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## Emergence of Community Development Corporations: Their Impact on Housing and Neighborhoods

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# The Emergence of Community Development Corporations

## Their Impact on Housing and Neighborhoods

BY W. DENNIS KEATING

For more than a decade non-profit community development corporations (CDCs) have emerged as key providers of below-market housing in urban neighborhoods throughout the United States. CDCs usually have been formed and operate in neighborhoods in decline — characterized by poverty, discrimination, substandard and abandoned housing, crime and inadequate public services. Others, however, struggle to preserve affordable housing in gentrifying neighborhoods where the private market, often supported by local government, is pricing poor and working class residents out of renovated housing. In many cities (e.g. Boston, Chicago, Cleveland, New York and San Francisco) CDCs have gained

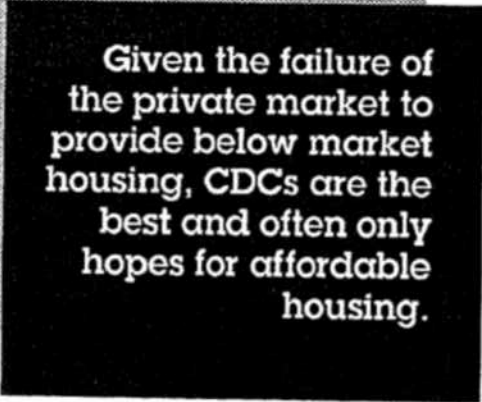
recognition for their contributions to providing lower-income housing and stabilizing those neighborhoods in which they operate.

CDCs, both locally and nationally, are seeking broader support from government, corporations, and foundations. Without increased and sustained support, it is not clear that CDCs can really provide the housing, employment, and services necessary for the revitalization of urban neighborhoods that are truly integrated by income, race, and ethnicity. However, given the failure of the private market to provide below market housing, and the inability of most large public housing authorities to expand the supply of public housing, CDCs

are the best and often the only hope for affordable housing in these neighborhoods.

### The Modern Inner City CDC Movement

The establishment of privately funded housing trusts and low-income cooperatives is not a new phenomenon. Their origins lie in late 19th century England and Germany, and later appeared in some urban centers of the United States. However,



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community-based development corporations first appeared in significant numbers in the United States in the late 1960s. Their creation followed the failure of the anti-poverty program initiated by the Johnson Administration in 1965 to empower the poor. Advocates of the empowerment theory sought to incorporate the poor in the decision-making of the community action agencies (CAAs) created in inner city communities. The poor, for the first time, were legally given the right to participate in the governments' War on Poverty.

This policy immediately ran into major opposition by big city mayors, mostly liberal Democrats, who objected strongly to federal funding to independent local

organizations and to giving the poor a major voice in anti-poverty programs. This opposition was fueled by well-publicized conflicts between community leaders and CAA staff, and recipients and city hall in many cities. This led to congressional restrictions on citizen participation and weakening of federal support for empowerment of the poor. This shift was confirmed when the Model Cities program was authorized and initiated in 1966-67 in the midst of the urban ghetto riots. The Johnson Administration, in conjunction with local government, made it clear from the outset that this neighborhood-based redevelopment program was to be controlled by the mayors with citizen participation to be advisory only.

### Expanding Community Control

CDCs can be seen as a response to the failure of the federal government under the Johnson Administration to institutionalize and fully support empowerment of the poor through the OEO (Office of Economic Opportunity) community action and Model Cities programs. CDCs can also be seen as representing the goal of "community control" that was espoused by community organizers, the civil rights movement, and many community activists during the 1960s.

CDCs are generally incorporated as nonprofits. However, many have for-profit subsidiaries. They typically have a combination of economic, political and social goals. CDCs sought to improve the economy of poor neighborhoods and the economic status of its residents, especially through community-based businesses (both nonprofit and for-profit). CDCs were to be controlled primarily, if not exclusively, by community-based membership and democratically-elected boards of directors. While few CDCs sought the ideal of total neighborhood autonomy, most did aim to gain

more control over the political fate of their neighborhoods and to represent them more equitably and effectively. While only some CDCs sought to provide social services themselves to poor neighborhood residents, most had the improvement of such services and the neighborhood's social and physical environment as a general goal.

Federal support for CDCs emerged in 1966 when the OEO legislation was amended to provide for "special impact" funding in especially poor urban areas. This Title I-D program was co-sponsored by New York's two liberal senators Robert Kennedy (Democrat) and Jacob Javits (Republican). One of the first and still one of the most enduring examples of CDCs funded under the OEO

Special Impact Program is the Bedford-Stuyvesant Restoration Corporation in Brooklyn. This CDC was funded in large part due to Senator Kennedy, himself a key player in the creation of the anti-poverty program in the administration of his assassinated brother. Many CDCs, some no longer in existence, were funded under this special OEO program until it was eventually phased out in the 1970s.

The urban riots in the summers of 1964-1968 resulted in the physical destruction of many urban ghetto areas. Combined with the widespread abandonment of substandard housing and commercial strips, the need to rebuild these impoverished areas both through new housing and commercial development and also rehabilitation became a paramount concern. In 1968 Johnson's presidential commission on urban housing (the Kaiser Commission) recommended that Congress establish a ten-year national housing goal to build and rehabilitate 26 million housing units, including six

million for low- and moderate-income persons. This commission represented the consensus views of an elite of corporate, labor and minority leaders.

The commission recommended federal support for nonprofit housing sponsors,

sponsored and publicly-subsidized development. These programs allowed for the participation of nonprofit sponsors and joint ventures between nonprofit sponsors and for-profit developers and investors. Congress also created a National Corporation for Housing Partnerships as a vehicle for corporate investment in below-market housing. Many CDCs first became involved in housing through these new federally subsidized programs.

The election of conservative President Richard Nixon in 1968 seemingly spelled the end of Johnson's "Great Society" domestic initiatives. However, this did not turn out to be immediately true. The Nixon Administration mostly carried out the national housing goals, well-

funded by a Democratic Congress, in its first term. However, in Nixon's short-lived second term, he attempted to dismantle these programs and imposed a moratorium on federal housing subsidy programs in 1973 on the grounds that they were inefficient and inequitable failures. In 1974 the Community Development Block Grant (CDBG) program was created to replace several federal community development and housing programs. A new subsidy program — Section 8 — was also created to replace the 1968 programs ended by Nixon. Section 8 provides demand subsidies to low-income beneficiaries which enable nonprofit and for-profit developers to build and rehabilitate below-market housing. Housing CDCs have used Section 8 subsidies extensively and many have received operating and project development subsidies through CDBG.

In the 1970s many neighborhoods protested against mortgage and insurance "redlining" by the Federal Housing Admini-



Area residents working with the Near West Housing Corporation in Cleveland, helped save the 18-unit Miller Building from the city's wrecking ball. A board of neighborhood residents will control the management of the building.

David Beach

including churches and labor unions, to provide subsidized housing for the poor. There was then only a very limited history of nonprofit involvement in providing such housing since the inception of federal housing subsidy programs. Most federally-subsidized housing had been developed either by local public housing authorities or, under the Kennedy and Johnson Administrations, by private for-profit developers who received development subsidies (e.g. below-market mortgages) with limited dividends in return for providing occupancy by poorer residents. The first federal subsidy program for nonprofits was the Section 202 elderly housing program created in 1959. The Section 221(d)(3) Below Market Interest Program (BMIR) created in 1961 was also utilized by nonprofits. In the landmark housing legislation of 1968, the U.S. Congress established two major new housing programs (Sections 235 and 236) to provide below-market housing for ownership and rental through privately-

stration (FHA) and private lenders and insurers. Led by National Peoples' Action (NPA) in Chicago, they persuaded Congress to enact two important federal anti-redlining laws governing federally-regulated lenders. The Home Mortgage Disclosure Act (HMDA) of 1975 and the Community Reinvestment Act (CRA) of 1977 provided the impetus for community organizations to successfully demand that lending institutions invest in housing in older urban neighborhoods. Many of the groups that had advocated passage of this legislation then turned to its implementation by negotiating with lenders. In many cities and neighborhoods, this led to the formation of the Neighborhood Housing Services (NHS). NHS represents partnerships of local lenders and community groups to provide mostly "conventional" private mortgage financing for housing in formerly redlined neighborhoods. In order to translate commitments for housing development into actual projects, many community organizations created "spin-off" CDCs to develop below-market housing. These CDCs also typically sought funding from HUD (e.g., Section 8), local government (CDBG), foundations, and private corporations.

The Carter Administration undertook several initiatives aimed at promoting neighborhood development. It created the post of an Assistant Secretary for Neighborhoods in the U.S. Department of Housing and Urban Development (HUD). It created a new Neighborhood Self-Help Development (NSHD) program to provide direct funding (although only a total of \$15 million) for CDCs. It also created the Urban Development Action Grant (UDAG) program, which has been used in many cities for neighborhood development projects, including housing. Finally, in 1979 Carter appointed a National Commission on Neighborhoods, which recommended

greatly increased federal support for neighborhoods and neighborhood-based development. While the Carter Administration was much more supportive of CDCs than its Republican predecessors, it provided only modest funding to support CDCs and subsidized housing programs. It did not support the recommendations of its own National Commission on Neighborhoods.

With Carter's defeat and the advent of Reagan's much more conservative New Federalism in 1981, this limited federal support for CDCs and below-market housing was drastically reduced. In the face of

prise, like LISC, raises funds from private corporations in cooperation with other philanthropic funders and local governments. In March 1988 a National Council on Community-based Development was announced. Its formation is intended to increase private sector support for CDCs.

While increased support provided by corporate and philanthropic funders has been very important to the existence and expansion of CDCs, this has not made up for the substantial loss of federal support for low-income housing since 1981. Only a few state and local governments have themselves provided support to CDCs and the housing programs. The 1986 federal tax reform legislation did provide tax credits for corporate investment in low-income housing but to date this has had only a minimal impact.

#### Favorable Reviews

The operation of CDCs varies widely from neighborhood to neighborhood and city to city. The actual number of CDCs in the United States is unknown. There have only been a few evaluations of CDCs. The evaluation standards for judging the performance of CDCs are not easy to define or quantify. Typical measures of success are the number of housing units constructed

and rehabilitated and the amount of investment, both public and private generated by the CDC.

An early assessment of CDCs funded under OEO's Special Impact program found that CDCs were mostly successful. An evaluation of the NSHD program analyzed approximately 100 grantees, 30 in depth and concluded that these CDCs were generally successful in the development and implementation of most of the projects they had begun. Key factors in their success included skilled staff, strong leadership, and sufficient external support. The study also identified those factors ne-



The movement which spawned CDCs must be reformed and reinvigorated if CDCs are to become more than marginal producers of below market housing in the poor, deteriorated neighborhoods of the inner cities of the United States.

these budgetary cutbacks, CDCs were forced to seek other sources for financial support. In addition to local government, some states began to provide assistance to CDCs, most notably Massachusetts.

Private philanthropic foundations, both national and also local, have provided support for CDCs. In 1980 the Ford Foundation created the Local Initiatives Support Corporation (LISC) to solicit corporate support to augment support for CDCs from foundations and government. In 1981 developer James Rouse created the Enterprise Foundation to promote neighborhood-based housing for the urban poor. Enter-

sary for CDCs to expand their capacity to produce housing. The Ford Foundation commissioned an evaluation of CDCs, which is more anecdotal but also very positive about their performance and potential. A national survey of CDCs was recently completed and should provide more comprehensive data.

Since there is so little information available on CDCs, it is difficult to assess their national impact and their share of housing production. Instead, their impact on their neighborhoods must be assessed on a city-by-city basis.

If the primary goal of CDCs is to attain virtually complete political and economic independence and self-sufficiency, then CDCs have failed. Few, if any, CDCs have developed to the point that they own or control most of the housing within their neighborhood. The same is true of commercial development.

Politically, CDCs have not attained political autonomy, as envisioned by those who advocated neighborhood self-government. To the contrary, most CDCs are largely apolitical. While many trace their origin to "grassroots" community organizations, many of which engaged in protest politics which brought them into conflict with local government and private lenders, corporations and developers, often using Alinsky-style tactics, most CDCs do not engage in politics overtly. They are typically prohibited by their own charters and IRS regulations from engaging in politics. They do not endorse candidates or participate in electoral politics. At most, they lobby government at all levels for funding.

Contrary to the ideal of empowerment of the poor, many CDCs have a very narrow membership base and are mostly influenced by their staff and board of directors rather than residents of the community. CDC leaders still encourage citizen participation, at least in setting broad goals and policies for neighborhood revitalization, but not nearly as much in their implementation in the form of projects and programs. This contradicts the goal of grassroots citizen participation espoused by the advocates of empowerment of the poor.

Because CDCs are focused on development of projects like low-income housing, they are less likely to be engaged in community organizing, other than to assist the



To date, CDCs have only produced a very small amount of housing, but they have proven to be a viable alternative to both for-profit housing produced by speculative developers and subsidized housing produced by state and local housing agencies.

clients of their projects. It has been argued that CDCs cannot simultaneously act as developers, property owners, and management firms and also organize residents because this might involve them in conflicts with their own constituents over issues like the selection of owners and tenants in CDC-owned and managed housing projects, rent and eviction policies, location of projects, etc. However, others argue that CDCs can and do overcome these problems in a socially conscious way.

#### Regaining Federal Support

While it is unclear just how great the capacity of CDCs is for making greater contributions to the supply of affordable housing nationally, it is clear that the mature CDCs with proven records in housing could produce more if they had much greater and stable financial support, both for their operations and for the development of projects. While the support that CDCs have received from the private corporate and foundation sectors, both national and local, has been important in sustaining them in the Reagan era, it has only been a fraction of the federal assistance that they have lost since 1981.

If CDCs are to expand in the next decade, Jack Kemp's HUD must greatly ex-

pand federal support for CDCs. During the Reagan Administration, the only initiative directly benefiting CDCs has been the creation of a Neighborhood Development Demonstration (NDD) program. Even though this pilot program only received a token \$1 million in federal funding, HUD still opposed it. To date, 38 CDCs have received small grants. Federal subsidies for new housing have been reduced to a trickle.

A liberal Democratic proposal entitled the "Community Housing Partnership Act" introduced in Congress in early 1988 would provide \$10 million in "capacity-building" funding to CDCs and \$500 million for the development of low-income housing annually with HUD providing this funding through the state and local governments to CDCs. The primary sponsor is Joseph Kennedy, 2nd (D-Massachusetts). This proposal was at least indirectly supported by a National Housing Task Force which reported to Congress in March 1988. It recommended that Congress appropriate \$3 billion annually for the construction and rehabilitation of 150,000 to 200,000 units of low-income housing. If this recommendation is adopted by the 101st Congress, it is likely that CDCs would receive at least some of this funding. The two overriding

questions facing CDCs will be how much additional funding will the Bush administration and Congress be willing to spend on low-income housing in the face of the massive budget deficit and to what extent, if any, will they reserve part of this funding for use by CDCs.

The outcome will be influenced by the ability of CDCs to generate political support at the national level through organizations like: the National Low-Income Housing Coalition, the National Congress for Community Economic Development (representing commercial CDCs), the Neighborhood Reinvestment Corporation (representing NHS and the Mutual Housing Association network), the National Association of Housing Cooperatives, and the Council on Community-based Development (representing corporate and foundation support for CDCs).

#### Here To Stay

After two decades of existence, the housing CDC movement in the United States has established itself as a viable alternative to both for-profit housing produced by speculative developers and also subsidized housing produced by state and local public housing agencies or by for-profit private developers. To date, it has only produced a very small amount of housing, mostly concentrated in those large central cities which have the most CDCs and citywide CDC organizations.

Contrary to critics, CDCs have not become subsumed by the private market system. There is no evidence to suggest that their ideals have been seriously compromised by their dependence on support from government, corporations or private foun-

datations. Nor has the very existence of CDCs been used to justify the end of federal housing subsidy programs like public housing. On the other hand, CDCs in the United States have admittedly reformist goals, must work within the existing market system, and have only a limited capacity to provide non-market rate housing. Since their primary focus has been on individual housing projects, few CDCs have sponsored and successfully completed large scale comprehensive neighborhood redevelopment projects. CDCs have proven to be largely apolitical and depend for their support upon the largess of sponsors whom they cannot afford to alienate.

It is unlikely that there will soon be in the United States a non-market "social" housing sector and a national network of producers on the magnitude of Canada and Western Europe. At best the immediate prospects for increasing the share of such housing and expanding the activities of CDCs depends heavily upon the extent to which the housing problems facing the inner city poor continue or worsen and whether the Bush administration, Congress, and the American public are willing to spend the considerable amounts of money necessary to provide decent housing for them.

Beyond these short-term prospects, the movement which spawned CDCs must be reformed and reinvigorated if CDCs are to become more than marginal producers of below market housing in the poor, deteriorated neighborhoods of the inner cities of the United States. This was the fate of their predecessors—the limited-dividend housing corporations of the late nineteenth and early twentieth centuries in cities like New York. This can only occur if CDCs or the

neighborhoods that they represent achieve much greater political power at all levels of government than they have achieved to date. If CDCs remain apolitical, then mass-based neighborhood organizing must be sponsored by other organizations. In the alternative, CDCs must re-organize a base of support — within their own neighborhoods, citywide and at the state and national levels — that provides a more powerful position than they enjoy today and which can provide them with greater independence than they currently enjoy. This means that they must be involved in coalition electoral politics. Three examples of success at the municipal level were the mayoral victories of George Moscone in San Francisco in 1975, Harold Washington in Chicago in 1983 and Ray Flynn in Boston in 1983. Unfortunately, Moscone was assassinated and Washington unexpectedly died just after he finally won control of the Chicago City Council, limiting their impact on politics in their cities. Flynn stands as the leading Mayoral spokesperson for CDCs as providers of lower-income housing.

In building a more potent political coalition, CDCs must develop their own progressive housing programs. CDC leaders have recognized the limitations and drawbacks to relying heavily upon investment by corporate and individual sponsors of low-income housing. The low-income housing tax credit preserved by the 1986 federal tax reform legislation is a particularly cumbersome device for promoting below market housing. In the long term, CDCs should strive to promote community ownership of housing, particularly through limited equity cooperatives. A visionary version of this type of national housing program has been developed (see *Shelterforce* November/December 1987 "Blueprint for America: A Progressive Housing Program"). Now it remains for the housing movement in the United States to rally a constituency that can command support for it. ■

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