wisconsin: Organizational failure

CDCW provided affordable housing in Milwaukee from 1989 until it filed for bankruptcy in February 1999. During this time, Milwaukee's population declined by 8.9 percent (U.S. Bureau of the Census 2000). In 1989, the poverty rate was 18.5 percent, with poor households highly concentrated in selected areas of the city, particularly the primary area served by CDCW. Milwaukee is not known for having a strong support system for CDCs. Yet several organizations, including the Wisconsin Partnership for Housing Development, the Wisconsin Housing and Economic Development Authority (WHEDA), and the Milwaukee

Community Block Grant Office, provided assistance to CDCW, as well as to other Milwaukee CDCs.

In the late 1980s, Milwaukee's leaders in both the public and private sectors saw a need for a large developer of affordable housing, and CDCW, originally the Milwaukee Housing Assistance Corporation, was created in 1989. CDCW began to develop small- to medium-sized apartment complexes in the predominantly black Northside area of the city. This area has the highest poverty rate in the city and contains many older housing units that need repair. Facing political pressure, CDCW also took on properties from other CDCs that had gone out of business. Many of these properties needed repair and had problem tenants and relatively low occupancy rates. CDCW staff spent considerable time turning these developments around.

Projects were funded by a variety of sources, including the WHEDA, a lending consortium called the Housing Partnership Corporation, and several private banks. By 1997, CDCW had developed 21 separate housing projects totaling 722 units. It also provided ongoing property management for rental complexes, many developed by the organization. By the late 1990s, CDCW had a staff of 25 and an annual operating budget of more than \$1 million; it was developing approximately 150 units of affordable housing a year.

In 1997, financial problems began to surface. For some time, CDCW had been losing money on its property management operations because of soft demand for housing in the Northside area, inadequate tenant screening, and personnel problems. Unable to compete effectively with the higher salaries and better working conditions offered by private management companies, CDCW was also having trouble keeping competent staff. The financial losses did not create an immediate crisis, however, because the organization was able to cover this deficit with funds generated from its development work.

In 1998, however, development activities slowed because of changes in city policies and internal management problems. CDCW was staffed to rehabilitate multifamily developments using the LIHTC program, but the city decided to focus its resources instead on the purchase, rehabilitation, and resale of single-family homes. The city also allowed neighborhood organizations to determine how Community Development Block Grant (CDBG) funds were to be spent in their areas, and these groups drastically reduced the funding for affordable housing. In addition, CDCW was unable to keep up with the rehabilitation of single-family units and had trouble selling the units once they were rehabilitated. This combination of problems severely reduced operating income, and the red ink began to spread.

Somewhat belatedly, CDCW sought assistance in overcoming its financial problems, but it was unable to secure the amount it needed. It asked the city for \$700,000 to finish 31 buildings it had acquired, but the city approved only \$55,000 (to finish 11 partially rehabilitated units for which there were buyers) because officials felt that the organization was too far in debt and was unlikely to overcome its problems. CDCW also asked its lenders to restructure loans, but without city support, the lenders were unwilling to do this. In March 1999, CDCW filed for bankruptcy and closed its doors.

The comparison organization chosen for Milwaukee is the Walker's Point Development Corporation (WPDC), which serves the Walker's Point neighborhood on the south side, a predominantly low-income area with a somewhat better reputation than the Northside. WPDC was incorporated in 1980 "to provide affordable housing and to promote neighborhood stabilization and development" (Walker's Point Development Corporation 2000, 2). At the time of our visit, WPDC had a staff of 14, including 8 professional and 6 support staff members. Like CDCW, WPDC produces new housing, rehabilitates older housing, and manages rental units. Unlike CDCW, however, WPDC also sponsors a wide range of other activities, including a home-buyer counseling program and an economic development program focused on the promotion of retail, commercial, and industrial activity in its target area.

Whittier Housing Corporation: Organizational failure

WHC served the Whittier neighborhood in Minneapolis from 1994 through 2000, a time of rapid growth for the Minneapolis/St. Paul metropolitan area, but the central city lost 4 percent of its population during this period (U.S. Bureau of the Census 2000). In 1989, the poverty rate in the city was 18.5 percent. To assist CDC-sponsored housing developments that are experiencing financial problems, a rich collection of public, nonprofit, and private organizations, including the Minneapolis Community Development Agency, the Minnesota Housing Finance Agency, the Family Housing Fund of Minneapolis/St. Paul, and the Interagency Stabilization Group (ISG)—a consortium of all the major funders of CDCs—has supported CDC activities in Minneapolis. Finally, in 1991, the city introduced the Neighborhood Revitalization Program (NRP), which provides \$20 million a year for neighborhood development and improvement projects.

The Whittier Alliance was created in 1978 to work toward the revitalization of the Whittier neighborhood, which was showing serious signs of decline. For the next 12 years, the alliance pursued its mission by

sponsoring a variety of neighborhood improvement activities, including buying and rehabilitating multifamily housing developments. In 1990, having been chosen to inaugurate Minneapolis's first NRP area, the alliance undertook an 18-month planning process and devised a strategy that focused on developing additional affordable rental housing and social services for the area's lower-income residents. When homeowners and private apartment owners heard about this plan, they orchestrated a takeover of the organization and developed a new plan that did not include additional rental housing.

The alliance's new board had little interest in continuing to own and manage the multifamily properties the alliance had developed during the 1980s, so WHC was established as a separate organization and the properties, seven leasehold cooperatives with 16 buildings and 158 units, were transferred to it. At the time of the transfer, many of these buildings needed further renovation. WHC focused on turning around the 11 buildings it owned.

However, there was never enough money to make the major repairs needed. Before the ISG was willing to provide substantial funding to rehabilitate these units, it wanted to see a stabilization plan. WHC staff developed one, but the ISG judged it inadequate. WHC did receive some ISG support, but never enough to do the property rehabilitation that was needed. WHC staff also had trouble finding good property management companies, which contributed to the continued decline in the buildings' attractiveness. At its height, WHC had a staff of three—a director, a co-op organizer, and a secretary—and contracted with private asset and property managers. In 2000, after a final failed attempt to secure additional equity investments from the National Equity Fund, WHC closed its doors.

The 7th Street/Fort Road Federation, created in 1973 to advocate for renovating existing buildings, was chosen as the comparison organization in the Twin Cities. It serves a largely working-class, ethnically diverse area south of downtown St. Paul. When the federation incorporated as a CDC in 1978, it became directly involved in development, including rehabilitating single- and multifamily housing. However, the federation has maintained its original mission as a neighborhood advocacy organization and represents the area in the city's District Council Program. In 1999, the federation had an operating budget of approximately \$400,000 and a staff of three—an executive director, a community organizer, and a development assistant. Its philosophy has been to keep its staff small and contract out for services. Funding comes from the city, LISC, and local foundations and businesses.

Oak Cliff Development Corporation: Organizational downsizing

Throughout the 1990s, Dallas witnessed rapid regional growth, and the city's population grew by 18 percent. This growth was not shared, however, by parts of South Dallas, including the Oak Cliff area. The first group of CDCs was formed to serve the South Dallas area, and even today, the greatest concentration of CDCs is found there. The CDC movement has grown in the Dallas area, and in the mid-1990s, there were more than 25. The city of Dallas and other intermediaries like the Enterprise Foundation provide technical assistance and some operating support.

OCDC was formed in 1987 when the housing outreach program of a local Lutheran church found that there was an overwhelming demand for affordable housing in South Dallas. Since its inception, OCDC has focused on developing homeownership projects for low- and middle-income families with support from the region's financial and philanthropic institutions. In 1993, OCDC was made administrator for the Dallas in-fill housing program. This contract gave OCDC the opportunity to focus on new construction of single-family homes on lots throughout its service area. With adequate administration fees for the expanded services provided by the contract, OCDC hired additional staff. At its peak, it had more than eight full-time staff members.

Even as OCDC flourished, it lost capacity as several experienced staff members left for better positions, and reduced staff capacity led to project delays. Another adverse event was the vocal community opposition to OCDC's Independence Park Project, a planned development of 112 new homes. This opposition brought the organization unfavorable media and political attention. The most significant factor leading to the downsizing, however, was the loss of the in-fill housing contract and the subsequent reduction of OCDC's operating budget.

When OCDC's in-fill housing program contract expired, the city elected not to renew it. Caught unprepared, OCDC unsuccessfully appealed the decision, and holding costs and legal fees drained the organization's reserves. In addition, housing production suffered greatly, cutting into potential income from developer fees. OCDC was unsuccessful in finding alternate sources of operating support and was therefore forced to downsize significantly. The staff was reduced from eight full-time employees to an executive director and one part-time employee, thereby greatly diminishing the organization's production capacity at a time when the need for affordable housing in the area was said to be growing. In addition, several properties that were under development at the time of the financial crisis remained unfinished for an extended period.

The comparison organization chosen for Dallas is the Operation Relief Community Development Corporation (ORCDC), a growing CDC that operates in the South Dallas and Fair Park areas, particularly in the Edgewood addition. The current executive director formerly worked with OCDC. ORCDC recently completed several projects, including a 12-unit transitional housing complex and an 18-unit apartment complex for low-income residents. It has also constructed one new single-family home and renovated four others. Still in progress are two single-family homes, a 144-unit apartment complex, and a 30-unit complex for senior citizens.

Advocate Community Development Corporation: Organizational downsizing

During the 1990s, the city of Philadelphia lost 4.3 percent of its population (U.S. Bureau of the Census 2000). Approximately one-fifth of the population has incomes below the poverty line. Philadelphia has a long history of CDC activity and a strong support network that includes city agencies and national intermediaries. Several of the more effective CDCs enjoy operating support from two major initiatives and a host of foundations. About 65 CDCs currently operate in the city, with the greatest concentration in North Philadelphia. Included in this group is ACDC, which is adjacent to Temple University, in lower North Philadelphia.

The neighborhoods there are characterized by a concentration of poverty, an abundance of vacant structures, and growing social problems. However, there are also sections that have low crime rates and are home to middle-class and professional black families. With their rich architectural heritage and proximity to Temple University, these neighborhoods are seen as assets for the revitalization efforts spearheaded by ACDC.

Founded in 1968, ACDC was one of the city's first CDCs. Its founder served as president of the board of trustees until 1996. It completed its first housing project in 1971. Following its early success, ACDC continued developing housing while also developing an area master plan that helped lead to positive changes in public policy, including more financial resources for target neighborhoods. In its second decade, ACDC undertook several larger housing projects and led a successful effort to designate the Diamond Street area as the city's first historic district. In its third decade, ACDC developed its first rental housing units and continued its revitalization efforts. Over three decades, it completed 365 houses in its target area.

Throughout these years, the organization received widespread recognition for its work and was well supported by funders. Much of its success is attributed to its founder's charismatic leadership. Although she was officially president of the board, she was also de facto executive director because for most of her tenure, ACDC did not have one. During these years, the organization relied on consultants and contract employees to supplement its permanent staff, which was kept at four or five.

The organization began facing challenges when its founder developed health problems and was unable to devote the same time and energy to day-to-day activities. The existing staff could not handle the complexities of development projects, and the founder's resignation created a crisis both on the board and within the staff. After her resignation, the board tried to support ongoing initiatives but found it difficult to provide the necessary leadership, especially after several other members resigned. As the board struggled to find alternate leadership, communications with funders suffered, and ACDC lost much of its operating support. This, then, led to staff layoffs and the stalling of several ongoing development projects that became community eyesores.

The search for a new executive director was not easy. The first two choices did not work out, and the third's tenure was cut short by ill health. All the while, the development of new projects decreased, and potential developer fees diminished. Without adequate operating support, the organization was forced to downsize dramatically. Over several years, virtually no new projects were started and existing projects lay unfinished.

The comparison organization chosen for Philadelphia is the Greater Germantown Housing Development Corporation (GGHDC), which was formed in 1977 to serve the Germantown area and is a leading producer of housing. It has created 146 units for homeownership and 422 rental units, and it has also developed over 75,000 square feet of commercial space. A mature organization, it has 26 employees and one of the largest operating budgets among the city's CDCs. GGHDC has experienced changes in both board and staff leadership, but these transitions went much more smoothly than they did at ACDC.

*Albina Community Development Corporation:
Organizational merger*

Two groups that had served Portland's Northeast section for years merged in July 2001 to form the Albina Community Development Corporation. Over the past decade, Portland has experienced vigorous

growth in population and housing costs. During the 1990s, the city's population grew by 21 percent (U.S. Bureau of the Census 2000). After a period in the late 1980s and early 1990s when the city and funders supported the creation and expansion of CDCs, market changes and funding constraints in the late 1990s made CDCs more difficult to sustain. The Northeast section of Portland, one of the poorest areas of the city, was home to five CDCs.

CDCs received funds from the Neighborhood Partnership Fund (NPF), a local intermediary started in 1990, and the city of Portland. But by the mid-1990s, the city and funders wanted to rationalize the various funding streams, and in 1996, the Portland Neighborhood Development Support Collaborative, known simply as "the collaborative," was formed. Three public, private, and nonprofit funders make up the group: the Enterprise Foundation, NPF, and the city's Bureau of Housing and Community Development.

In assessing the situation in Northeast Portland, the collaborative questioned the accomplishments and sustainability of the CDCs in the area. Four of the five—Housing Our Families (HOF), Sabin CDC, Franciscan Enterprise, and Northeast Community Development Corporation—were perceived as being on shaky financial ground. At first, the CDCs were not explicitly asked to merge, but rather to find a way to work together more efficiently. Over time, however, the collaborative made it clear that it wanted to support fewer, larger organizations in the area.

Over the following months, and for a variety of reasons, only three groups remained in the discussions, and then one of those went out of business. The remaining two CDCs, Sabin and HOF, were on the verge of merging when Franciscan Enterprise rejoined the discussions. All three groups were slated to merge into a single organization on July 1, 2001. However, at the last minute, Sabin's membership voted not to join. Thus, the new organization, the Albina Community Development Corporation, was created from the merger of HOF and Franciscan Enterprise.

Franciscan Enterprise was formed in 1987 and HOF in 1991. While there was community participation in their creation, a key impetus was the city's support of CDCs throughout Portland during that period. HOF came to the merger with 268 rental units, all but 80 managed by an outside company. It had a staff of 7.5 and an annual budget of \$800,000. Franciscan had completed 120 units of rental housing, some of which were part of a mixed-use development. Its budget was about \$650,000, and it had a staff of 6.5.

The merger discussions were difficult, with many tense interactions along the way. Moreover, although the CDCs involved could see the logic of a merger, in retrospect they agree that it would not have happened without explicit directives from the city and funders.

Slavic Village Development: Organizational merger

The city of Cleveland lost 5.4 percent of its population during the 1990s. The poverty rate for the city in 1989 was approximately 29 percent (U.S. Bureau of the Census 2000). Cleveland has one of the most sophisticated and supportive community development systems in the country. A series of public, private, and nonprofit organizations provides funds and technical assistance to the city's 40 to 50 CDCs. In 1981, six CDCs got together and formed the Cleveland Housing Network (CHN) to facilitate the development process by providing technical assistance to member groups and by helping with the financing and management of lease-purchase units. CHN is now a consortium of 19 CDCs focusing on homeownership for low- and moderate-income households. City funds for housing are funneled through the Cleveland Housing Trust Fund, which provides core operating support as well as project funds to the city's CDCs. Corporate and foundation funds are funneled through the Cleveland Neighborhood Partnership Program.

Slavic Village Broadway Development Corporation (SVBDC) and Broadway Area Housing Coalition (BAHC) merged in 1998 to form SVD. The history of the Slavic Village–Broadway area served by the two merged organizations mirrors that of scores of older inner-city neighborhoods. It is a story of population decline, demographic changes, and changes in the industrial base. Few large tracts of land are available in the neighborhood, making land difficult to assemble and large-scale development nearly impossible. Despite a recent growth in the minority population, the Slavic Village–Broadway area is a largely white, lower-middle-class area.

BAHC started in 1980 and was primarily involved with low-end, market-rate housing for sale, while SVBDC was involved with commercial/storefront projects. Given that BAHC and SVBDC served the same area, funders pressured the groups to merge. At first they were reluctant to do so, but this reluctance dissipated by 1997. Increasingly, the CDCs felt they would not be able to carry the overhead of two separate organizations and that a merger was in the best interests of everyone concerned. They also felt that funders would not agree to the two organizations continuing to exist on their own, despite the fact that both were viewed as quite competent. At the time of the merger, there

was generally a high level of trust and personal connection among the executive directors, the staffs, and the board members of BAHC and SVBDC.

The merger is widely viewed as a success; the new organization is stronger than either of the two previous groups and can carry out a more comprehensive set of community development activities under one roof. But even in the best situations, mergers are not easy. Currently, SVD is building about 50 new units and rehabilitating another 30 or so per year, plus managing close to 350 rental units owned by other nonprofits in Cleveland.

Contextual factors in organizational change

The challenges faced by CDCs involve both contextual and organizational factors. Although contextual factors are largely beyond a CDC's control, they can have profound and lasting impacts on its viability. This is particularly true when CDCs fail to anticipate changes in key contextual factors and effectively respond to them. On the basis of the interviews conducted at each site, we identified six key contextual factors that contributed to the organizational changes being studied (see table 1).

Market forces

Among the many factors influencing a CDC's financial health, the upward or downward cycles of housing markets are among the most critical. Regardless of a CDC's internal management systems, staff capabilities, or financial and technical resources, market forces can create enormous problems. Weak market conditions created serious problems for both CDCW and WHC and contributed to their demise. In Milwaukee, deteriorating neighborhood conditions reduced the demand for the units owned by CDCW. One person observed, "We have a rotating stock of vacant housing units in the city." This soft market meant that the staff had trouble keeping the units fully leased; vacancies increased and rent revenues fell. WPDC, the comparison organization in Milwaukee, operated in a slightly higher income area and had a much smaller stock of rental properties, so it was not as affected by the soft market.

Unfavorable market changes also played an important role in WHC's demise. During the 1980s and early 1990s, the Whittier neighborhood experienced a marked increase in crime and drug-related problems. As suggested by one observer, "The neighborhood was the key problem.

Table 1. Summary of Key Contextual Factors Contributing to Failures, Downsizings, and Mergers

Factors	Failures		Downsizings		Mergers	
	CDCW (Milwaukee)	WHC (Minneapolis)	OCDC (Dallas)	ACDC (Philadelphia)	Albina (Portland)	SVD (Cleveland)
Market forces	x	x			x	
Increased competition for resources			x	x	x	x
Changes in city policies	x	x	x		x	x
Role of intermediaries and other funders		x			x	x
Lack of CDC support organizations	x	x	x			
Level of trust	x	x			x	x

No one anticipated that the area would decline the way it did.” Under these circumstances, WHC was finding it impossible to charge rents that could cover the 7 percent to 8 percent annual increases in expenses. The lack of additional revenues meant that proper maintenance on the buildings was deferred, and this, in turn, made them even less desirable to prospective tenants. Again, the end result was that rental revenues did not keep up with expenses. The area served by the 7th Street/Fort Road Federation, the comparison group in the Twin Cities, was a more stable working-class neighborhood that did not experience the same decline. Demand for property in this area remained relatively strong, compared with demand in the Whittier neighborhood.

In Portland, the market created a completely different set of problems for the CDCs serving the Northeast section of the city. Here, a newly emerging strong real estate market was reducing the availability of land and buildings, thereby making development aimed at lower-income households particularly difficult.²

² According to several telephone informants, similar situations also existed in other cities, such as New York. Also, a Sacramento, CA, group reportedly merged with a larger regional organization because the market in the area was simply not big enough to keep the smaller group in business; there was minimal development in the pipeline, and future possibilities for development projects were viewed as limited.

After about 10 years of concerted community development work, and with the overall economy in Portland thriving, it has been difficult for CDCs there to find good development deals. The changes were summed up by one interviewee, who noted, “In 1991, there were over 2,000 vacant and abandoned properties, predominantly in the Northeast section of town. Now there are probably not five houses that are vacant and abandoned.” The idea to streamline these groups’ operations was a logical response to changing market conditions and directly contributed to the push for a merger.

Increased competition for resources

Increased competition for funding contributed to the downsizing of both ACDC and OCDC, and it was also said to have motivated the mergers in Cleveland and Portland. In the past, ACDC had been the beneficiary of a number of state and local funds to cover its operations. As the organization experienced a leadership crisis, however, funders began to shift their support to organizations that were perceived to be more effective. Without adequate operating support, ACDC found it even more difficult to attract talented staff. As a result, the organization had to downsize operations, thereby decreasing its capacity to undertake development, which further reduced its available resources. The funding shortages also required that staff and board spend more time on fund-raising activities, which decreased the organization’s productivity as well.

In Dallas, although the city offered support for CDC operating expenses, there was stiff competition among CDCs for those funds. One person commented, “The operating support offered CDCs by the city is simply inadequate.” Moreover, other sources of funds to cover operating expenses were also in very short supply due to several bank mergers in the city. Thus, after a multiyear city contract expired, OCDC had great difficulty finding alternative funding to cover its operating budget and was forced to downsize.

In both Portland and Cleveland, there was a growing perception that there were too many CDCs and not enough resources to support them. According to one interviewee in Portland, “The collaborative was offering the groups a ‘carrot.’ They were saying that if you stay in the discussions [to merge], at a minimum you will continue to get funding. If you don’t cooperate, you definitely won’t get funding.” In Cleveland, the two groups that entered into the merger were aware that resources were likely to become increasingly scarce and that both faced the possibility of declining support from the city and local intermediaries.

Changes in city policies

Most CDCs depend heavily on their local governments for support. Thus, local government policy concerning fund distribution and use is critical to CDCs. In fact, changes in city policies played an important role in both failures, one downsizing, and both mergers.

For both CDCW and WHC, changes in the policies governing the distribution of city-controlled funds for housing and community development had significant, albeit unintended, effects on the organizations' viability. In the case of CDCW, the Milwaukee city government made two important policy changes. First, it decided to switch from a citywide allocation of CDBG and HOME funds to a neighborhood-based system, with each of 17 eligible neighborhoods deciding how to spend the funds in its area. Unfortunately for CDCW, most neighborhood organizations did not see the development of low-income housing as a high priority, which resulted in a significant drop in available funding. Second, the city decided to de-emphasize the production of rental housing developments and to emphasize the purchase, rehabilitation, and resale of single-family homes. Before this policy change, CDCW had been developing rental projects using the LIHTC program and receiving healthy development fees. The switch to single-family rehabilitation taxed the organization's technical capacity as well as its finances. Staff were not prepared to handle single-family rehabilitation and resale, and the fees received for this work were substantially less than those received from rental property development.

In Minneapolis, the city's decision to create the NRP set off a chain of events that eventually led to the demise of WHC. The participation of the Whittier Alliance in NRP led to the takeover of the board by local property owners who did not want more affordable housing in their area. According to one interviewee, the NRP process "brought homeowners into the process," making them "a more powerful force in neighborhood decision making." The board takeover led the alliance to turn its rental properties over to WHC. St. Paul, where the 7th Street/Fort Road Federation is located, did not adopt a program like NRP, so the city's long-term relationship with the federation and other CDCs was not disrupted.

In Dallas, the change in city policy concerning the outsourcing of its in-fill housing program affected OCDC dramatically, leading directly to its downsizing. In this example, community resistance to OCDC's affordable housing developments undermined political support for the organization and led to the cancellation of city funding for its in-fill housing program, which provided a large share of the organization's operating support. One person commented, "The change in attitude of

city officials was quite shocking.” OCDC has had a difficult time adjusting to this loss of city support.

Changes in city policies also played important roles in the Portland and Cleveland mergers. In both cases, policies changed from supporting the creation of new CDCs to encouraging mergers. In response to the proliferation of CDCs, public officials in both cities—wanting to create fewer, larger, more sophisticated organizations—adopted policies designed to “streamline the delivery system.” In collaboration with other CDC funders in their cities, they embarked on a concerted campaign to encourage mergers among organizations serving the same areas.

Role of intermediaries and other funders

CDC intermediaries, such as LISC, the Enterprise Foundation, and the Neighborhood Reinvestment Corporation, and local funders, such as financial institutions and other corporations, also played important roles in the organizational changes that took place. On the one hand, these intermediaries and local funders pressured CDCs to change their modes of operation; on the other, they often provided valuable support in helping CDCs make those changes. CDC intermediaries and other funders played important roles in the failure of WHC and in the Portland and Cleveland mergers.

In Minneapolis, some intermediary organizations and other CDC funders were said to have bought into the idea that to avoid the further concentration of poverty, new affordable housing should be built in the suburbs, not in the central city. Thus, support for the housing efforts of CDCs serving the central city was said to have waned in recent years. According to one interviewee, “Orfield [a Minnesota state legislator and author of several books on regional development] got everyone to agree that they did not want more affordable housing in the city. The CDCs ended up on the wrong side of this argument.” Thus, the funding available for the development of affordable housing in the city was said to have decreased in recent years.

Intermediary organizations played a direct role in the WHC’s rise and fall. The ISG, composed of representatives of the key public and private funders in Minneapolis/St. Paul, supported WHC’s creation. In addition, selected members of the ISG provided WHC with operating or repair funds throughout its history. In return for this support, the ISG required WHC to develop a strategic plan, hire an asset management company, and take other actions to move toward self-sufficiency. Unfortunately, the organization was never able to accomplish that.

Local intermediary organizations also played important roles in the Portland and Cleveland mergers, which were, in fact, precipitated by local intermediaries and city officials that joined forces to pressure, sometimes subtly and sometimes not so subtly, CDCs to merge. Like city agencies, the intermediaries and other local funders sought to rationalize and streamline the CDC delivery systems in their cities. At the same time, however, they provided substantial amounts of financial and technical support to help with the mergers.

The main issue raised by these examples is when and how intermediaries and funders should intervene. CDCs believe themselves to be autonomous organizations that serve locally defined needs and as such should not be dictated to by intermediaries and funders. Yet those groups have their own interests to consider, and it is reasonable for them to set conditions for receiving funding.

Lack of CDC support organizations

In addition to the intermediary organizations, two types of CDC support organizations have developed in many cities. The first type is typically composed of representatives of key public, private, and nonprofit organizations and is designed to foster communication and collaboration among the members. The second is typically composed of representatives of the CDCs in a city and is designed to help them share knowledge, coordinate activities, and influence local public policy. The lack of one or both types of support organizations was identified as an important factor in both failures and one downsizing.

In Milwaukee, the failure of CDCW was at least partially attributed to the lack of a forum for key funders to develop an effective strategy for helping the organization overcome its problems. Some interviewees felt that CDCW could have been rescued if there had been a means for key support groups to communicate. One interviewee suggested, “The failure to create a functioning and functional public-private partnership that also includes the nonprofit as partners at the table is the clearest and most painful lesson we learned.”

In Minneapolis and in Dallas, there was a perceived need for an organization made up of representatives of CDCs within the city. Minneapolis has a number of intermediary organizations that provide financial and technical assistance to CDCs, but there is no organization that facilitates communication among them or that provides a mechanism for them to influence city policy. That lack was seen as preventing local CDCs from effectively responding to political and economic change. Similarly, an interviewee in Dallas suggested that a CDC trade

organization might have helped OCDC more effectively respond to the city's decision not to renew the in-fill housing contract.

Level of trust

The final contextual factor that was cited as contributing to the organizational changes being studied was the level of trust among the various actors involved in CDC activities. Coleman (1988), Putnam (1995), and Lin (2001), among others, have argued that trust is an essential component of social capital—a history of shared norms and reciprocal relationships that allow participants to collaborate effectively. Our case studies suggest that the level of social capital among the key actors in the CDC community was an important factor in the organizational changes studied. Issues of trust and social capital were cited as important factors in both failures and both mergers.

In Milwaukee, the CDCW executive director did not mention the organization's financial problems to either the city or his own board of directors, which included several major funders, because he did not believe that sharing this information would generate a supportive response. He was concerned that full disclosure would scare off funders and worsen the organization's financial situation. Thus, by the time the problems were discussed, CDCW was very far in debt, and no one was willing to provide the level of assistance needed to bail it out.

By contrast, WPDC, our comparison organization in Milwaukee, handled a similar crisis very differently. WPDC had a cash flow problem that the financial manager had not brought to the attention of the executive director. She responded to this crisis by discussing this problem with lenders, who agreed to give WPDC some breathing room by deferring loan payments. This gave the organization time to get its financial house in order. Thus, rather than hiding the problems, WPDC was willing to acknowledge them and trust that it would receive help, and it was right.

Lack of trust was also mentioned as an important factor in the WHC failure. In this instance, the CDC's staff never won the trust of key members of the ISG, who were skeptical of the staff's ability to plan for and implement needed renovations or to manage the properties.

In Portland, the CDCs in the City's Northeast had had little experience working together before merger discussions began. When the CDCs were asked by the collaborative of local funders and city officials to "work more closely together," the organizations had few shared experiences and little mutual trust on which to draw. In fact, one interviewee

noted, “Before the collaborative requested that the CDCs get together, the CDCs in Northeast had never given each other the time of day.” Clearly, this did not bode well for merger discussions.

Finally, Cleveland presents an example of a city with abundant social capital. It has one of the oldest, most sophisticated and supportive community development systems in the country, and many of the key actors have worked closely together for years. These relationships and a high level of trust proved invaluable in the successful merger between the two organizations in the Slavic Village–Broadway neighborhood.

In summary, contextual factors may sometimes create insurmountable obstacles for a CDC or group of CDCs. Where market conditions are changing dramatically and competition for resources is becoming acute, some groups will weather the challenges while others may not. In addition, changes in city policies or in the operations or orientations of local and national intermediaries will have varying impacts on a CDC’s viability. Depending on the type of changes being promulgated, and how narrowly or broadly targeted they are, some CDCs will have particular difficulties, while others may be able to overcome the challenges. Finally, permeating all the contextual issues is the level of trust and social capital among CDCs and other actors in the CDC support community. Where trust is strong and deep and where partnerships and collaboration are standard practice, CDCs will likely have considerably greater tools with which to navigate their way through difficult times.

Organizational factors in organizational change

Although contextual factors clearly influenced the organizational changes in our six cases, organizational factors were also critical. In fact, the challenges faced by CDCs in this study often resulted from an interaction of contextual and organizational factors. Six key organizational factors were identified.

Breadth of organizational mission

The essential mission of a CDC largely determines the products and services it offers, the geographic area it covers, and the characteristics of the clients it serves. Often, the missions of CDCs are narrowly defined, which allows them to focus on a single activity, but this may also make them vulnerable to changes such as weakened demand for housing in their target areas or shifts in funder priorities. The breadth of organizational mission was identified as a factor in both failures, one downsizing, and both mergers (table 2).

Table 2. Summary of Key Organizational Factors Contributing to Failures, Downsizings, and Mergers

Factors	Failures		Downsizings		Mergers	
	CDCW (Milwaukee)	WHC (Minneapolis)	OCDC (Dallas)	ACDC (Philadelphia)	Albina (Portland)	SVD (Cleveland)
Breadth of organizational mission	X	X	X		X	X
Overreliance on a single funding source	X		X	X	X	
Internal management problems	X	X	X	X	X	
Lack of staff or board capacity	X	X	X	X	X	
Communication problems	X	X	X	X	X	
Lack of community support	X	X	X			

Three elements of an organization's mission may affect its ability to respond to contextual changes: diversity in project types, diversity in the geographic area served, and diversity in income groups served. Both failed organizations in our study had missions that lacked all three types of diversity. In Milwaukee, CDCW had a large portfolio of rental housing that was heavily concentrated in the distressed Northside area and, given the location, largely served very low income households. As the demand for housing in its service area weakened, CDCW found it difficult to keep occupancy rates up. Moreover, this weak market precluded rent increases, which, in turn, affected its ability to cover increases in operating costs on a large proportion of its units. By contrast, WPDC, our comparison organization, pursued a more diversified development agenda. Along with affordable housing, it developed market-rate housing targeted to moderate-income households, and it purchased and rehabilitated commercial properties in the local business district. It has also begun to develop properties outside its original target area, thereby geographically diversifying its portfolio. This diversification made WPDC less vulnerable to the softening Milwaukee housing market during the 1990s.

Similarly, in Minneapolis, the Whittier Alliance focused exclusively on developing rental housing for very low income residents. Its developments were concentrated in several blocks of one neighborhood. The lack of diversity meant that the entire portfolio was negatively affected by the softening demand for housing in the Whittier area. Moreover, serving such a narrow income group led to the loss of broader community support for the organization and ultimately to the takeover of the alliance and the transfer of the units to WHC. The financial viability of WHC, in turn, suffered from the same lack of diversity. By contrast, the 7th Street/Fort Road Federation, the comparison organization, pursued a more diverse housing agenda, including the rehabilitation of single-family homes, the development of housing for the elderly, and the development of a limited amount of rental housing. Staff suggested that this diversified approach to housing production helped the federation remain financially sound and maintain community support.

Lack of diversity in CDC activities also played an important role in the downsizing of the OCDC. It specialized in a single product, namely the construction of new single-family houses for low- and moderate-income families. Staff felt that this strategy allowed them to produce more units of higher quality. When funders began switching to an emphasis on multifamily rental housing, OCDC was not prepared. The staff we interviewed now believe that a more diverse mix of products is essential for the organization to survive. The comparison organization in Dallas, ORCDC, developed a more diverse array of housing, including rental housing for different population groups and homeownership projects that included new construction and rehabilitation of existing units.

Finally, breadth of mission also played an important role in both mergers. Most Portland CDCs were created to rehabilitate dilapidated housing. Over time, however, market changes in the Northeast section made it difficult for CDCs to find properties that could be rehabilitated and sold as affordable housing. Thus, many CDCs found that they faced reduced opportunities and dwindling resources, which put pressure on them to merge. Similarly, one argument for why the two Cleveland organizations merged was that a merged organization would have the broader mission of developing both housing and commercial property in a coordinated way.³

³ Similarly, von Hoffman notes that a key reason for the merger he studied was encroachment; two organizations had started to branch out into the traditional development domains of the other group. He writes, "Each organization was beginning to take on unfamiliar tasks; but tasks that were familiar to the other organization" (von Hoffman 2001, 37). During our telephone conversations, we were also told about groups in Baltimore and Indianapolis that had performed complementary activities and that merged because they wanted to create a more comprehensive organization. Also, we were told that a successful merger had taken place in North San Diego between an organization with weak financial reserves but a strong social services component and

Overreliance on a single funding source

The quest for resources, particularly core operating support, is a constant challenge for CDCs. Overreliance on any single funding source, however, may make an organization vulnerable to interruptions in that funding. Such overreliance played an important role in one failure, both downsizings, and one merger.

CDCW depended heavily on the city for financial support, and much of it was tied to housing production. Thus, the slowdown in CDCW's housing production led to serious funding cutbacks. The lack of more flexible foundation funds not directly tied to the production of housing units left CDCW with very little financial cushion. The heavy reliance on city funds also meant that CDCW found it difficult to refuse requests made by the city, such as assuming responsibility for the housing portfolios of failed CDCs. As one person noted, "There were a lot of political demands to get involved [with the problem properties]. [The executive director] was being pulled in many directions." By contrast, the executive director of WPDC, the comparison organization, made a conscious effort to diversify funding sources. When the executive director took over, 70 percent of the organization's funding was coming from the city. At the time of our visit, this figure had dropped to 35 percent. The remainder came from a variety of other government organizations and foundations. Thus, the loss of a single funder would not lead to total collapse.

Overreliance on city support was also important in explaining the downsizing of OCDC. Again, a very large percentage of the organization's revenues came from the in-fill housing program funded by the city, and the executive director assumed that support would continue. One person suggested, "By expecting the infill contract to be renewed, the organization may have become complacent and may not have devoted enough time and resources to looking for other projects." Thus, when the city contract was not renewed, the organization had little to fall back on. By contrast, ORCDC, the comparison organization, made a concerted effort to diversify its funding sources. It was successful in garnering support from financial institutions and foundations, as well as from the city. Therefore, it will not be as vulnerable to interruptions in any single source of funds.

The downsizing of ACDC was also said to be at least partially attributable to overreliance on a single source of funds—in this case, developer's

an organization with significant financial reserves and a desire to move into social services. The merger was viewed as a way for one organization to provide a broader array of needed community services.

fees. One person commented, “Lower production meant lower developer’s fees [which made it] difficult to continue operations.” In addition, in Portland, overreliance on developer fees was cited as a factor contributing to the financial instability of several organizations involved in the merger discussions. One interviewee noted, “HOF was in trouble and could see that their operating budget was heavily dependent on developer’s fees that were becoming increasingly unavailable.”

Internal management problems

Effective management is important to the success of CDCs, as it is to all organizations. Good organizational planning and decision making, financial accounting, staff development and supervision, and other dimensions of management are critical to CDC viability. Thus, it is no surprise that management problems were important in explaining both failures, both downsizings, and one merger. The management problems we heard about in our interviews can be grouped into two categories: problems in the development of properties and problems in ongoing property management.

Overly optimistic assumptions in the pro formas prepared for development projects played an important role in both organizational failures. Those pro formas overestimated revenues from future rent increases and underestimated future operating costs. In Minneapolis, the underwriting of the projects of the Whittier Alliance was described by different informants as “wildly flawed,” “incredibly optimistic,” and “unreasonable.” Both CDCW and WHC found that, because of tenants’ relatively flat incomes and soft demand for the units, they could not raise rents without displacing tenants and increasing vacancy rates. The capital and operating reserves for these projects were also woefully inadequate.

In addition, inadequate cost controls were cited as part of the larger management problem in the failure of CDCW and the downsizings of ACDC and OCDC and the merger in Portland. In these instances, cost overruns were said to have led to financial losses and/or the suspension of construction activities. CDCW allowed substantial cost overruns on its single-family rehabilitation projects and fell way behind on its production schedule, thereby leading the city to deny its request for bailout funding. OCDC’s project administration was described as slow and inefficient. In ACDC’s case, the construction halt was prolonged, and even though the properties were eventually completed, the organization developed a reputation for poor project management. Finally, financial shortfalls facing several of Northeast Portland’s CDCs created pressure for their merger.

As suggested earlier, property management problems also played an important role in the outcome of several of the organizations studied. Inadequate property maintenance was a problem in both failures and one downsizing. In Milwaukee, Minneapolis, and Philadelphia, property managers were said to be slow to respond to tenant requests for repairs, and overall property conditions declined over time. The lack of sufficient revenues to make repairs clearly contributed to these problems. In Minneapolis, properties deteriorated to the point that WHC was cited by the city for housing code violations, and the executive director said that she “felt bad about being a slum landlord.”

It should be noted that while these problems are being discussed as the organizational factors connected with organizational change, they could also be viewed as contextual factors. Often, when a CDC does not have adequate funds to undertake construction or miscalculates management costs, local public agencies and funders may be well aware of the problem (see, for example, Bratt et al. 1994). In this sense, the root of these problems is both internal and external.

Inadequate tenant screening and eviction procedures were also cited as problems in both failures studied. This was a particular problem for CDCW, where several people observed that selection procedures were ineffective in screening out potential problem tenants and property managers were complacent about evicting them. Interviewees in both Milwaukee and Minneapolis also said the lack of tenant support services contributed to CDC failures. CDCs often target very low income and at-risk populations that may need social services to address substance abuse, domestic issues, or mental health problems. These problems affect the success of housing developments but are often beyond the purview of property management.

Lack of staff or board capacity

Lack of staff or board capacity is another factor that contributed to the failures, downsizings, and mergers studied.⁴ Leadership changes played an important role in the failure of WHC and the downsizing of ACDC. In Minneapolis, WHC’s leadership changed three times in its relatively

⁴ In the course of our telephone calls, we also heard about several mergers having taken place because of various personnel problems that had led to organizational instability. We were told that a CDC in Newark was led to merge because the board had tried to micromanage the organization, resulting in the departure of the executive director. Also, as noted in footnote 3, one of the organizations involved in the North San Diego merger was viewed as financially weak. Finally, it was reported that a merger between two Connecticut nonprofits took place because one of the organizations was floundering.

short history. This undermined the organization's ability to effectively address the problems in its housing developments. In Philadelphia, the founder of ACDC departed after decades of uninterrupted leadership, both as board president and as de facto executive director, and therefore left the CDC without leadership at both levels.

Lack of staff expertise is the second dimension of staff and board capacity that was commonly mentioned as contributing to both failures, both downsizings, and one merger. The most common reason offered is lack of resources to recruit and retain experienced personnel. In Milwaukee, CDCW had great difficulty retaining experienced property management staff. As one person put it, "People didn't stay if they were any good. The pay was too low." In Minneapolis, WHC never had more than three staff members: an executive director, a community organizer, and a secretary. Although it supplemented this small staff by contracting for management services, staffing proved inadequate for the challenges the CDC faced.

In the case of ACDC, the leadership made a strategic decision to use consultants and contract employees to complete projects. This may have been efficient for the short term, but it failed to build the organization's in-house capacity and credibility among funders. In Dallas, OCDC lost several experienced staff to other organizations, and given the low salaries it offered, it was unable to replace them with equally experienced people. Similarly, in Portland, several of the CDCs involved in merger discussions found it difficult to retain the most experienced staff members, thus creating high rates of turnover. Staff were said to have been lured away by city agencies, intermediaries, or for-profit businesses that paid higher salaries.

The composition and the involvement of the board of directors constitute a third dimension of organizational capacity. In both of the CDC failures, the boards of directors were described as passive and complacent. In Milwaukee, CDCW's board members were described as experienced and capable but not as active as they needed to be. For example, during the period leading up to CDCW's demise, the board's finance committee was inactive, so the organization's financial problems caught many board members by surprise. In Minneapolis, the WHC board "did not come out to fight the battle," according to one interviewee.

Board involvement and balance were also important in both downsizings. The ACDC board was said to be passive, and it lacked expertise in real estate management and development, which caused problems when the founder-president left. As one person commented, "There were members of the community on the board but little development or

management expertise.” By contrast, the comparison organization in Philadelphia has maintained a board said to have the right balance of members with professional and management skills and community representatives. In the case of OCDC, the board was largely composed of professionals who did not live in the area. According to interviewees, this lack of community representation cost the CDC dearly when it tried to lobby politicians to continue city funding.

Communication problems

Given that CDCs depend on a variety of other organizations for support, effective communication with those organizations is essential. Indeed, communication problems played an important role in all but one of the cases studied. Communication problems were mentioned as important contributors to both failures. In the case of CDCW, several interviewees suggested that the executive director was reluctant to share the organization’s financial problems with either the board or the city for fear of scaring off major funders. In Minneapolis, communication between WHC and the ISG, which was providing critical financial and technical support, was said to be limited by an ISG policy requiring organizations to communicate through a single member of the group. WHC leaders felt they could have been more effective in maintaining ISG support if they could have presented their case directly to the full board.

Communication between the CDCs and their supporters was also a problem in both downsizings. In the case of OCDC, the executive director did not communicate well with political leaders, particularly the local city council representative, who was kept “out of the loop” about OCDC’s plans for a large development. When disgruntled residents brought the project to his attention, he strongly opposed it. Several interviewees in Philadelphia suggested that the ACDC board never discussed the organization’s staffing and financial problems with the CDC’s funding partners. Having done so might have meant continued support from funders as well as technical assistance for staff and board training.

Finally, communication problems affected the Portland merger. In this instance, the group of funders asked the CDCs to figure out a more efficient way to work together, but what they really had in mind was a merger. Only after a series of meetings, resulting in a plan that did not involve a merger, were the funders explicit about wanting the organizations to merge. This lack of clarity caused frustration and wasted time.

Lack of community support

CDCs are said to be more likely to understand and be responsive to the unique needs and desires of neighborhood residents. This in turn is thought to result in greater community support (Rohe 1998). Unfortunately, in both failures and one of the two downsizings, this ideal was not achieved.

In Milwaukee, CDCW had not developed a strong base of community support, so there was very little community response when the city decided to cut funding. Community residents did not actively lobby or otherwise pressure civic leaders to save the organization. In both the failure of WHC and the downsizing of OCDC, vociferous community opposition to CDC activities played an important role. In Minneapolis, the Whittier Alliance's focus on providing housing for low-income renters was actively opposed by a group of neighborhood homeowners and private landlords. This in turn led to the creation of WHC, which, given its failure to adequately manage its properties, was never able to win community support. By comparison, in the Twin Cities, the 7th Street/Fort Road Federation has pursued a more diverse housing strategy that includes rehabilitating single-family homes, developing units for the elderly, and developing a limited amount of rental housing. Federation staff believe that this strategy has helped the CDC retain strong community support.

In Dallas, OCDC's plans for a new subdivision of 112 affordable homes generated considerable resistance from community residents who felt that the new project lacked sufficient community involvement and would negatively affect property values. Disgruntled community members complained to their city council representative, leading to the cancellation of OCDC's contract with the city and, ultimately, to its downsizing. By contrast, ORCDC has maintained close ties with neighborhood associations and groups and has contact with many segments of the community through the services it provides. Thus, the group enjoys strong community support.

What accounts for the lack of community support for these CDCs? Our cases suggest several explanations. First, the original impetus for creating both failed organizations came from city officials and other civic leaders, rather than from neighborhood organizations or residents. Second, the size of the area served by a CDC may affect the degree of community support for it and identification with it. CDCW, for example, served a large section of Milwaukee and had started development projects in other Wisconsin cities. Thus, no neighborhood claimed CDCW, and none came to its aid when problems arose. Third, our cases suggest

that community opposition to CDC-sponsored housing projects may stem from conflict between the goal of producing additional affordable housing and the goal of neighborhood revitalization. CDCs that are narrowly focused on producing affordable housing may run a greater risk of sparking community opposition, because residents may place a higher priority on other types of housing or other types of neighborhood improvements. Finally, in at least one instance, support for a CDC eroded as the composition of the neighborhood changed. Ironically, this change was at least partially the result of the CDC's success in improving the target community. Improved neighborhood conditions attracted higher-income residents who opposed the creation of more affordable housing in the area.

In summary, the breadth of an organization's mission affects its ability to adjust to changes in contextual factors such as changes in market conditions or the policies of major funders. Organizations with more diverse activities, larger service areas, and a broader clientele may be better able to adapt to changes in contextual factors. Along with this, overreliance on a single source of funds may make CDCs vulnerable to collapse and reduce their autonomy. In addition, and not surprisingly, internal management problems such as ineffective project and property management contribute to the downsizing and failure of CDCs. This, in turn, undermines funders' confidence in their effectiveness. Furthermore, a lack of staff or board capacity was found to undermine CDC performance, and poor communication between executive directors and their boards, between executive directors and both funders and city officials, and among CDC supporters all contributed to the failures and downsizings we studied. Finally, lack of community support or outright hostility to the activities of CDCs can play an important role in downsizings and failures.

Recommendations

Over the past 30 years, much attention has been paid to the growth in the number of CDCs. Recently, however, several large, well-respected CDCs have failed or been drastically downsized, while others have merged. These incidents led us to ask several questions. First, Are CDC failures, downsizings, and mergers isolated occurrences, or are they part of a more general pattern across the country? Although it was beyond the scope of this project to identify the actual number of CDCs that have failed, downsized, or merged, a series of telephone calls generated a list of some 103 organizations that had experienced one of these changes within the past three years: 46 failures, 41 downsizings, and 16 mergers. Overall, our telephone interviews revealed that these

are not isolated occurrences. Rather, they seem to be widespread within the industry.

Second, What are the contextual and organizational factors that lead to these failures, downsizings, and mergers? This article has explored the six key factors in each of these major categories. Our study reinforces the conclusion that it is often not possible to identify a single fatal problem or causal factor. Instead, what we have seen is that the various factors—which are invariably both contextual and organizational—interact, resulting in serious challenges to organizational viability.

It is relevant to ask whether failures, downsizings, and mergers are the result of different sets of factors. As shown in tables 1 and 2, although there are some differences, all the factors contributed to at least two types of organizational change, and many of them contributed to all three. These factors may best be seen as organizational stressors that—depending on their number, their severity, and the organizational response to them—may lead to any of the three outcomes. The difference between an organizational failure and a downsizing is likely related to the number and severity of stress factors, as well as to how the CDC and the local support community respond. If the CDC responds effectively and if the local support community lends a hand, an organization that might otherwise have failed may simply downsize. In the case of mergers, there are certain preconditions that must be met before a merger can occur, such as the presence of other organizations willing to merge and the availability of technical assistance to help them through the often difficult merger process.

Our third research question (What policies are needed to respond to these changes?) is addressed in the following recommendations, which are presented in five broad categories. The first three relate most directly to CDCs, although other key institutions are important in implementing these suggestions. There is a need for CDCs to carry out strategic planning exercises, diversify the types of projects they undertake, and focus on developing collaborative relationships and creating open lines of communication with key stakeholders. Our fourth recommendation is more focused on the need for the CDC support community to provide a variety of types of assistance that will enhance operations. Finally, we provide some areas for CDCs and their support community to consider when a merger is being contemplated.

1. *CDCs, with the assistance of their support communities, should develop strategic plans and revise them periodically.* Two of the major contextual factors that we identified as leading to problems for CDCs were changes in the local housing markets and growth in

the number of CDCs. Strategic planning can help anticipate and respond to these changes. Planning is also needed to address the growth in the number of CDCs in a city. Over time, such growth has led to increased competition for public, foundation, and private resources.

To address both market changes and increased competition, CDCs, funders, and policy makers need to work together to formulate strategies to be carried out at the city level and by individual CDCs. Given the competitive environment in which CDCs often operate, communities need to periodically assess their needs and the roles of local CDCs in addressing them. CDCs also need to initiate their own regular assessments of market changes and the products and services offered by other CDCs serving their target areas.

2. *Narrowly focused CDCs should consider diversifying the types of activities they provide, the geographic area they serve, the clientele of the housing units they develop, and their funding sources.* A major aspect of an organization's strategic planning should address the question of how much it should diversify versus specialize its activities. CDCs must tread a fine line between the two. Specification requires a narrower range of staff expertise, which is deepened with each new project. But it also makes an organization vulnerable to changes in funding priorities and community desires. Diversification, however, makes an organization less vulnerable to those changes but may lead to performance problems caused by a lack of staff expertise or financial resources.

In our case studies, we found that the groups that failed or were downsized tended to specialize in a single activity. The comparison organizations in these cities had a broader range of activities that seemed to provide a hedge against changing market and political conditions. CDCs that targeted small homogeneous areas were vulnerable to changes in market conditions in those areas. Having a larger, more diverse target area allows a CDC to diversify the location of its properties, thereby reducing its vulnerability to market weakness in particular areas of a city. Focusing exclusively on very low income households may also increase an organization's financial vulnerability because they typically require deeper subsidies that are difficult to find. A portfolio that also includes housing for moderate-income households may provide enough revenues to cross-subsidize the other developments. Finally, CDCs that rely primarily on one funding source seem to be particularly vulnerable to downsizing and failure. Abrupt changes in the policies of city agencies, foundations, or other principal funders can leave CDCs with

little time to find replacement funds and lead to downsizing or failure. Heavy reliance on a single funding source also leaves CDCs vulnerable to the dictates of that funder.

Although there are clear benefits associated with increased diversification, there may be risks that are not evident in our case studies but that might be found in other examples of CDC failure and downsizing. If not done carefully and with sufficient resources, diversifying the mission may lead to poor performance and loss of support. The decision to diversify, then, should be approached cautiously and involve both residents of the original target area and the local CDC support community. The full set of potential benefits and risks should be weighed, and the timing and speed of diversification should be carefully considered.

3. *CDCs should focus on developing collaborative relationships and creating open lines of communication.* In several of our case studies, the level of trust and extent of prior collaboration among key actors played an important role in the organizational changes that occurred. Although trust cannot be mandated, concrete opportunities for groups to work together are likely to promote a more trusting, mutually supportive community development climate. Joint projects and other forms of collaboration should prove helpful in fostering trust, both among CDCs and between CDCs and the public, nonprofits, and private members of the local support community. Collaborative efforts are often challenging, but the likely outcome—people seeing and acting on their shared agendas, rather than their areas of disagreement—is likely to yield positive results for community residents.

One area of collaboration involves working with local social service agencies to ensure that the tenants in CDC properties receive the support services they need. Given that some tenants of affordable housing developments need social services, CDCs should work with local social service agencies to see that they receive those services. CDCs do not necessarily have to provide services directly, but they can make referrals to other appropriate service organizations. They can also establish formal partnerships with service organizations that can refer prospective tenants to CDCs and provide those tenants with supportive services.⁵ The provision of social services, however arranged, will likely reduce property management problems and contribute positively to CDCs' financial health.

⁵ Cleveland's West Side Rental Housing Collaborative, which consists of 26 CDCs and social service organizations, is a good example of such a collaborative (Chupp and Burkholder 2001).

A lack of community support for various CDC activities was identified as another important factor in the failure and downsizing of three of the organizations studied. The best way to maintain community support is by opening a dialogue with a wide variety of community residents and by directly involving them in the review of proposed new activities and projects. This can also be accomplished by involving residents on committees, periodically convening general meetings with the larger community, and holding social events in the area served. Further, ensuring that CDC-owned or -managed properties are well run and maintained is also important in retaining community support. The importance of CDCs' maintaining close community ties was dramatically evident in both the takeover of the Whittier Alliance's board and the last-minute negative vote by the membership of one of the CDCs that was slated to merge in Portland.

Also, CDCs and their support communities should maintain open lines of communication and respond quickly to problems as they develop. Communication problems played an important role in the organizational changes experienced in five of the six cases studied. These problems included poor communication between executive directors and their boards, between executive directors and funders, between executive directors and city officials or politicians, and among CDC supporters. When CDCs, particularly CDCs that rely heavily on support from their local government, are undertaking potentially controversial projects, they would be wise to inform and involve local political leaders early in the process. In addition to the need for close and regular contact and communication, it is important to identify and acknowledge problems as they arise and not allow them to fester. One of the major reasons for the demise of CDCW was that the problems facing the organization were not identified and dealt with early enough. Similarly, several of those interviewed in Minneapolis felt that WHC's problems should have been addressed sooner and more decisively.

4. *The community development support community has an important role to play.* Our case studies underscored the critical role that the support community plays in the health and viability of CDCs. There are a number of key roles that these organizations should play. First, any city with multiple CDCs should create and nourish two types of support organizations. The first would be composed of the major public, private, and nonprofit funders and technical assistance providers in the city. CDC support groups are needed to facilitate communication and coordination among the often numerous funders and technical assistance providers operating in a given city. This type of organization can also develop coordinated strategies for

assisting CDCs that experience problems but have the potential to be effective providers of affordable housing and other needed community services. The ISG in Minneapolis is a good example of this type of organization. A second type, the trade association, should be organized by the CDCs themselves to share knowledge, coordinate activities, collaborate on projects, and advocate for their needs. Such an organization gives CDCs more influence over some of the contextual factors that affect their financial health, such as changes in city policies. Although this type of group must be grounded within the CDC community, the broader support community should nurture its development and maintenance.

Second, city policy makers should assess the impact of proposed policy changes on CDCs and involve them in decisions. Changes in city policies had significant, often unanticipated impacts on all but one of the CDCs studied. Thus, when city policy makers propose changes that would affect the distribution of funds for affordable housing, they should analyze those changes carefully to understand their impact on the financial health of local CDCs. To ensure that their voice is heard, CDCs should be involved in formulating, reviewing, and commenting on city policies that may affect them. This should ensure that policy changes do not catch CDCs by surprise and should enhance the level of trust between CDCs and local policy makers.

Third, adequate core operating support for CDCs should be provided. While it is acknowledged that city policies in relation to CDCs may change, it is critical that local and state policies take into account the need for CDCs to be provided with adequate funds. The problem of increased competition for resources, which was an important factor in the organizational changes of several groups, would have been far less severe if core operating support had been available for all CDCs that were meeting reasonable productivity standards. In addition, the time and effort that CDCs expend in trying to aggregate enough money to stay in business reduces the time they have available to pursue development opportunities or provide services to their communities.

Fourth, the CDC support community should provide additional opportunities for staff and board training. Both failed organizations and both downsized organizations in our study faced serious internal management problems that were personnel- and project-related. They might have been avoided if additional staff and board training and assistance had been available. Many organizations also found it difficult to retain experienced staff because city agencies and private sector companies paid substantially higher salaries. To

increase retention and prevent turnover, there is a need for better salaries and benefits. In addition, transition plans should be in place to ensure continued leadership. Although there are a number of national initiatives focused on increasing CDC staff capacity, there is still a clear need for additional assistance in this area.⁶ CDC supporters must better understand the types of assistance needed and commit to providing high-quality training programs and consulting. Although there are various ways that CDC staff and board members can receive additional training, many are not taking advantage of these opportunities. The support community needs to better understand the reasons for this shortfall, which may include lack of funds to pay for available training, lack of time to attend, and lack of understanding of the importance of training.

5. *Mergers require careful planning.* As part of their strategic planning exercises, organizations should be vigilant about assessing where they stand in relation to available resources and to other competing CDCs in their area. In particular, if resources are becoming scarce and several groups in a given area are working on various aspects of community development, CDCs may want to initiate discussions about a possible merger. It is likely that mergers will work best when the plan is owned by those most involved. Beyond organizational buy-in, when a merger is being contemplated, full involvement and support from all stakeholders are needed, and stakeholders should be brought into the merger discussions as early as possible. Key stakeholders include board members, community residents, CDC staff and executive directors, and members of the support community. Early acceptance of the merger idea, as well as an understanding of how it will likely affect the key players, is an important factor in ensuring that communication is kept open and that information is as accurate as possible.

Both of our case studies underscore the fact that mergers are not easy. An inclusive planning process assisted by outside consultants, however, is likely to facilitate this kind of change. The Portland and the Cleveland experiences indicate that the CDC support community should provide outside consultants to help each of the merging organizations. In addition, resources may be needed to deal with the logistics of merging two organizations, including space planning and office renovations, moving at least one of the groups to new offices, and addressing organizational issues, such as pay scales.

⁶ These include programs sponsored by the Enterprise Foundation, the LISC, the Neighborhood Reinvestment Corporation, the Fannie Mae Foundation, the Center for Community Change, and the NCCED.

Conclusion

In this first systematic inquiry into CDC failures, downsizings, and mergers, we were able to identify the key factors contributing to these changes. We found that several of the organizations we studied lacked a number of the factors identified as associated with successful CDCs, thereby providing further evidence of the importance of many of the factors that have been previously identified. For example, some of our organizations faced serious difficulties with leadership, particularly hiring and retaining experienced executive directors or having a succession strategy in place to follow a charismatic leader. We also learned that problems related to property development and management were important factors in CDC failure and downsizing, particularly the poor quality of the original construction or rehabilitation and unrealistic cost projections. Further, our study confirms the importance of support programs and recommends the development of local support organizations where they do not exist.

Although previous research found that a strong housing market is important to success, this study underscores the way in which overheated markets can threaten CDC viability. As some inner-city markets continue to rebound and thrive, questions about the viability of the CDCs in those areas will almost certainly continue to surface.

A further observation about the market that was revealed in this study is the extent to which NIMBY (“not in my back yard”) attitudes may be creating problems for CDCs in their efforts to provide housing to very low income populations.⁷ To the extent that some CDCs are beginning to see the fruits of their efforts in terms of rejuvenated neighborhoods and increases in rates of homeownership and property values, some new residents have begun to protest the low-income focus of their local CDCs, a situation we are calling “NIMBY in the neighborhoods.” While diversifying programs and services to serve a somewhat higher income group may help CDCs navigate through this problem, it is also likely that this dilemma will continue to confront organizations that are successful in upgrading neighborhoods.

There is, therefore, a two-pronged community development dilemma. First, the more a neighborhood is improved, the more vulnerable the organization that helped create those changes becomes. By contrast, in virtually every other realm, successful organizations become stronger, not weaker. Second, the more a neighborhood is upgraded, the more long-time, lower-income residents are threatened with displacement.

⁷ This observation was first made by Goetz and Sidney (1994).

The gentrification phenomenon is well known and has been well studied, but more research is needed into the specific role of CDCs as mediators of this process.

A final important contribution of this work is a deeper understanding of the limitations and risks associated with CDCs' having a narrow focus. Although CDCs must be wary about becoming overextended, we found that several of the groups we studied had become too reliant on a single type of activity and that this played an important role in their failure or downsizing.

Future research is needed to address several issues. Developing more case studies of failed, downsized, and merged CDCs would be helpful, so that the generalizability of the factors contributing to these changes can be assessed and other relevant factors can be identified. In addition, further study may provide greater clarity about exactly when a CDC should be helped to close, downsize, or merge. Research might also focus on examples of CDC turnarounds—namely, CDCs that faced serious problems but were able to rebound. Such inquiries may help identify effective strategies for salvaging CDCs and avoiding the negative impacts associated with their failure. Given the executive director's importance to a CDC's success, more research should be done on the skill sets that executive directors need to be effective. Finally, given that some of the tenants in units owned or managed by CDCs need social services such as job training or alcohol or drug abuse treatment, research on effective models of providing services to tenants should be done.

Over the past four decades, CDCs have demonstrated their effectiveness in addressing a range of low-income residents and community needs. Yet with the growth of the CDC industry, there are signs that some organizations are facing significant challenges that may threaten their organizational viability and, in turn, the housing and services they provide. This research has explored the factors contributing to failures, downsizings, and mergers and recommends a series of steps that CDCs and their support community can take to prevent adverse outcomes. We hope that CDCs will continue to gain strength and stability in their next phase of growth and development. For the foreseeable future, their long-term viability is an essential component of this country's housing and community development agenda.

Authors

William M. Rohe is Director of the Center for Urban and Regional Studies and Professor of City and Regional Planning at the University of North Carolina at Chapel Hill.

Rachel G. Bratt is Professor of Urban and Environmental Policy and Planning at Tufts University and a fellow at the Joint Center for Housing Studies at Harvard University.

We acknowledge the contribution of Protip Biswas, program director of the Enterprise Foundation in Atlanta, who conducted two of the case studies upon which this article is based. We owe a debt to Fannie Mae Foundation staff members Ayse Can Talen and Sohini Sarkar for their thoughtful comments on the initial research proposal and final report. We also want to thank the dozens of key informants who shared their knowledge about the community development corporations that are the focus of this study. Finally, we thank Kristopher M. Rengert and two anonymous reviewers for their help.

References

- Bratt, Rachel G. 1989. *Rebuilding a Low-Income Housing Policy*. Philadelphia: Temple University Press.
- Bratt, Rachel G., Langley C. Keyes, Alex Schwartz, and Avis C. Vidal. 1994. *Confronting the Management Challenge: Affordable Housing in the Nonprofit Sector*. New York: New School for Social Research.
- Bratt, Rachel G., and William M. Rohe. Forthcoming. Organizational Changes among CDCs: Assessing the Impacts and Navigating the Challenges. *Journal of Urban Affairs*.
- Bratt, Rachel G., Avis C. Vidal, Alex Schwartz, Langley C. Keyes, and James Stockard. 1998. The Status of Nonprofit-Owned Affordable Housing: Short-Term Successes and Long-Term Challenges. *Journal of the American Planning Association* 64(1):39–51.
- Briggs, Xavier de Souza, and Elizabeth J. Mueller. 1997. *From Neighborhood to Community: Evidence on the Social Effects of Community Development*. New York: New School for Social Research, Robert J. Milano Graduate School of Management and Urban Policy, Community Development Research Center.
- Chupp, Mark, and Susan Burkholder. 2001. Bridging the Gap: Building a CDC–Human Service Collaboration to Expand the Availability of Affordable Supportive Rental Housing. Paper presented at the annual meeting of the Urban Affairs Association, Detroit, April 26–28.
- Coleman, James. 1988. Social Capital in the Creation of Human Capital. *American Journal of Sociology* 94(supplement):S95–S120.
- Cowan, Spencer M., William M. Rohe, and Esmail Baku. 1999. Factors Influencing the Performance of Community Development Corporations. *Journal of Urban Affairs* 21(3):325–40.
- Futures Committee on Community Development in Chicago. 1997. *Changing the Way We Do Things: Recommendations and Findings of the Futures Committee*. Chicago: Local Initiatives Support Corporation.
- Gittell, Ross, and Margaret Wilder. 1999. Community Development Corporations: Critical Factors That Influence Success. *Journal of Urban Affairs* 21(3):345–61.
- Glickman, Norman J., and Lisa J. Servon. 1999a. *By the Numbers: Measuring Community Development Capacity*. New Brunswick, NJ: Rutgers University, Center for Urban Policy Research.

Glickman, Norman J., and Lisa J. Servon. 1999b. More than Bricks and Sticks: Five Components of Community Development Corporation Capacity. *Housing Policy Debate* 9(3):497–539.

Goetz, Edward. 1993. *Shelter Burden: Local and Progressive Housing Policy*. Philadelphia: Temple University Press.

Goetz, Edward G., and Mara Sidney. 1994. Revenge of the Property Owners: Community Development and the Politics of Poverty. *Journal of Urban Affairs* 16(4):319–34.

Hoffman, Daniel. 2000. Where Is the Urge to Merge? How and Why Two Successful Community Development Organizations Merged. *NeighborWorks Journal* 18(3–4):36–41.

Johnson, Craig L., and David A. Reingold. 2000. The Rise and Fall of Eastside Community Investments, Inc.: The Life of an Extraordinary Community Development Corporation. Unpublished report. Indiana University, School of Public and Environmental Affairs.

Lin, Nan. 2001. *Social Capital: A Theory of Social Structure and Action*. Cambridge, England: Cambridge University Press.

Mayer, Neil, and Jennifer Blake. 1981. *Keys to the Growth of Neighborhood Development Organizations*. Washington, DC: Urban Institute.

Mott, Andrew H. 1985. The Decades Ahead for Community Organizations. Report prepared for the National Neighborhood Coalition. Washington, DC: Center for Community Change.

National Congress for Community Economic Development. 1989. *Against All Odds: The Achievements of Community-Based Development Organizations*. Washington, DC.

National Congress for Community Economic Development. 1995. *Tying It All Together: The Comprehensive Achievements of Community-Based Development Organizations*. Washington, DC.

National Congress for Community Economic Development. 1999. *Coming of Age: Trends and Achievements of Community-Based Development Organizations*. Washington, DC.

Proscio, Tony. 1998. Building Durable CDCs: A Summary of the Proceedings of a Conference Organized by the Local Initiatives Support Corporation. Glen Cove, Long Island, NY, June.

Putnam, Robert. 1995. Bowling Alone: America's Declining Social Capital. *Journal of Democracy* 6:65–78.

Rohe, William M. 1998. Do Community Development Corporations Live Up to Their Billing? A Review and Critique of the Research Findings. In *Shelter and Society: Theory, Research, and Policy for Non-profit Housing*, ed. C. Theodore Koebel, 177–99. Albany, NY: State University of New York Press.

Rohe, William M., Rachel G. Bratt, and Protip Biswas. 2003. *Evolving Challenges for CDCs: The Causes and Impacts of Failures, Downsizings, and Mergers*. Chapel Hill,

NC: University of North Carolina at Chapel Hill, Center for Urban and Regional Studies.

Rohe, William M., Sam H. Leaman, Leslie S. Stewart, and Barri A. Braddy. 1991. *Evaluation of Neighborhood Housing Services: Final Report*. Prepared for the Neighborhood Reinvestment Corporation. Research Triangle Park, NC: Research Triangle Institute.

Rohe, William M., Roberto Quercia, Diane Levy, and Protip Biswas. 1998. *Sustainable Nonprofit Housing Development: An Analysis of the Maxwell Award Winners*. Washington, DC: Fannie Mae Foundation.

Rubin, Herbert J. 2000. *Renewing Hope within Neighborhoods of Despair: The Community-Based Development Model*. Albany, NY: State University of New York Press.

Schuman, Tony. 1986. The Agony and the Equity: A Critique of Self-Help Housing. In *Critical Perspectives on Housing*, ed. Rachel G. Bratt, Chester Hartman, and Ann Meyerson, 463–73. Philadelphia: Temple University Press.

Stegman, Michael A. 1991. The Excessive Costs of Creative Finance: Growing Inefficiencies in the Production of Low-Income Housing. *Housing Policy Debate* 2(2):357–73.

Steinbach, Carol. 1999. After the Fall. *Shelterforce* 17(4):7–11.

Steinbach, Carol F., and Robert O. Zdenek. 1999. Lessons from a Fall: What Went Wrong at ECI? *The NeighborWorks Journal* 18(2):34–38.

Stoecker, Randy. 1997. The CDC Model of Urban Redevelopment: A Critique and Alternative. *Journal of Urban Affairs* 19(1):1–22.

U.S. Bureau of the Census. 2000. Your Gateway to Census 2000. World Wide Web page <<http://www.census.gov/main/www/cen2000.html>> (accessed November 2002).

Vidal, Avis C. 1992. *Rebuilding Communities: A National Study of Urban Community Development Corporations*. New York: New School for Social Research, Community Development Research Center.

Vidal, Avis C. 1997. Can Community Development Re-Invent Itself? The Challenges of Strengthening Neighborhoods in the 21st Century. *Journal of the American Planning Association* 63(4):429–38.

von Hoffman, Alexander. 2001. *Fuel Lines for the Urban Revival Engine: Neighborhoods, Community Development Corporations, and Financial Intermediaries*. Washington, DC: Fannie Mae Foundation.

Waldman, Amy. 2000. Buildings' Savior Now a Troubled Landlord. *New York Times*. June 27, p. A27.

Walker, Christopher. 1993. Nonprofit Housing Development: Status, Trends, and Prospects. *Housing Policy Debate* 4(3):369–414.

Walker, Christopher, and Mark Weinheimer. 1998. *Community Development in the 1990s*. Washington, DC: Urban Institute.

Walker's Point Development Corporation Brochure. 2000. Milwaukee: Walker's Point Development Corporation.

Yin, Jordan S. 1998. The Community Development Industry System: A Case Study of Politics and Institutions in Cleveland, 1967–1997. *Journal of Urban Affairs* 20(2):139–57.

Zdenek, Robert. 1999. The Eight Habits of Highly Effective CDCs. *Shelterforce* (21)2:18–23.