

Networks and Nonprofits: Opportunities and Challenges in an Era of Federal Devolution

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Abstract

Community development corporations and other nonprofit organizations are increasingly responsible for producing and managing low-income housing in urban America. This article examines the network of governmental, philanthropic, educational, and other institutions that channel financial, technical, and political support to nonprofit housing sponsors. We analyze the relationships among these institutions and propose an explanation for their success. We then consider challenges the network must confront if the reinvention of federal housing policy is to succeed.

Block grants and rental vouchers, the dominant emphases of federal policy, present opportunities and constraints for nonprofit housing groups and their institutional networks. While states and municipalities are likely to continue to use block grants for nonprofit housing, the viability of this housing will be severely tested as project-based operating subsidies are replaced by tenant-based vouchers. We recommend ways that the federal, state, and local governments should help the institutional support network respond to this challenge.

Keywords: Low-income housing; Nonprofit sector; Social capital

Introduction

In the 1980s, the federal government drastically reduced direct subsidies for the development of multifamily housing in urban areas. The 1990s may well see the government stop subsidizing the development of special needs housing for the elderly and the disabled. Moreover, the government now proposes to rid itself of past commitments to existing federally subsidized and insured developments. The government will only support the development of new housing through block grants to localities and states and, perhaps, the low-income housing tax credit (LIHTC). Even

more than in the 1980s, federal housing policy will emphasize tenant-based rental vouchers.

Federal housing priorities have shifted from categorical, supply-side programs to block grants and vouchers. At the same time, many cities and states are experiencing a growing shortage of low-income housing (Joint Center for Housing Studies 1995). Because of these two changes and increased political pressure from community organizations, homeless advocates, and other groups (Goetz 1993), local and state governments are becoming more involved than ever before in the production, rehabilitation, and preservation of low- and moderate-income housing (Berenyi 1989; Goetz 1993; Nenno 1991; Turner and Cook 1990). Agencies use block grants and other funding sources to support a broad range of housing activities. Local and state governments often support the development of low-income housing (especially in inner-city communities) through partnerships with community development corporations (CDCs) and other nonprofit organizations.

This article examines the capacity of nonprofits to produce and maintain low-income housing in this period of devolution and vouchers.¹ This capacity is shaped not just by the competency of each individual nonprofit group but by the strength of the nonprofit's institutional network. Nonprofit housing organizations do not exist in an institutional vacuum. They survive and prosper when they are part of a network of organizations that support and undergird their initiatives. Thus, in considering their present and potential role, we must address the extent to which nonprofit producers are the point organizations in their supporting network of institutions.

In analyzing the institutional support system for nonprofit housing, we draw on the concept of social capital. Sociologists, political scientists, and other social scientists define "social capital" as the ability of individuals and organizations to acquire resources through membership in networks and other social structures (Coleman 1990; Portes and Sensenbrenner 1993; Powell 1990; Putnam 1993, 1995). The concept points to the way social and institutional relationships confer tangible benefits on participants, benefits that would not otherwise be readily

¹ We are not arguing that nonprofit sponsors are the only or necessarily the best sponsors of such housing but rather that, at present, they are major players that are viewed by many city governments, foundations, and elements of the U.S. Department of Housing and Urban Development as being at the center of any serious effort to revitalize and maintain inner-city neighborhoods.

available. Most definitions emphasize the role of mutual trust, reciprocity, and a shared sense of identity in forging the social and institutional relationships that foster social capital. Although the notion of social capital is now invoked to explain an ever-widening array of phenomena—perhaps to the point of overuse—we nevertheless believe that when grounded in specifics it offers a useful way of framing institutional support for nonprofit housing.² This article illustrates the importance of social capital through a discussion of institutional collaboration in two cities to improve the development and management of low-income housing in the nonprofit sector.

The article is organized into five sections. First, we briefly sketch the changing direction of federal housing policy and the increasing importance of state and local governments and nonprofit organizations in developing low-income housing. The second section examines the elements of the institutional support network for nonprofit housing groups and discusses the role of social capital in tying these elements together. The third section presents two detailed examples to illustrate the influence of social capital in shaping some of the nation's strongest institutional support networks for nonprofit community development organizations. The fourth section explores several key challenges facing the institutional support network; and the concluding section offers several recommendations for strengthening the network.

From the old paradigm to the new

The production and management of rental housing for low-income families has been fundamentally transformed since 1983 when the last federally sponsored multifamily production program was shut down. The Reagan administration terminated Section 8 New Construction and Substantial Rehabilitation programs and slowed to a trickle construction of new public housing (mostly for replacement units) (Hays 1995; Listokin 1991). The administration devoted the bulk of the U.S. Department of Housing and Urban Development's (HUD's) much reduced budget authority to tenant-based Section 8 certificates and vouchers (Hays 1995; Low Income Housing Information Service 1994). The only remaining subsidies designated as supply-side

² The current debate over Francis Fukuyama's recent book, *Trust: The Social Virtues and the Creation of Prosperity* (Fukuyama 1995; Solow 1995), gives a clear indication that social capital is an "idea in good currency" (Schon 1971, 123).

were reserved for the elderly, the disabled, and those living in rural areas.³ The other federal subsidies for production of low-income housing were provided indirectly, through block grants and tax incentives.

The Community Development Block Grant (CDBG) program and, starting in 1991, the HOME program funnel block grants on a formula basis to states and localities for a range of housing and community development activities (Hays 1995; Rich 1993). The Tax Reform Act of 1986 revamped the structure of tax incentives for housing and other real estate investments. While it drastically reduced the value of depreciation allowances and narrowed the eligibility for tax deductions of passive income losses, the act introduced the LIHTC (Case 1991; Clancy 1990; Hendershott 1990). The LIHTC is administered by state housing finance agencies with minimal oversight by the federal government. Made “permanent” in 1993 but now facing a potential “sunset” in 1997 (Cooper 1995), the LIHTC has helped finance almost 800,000 multifamily rental units since its inception (Tassos 1996) and currently accounts for about 40 percent of the nation’s multifamily housing starts (Oser 1994). However, the LIHTC is rarely able to fund the entire cost of developing low-income housing. The proceeds of LIHTC syndications must be combined with other sources of equity and debt, often including CDBG and HOME funds, to make a project viable (Clay 1990; DiPasquale and Cummings 1992; Hebert et al. 1993; Stegman 1991).⁴ This system of patchwork financing is the hallmark of most low-income housing development in the 1980s and 1990s (Community Information Exchange 1994).

Current proposals for HUD’s “reinvention” and the restructuring of federal housing policy in general further emphasize block grants and vouchers and the termination of direct federal support for individual housing developments. HUD, for example, proposes to “voucher out” the public housing system, rapidly replacing project-based subsidies with tenant-based vouchers (HUD 1994). It proposes essentially the same for the stock of privately owned subsidized housing. HUD’s proposed mark-to-market plan would eliminate project-based subsidies and mortgage insurance for such housing. HUD would restructure

³ These programs include the Section 202 program for the elderly and the disabled, Housing Opportunities for People with AIDS, certain McKinney Act programs for the homeless, and the Section 515 Rural Rental Housing and Rural Cooperative Housing programs.

⁴ For example, a recent HUD-funded study of 15 LIHTC developments found that they used an average of 7.8 funding sources (Hebert et al. 1993).

existing mortgages and, if necessary, fund critical capital improvements so that the owners could charge “market rents” and operate without any project-based subsidies. Qualified tenants would receive rental vouchers they could use for their current residence or for a new one (Bodaken 1995; Dunlap 1995; HUD 1994). HUD would also eliminate its remaining categorical housing production programs (Section 202, Housing Opportunities for People with AIDS) by consolidating them into a new block grant program for states and localities. Of course, HUD’s proposed reinvention may never be implemented as planned, but the basic ideas of vouchers and block grants are likely to shape the ultimate outcome.

In summary, the production of subsidized housing, particularly in the inner city, now requires multiple financing sources and types of subsidies, entails a decreased role for HUD and an increased role for state and local governments and other institutions, and involves greater participation by nonprofit and less participation by for-profit developers. State and local participation in subsidized housing policy making has increased as HUD has withdrawn (Goetz 1993; Nenno 1991).

With the demise of deep-subsidy production programs, developing affordable multifamily housing in poor inner cities became financially unattractive to most for-profit developers. Nonprofit organizations have become an “idea in good currency” for the development of inner-city affordable housing (Schon 1971, 123).⁵ Embraced both by the political right, which sees in them the historic strands of self-help and bootstrapping, and by the

⁵ Very little data are available on the location of low-income housing produced by for-profit developers. Nationally, the for-profit sector accounts for the overwhelming share of total housing production, with the nonprofit sector contributing a minuscule proportion. However, most for-profit housing development takes place in suburban and nonmetropolitan areas. Most private sector housing development in central cities tends to be for relatively affluent households. Private developers also account for the majority of housing units developed through the LIHTC. Unfortunately, no data have been collected on the intrametropolitan location of this housing. Most of the housing experts interviewed for this study believe that most private sector LIHTC housing has been developed in suburban areas, not in inner-city communities. With the private sector largely absent from depressed inner-city neighborhoods to date, CDCs and other nonprofit groups often have represented the only source of new housing development and housing rehabilitation, especially for low-income multifamily housing. An unpublished study sponsored by the Local Initiatives Support Corporation provides some support for this contention, finding that CDCs accounted for about 90 percent of affordable housing produced in the 1980s in the city of Boston, where CDCs are especially active (Vidal 1995). More definitive and current information on the location of LIHTC housing should become available through Jean Cummings and Denise DiPasquale’s research (in progress) on the LIHTC.

political left, which views them through the community control lens of the 1960s, nonprofits represent a politically viable approach to affordable housing.⁶

Nonprofit housing producers appeal to state and local governments for several reasons. Perhaps most important in this era of expiring use is their goal of permanent affordability (Davis 1994; Goetz 1993; Mayer 1990).⁷ Community-based housing sponsors are in business for the long haul and have no intention of reaping capital gains or charging market-rate rent (Bratt 1989; Davis 1994; Vidal 1995). They are committed to housing the poorest, most needy households and often provide more than housing: opportunities for employment, health care, child care, education, and other services (Leiterman and Stillman 1993; Sullivan 1993).

In many cities, nonprofits are the only organizations willing and able to assemble the multiple sources of funding necessary to produce low-income housing (Committee for Economic Development 1995; Vidal 1995). Often the relationship between government agencies and nonprofit organizations is so close that, as Goetz (1993, 130) puts it, “the distinction between the ‘success’ of the local public agency and the ‘success’ of the CDCs becomes blurred.” For example, 11 of 18 housing trust funds studied by Connerly (1993) have established priority or set-aside funding for community-based organizations. Similarly, in New York City the bulk of the 124,000 low- and moderate-income housing units built or rehabilitated under the city’s multibillion-dollar capital budget housing program have been developed by nonprofit organizations (Bratt et al. 1994).

Nonprofit housing organizations are active throughout the United States. According to a national survey conducted by the National Congress for Community Economic Development (NCCED 1995), there are more than 2,000 nonprofit community-based development organizations in the United States, 90 percent of which are

⁶ The following paragraphs summarize the major contributions and limitations of CDCs and other nonprofit housing groups. For more information and analysis, see Bratt 1989; Bratt et al. 1994; Clay 1990; Dreier and Hulchanski 1993; Keating, Rasey, and Krumholz 1990; Mayer 1990; McNeely 1993; National Congress for Community Economic Development 1995; OMG, Inc. 1995; Pickman et al. 1986; Rasey 1993; Schill 1994; Stoeker 1995; Sullivan 1993; Vidal 1992, 1995; Walker 1993; and Zdenek 1987.

⁷ More than 1.9 million units of subsidized housing (Section 221[d]3, Section 236, and Section 8) are at risk of loss as federal subsidies expire and owners become eligible to prepay their mortgages and charge market rents (Clay and Wallace 1990). HUD estimates that the cost of renewing expiring Section 8 contracts alone will total \$14 billion through fiscal 1998 (Dunlap 1995).

involved in creating affordable housing. A survey conducted in 1989 of the 173 U.S. cities with populations above 100,000 found one or more CDCs operating in 95 percent of them (Goetz 1993). The same survey also found that 82 percent of the cities with active nonprofit housing developers provided them with project financing, as did 63 percent of the states. More than half of these cities and a similar proportion of states also provided nonprofits with some administrative funding, predevelopment loans, and technical assistance (Goetz 1993).

CDCs are by no means the only important nonprofit organizations producing and managing low-income housing. Nonprofits that produce housing for low-income people cover a broad range of organizational foci—from those primarily concerned with improving the neighborhood and the quality of life in it to those targeting a particular constituency. While CDCs usually focus on a single neighborhood—commonly combining housing development with other services—other nonprofit housing groups target specific client groups (e.g., the elderly, the homeless, the mentally ill, AIDS patients) and are less concerned with the well-being of particular neighborhoods.⁸

The role of nonprofit organizations in low-income housing development is recognized and reinforced in current federal legislation. The National Affordable Housing Act of 1990 earmarks at least 15 percent of a participating jurisdiction's HOME funds for qualified nonprofit housing producers.⁹ Nonprofits are also designated to play a leading role in the housing programs of the restructured HUD.¹⁰

⁸ For example, a recent survey of nonprofit housing organizations in six diverse U.S. cities found that 37 percent owned elderly or special needs housing but did not own any multifamily rental housing (Bratt et al. 1994).

⁹ Some federal legislation and regulations stipulate the involvement of nonprofit groups in housing programs. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 gives nonprofits the right of first refusal to purchase from the Resolution Trust Corporation properties that had been in the portfolios of distressed savings and loans. A similar provision, applicable to properties owned by failed commercial banks, was included in the Comprehensive Deposit Insurance Act of 1991. Title VI of the Cranston Gonzalez National Affordable Housing Act of 1990 gives nonprofits and other "priority purchasers" the right to make the first bona fide offer to purchase a federally subsidized development whose owner has announced an interest in prepaying the mortgage. The Internal Revenue Code contains a provision that requires at least 10 percent of each state's annual LIHTC allocation to be earmarked for projects that are at least partially owned by qualified nonprofit organizations.

¹⁰ For example, HUD's original *Reinvention Blueprint*, issued in December 1994, several times emphasizes the importance of nonprofit community-based organizations in producing and managing low-income housing.

The growth of state and local housing programs and the increasing involvement of nonprofit housing groups are now widely noted (Bratt 1989, 1992; Davis 1994; Goetz 1993; NCCED 1995; Nenno 1991; Stegman and Holden 1987; Vidal 1992; Walker 1993). There is much less research on the *relationships* between nonprofit housing groups and state and local governments and other providers of financial, technical, and political support. The remaining sections of this article examine the nature of these relationships in the institutional support network for nonprofit housing. The discussion draws from our recent research on the management of nonprofit low-income housing in six U.S. cities (Bratt et al. 1994).

The institutional support network: Social capital and the nonprofit housing system

Nonprofit housing producers, in stitching together the patchwork financing of development deals, rely on a host of public, private, and other nonprofit organizations.¹¹ These organizations play many roles in supporting the production and management of nonprofit housing. Some provide equity capital, loans, and grants for housing development; others offer financial assistance for troubled developments, subsidize the salaries of nonprofit staff members, and underwrite other operating costs. State and

The focus on the development side of affordable housing is particularly important because of the lack of sufficient affordable housing supply in many jurisdictions and the [lack of] expertise of private actors (*e.g., nonprofit community-based organizations, developers*) in this area. . . . To ensure strong participation by *community-based organizations, set-asides for entities such as the community housing development organizations ('CHDOs') recognized under existing law would continue.* (HUD 1994, 9, emphasis added)

In addition, the *Blueprint's* proposed Community Opportunity Fund (the new name for the expanded Community Development Block Grant) would provide assistance to community-based organizations for neighborhood revitalization efforts. Finally, in its vision of a radically transformed public housing agenda, the *Blueprint* notes that in fiscal 1998 "No housing authority would receive funds directly from HUD. . . . *States and localities would have the option of replacing non-performing housing authorities with community-based organizations or others*" (HUD 1994, 13, emphasis added).

¹¹ We are not arguing that the current financing system is ideal or even adequate. (See Stegman 1991 and Clancy 1990 for discussion of the negative externalities and transaction costs involved in the current approach.) However, given the current system, multiple sources of financing and subsidy are needed, as well as the capacity to patch those elements together into one development package.

local governments, as noted above, are critical sources of financial and technical support for nonprofit housing groups in many cities. In fact, nonprofits would probably not be able to produce subsidized housing without the active support of the public sector. National and local foundations have become key sources of funding for predevelopment costs, gap financing, and organizational capacity building. CDC coalitions typically act as political advocates at city halls and state capitols. Educational institutions and consultants are primary sources for training and technical assistance (Bratt et al. 1994; Walker 1993). Elements of the system also serve as monitors or de facto trustees of the nonprofit housing stock, supervising development and management performance of the nonprofit sponsors on behalf of government and corporate investors (Goetz 1993; Schwartz et al. forthcoming; Walker 1993).

Many functions of the support system are performed by organizations created specifically to respond to the needs of the housing sponsors. For example, the national intermediaries (especially the Local Initiatives Support Corporation [LISC] and the Enterprise Foundation) raise equity capital through the syndication of LIHTCs and also provide grants, loans, and technical assistance. Moreover, they often serve as a catalyst in forming local housing partnerships. The intermediaries' connection to major corporations, including philanthropic funders and tax credit investors, serves to legitimize CDCs as viable organizations worthy of business and government support. As Walker (1993) argues:

Intermediaries . . . offer implicit guarantees of CDC performance to private sector financial institutions and public sector housing and community development agencies. Through organizational needs assessments, monitoring of CDC performance, tying organizational support to performance, and other mechanisms, intermediaries will legitimize CDC project efforts. (p. 402)

To understand this institutional network that supports the nonprofit producers of affordable housing, we developed an analytic framework inspired in part by Robert Putnam's *Making Democracy Work* (1993). This study introduced the term "social capital" to the lexicon of community development in America's inner cities.¹²

¹² Putnam was not the first to coin the phrase "social capital." While the term can be found in the work of James Coleman (1990) and others, its origin seems to be Jane Jacobs's *The Death and Life of Great American Cities* (1963).

Putnam's detailed research on the network of civic, political, and economic institutions in northern Italy makes a strong case for the power of social capital in the "sense of mutual reciprocity, the resolution of the dilemmas of collective action and the broadening of social identities" (Putnam 1993, 76). At its core, social capital is about interdependence and collaboration and is useful in teasing out the dynamics of the institutional network undergirding the nonprofit producers of subsidized housing.

Analogous to Putnam's articulation of social capital is the economic concept of networks that Walter Powell describes in "Neither Market nor Hierarchy: Network Forms of Organization":

In network modes of resource allocation, transactions occur neither through the discrete exchanges (markets) nor by administrative fiat (firms), but through networks of individuals engaged in reciprocal, preferential, mutually supportive actions. (Powell 1990, 303)

For Powell and other sociologists analyzing business organizations, networks are an operational way of looking at the concept of social capital among firms and the efficient organization for production in an economic setting. Social capital as institutional network means reciprocity, trust, adaptability, and flexibility among individual companies for mutual economic benefit. When the network is working toward and is organized for a shared vision, Powell suggests that

[T]he basic assumption of network relationships is that one party is dependent on resources controlled by another, and that there are gains to be had by the pooling of resources. In essence the parties to a network agree to forgo the right to pursue their own interests at the expense of others. (Powell 1990, 303)

Conceptually, the institutional framework surrounding nonprofit housing sponsors falls between the civic involvement with which Putnam is concerned and the institutional economic framework of Powell. In a sense, the framework is a hybrid—drawing on both economic interest and civic-mindedness.

The concept of social capital should be more than an engaging image that has captured the imagination of many urban watchers.¹³ Organizations that develop and manage housing must

¹³ For example, social capital is a central principle in the Committee for Economic Development's recent report, *Rebuilding Inner-City Communities* (1995).

adopt the terminology of sociologists and economists who focus on firms in the business world and civic associations. This translation requires a closer look at the content of social capital in the nonprofit world of community-based housing.

Four themes constitute the substance of social capital in those institutional networks that effectively support the nonprofit housing sponsor: (1) long-term relationships of trust and reciprocity, (2) shared vision, (3) mutual interest, and (4) financial nexus.

Long-term relationships of trust and reciprocity

In many cities the institutional network of the nonprofit housing sponsor is sustained by long-standing relationships based on trust, loyalty, and reciprocity among the individuals within the support institutions and the nonprofit housing groups. Key individuals are former colleagues, are current board members of the same organizations, or have switched positions from one part of the system to another. Staff members at the intermediaries, banks, and foundations previously worked at nonprofit housing organizations, including those they now assist. Public employees of community development departments in city hall move to a neighborhood housing sponsor or to a bank's community development department.

Tracing the career moves of individuals in the nonprofit institutional network in Boston, New York, San Francisco, and Chicago (the cities with the densest networks) would demonstrate the crossing of career paths and the interlocking memberships on boards, committees, and task forces.

Shared vision

A common ideology is widely shared within the nonprofit institutional network, which believes that nonprofit sponsors are the appropriate vehicle for building housing and developing communities in inner cities. The shared vision is perhaps most clearly held by those institutions created expressly to support nonprofit sponsors—the Enterprise Foundation, LISC, the Neighborhood Reinvestment Corporation, and the National Community Development Initiative.

Mutual interest

To the extent that foundations, city hall, and the intermediaries “put their money” on nonprofits, they have an enlightened self-interest in seeing those nonprofits succeed. Simply put, the better the nonprofit performs, the wiser and more effective the support institution appears. In New York, Oakland, California, and Boston, among others, programs rely on the nonprofit sponsors. Housing policy has been shaped around them. And large allocations of city or CDBG funds have been channeled to nonprofit-sponsored housing. The community housing sponsors and members of the network are mutually dependent on each other for program and policy outcomes. The major foundations active in this field are greatly invested in the success of CDCs and in their efforts to reknit the fabric of the nation’s inner cities.¹⁴

Financial nexus

In addition to the first three elements that we identify as making up social capital in the nonprofit housing world, connections are also derived solely from economic self-interest in which rational choice and financial interest are the bonding element. Here, the language of Powell’s network form of organizational relationship comes into play.

Given the multiple funding sources required to develop subsidized housing, a range of lending institutions are involved with the nonprofits and have a financial interest in their well-being. Obviously banks and state housing finance agencies fall into this category, but perhaps the most interested actor in the network is the equity investor seeking a significant financial return on investment. The LIHTC brings large-scale corporate investors into the nonprofit orbit. These corporations develop sizable stakes in the housing portfolios of the nonprofit organizations and face significant financial losses if this housing falters. This fact puts pressure on the national intermediaries and their affiliates that syndicate the LIHTCs to the corporate community. Not only do the corporations suffer financially if the management of tax-credit developments violates federal regulations or gets into financial trouble, but the intermediaries would also lose face with their investors and contributors, making it much more difficult for them to syndicate additional tax credit deals. This

¹⁴ These foundations include the Ford Foundation, the John D. and Catherine T. MacArthur Foundation, the Pew Charitable Trusts, The Annie E. Casey Foundation, the Rockefeller Foundation, and Lilly Endowment, Inc.

pressure to safeguard corporate investment (and their own corporate credibility) motivates corporations to take a leadership role in the institutional support network.¹⁵

Grounding theory: Social capital in practice

To put empirical clothes on our social capital framework, we examine in some detail the institutional network in two of the six sites we studied in our management research—Minneapolis–St. Paul and Boston (Bratt et al. 1994). Two case studies, of course, do not create a sufficient empirical foundation for the theory of social capital and networks as the basis for successful housing production and management at the neighborhood level. The findings should be viewed as preliminary and exploratory.¹⁶

Minneapolis–St. Paul’s Interagency Stabilization Group

The Twin Cities provide a compelling example of social capital within the institutional support network. Spearheaded by the Family Housing Fund of Minneapolis and St. Paul, the network has recently coalesced around the Twin Cities Interagency Stabilization Group (ISG). Founded in 1993, ISG includes all of the metropolitan region’s major housing-related institutions.¹⁷ Top officials of each institution meet weekly to develop stabilization plans for distressed properties selected from a continuously

¹⁵ Compare this intense economic interest of the corporations with that of HUD when it was the financial investor in the old housing development paradigm. The magnitude of the distressed HUD portfolio provides testimonial to the lack of market discipline in the relationship between sponsor and HUD in these programs.

¹⁶ More extensive and systematic analysis of the role of social capital in the institutional support network for nonprofit housing is likely to emerge from the recently launched assessment of the National Community Development Initiative’s second phase. In the first phase, from 1991 to 1994, foundations and corporations invested \$63 million to help CDCs in 21 cities increase their capacity to produce low-income housing. In the second phase, which began in 1995 with an additional \$88 million commitment for loans and grants, the funders (who now include HUD) have broadened the initiative’s focus to strengthen institutional support for community-based nonprofit groups (OMG, Inc. 1995). Indeed, the request for proposal for the phase II assessment singles out social capital as a key area for analysis.

¹⁷ These institutions include the Family Housing Fund of Minneapolis and St. Paul, the McKnight Foundation, LISC, the Minneapolis Community Development Agency, the St. Paul Department of Planning and Economic Development, the Minnesota Housing Finance Agency, and HUD.

revised watch list. The group has decided to give top priority to stabilization of the existing stock; new housing development is on the back burner.

ISG coordinates how each institution invests its resources in the stabilization of distressed publicly subsidized housing. Members come to the table and commit some portion of their institution's budget to an appropriate element of the stabilization plan (e.g., debt reduction, deferred maintenance, capital improvements). Most stabilization plans combine financial assistance with recommendations or requirements that the owner modify its asset or property management practices. In some instances, ISG has concluded that the property should be sold or, in extreme cases, demolished. By November 1994, ISG had committed more than \$5 million to assist 63 developments under nonprofit and for-profit ownership.

The shared commitment and high level of coordination and cooperation among ISG institutions would not be feasible if these institutions had not developed a significant reservoir of social capital. Indeed ISG exemplifies all four dimensions of social capital outlined above, including a heavy dose of financial self-interest.

ISG draws strength from the personal and institutional relationships among its members and between its members and the nonprofit housing sponsors. These trusting relationships make it possible for ISG members to coordinate the allocation of their respective resources to the stabilization plans. These numbers also designated the Minnesota Housing Finance Agency as the single project monitor on behalf of all ISG member institutions, thereby eliminating many duplicate reporting and compliance requirements for the property owners. These actions show how the member institutions are bypassing their own internal bureaucratic procedures in favor of the collective judgment of ISG.

We cannot overemphasize the significance of a trusting relationship that enables organizations with a financial stake to streamline their paperwork and to give authority to one member. The reduction in transaction costs has not been calculated in dollar amounts, but it is significant and measurable—and the envy of other cities that have multiple reporting requirements because of a lack of reciprocity and trust.

These aspects of ISG's operation epitomize Powell's notion of network relations. Each element of ISG depends on resources controlled by another, and each element agrees to forgo the right

to pursue its own interest at the expense of others. Such collaboration is possible because of the participants' confidence in each other's competence and commitment. The sense of confidence arises in part from significant personal relationships and is reinforced by the weekly ISG meetings and the history of successful collaboration.

Mutual trust is also evident between ISG and the nonprofit owners of troubled properties. To receive stabilization funds, sponsors must be candid with ISG about the state of their developments, producing extensive documentation on their financial status, property management procedures, and resident satisfaction. In approving a stabilization plan, ISG often requires the sponsor to modify the structure of its property management and asset management operations, sometimes even turning property management over to another company. Most significant, the sponsor must notify ISG of any new projects it intends to pursue, and ISG reserves the right to terminate stabilization funding if it determines that the owner's participation in additional development will jeopardize its ability to manage its current portfolio effectively. Thus, the executive directors and boards of housing organizations are relinquishing some of their decision-making authority to the collective judgment of the institutional support system, as embodied by ISG.

ISG explicitly incorporates a sense of shared commitment and vision. As noted above, its membership unanimously emphasizes project stabilization over new development. Each member recognizes the importance of correcting the financial and physical problems of the existing stock and of doing so in a systematic way. It is unlikely that the players in the Twin Cities' institutional support network could have collaborated as closely and with such coordination if they did not have the same vision of community priorities.

The degree of coordination also reflects mutual interests. Through collaboration each organization in the network can leverage its own resources with those of other institutions, thereby ensuring that its funds contribute to an efficient whole.

While emphasizing the elements of social capital (reciprocity and trust, shared vision, and mutual interest), one should not minimize the significance of financial stake. Most ISG members have committed millions of dollars to the development of nonprofit-sponsored housing developments. The failure of these projects would be a financial and political disaster. Trust, commitment, and financial interest all run in the same direction.

The Boston institutional support network

The institutional support network is well entrenched in Boston, where nonprofit housing sponsors have a history of sustained operation since the 1960s when they were an integral part of the city's massive urban renewal program. Some sponsors have fallen by the wayside, others have endured, and new ones arose in the 1970s and later in response to local, state, and federal initiatives. While participation was modified by a recent downturn in the city's economy, Massachusetts and the city of Boston traditionally commit not only federal funds but also their own to the nonprofit sponsors that have been a vehicle for creating new and rehabilitated units for low- and moderate-income people.

The support network for subsidized housing production and management has many players. The aggressive and innovative Massachusetts Housing Finance Agency (MHFA) leads a group of quasi-public statewide entities that finance affordable housing in Boston and provide technical assistance and seed money. The Metropolitan Boston Housing Partnership (MBHP) is an umbrella organization that provides technical assistance, loans, grants, and asset management support to many community-based sponsors. Its board is made up of leaders in the banking community and representatives of the public and nonprofit sectors—the classic public-private partnership. Historically MBHP has had tremendous clout with the banks because its vigorous and deeply committed chairman was one of the most influential bank presidents in the city. The Community Builders is a highly skilled organization that has been providing technical assistance to community-based housing organizations for more than 25 years. It has also been involved in many of the housing initiatives put forward by nonprofit sponsors in Boston.

The institutional support system for housing in Boston is dense and deeply rooted.¹⁸ Players have long-term relationships and often have worked in more than one organization in the network. Lateral moves are common among city, state, and nonprofit sponsors of housing. For example, the current director of the Boston LISC office was formerly executive director of a successful CDC. The executive director of MBHP previously worked for the state's Executive Office of Communities and Development (EOCD), which provides supportive funding to the CDCs and is in charge of allocating LIHTCs. Until recently the executive

¹⁸ Some might say too dense and deeply rooted. In an era of increasingly scarce resources for housing development, issues of turf and control are ever present.

director of MHFA sat on the board of MBHP. He and two of his top assistants are currently consulting with the city of Boston about its future housing agenda.

The power of the shared vision, represented by CDCs in Boston, has been enhanced by foundation support from both local organizations and national funders such as the Ford Foundation. Some for-profit housing developers believe that the system of nonprofit and public support for affordable housing is tilted in favor of the nonprofits. It seems that unless an organization adheres to the community development image of neighborhood empowerment through nonprofit efforts, there is little likelihood of funding. Whether or not this is a fair conclusion, no thoughtful observer would dispute that the city of Boston, the Commonwealth, and the foundations have placed tremendous reliance and expectation on the vision represented by nonprofit producers of housing operating from a neighborhood base.

Extensive mutual interest among the various layers in the support network has evolved after many years of incremental linking of organizations and agendas. The history of the network reveals many examples of reciprocal and enlightened self-interest. Perhaps the most vivid example is MBHP's first project, called BHP I. This 700-unit, scattered-site project was rehabilitated in 1984 by 10 community-based sponsors. BHP I was undercapitalized from the start, and the physical condition of the units and the rent structure established to support the buildings have always been problems. Since 1990, many of the players have undertaken the long and complex process of restructuring the developments. Despite sustained efforts to refinance, to deal with lead paint issues, and to absorb a diminution of state rental subsidies, 8 of BHP I's 10 developments were in default by 1993.

The resolution, which finally came in the fall of 1994, involved a complex set of transactions requiring cooperation among Fannie Mae, the city of Boston, MHFA, the individual sponsors, MBHP, EOCB, and a variety of other players. The projects are safe from foreclosure for at least five years because of the extraordinary willingness of individual players, through both self- and mutual interest, to contribute funds, cut back on their return, and share in the risk and losses associated with the reconfiguration. The history of the negotiations is byzantine, exhausting, and amazing. Many times when the process seemed lost and foreclosure inevitable, one more effort on the part of a combination of players reworked the terms.

The following minutes from the MBHP board meeting of November 1994 indicate the degree to which support networks were mobilized to prevent foreclosure:

FNMA [Fannie Mae] is providing \$6,619,739 to the workout in the form of zero interest second mortgages which cover the write-down of the present first mortgages (\$3,511,735); funds towards capital improvement and environmental needs (\$1,453,955); and funds to cover delinquent accounts payable, legal and closing costs, the cost of environmental and capital needs assessments and past due bond trustee payments (\$1,654,049). The balance of the proposed uses are being funded by MBHP (\$250,000); the City of Boston/Public Facilities Department (\$250,000); the Executive Office of Communities and Development Lead Paint Grant Program (\$145,000); the Department of Mental Health (\$83,820); and the Massachusetts Housing Partnership Lead Paint Loan Guarantee Program (\$338,640). The ten partnerships are expected to contribute a total of \$865,330 from Replacement Reserve accounts, special escrow and capital accounts and available partnership cash. Each partnership will retain \$5,000 to \$10,000 to fund a new replacement reserve account. MHFA will subordinate its debt (\$1,468,150) behind Fannie Mae; contribute approximately \$2,000,000 towards security and . . . [the state rental subsidy program] will be funded under the 1993 declination schedule.

From one point of view, this is a dry and complex list of who is paying how much for what; but the description is a mosaic of network players, each contributing to save the buildings and units that symbolize a shared vision for revitalized neighborhoods in Boston.

Summary

The examples of support networks in the Twin Cities and Boston represent the best of social capital in the community development field. We do not argue that these stories are reproducible in any city that tries hard enough or that there is widespread evidence that most cities are moving in this direction. We are concerned with showing the concept of social capital as it applies to the most advanced situations and the ways in which the concept can describe the institutional context that has arisen to

deal with the complexities of financing, building, and maintaining subsidized housing in the inner city.

Challenges facing the institutional support network

Institutional support networks—strong or weak—are confronted by several serious challenges in this era of block grants and vouchers. Four critical issues face these networks: (1) uneven development, (2) the dangers of offering overly aggressive support, (3) competition and conflict among networks supporting different types of nonprofit housing, and (4) the need for stabilization of troubled developments.

Uneven development

One shortcoming of the institutional support network is its uneven development. Because some cities and states host more vibrant nonprofit housing organizations and richer institutional support systems than others, localities with more aggressive and entrepreneurial systems are likely to produce more affordable housing in the new policy climate than those with fewer, smaller, and institutionally isolated nonprofit housing groups. Thus, cities and regions with equal need for affordable housing will experience different levels of development, depending on the number, size, and strength of the nonprofit housing sponsors and institutional support providers. Smaller areas and areas lacking in local foundations and traditions of institutional collaboration are less likely to nurture viable support systems for nonprofit housing sponsors.

The assessment of the first phase of the National Community Development Initiative (NCDI) (see footnote 16) underscores the problems posed by weak or uneven institutional support. Although NCDI initially emphasized the goal of increasing the housing output of individual CDCs, it gradually recognized that “‘getting to scale’ entailed a process of improving the environment in which CDCs operate, making it easier for CDCs to gain access to new resources and skills for organizational stability and project implementation” (OMG, Inc. 1995, 95–96). In studying the 21 cities involved in NCDI, the assessors found that places with weaker environments tended to have limited understanding of community development, limited or underdeveloped strategies to guide local collaboration, little government participation, and unfavorable economic and local market conditions. In some of these cities, the support network was relatively new and

undeveloped. In others, it suffered from low levels of coordination and government participation. Perhaps most telling, the NCDI assessment found that CDCs in cities with weaker institutional support were less able to meet their housing production goals than their counterparts in cities with stronger networks.

The geographic unevenness of nonprofit housing activity underscores the central role of the national intermediaries. These institutions are crucial in providing nonprofits located in institutionally barren environments with the necessary financial, technical, political, and moral support to foster a viable low-income housing industry. With the national government ever more remote, the intermediaries are increasingly responsible for standardizing and simplifying the development process and finding ways to disseminate their assistance as broadly as possible. It is also incumbent on the intermediaries, with their strong corporate and foundation backing, to cultivate supportive local networks for nonprofit housing groups. LISC, the Enterprise Foundation, and the Neighborhood Reinvestment Corporation have accepted this challenge, as shown by their growing roster of local offices, their engagement in NCDI, and their joint sponsorship of the Consortium of Housing and Asset Management (CHAM)¹⁹—but the task is enormous.

Overly aggressive support

One challenge for the support network is to become ubiquitous. Another is to refrain from being overly aggressive in areas where the network is already strong. There is an inherent tension between the availability of institutional resources for nonprofit housing groups and the increased expectations placed on these groups. On one hand, the institutional support network has become something of a safety net for troubled properties and organizations. On the other hand, the institutional support network often places increasing pressure on nonprofits to assume responsibility for more and more housing. One risk involved with this growth is that groups may become overextended. Their staff and management systems may not be able to provide the same quality of service when, for example, their inventory climbs from 200 to 800 units in two years—a not

¹⁹ CHAM is a collaboration among the Enterprise Foundation, LISC, and the Neighborhood Reinvestment Corporation. Launched in 1994, this national initiative is intended to increase the capacity of local nonprofits to perform as responsible owners and managers of affordable housing by expanding the training and technical assistance resources available to them. CHAM has received initial funding from several national foundations (Bratt et al. 1994).

uncommon scenario in New York (Bratt et al. 1994). In Boston, the institutional support network strongly encouraged nonprofit groups to take on the severely underfinanced BHP I developments—with disastrous results (see above). In Oakland, California, the city is pressing a successful CDC active in an Asian neighborhood to work in communities dominated by other ethnic groups (Bratt et al. 1994).

The support system sees nonprofits as the best—and in some cases the only—resource to assume responsibility for low-income housing, especially when the developments are already occupied, poorly constructed, or inadequately financed. But there are danger signs that without careful organizational development, sufficient resources, and in some cases growth control, community organizations can become overwhelmed by the magnitude of the housing problems.

Competition

The movement toward state and local block grants is likely to benefit housing groups operating in settings with strong institutional networks. State and local governments that already rely on nonprofits to carry out their housing programs, and that provide them with financial and technical assistance to do so, will probably treat new housing block grants in the same manner as they did CDBG and HOME block grants. However, the shift to block grants will mean that sponsors of and advocates for elderly housing, homeless housing, multifamily housing, and even public housing will now compete for the same program dollars. The institutional networks that have developed around particular types of housing and worked within the framework of specialized categorical programs (Section 202, McKinney, Public Housing) must now vie against each other for the same block grants. The challenge will be for these distinct networks to find ways of working together—in other words, to develop social capital.

Project stabilization

Once open for occupancy, most new nonprofit-owned multifamily housing depends on rental income to cover operating costs. Except for Section 202 and other programs for the elderly, disabled, and homeless, the federal government has not offered operating subsidies for new developments since the early 1980s. Most housing developments subsidized through state and local programs (including housing trust funds) and through the

federal CDBG, HOME, and LIHTC programs do not offer subsidies for ongoing operating costs (Connerly 1993; Stegman and Holden 1987). Typically, these programs provide upfront subsidies in the form of grants and low-interest loans to reduce the amount of debt service expenses that would need to be covered by rent rolls (DiPasquale and Cummings 1992). While these subsidies may make housing initially affordable to low-income families, they are not structured to cover operating costs such as utilities, maintenance, and taxes over time. Subsidies are not available to cover increased water bills, unanticipated repairs, or revenue shortfalls owing to higher than expected vacancies or arrears. HUD's proposed elimination of operating subsidies for public housing and developments funded under other project-based subsidy programs (e.g., Section 8, Section 236, Section 202) means that their owners will join nonprofit sponsors of newer multifamily developments in depending on rent rolls for survival.

The absence of operating subsidies makes it difficult for many developments to remain financially secure over time. These problems are exacerbated when developments are inadequately constructed or renovated and thus require continual repairs, when they repeatedly suffer from vandalism and other types of abuse, or when they are located in crime-ridden or drug-infested areas (Bratt et al. 1994). When, as is often the case, projects are thinly capitalized, they may lack adequate reserves and may not be fully renovated or may be built with less than optimal materials and equipment (Bratt et al. 1994; Walker 1993).

One of the biggest challenges to the institutional support network, therefore, is project stabilization. If the nonprofit housing stock is to be self-supporting through rent collection, the institutional support network needs to address the inadequate underwriting and the difficult surroundings of many nonprofit developments. This is the intent of the Twin Cities' ISG, and it also underlies HUD's mark-to-market proposal. ISG attempts to stabilize distressed properties through debt reduction, capital improvements, additional capital and operating reserves, and other measures. HUD's mark-to-market plan would draw on Federal Housing Administration funds to reduce mortgage principal and, in some cases, to support capital improvements so that market rents can cover debt services and operating costs (Dunlap 1995). In some instances, rent rolls and reserves are far too small to support major capital improvements and thus require outside assistance. New York City's Department of Housing Preservation and Development, for example, provides

low-interest loans for nonprofit and for-profit owners of low-income housing to replace building systems (e.g., roofs, plumbing, boilers, windows) (Bratt et al. 1994; Michetti 1993).

A formidable task for the institutional support network is to stabilize undercapitalized housing developments without simply bailing out irresponsible or incompetent nonprofit sponsors. Perhaps networks in other cities and states should emulate ISG's practice of assessing the management performance of nonprofit (and for-profit) housing before committing any funds to project stabilization.

Federal policy and the institutional network: Conclusions

Given the stream of changes flowing from the federal government, the institutional network that constitutes the nonprofit housing system is facing a difficult challenge. It must forge new relationships and supportive arrangements to preserve the existing stock of assisted housing at precisely the time that uncertainty and fear of declining resources test existing ties and make the necessary capacity-building investments in institutions look expensive.

At the federal level, legislation should permit localities to support projects both directly for construction or rehabilitation and indirectly by selectively tying vouchers to developments. This flexibility is especially important in localities with soft housing markets: Sponsors in neighborhoods with high crime rates or poor schools will have difficulty competing for tenants with vouchers. CDBG funds, if combined in a new, more inclusive block grant, must continue to be usable for housing and will be an essential ingredient in any recipe to make nonprofit owners more competitive and better able to oversee their properties.

Perhaps the most immediate federal priority should be the preservation of the LIHTC. The LIHTC has been both the salvation and the bane of low-income multifamily housing development. It is the only way to provide the equity capital needed to lower the rent of new or rehabilitated housing for low- and moderate-income households, but it is complex and usually must be augmented by other funding sources (Postyn 1994). But, for all the contortions and splicing of financing that it has generated, the LIHTC has served a critical financing function. If it is eliminated, nonprofit and for-profit sponsors may not be able to continue producing affordable housing.

In addition to reducing urgently needed equity, the demise of the LIHTC would decrease the number of players with a financial interest in inner-city affordable housing. Large corporations and other investors will no longer have a vested interest in the outcome of inner-city housing development. If the “sunset” of the LIHTC were to be accompanied by the introduction of a new source of equity for financing inner-city housing, there would be little protest. But such an alternative appears unlikely.

New responsibilities at the state and local levels will strain many agencies. The national and local intermediaries, nonprofit coalitions and advocacy groups, and HUD each have a role to play in building capacity at the state and local level—particularly in cities and states with limited experience with nonprofit housing sponsors.

Competition for funding will shift from the federal budgeting process to localities. Cities will be tempted to respond by spreading declining subsidy dollars more thinly, weakening underwriting and further reducing fees. Conversely, advocacy organizations (e.g., nonprofit housing groups, advocates for homeless persons, public housing residents) may be tempted to undercut one another on behalf of their respective constituencies.

HUD is in a position to reward those localities that enhance their institutional networks. HUD’s review of Consolidated Plans should include the extent of nonprofit participation, local investment in capacity-building and institutional infrastructure, collaborative planning and implementation processes, and sensitivity to neighborhoods.²⁰ The secretary should use the discretionary money in the proposed new block grants (over and above the funds distributed on an entitlement basis) to reward cities that do well on these issues. HUD is also in a good position to provide visibility and how-to information about innovative approaches developed by localities.

Whether called “public-private partnerships,” “social capital,” or simply “mutual support,” the future of the community-based housing movement is very much wrapped up in the future of institutional support networks. Over the past 15 years,

²⁰ As of 1995, HUD requires eligible jurisdictions to submit Consolidated Plans describing and justifying their intended use of funds provided under the CDBG, HOME, Housing Opportunities for People with AIDS, and McKinney Title IV Homeless programs. This replaced the requirement that each jurisdiction prepare a Comprehensive Housing Assistance Strategy.

participants in the networks have demonstrated remarkable facility in devising new program delivery mechanisms and institutional forms that both address problems as they occur and attract new players to the network. This creative and constructive infrastructure is one of our most versatile policy tools in the struggle to create positive living environments in inner cities and should command our attention accordingly.

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