Living Cities: The National Community Development Initiative

Improving the Vitality of Urban Neighborhoods in 23 American Cities

AN EVALUATION OF THE CITIES PROGRAM AT LIVING CITIES PREPARED BY METIS ASSOCIATES

April 2005

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Reese Fayde
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Dear Colleague:

Living Cities is pleased to share with you this important report on the uses of our funds over the past 13 years. Since 1991, Living Cities has made strategic investments in the work of nonprofit community development corporations in 23 cities across the U.S. The complete report from which this summary was prepared is on our website at www.livingcities.org.

This report tackles three questions. *One*, where has the money gone? A thorough and independent due diligence on the spending of our capital ensures that we are accountable for our funds. *Two*, what has transpired over the course of the last 13 years, and how can the lessons of this process guide future spending and local activity? And *three*, how well is the Living Cities model working? Does it produce the types of programs and projects that significantly help people in disadvantaged neighborhoods?

What this report shows should prove heartening to investors, intermediaries, and communities alike. Living Cities' investment of over $370 million in its first 13 years helped to catalyze additional public and private investment in projects costing over $11 billion. Funding does indeed go to very-low-income neighborhoods that are often bypassed by "normal" capital markets. Through June 2004, Living Cities funding financed development of about 112,000 homes in the 23 locales, enough to house the population of a city the size of St. Paul, Minnesota, or Raleigh, North Carolina.

It should come as no surprise—but the report provides additional evidence—that the development of housing in low-income communities is essential for improving the lives of their residents. Housing allows residents to move from welfare to self-sufficiency and, from there, to build assets for education, retirement, and a better life.

What's more, community development corporations (CDCs) are indeed proving to be effective vehicles for transforming blighted neighborhoods. Not all CDCs operate at maximum efficiency, but most—especially those with strong support systems in the community—are engaged in multifaceted community development activities even beyond housing.

Living Cities and its intermediaries are providing the missing pieces that allow CDCs to perform at their best, whether through loans for development activities, grants for organizational capacity-building, or stable financing that encourages the private sector to jump in and invest. Equally important, we are helping to improve the environment in which community development and revitalization take place.

We are not done. This report makes it clear that the challenges ahead are many. But the community development model now has a proven record; it has long since moved out of the realm of wishful thinking and into the toolbox of a modern economy. It does, however, need strong and continuing public support if we are to revitalize and unleash the untapped potential of our most disadvantaged neighborhoods.

Sincerely,

Douglas W. Nelson

DOUGLAS W. NELSON | MARK A. WILLIS
CO-CHAIRS

Living Cities: The National Community Development Initiative is a nonprofit consortium of major financial, philanthropic and public sector organizations. It began operation more than a decade ago with a commitment to increasing the vitality of cities and urban neighborhoods and improving the lives of people who live there. Its premise was that distressed conditions in cities can be corrected through strategic investments that are guided by neighborhood leaders.

Since 1991, Living Cities has made strategic investments in the work of nonprofit community development corporations (CDCs) in 23 cities across the country. Its investments of over $370 million helped to catalyze additional public and private investment in projects costing over $11.2 billion. Funding typically goes to very-low-income neighborhoods that are often bypassed by "normal" capital markets.

Revitalization takes place through the work of CDCs with the help of two intermediary organizations: The Local Initiatives Support Corporation (LISC) and The Enterprise Foundation. Through June 2004, these two intermediaries financed development of about 112,000 homes in the 23 Living Cities locales, enough to house the population of a city the size of St. Paul, Minnesota or Raleigh, North Carolina. While building affordable housing was the initial goal of these CDCs, over the course of a decade, many expanded beyond housing development to other neighborhood improvement activities, such as economic and workforce development and community organizing. As CDCs used their resources to successfully complete projects, they gained an understanding of systems and processes that work, and thus began to shift their focus away from single-project investments to more large-scale and strategic development activities.

LIVING CITIES PARTNERS, 2001–2004

- AXA Community Investment Program
- Bank of America
- The Annie E. Casey Foundation
- J.P. Morgan Chase & Company
- Deutsche Bank
- Fannie Mae Foundation
- Robert Wood Johnson Foundation
- W.K. Kellogg Foundation
- John S. and James L. Knight Foundation
- John D. and Catherine T. MacArthur Foundation
- The McKnight Foundation
- Metropolitan Life Insurance Company
- The Office of Community Services of the U.S. Department of Health & Human Services
- Prudential Financial
- The Rockefeller Foundation
- Surdna Foundation
- The U.S. Department of Housing & Urban Development

SINCE 1991, INVESTMENTS BY LIVING CITIES OF MORE THAN $370 MILLION HAVE HELPED CATALYZE PUBLIC AND PRIVATE INVESTMENT WORTH $11.2 BILLION IN 23 CITIES ACROSS THE U.S.

At the same time, private and public investors saw the scope of development occurring in the neighborhoods and increased their participation in projects—in housing and beyond. This growth of investment in neighborhoods has translated into more retail, childcare, healthcare and other facilities in places that went without them for decades.

WHERE WE'RE WORKING

Atlanta	**Indianapolis**	**Phoenix**
Baltimore	**Kansas City**	**Portland**
Boston	**Los Angeles**	**San Antonio**
Chicago	**Miami**	**San Francisco Bay Area**
Cleveland	**Minneapolis–St. Paul**	**Seattle**
Columbus	**Newark**	**Washington DC**
Dallas	**New York**	
Denver	**Philadelphia**	
Detroit		

Encouraged by the progress made over the first 10 years, Living Cities' funding partners committed to a second decade (2001–2011) and to doubling their investment to $500 million, which is expected to attract significant additional capital to real estate investment in urban neighborhoods.

Recently, Living Cities commissioned Metis Associates, Inc. to conduct an independent assessment of the status of community development in and across the 23 cities, and to report on the effects of Living Cities' funding for the first three years of its second decade. Metis conducted 350 interviews in the 23 Living Cities locations—with a diverse set of lenders, grantmakers, city officials, developers, and others. It also reviewed data and reports developed by Living Cities and its intermediary partners on the use of funds, program results, and impacts. What follows is an overview of how the industry has evolved over the past 13 years, including results from the Metis evaluation.

What We Know

Housing is a primary catalyst for community development.

The development of housing in low-income communities is essential for improving the lives and the economic prospects of the communities' residents. Affordable and adequate housing has been a fundamental resource for ensuring that families can focus on and benefit from the health, education, and employment services that they so desperately need to move from welfare to self-sufficiency. In neighborhoods where low-income housing has been developed and sustained in sufficient quantity, the positive social consequences are apparent.

Moreover, housing is an important wealth-building tool for many inner-city residents. Housing for ownership—as opposed to rental use—can help families build assets for education, retirement and other uses. More and more, CDCs and cities are working together to create homeownership opportunities, both directly through housing development and through financial counseling provided to potential buyers.

Community development doesn't happen by chance.

Living Cities has learned that community revitalization in general, and housing development in particular, do not occur by chance; they require an aggressive and sustained commitment. The model of community development supported by Living Cities and its intermediaries is built on such a commitment. It is a model that recasts the way housing and business is done in impoverished communities using strategic investments, innovative financing mechanisms, and cross-sector partnerships

A LOOK AT WHAT CDCs PRODUCE

The CDCs receiving Living Cities funds have produced real estate at a pace that has continued to grow, even in the face of the difficult economic times that marked the early 2000s. Exhibit 1 highlights the results of direct Living Cities investment in CDC real estate production, comparing progress achieved during Living Cities' first decade (July 1, 1991– June 30, 2001) with the first three years of its second decade (July 1, 2001–June 30, 2004). The percentage increases in the annual rates of development are significantly higher for the more recent period.

The increase in the scale and pace of project development by the CDC industry is accompanied by greater diversity in the types of production CDCs support. The strong upward trend in facility square footage production shown in Exhibit 1 highlights the CDC industry's capacity to take on more complex commercial and mixed-use projects, which are often linked to broad neighborhood revitalization efforts.

Exhibit 1

CDC Production Supported by Direct Living Cities Investment in 23 Cities

	PERIOD 1 1991–2001 (10 YEARS)	PERIOD 2 2001–2004 (3 YEARS)	CHANGE IN ANNUAL DVM'NT RATE FROM PERIOD 1 TO PERIOD 2
Number of development projects:	503	268	+ 77.6%
Living Cities investment in projects:	$173,945,810	$92,686,317	+ 77.6%
Housing units produced:	19,775	10,723	+ 80.8%
Community facility production (sq. footage):	1,700,000	1,334,651	+161.7%
Total development costs:	$2,253,798,000	$1,104,554,927	+ 63.4%

to jump-start private and public investments in blighted neighborhoods. By leveraging resources from all stakeholders, this approach maximizes the impact of available assets for community improvement.

Community development corporations—rooted in their communities and committed to housing affordability—are effective vehicles for improving neighborhoods.

Community development corporations (CDCs) are nonprofit, community-based organizations created to renew and improve specific neighborhoods. CDCs use resources from a broad array of sources, including Living Cities, to build and rehabilitate housing; develop healthcare and childcare centers and other neighborhood facilities; create jobs and business opportunities; and help residents gain a decisive voice and economic stake in their own communities. CDCs are rooted in the communities they serve and are committed to long-term housing affordability. Importantly, CDCs operate without any centralized, one-size-fits-all direction from Washington. In many cities, they are the most significant producers of affordable housing in low-income neighborhoods. Since 1991, affordable housing produced by CDCs with help from LISC and Enterprise exceeds two-thirds of all affordable housing created by all developers using the two largest federal housing development programs (the Low Income Housing Tax Credit and HOME Partnership program) in the 23 cities.

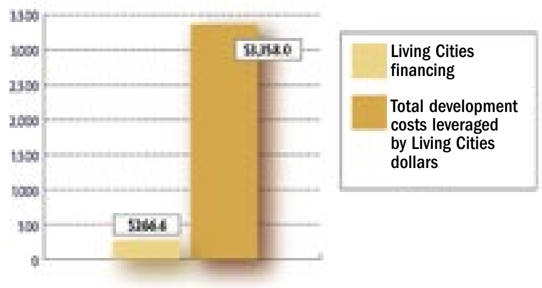
Living Cities provides loans for project development and grants for building community-development systems.

Living Cities has attempted to influence community development two ways. First, by assisting the development and maturation of local systems that support community development. Second, by increasing the availability of usable, long-term financing for CDC-developed projects—that is, channeling and attracting more money to CDC developments. Living Cities provides two types of support badly needed by CDCs: loans for development activities, and grants for core operations, community programs, early project costs, and technical assistance.

In its first 13 years of operation, Living Cities invested over $370 million in community development, of which most went to the intermediaries' work with CDCs in the 23 cities. These funds were provided for capacity building, production of housing and commercial property, neighborhood support services, as well as to fuel the involvement of local philanthropies, banks, businesses, city and state government. In fact, wherever and whenever possible, Living Cities' funds are strategically leveraged to bring other public and private resources to the table for community development projects. As illustrated in Exhibit 2, $266.6 million of Living Cities' direct project financing[1] from 1991 through 2004, combined with public and private investments, brought $3.36 billion of real estate activity to neighborhoods most in need and often overlooked.

Exhibit 2

Living Cities Leveraging of Additional Private-Public Capital, 1991–2004 (millions of dollars)



As a result of public-private partnerships such as Living Cities and the determined work of the intermediaries, through 2004, over $11 billion of new investment has taken place in communities, including new retail outlets and housing developments in neighborhoods that had been without them for decades. According to the Metis Associates' assessment of Living Cities and other research, CDC leaders and other developers are benefiting from the greater willingness of private lenders to invest in urban neighborhoods, in part because of the improved market conditions and more stable lending partnerships with CDCs, city governments and their allies.

> **Intermediaries provide financing mechanisms and technical support that enable CDCs to use their resources effectively.**

Living Cities works with two national intermediary organizations: The Local Initiatives Support Corporation (LISC) and The Enterprise Foundation. Funds from Living Cities are provided through these intermediaries, which use

[1] This sum represents loan funds, and a small portion of the overall grant funds, provided by Living Cities to the work in the 23 cities. Other Living Cities grants were devoted to CDC capacity building and technical assistance, local program development, national research, evaluation, special programs, administration, and other cost items.

these resources to make loans and grants, and provide operating support, technical assistance, and other forms of guidance to designated CDCs in the 23 cities. In addition, the intermediaries often play the very important role of conveners of local participants in community development—including government, funders, lenders, and CDCs—to improve the flow of resources and manage participant roles. Each city office of the intermediaries develops an ongoing plan that includes goals, strategies, benchmarks, and expected outputs. Living Cities' funds are provided following the development and approval of these plans.

Exhibit 3

What Intermediaries Finance: CDC Projects Financed by LISC and Enterprise in 23 Cities

	PERIOD 1: 1991–2001 (10 YEARS)	PERIOD 2: 2001–2004 (3 YEARS)	CHANGE IN ANNUAL RATE OF DEVELOPMENT FROM PERIOD 1 TO PERIOD 2
Number of development projects	2,079	726	+ 16.4%
LISC/Enterprise investments in CDC projects	$444,591,337	$242,197,833	+ 81.6%
Housing units produced	86,095	26,208	+ 1.5%
Community-facility production (square footage)	3,650,358sf	4,448,602sf	+ 306.2%
Total development costs	$7,919,651,000	$3,283,259,187	+ 38.2%

Exhibit 4

Intermediary Leveraging of Additional Private-Public Capital, 1991–2004 (millions of dollars)

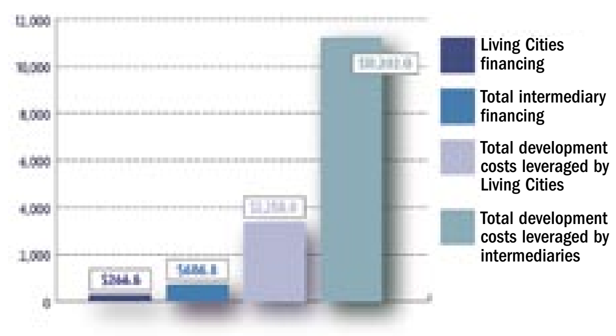


Exhibit 3 highlights CDC real estate production outputs across the 13 years studied by Metis, which resulted from direct financing provided by LISC and Enterprise in the 23 cities, as well as the funds that were leveraged with Living Cites' dollars in real estate production deals. Importantly, the table shows that CDCs within the Enterprise and LISC networks have been able to increase their overall production, even in the face of a weakened economy. Most CDCs benefiting from LISC/Enterprise project financing also benefit from Living Cities' grant funding targeted toward CDC capacity-building and operational support.

The success of LISC and The Enterprise Foundation in attracting added investment into urban neighborhoods is exemplified further in Exhibit 4.

What's Been Done

> **Over the past 13 years, CDCs have developed 112,000 homes in the 23 cities where Living Cities invests.**

During the past 13 years, Living Cities' funding has had a substantial and positive impact. Living Cities' investments have been particularly effective because they have spurred much other innovative funding, facilitated new public policies, and built the capacity of CDCs to address neighborhood conditions.

Metis Associates found that as a result of Living Cities' investments in CDCs within the 23 cities, the number of CDCs and the scope of their activities have increased dramatically since the early 1990s. In 2004, more than twice as many CDCs were able to produce more than 10 homes annually as was the case in 1991. The number of capable CDCs (defined as producing more than 10 units per year) rose from 143 CDCs in 1991 to 301 in 2004. The number of top-tier CDCs (capable CDCs with effective internal systems and diversified funding bases) increased from 70 in 1991 to 177 in 2004. In many cases, leading CDCs are producing as many as 100 homes annually (see Exhibit 5).

The increase in the number of productive CDCs in the 23 cities has led to production of 112,203 homes that are financed by Living Cities, LISC, and The Enterprise Foundation (see Exhibit 6).

Exhibit 5

Growth in Capable and Top-Tier CDCs in 23 Cities, 1991–2004

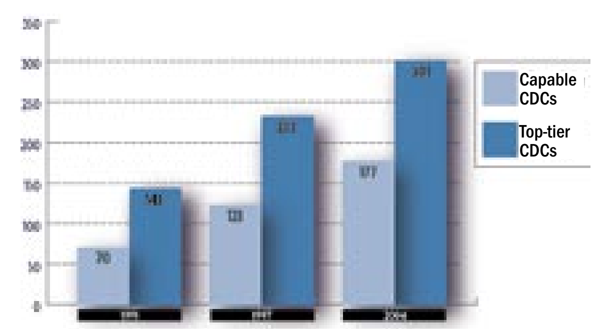
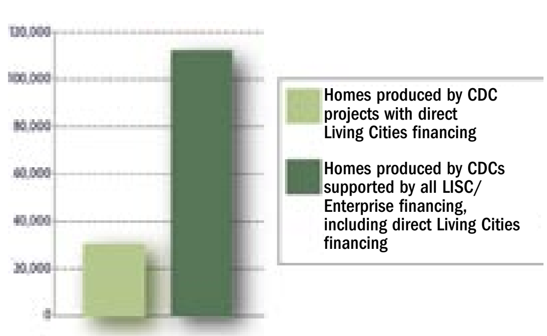


Exhibit 6

Housing Production in 23 Cities, 1991–2004



Living Cities funding was made available as gap financing for high-risk acquisition, predevelopment, and construction phases of projects, and to make it possible to pursue development deals that might have otherwise fallen apart. Since the early 1990s, LISC and the Enterprise Foundation have secured funding from many sources to finance more than $686.8 million in predevelopment and construction loans in the 23 target cities.

Living Cities funding can change the local environment in which development occurs, shifting its focus and showcasing new ideas.

Perhaps the most significant contribution Living Cities has made to urban revitalization is to demonstrate how to change the environment in which community development occurs, thus increasing the sustainability and effectiveness of the public and private investments in CDC work. Specifically, Living Cities has had impact in the following areas.

BRINGING THE LOCAL COMMUNITY DEVELOPMENT AGENDA TO THE PUBLIC.
In many cases, Living Cities' funding provides credibility to the local office of the intermediaries to change the focus of local community development activities or pose new ideas—and give them more local prominence. LISC and The Enterprise Foundation often take on critical roles as catalysts, for example, to add commercial development or homeownership to the local community development agenda. Some examples include:

> In **DETROIT**, Living Cities' commitment to community development in Detroit was helpful to LISC in bringing together local community-development stakeholders, including private funders, lenders, and the city, county, and state (Michigan State Housing Development Authority) to forge a greater cross-sector consensus concerning community development. Through a successful marketing campaign and annual event, LISC helped to create a common community development language in Detroit and increase public awareness of the progress made by CDCs in the city. Living Cities' funding also spurred the growth of the CDC trade association in Detroit, which facilitates effective collaboration between CDCs.

> Enterprise **DENVER** has used Living Cities' funding support to promote policies and programs that increase the supply of affordable housing and link low-income people to the housing and services they need in order to move up and out of poverty. One such effort, Housing Denver, is a broad-based coalition of 25 public and private organizations, businesses, and individuals that have come together to support the creation and preservation of affordable housing for low- and moderate-income residents in the City and County of Denver. Housing Denver members work to achieve this goal by educating policymakers and advocating for policies that support affordable housing. This work balances nicely with the work Enterprise Denver has also carried out with Living Cities' funding to build the capacity of Denver CDCs to produce housing through direct grants and a multi-lender loan pool.

Strong local support systems, funded by Living Cities, have helped create stability, predictability, and security for community developers.

BUILDING AND SUSTAINING SUPPORT SYSTEMS. Prior to the 1990s, support for CDCs—and community development in general—had been project-focused and poorly coordinated. By decade's end, however, community development support systems—comprising the interrelated people and institutions that mobilize money, expertise, and political support for community development—were created, which helped to make investments more rational, stable, and effective. Particularly in cities where consensus about the importance of community development is still evolving, Living Cities' funds have helped to stay the course, build local capacity, and sustain the credibility of community development. The extensive interviews conducted by Metis Associates in the 23 Living Cities sites indicate that strong local support systems have been important sources of stability, predictability, and security for community development practitioners—especially at times when CDCs and intermediaries face uncertainty related to fiscal austerity and greater competition in a market environment.

LEVERAGING ADDITIONAL PUBLIC AND PRIVATE INVESTMENT. In addition to attracting private institutions and foundations, Living Cities' support helps intermediaries in their efforts to secure and increase long-term public funding for community development. Over the past several years, intermediaries in many cities, such as Detroit, Cleveland, Seattle, Los Angeles, and Philadelphia used Living Cities' funds to score important successes in state housing trust funds, local housing bond initiatives, or CDC support funds.

ENABLING BROADER COMMUNITY DEVELOPMENT PROGRAMS. In many cities, Living Cities' resources give CDCs the opportunity to go beyond housing to other needed services. In Boston, for example, over the past few years, more than half of the supported CDCs have become involved in neighborhood commercial activity, including small business assistance, retail space development, organization of merchants associations, and anti-crime and safety campaigns.

Exhibit 7

Living Cities Financing of CDC Production of Owner-Occupied Housing

	PERIOD 1: 1991–2001 (10 YEARS)		PERIOD 2: 2001–2004 (3 YEARS)		CHANGE IN ANNUAL RATE OF DEVELOPMENT FROM PERIOD 1 TO PERIOD 2
	TOTAL	RATE/YEAR	TOTAL	RATE/YEAR	
Loans for owner-occupied housing	$66,451,101	$6,645,110	$33,607,548	$11,202,516	+ 68.6%
Units of owner-occupied housing	6,330	633	2,789	930	+ 46.9%

Data from Metis Associates' analysis of Living Cities' funding show not only an increase in "non-housing" community improvements by CDCs, but also a significant increase in homeownership in the communities that had mostly had rental development in the past. A marked increase in the rate of Living Cities' loan dollars invested in owner-occupied housing during the most recent three years has significantly increased the production rate of owner-occupied housing, as highlighted within Exhibit 7.

Living Cities funding has encouraged a more strategic approach to comprehensive community development.

PROVIDING A BROADER OVERVIEW TO INCREASE INVESTMENT FROM SINGLE PROJECTS TO MULTIFACETED DEVELOPMENT PROGRAMS. In many cities, Living Cities' funding is the only source that allows intermediaries and CDCs to address community development strategically. For many CDCs, Living Cities brings credibility to the idea of an organized and integrated community development system. According to Metis Associates' evaluation, CDCs in many cities reported that this infusion of strategic thinking is especially crucial, since many city governments and other institutions do not have an explicit community development strategy. Intermediaries have utilized Living Cities' funding to develop and build consensus around community development strategies. Many city governments are supportive of the intermediaries filling this need, as they do not have the time or resources to develop a detailed community development strategy themselves.

What Trends We've Seen

Improving neighborhoods requires cooperation within efficient systems.

Community development is best viewed holistically as a system building process. With better systems in place, projects are carried out much more effectively—and perhaps more importantly, they can be strategically built on each other's successes. A community development system comprises all the public and private institutions with a role in community development, the laws and regulations under which they operate, the extent of cooperation and efficiency that exists, the extent and availability of funds, and how effectively those funds are deployed. CDCs in cities with strong support systems can produce more homes and are more likely to meet the commitments they make to others than cities with weaker systems. Below are just a couple of the many examples of successful CDCs in cities that have the support of all facets of the community, *i.e.*, funders, lenders, community organizers, and policy makers:

> **SEATTLE** is a city with soaring real estate prices and very low vacancy rates. In the early 1990s, Living Cities provided crucial financing, including an initial guaranteed line of credit from an area bank, to create HomeSight, a CDC that promotes community revitalization through homeownership. Ten years later, HomeSight is a nationally recognized leader in homeownership for low- and middle-income families, with numerous awards and one of the largest homeownership programs in Washington State. As a result of HomeSight's work, 276 working first-time homebuyers are now enjoying new homes developed directly by the CDC and hundreds have received homebuyer counseling. In 2001, HomeSight created the Puget Sound Revolving Loan Fund to help provide down-payment assistance to lower-income families in the Seattle metropolitan area. In a collaborative effort involving HomeSight, banks, corporations and government, the Hometown Loan Program makes it possible for teachers and other school employees to stay in Seattle and purchase their own homes.

LIVING CITIES PROVIDED CRUCIAL FINANCING TO CREATE A SEATTLE CDC THAT PROMOTES COMMUNITY REVITALIZATION THROUGH HOMEOWNERSHIP.

> **SAN ANTONIO** Alternative Housing Corporation (SAAHC) is a nonprofit organization established in 1993 to provide housing and support services for low- and moderate-income communities in Texas, with special emphasis in Bexar and Travis counties. In its first years, SAAHC concentrated on rehabilitating vacant homes in the area west of downtown San Antonio. But because its resources were slim, the CDC could only complete a handful of homes each year. With training it received from Enterprise, using Living Cities' funds, the CDC leaders were introduced to new ways of financing to get to scale—and have since built or rehabilitated over 3,500 affordable homes across the San Antonio and South Texas region. SAAHC now operates programs in first-time homeownership education, housing development for homeownership, scattered rental, multifamily rental development, home repair for the elderly and disabled, and a conflict-resolution training program. In addition to Living Cities, funding for projects to date has come from a variety of sources, including the City of San Antonio (HOME and CDBG), local foundations, the San Antonio Housing Trust, the Federal Home Loan Bank of Dallas, the Texas Department of Housing and Community Affairs, and others.

WITH TRAINING FROM ENTERPRISE AND LIVING CITIES FUNDS, A SAN ANTONIO CDC LEARNED HOW TO FINANCE LARGER-SCALE PROJECTS—AND HAS SINCE BUILT OR REHABILITATED MORE THAN 3,500 HOUSES.

Successful CDCs have expanded beyond housing to take on the work of strategic and comprehensive community development.

Although housing development still represents the core of most CDCs' and intermediaries' activities, in many cities, (among them Washington, Boston, Portland, Baltimore, and Chicago), CDCs are engaged in comprehensive community development activities beyond housing. Community-development revitalization strategies that focus on commercial corridors are one prevalent activity. Others include the development of charter schools, healthcare and childcare centers, anticrime programs, youth and elderly programming, and the preparation of families to become homebuyers. Some examples include:

> The purchase of a Ben and Jerry's franchise as an employment center for young adults and source of revenue by The Latin American Youth Center, a CDC in **WASHINGTON, DC.**

- In **CHICAGO**, a Living Cities-funded CDC built a new high school in a largely Latino/Hispanic neighborhood with a large youth population. The high school also serves as a community center. Several Chicago-area community-based organizations are also developing grocery stores, malls, and job-training programs.

- Universal Community Homes in **PHILADELPHIA**, founded by music mogul Kenneth Gamble, has been working to educate adults and children and build homes and businesses, while getting rid of abandoned buildings and drug dealers in South Philadelphia. Universal Homes (now known as Universal Companies) sponsors ten major programs, including a charter school and centers for workforce development, business support, and teaching trade skills.

IN MANY OF THE 23 CITIES, CDCs ENGAGE IN A RANGE OF INITIATIVES—FROM EDUCATION TO ECONOMIC DEVELOPMENT—DESIGNED TO STRENGTHEN THEIR COMMUNITIES.

- In **PORTLAND**, the Hacienda Community and Economic Development Corporation's programs have fostered the opening of the Hacienda Community Credit Union; created a homeownership outreach program to provide education and guidance to first-time homeowners; helped create a community health center; and sponsored several community events, such as a Back-to-School Fiesta, Holiday Celebration, and Safety Fairs. Hacienda also develops equity-sharing opportunities for low-income families and youth leadership programs.

Innovative financing mechanisms increase scale and efficiency.

It is not surprising that the cities with large populations such as New York City and Chicago have produced the most housing over the last three years. However, cities such as Denver, Seattle, and Cleveland, which have much smaller populations, had very high levels of production in the same time period. A major reason for the higher production is that all three cities have created streamlined mechanisms to provide financing for planning and packaging of projects by CDCs and other nonprofit developers. Impact Capital in Seattle, the Mile High Housing Fund in Denver, and Village Capital Corporation in Cleveland are three lending mechanisms that have achieved impressive results by aggregating loan capital from multiple funders into large loan pools, which they then award for expedited development to top-notch CDCs. This approach reduces the time otherwise needed for multiple decision-making by lenders.

Continued investment and support over more than a decade have restored the market economy in many communities.

As a result of the continued support of Living Cities and other stakeholders, CDCs in many communities are thinking more strategically, moving away from a single-project focus to a more systemic and logical approach. This comprehensive improvement has brought many communities back into the "mainstream." In fact, according to an Urban Institute survey of directors of Living Cities-supported CDCs, 88% of the CDCs' neighborhoods had signs of increased property values during the first ten years of Living Cities' investment, 83% pointed to improved physical appearance, 73% felt there was more private development of housing and 61% more private development of retail spaces. And, 73% could point to increased private sector lending in their communities.

Challenges Still Exist

Poverty has not gone away.

To look around the 23 Living Cities locations is to see progress—there are more homes and more commercial activities, but most importantly, there is more hope. It is evident that neighborhoods and central cities are indeed getting better, however the effort must be sustained in the years ahead, in spite of continued challenges, including the following:

According to the US Census Bureau, 35.9 million people were living in poverty in 2003, with 28.4 million of them residing in metropolitan areas. While it's true that poverty became less concentrated in most urban areas during the 1990s, and that the community-development industry has helped to reverse neighborhood disinvestment in many cities, a continued commitment to community revitalization is as critical today as it has ever been.

Cities with rapidly escalating prices and cities where reinvestment still needs to occur have different affordable-housing needs.

In cities with strong real estate markets, such as Seattle, New York, Boston, Atlanta, Los Angeles, and Portland, affordable housing is increasingly scarce. Households with low and moderate incomes are being forced outside of city boundaries because housing prices in the city are increasingly prohibitive. A scarcity of land, low vacancy rates, escalating property values, and high development costs over the last few years have contributed to the challenge.

On the other hand, in cities that are struggling to hold their population or do not have a strong real estate market, such as Cleveland, Baltimore, Detroit, Kansas City and Philadelphia, the challenge to create or maintain a viable market for reinvestment is still evident. Problems such as large volumes of abandoned housing stock highlight the difficulties of community development in these cities. Local and state budget cuts as well as cuts in federal programs, which represent the pillars of community-development funding, compound the economic and population-loss challenges in these cities.

In both sets of market circumstances, there is a continuing need for strong local housing and development policies that accommodate current regional conditions, with enough funding attached to make those policies work.

Some CDCs need more strategic organizational support.

Cities with weaker community development systems have deficient operating support, lower intermediary-assisted housing production, and are more likely to fall behind their schedules. Weaker CDCs, unable to recruit and retain quality staff and board leadership or to produce projects needed by residents, are part of the problem. Hence, steps to strengthen weaker CDCs are needed, including development of specific work plans with measurable outcomes. Where CDCs cannot prove their mettle and grow to meet neighborhood need, the groups should be subject to reduced or eliminated funding support.

In many cities, better coordination is needed among government, banks, local philanthropies, CDCs, and other stakeholders.

The success of CDCs—and the task of turning around poor neighborhoods generally—depends on a host of conditions, including public policies and financial supports that are flexible and foster innovation; leadership and efficient governance at the municipal level; more private capital and investment; and cooperation among all participants. The presence of Living Cities has helped LISC and Enterprise forge ongoing relationships in many cities, but coordination must be continuously maintained in all cities.

Many cities struggle with land-related issues, impeding the re-use of abandoned properties.

Improvement of the local regulatory environment as it affects community development is needed in many cities, particularly in areas of zoning and contract management. In addition, many cities continue to face challenges with respect to the disposition of municipally owned or controlled property. Since CDCs often redevelop tax-delinquent or otherwise disused real estate, such bureaucratic barriers impose constraints on their ability to develop new housing. While some cities have improved processes, others need to make better progress.

Why Continued Investment Is Vital

Sustaining the momentum is critical.

The community-development model now has a proven track record. It is crucial that this process be strengthened in cities with functioning community-development systems and allowed to take root in new cities. While many communities have seen surges of renewal,- many others still grapple with the effects of being out of the economic mainstream for so long. All of the research done over the past decade points to the fact that cities cannot thrive without healthy neighborhoods.

Continued public support and funding for CDCs is a crucial complement to the work of private investors and philanthropies.

Even with the assistance of organizations like Living Cities, LISC, Enterprise, and many other foundations and corporations, CDCs need ongoing government help in the form of financial subsidies and cooperation to do their jobs. Federal housing-subsidy programs—such as the Low Income Housing Tax Credit, Section 8 housing assistance, the Community Development Block Grant program, and the HOME program (not to mention HUD participation in Living Cities itself)—have long proven effective. Their perpetuation is essential to continued success. At the same time, municipal government cooperation and support is equally critical—but not universally guaranteed.

Additionally, federal agencies must remain involved, not only as fund providers but as participants in the conversation on how cities can and must change if they are to be vibrant places to live, work, and raise a family.

Conclusion

As a direct result of its efforts over more than a decade, Living Cities has proved its original premise—that distressed conditions in cities can be corrected through strategic investments that are guided by neighborhood leaders. Its experience confirms that urban neighborhoods have untapped human, economic and physical assets ready to be unleashed through a combination of public and private investments, and that the community development model is an effective economic "pump primer" for bringing revitalized neighborhoods back into our market-based economy.

More information on Living Cities and its work can be found at www.livingcities.org.