SMART STRATEGIES FOR COMMUNITY DEVELOPMENT IN THE 21ST CENTURY

Chris Walker

Urban Institute

Smart Growth and the Cities

After decades of suffering the grim reality and public stigma of economic decline, America's cities show promising signs of renaissance. Plummeting urban crime rates mean in reality safer streets and neighborhoods, even if these are all but ignored by local television news editors. Increasing numbers of restaurants, shops, and new homes have led to more active nightlife and an aura of vitality in close-in neighborhoods that were shunned not long ago. More and more people of all races and ethnicities have contributed to the vibrant urban mix that symbolizes the diversity and strength of an immigrant nation.

In a dramatic reversal of a 20-year trend, the number of high-poverty neighborhoods declined by more than 25 percent between 1990 and 2000. In Chicago, high poverty neighborhoods declined by 39 percent; in Houston, by 53 percent.

Americans now are rediscovering that cities' diversity and dynamism make them exciting places to live, work, and play. Over the past ten years, nearly every city has incubated one or more newly bohemian neighborhoods where arts and culture flourish. Universities, longtime cultural centers in their own right, are feeding the new diversity with ever-increasing numbers of creative and well-educated students from abroad. As Richard Florida has shown convincingly, the influx of young and creative thinkers has fueled an unprecedented expansion of professional, social, and artistic experimentation in some urban centers. In the still-new economy of info-, nano-, and bio-technologies, these reservoirs of creative talent are vital to national economic prosperity.

Even in cities that did not completely reverse population declines, resurgent markets are in evidence. Washington, D.C.'s population continued to decline in the 1990s, for example, although at a much slower pace than in the preceding decade. Even so, new housing construction in some of the most distressed areas of the city has begun to pick up; citywide, new housing construction in 2002—more than 1,500 units—exceeded the level last seen in 1981.

Among central cities of the top 100 metropolitan areas, population growth accelerated throughout the past decade; eight cities that lost population in the 1980s reversed themselves in the 1990s, including Chicago, Atlanta, and Denver.

But for all the promise of these emerging trends, market forces still push the majority of new growth to outlying areas—a powerful counterweight to the forces favorable to inner-city renaissance. Housing, commerce, and industry sprawl farther into the countryside—eating up precious open spaces, fueling traffic jams, and polluting the environment, thereby suctioning needed investment from long neglected close-in communities. Exurban residents increasingly find themselves pitted against residential and commercial developers in the battle for open land.

> *From the early 1980s to the mid-1990s, the U.S. population grew 17 percent, but the amount of urbanized land nearly doubled;*

But the emerging alliance of anti-sprawl advocates in the suburbs and the resurgent central cities leaves the nation poised to make a dramatic new advance toward urban prosperity—if we play our cards right. First, we have to harness growth in the suburbs—this is the goal of the “smart growth” movement. But at the same time, we need to make city *neighborhoods* magnets for people, jobs, and investment by leveraging cities’ newly accumulated financial, social, and cultural capital.

A decade ago, many Americans assumed that this second task was a lost cause. Repeated efforts to stem the tide of out-migration by direct investments in revitalization projects (as Democrats preferred) or by tax cuts and regulatory relief (as Republicans preferred) appeared to have little effect. But decades of hard work have actually paid off: smart and capable community groups backed by strong citywide institutions have figured out how to simultaneously energize markets and strengthen the communities worn down over the years by poverty, crime, and isolation from the mainstream.

However, this community–city partnership, backed by a broad phalanx of new and sometimes nontraditional community investors, has some hard work ahead. That work is the focus of this article.

> *New research shows that the combined efforts of community organizations, private investors, local businesspeople, and neighborhood residents can increase the value of homes by more than 69 percent over where the value would have been without these efforts.*

Rebuilding Markets and Communities

One of the most welcome signs that the new urban prospect is real and that further advances are possible is that many of society's major institutions—each for its own reasons—have made new commitments to inner-city communities. Building on a decade-long trend of increased investment by banks and other financial institutions, other businesses are competing to seize long-neglected opportunities for profits. Real estate developers and commercial retail chains appear to be following an earlier resurgence in housing demand. Large nonprofit institutions are prospecting for new markets too, as hospitals, universities, art museums, and performing arts centers strive to diversify participation in their offerings. These same institutions often have a major stake in the social and economic health of the neighborhoods that surround their buildings and campuses.

As major institutions "pivot" their attention toward close-in communities, local governments are continuing a 30-year trend toward community-centered

decisionmaking. In many cities, police precinct captains now have unprecedented authority to make rapid and responsive crime-fighting decisions that have helped drive crime rates down to historic lows. Traditionally top-heavy urban school systems have rushed to embrace charter schools and "small schools" that accord communities of parents more choice and more voice over their children's education. These reforms offer communities new opportunities to seize the reins of street-level government and administration and to steer neighborhoods in a new direction.

But city neighborhoods are far from clambering completely out of a pit that was 40 years in the digging. Crime is down but flare-ups are common; government services have improved but are far from efficient; public schools improve by fits and starts, mired in chronic failure; and major educational, cultural, and medical institutions have just begun a long journey from insularity to inclusion.

Across the United States, the leadership and staff of major cultural institutions in the visual arts, theater, music, and dance have acted decisively to forge new links to inner-city urban communities. Houston's Museum of Fine Arts sponsors exhibitions that travel among public library branches in the city's poorest neighborhoods. Boston's Huntington Theater creates dramatic works in partnership with settlement houses and community groups. The St. Louis Symphony engineered a financial turnaround by reaching out with programs and performances to new audiences in low-income communities. The Liz Lerman Dance Company in Silver Spring, Maryland, maintains an international reputation for its creation of cutting-edge work in partnership with residents of poor communities.

Unless crime, joblessness, and educational failure are dealt with, inner-city communities can't expect ordinary, risk-averse investors to commit the resources needed to revitalize markets. Put another way, markets fail when communities aren't healthy. But a life prospect of unrewarding work, low incomes, and little wealth undercuts personal commitment to school success, family formation, and respect for law. In other words, communities aren't healthy when markets fail.

But community health is not just about markets. Even casual observes would recognize some of the outward signs of a healthy community in the way ordinary people interact with one another as neighbors, child-minders, park-goers, and passers-by. The

relationships among community residents are vital community glue, helpful when cooperation is needed to organize a community festival, identify a criminal suspect, or demand that a local business stop selling liquor to drunks. And community residents need relationships with powerful people and institutions outside the neighborhood that can help residents fight local problems or make investments that strengthen the community. These relationships—sometimes referred to as social capital—are just as essential to neighborhood health as the financial capital and human capital that fuel healthy markets.

A few places have staged a two-front war against community dissolution and moribund markets by rebuilding whole neighborhoods from the ground up. In the past 10 years, nearly all of the worst public housing communities—some with more than a 1,000 packed-together units occupied only by the very poor—have been demolished, and reconstruction is planned, under way, or already completed. Newly built developments containing hundreds of units for poor and moderate-income families alike, designed for safety and neighborliness and attractive to look at, have replaced the old ghettos. Some, like Centennial Place (formerly Techwood) in Atlanta, have come complete with new schools regarded as models by their school districts.

This wholesale reconstruction of neighborhoods has not been confined to public housing projects. Large-scale redevelopment in the South Bronx, Minneapolis, and Cleveland has proceeded along the same lines, emphasizing good design, social and economic diversity, and attention to the mix of public facilities and private commercial activity needed to sustain viable urban communities. Other cities also are counting on

big mixed-income developments to gain quick and dramatic victories in long-depressed neighborhoods. The Neighborhood Transformation Initiative in Philadelphia sees large-scale development as especially appropriate for areas with the most severe community problems and the bleakest market prospects.

But this strategy probably can't possibly extend to all neighborhoods in need of help. Nor will it produce enough new homes to make a real difference in the regional investment balance, relieving development pressures on suburban areas. For one thing, large-scale redevelopment is very expensive. One estimate put the public investment in the South Bronx at about $2 billion. The average public housing redevelopment costs $185 million, of which only about half comes from the private sector. It goes without saying that few local governments have this kind of money, even taking into account the federal funds available for this purpose. For another thing, large-scale development is a tough sell in already built areas, as the many protests against smaller commercial and housing developments powerfully suggest.

For most low-income neighborhoods to seize today's new opportunities, determined community developers must get markets to work without massive public aid and without engendering opposition from existing residents. Fortunately, the past 10 years have seen more examples of community people working together to devise homegrown, low-cost approaches to neighborhood improvement. The key to their successes is the ability to harness the efforts of many small investors seeking to profit from newly discovered neighborhood assets. And the only way to get people cooperating effectively is through the creative exploitation of social capital, in which people join together to forge their own solutions, drawing on outside support when needed. These more organic approaches hold promise where top-down solutions may not, and they may be the only way to overcome what might be called the "revitalization paradox."

> In Portland, Oregon's Belmont neighborhood, the REACH community development corporation combined low-cost business and neighborhood organizing with direct investments to help revitalize an ailing commercial district. Under REACH's guidance, the business association repaired frayed neighborhood relationships and went on to forge a common strategy to improve facades, upgrade signage, coordinate marketing, and improve security. Once scarred by vacant and deteriorated buildings, the commercial strip has seen major new investment and an in-migration of entrepreneurs seeking a profitable place to do business.

The Revitalization Paradox

For a generation, activists and community organizations in low-income neighborhoods have struggled against considerable odds to keep their neighborhoods from slipping into a downward spiral of decay. When buildings fell vacant, they acquired and fixed them;

when gangs emerged, they organized crime patrols; as poverty increased, they started up groups to provide needed services. These self-help efforts are in the best American tradition, predating the founding of the Republic.

In view of the difficulties, many of these efforts were remarkably successful in holding the line until better times arrived. In many neighborhoods of Boston, Chicago, Washington D.C., and other major cities, those better times *have* arrived, but with a paradoxical result. With in-migration of new and more affluent renters and homebuyers, rents and house prices began an upward spiral that threatens to crowd out long-term residents who are no longer able to pay rising rents or taxes on property they own. Although some long-term owners amass wealth as values rise, the people who are forced out tend to be those with the fewest choices, the most to gain from neighborhood improvement, and, arguably, the strongest moral claim to share in the community future they had worked hard to create.

The first among the new in-migrants—who often have the most enthusiasm for ethnic and cultural diversity—also feel the sting of this paradoxical result. Young people, artists, gay men and lesbians, and others who stoke demand for, and are themselves a part of, the newly flourishing urban scene often find that they, too, can no longer keep up in the overheated neighborhood economy. As housing and commerce shifts ever up-market, funky, locally owned businesses and eating establishments give way to the dreary sameness of national retail and restaurant chains.

Even so, this kind of revitalization may look good on the surface. But it doesn't necessarily serve cities—or their metropolitan regions—well. To be sure, as seen from

the city budget office, rising property values and the new tax revenues they generate are unambiguously welcome. And as cities face ever-mounting costs of health care, criminal justice, and employee retirement, competition with other jurisdictions for new sources of tax revenue becomes ever more desperate.

But displacement of poor and working-class families risks creating a beggar-thy-neighbor cycle that makes everyone worse off. In some cases, displaced people will crowd into the only city neighborhoods they can afford, worsening the problems of concentrated poverty that people have worked so hard to solve. In others, flight from revitalizing neighborhoods adds momentum to the movement of needy households to the close-in suburbs, contributing to the mounting suburbanization of neighborhood distress. And unlike cities—with long experience in treating the problems of poor neighborhoods—suburbs are ill equipped to respond.

In sum, this perverse perpetuation of income and racial segregation produces several unwanted outcomes. It may lead to a kind of "poverty sprawl" that mimics the dispersion of investment and population across entire metropolitan areas. It undercuts the very ethnic and cultural diversity that fuels investor demand for urban locations. It misses a unique opportunity to rebuild urban schools through creation of a diverse student body. And it fails to honor the moral claims of the least favored, but most deserving, of long-term neighborhood residents.

The Community Development Revolution of the 1990s

By definition, paradoxes are insoluble problems—the only way to avoid a paradox is to redefine the terms that give rise to it. In this instance, we have shown how community vitality can lead to strengthening markets, but that strengthening markets sometimes undercut community vitality. How can resurgent markets be made to reinforce, not undermine, community diversity? The answer lies in the role of newly strengthened institutions that act in the marketplace, but on behalf of community.

Beginning in the 1960s, community-based development organizations have been working at the task of rebuilding both markets and communities in inner-city neighborhoods all over the country. At the beginning of the War on Poverty—which celebrated its 40th anniversary in 2004—the Johnson administration responded to the failed markets of urban ghettos and rural hamlets by creating a new form of economic empowerment. Community development corporations, or CDCs, aimed to halt disinvestment in the early years of bank redlining and white flight by forming community-owned enterprises to create jobs, rebuild housing, accumulate wealth, and provide vital commercial services.

Over the years, these organizations and their many successors built a diverse portfolio of community development investments. They learned to operate effectively in neighborhood markets—making investments, negotiating financing, doing real estate deals—and extended their reach from housing into commercial and business development.

The most recent statistics show an average annual national production of about 50,000 affordable housing units and five million square feet of commercial and industrial space in the most difficult of America's urban neighborhoods and rural areas.

In recent years, CDCs have begun to explore broader community-building roles, such as fighting crime, advocating for decent community services, training future workers, and showing troubled youth a better way to adulthood. Now, nearly half of all organizations have supplemented their development activities with social investments intended to help the poorest households keep their families together or acquire the skills needed to get ahead.

What ties these disparate enterprises together is the rare and difficult marriage of market orientation and community roots within a single organization. What makes these neighborhood-based organizations effective are their ties to citywide sources of money, expertise, and political clout.

While many Americans are familiar with these organizations and their work, fewer are aware of the recent explosion in their output and productivity. Throughout most of their history, CDCs fought it out neighborhood by neighborhood with only the resources they could cobble together from disparate government agencies, banks, foundations, and local elected bodies. Because social purpose development projects threw off little if any profit, and CDCs took on the job of advocating for community change whether somebody paid for it or not, they often skated on thin financial ice. After paying for the

essentials, not much remained for investments in competitive staff salaries or up-to-date technology.

Much of this changed with the creation of new citywide institutions that ramped up the funding, technical help, and political support CDCs needed to become truly effective and efficient community developers. Led by national community development intermediaries (see box) with branch offices in most major U.S. cities, local foundations, financial institutions, corporations, and sometimes city governments created new community development "collaboratives," which pooled cash to invest both in CDC development projects *and* in their ability to carry them out effectively. These collaboratives imposed tough new standards of accountability, by which CDCs were obliged to formulate concrete strategies for change and demonstrate their progress toward improved urban neighborhoods. From a mere handful of these institutions in 1990 their number has grown to at least 23 today.

> Comprehensive community development intermediaries provide project finance, working capital, technical aid, program development services, and research and advocacy in support of community development nationwide and in individual cities. The Local Initiatives Support Corporation (LISC) works in 38 cities and 66 rural areas, with annual expenditures for programs and operations of $94 million (2001). In 2001, LISC made $550 million in loans, grants, and equity investments. The Enterprise Foundation operates in 26 cities on an annual budget of $54 million. In 2002, the Foundation made $200 million in total investments.

The creation of these collaboratives, and the new funding, political visibility, and standards of performance they brought, amounted to an institutional revolution, in which

strong public commitments, new and creative finance, and unprecedented transparency in funding decisions raised the visibility of CDCs on the local political stage. This revolution also ramped up CDC capacity to carry out neighborhood improvement programs, and moderated the scramble for ready cash that plagued staff in earlier times. The upshot was a surge in industry growth, as operational expenditures rose 180 percent and the number of groups passing basic production thresholds more than doubled.

The stage is now set for a quantum leap in the role of newly empowered community development corporations. Because so many elements of market and community, neighborhood and city come together in CDCs, they have become the ideal platform to seize the opportunities offered by the new urban realignment, without falling victim to the revitalization paradox. By continuing their socially motivated market investments, they can help shield long-term residents threatened by displacement. By shaping the newly decentralized work of government agencies, they can turn a hodgepodge of unrelated activities into meaningful strategies for change. By acting as intermediary between communities and citywide institutions, they offer the former access opportunity and the latter a pathway into diverse cultural communities.

But to realize this potential, CDCs need to take one more great stride—from carrying out deal-by-deal projects to implementing a marketwide strategy for change—that includes community residents as full partners. And local government will have to take a great stride with them—away from scattershot approaches to neighborhood investment to forceful and strategic moves to create vital urban markets.

From “Deal Making” to “Market Making”

Now supported by the citywide institutions that can help them become truly effective, community development organizations can step up from the ad hoc, opportunity-driven mode that has characterized much of their work in the past to a planned, strategy-driven approach. To get CDCs there, governments, foundations, investors, and city institutions will need to rethink their own practices, and shift away from a project- and organization-centered view toward a systemic, community-centered, approach to change.

Community-based development organizations and their supporters have always taken the long view, recognizing that decades of work are required to improve whole neighborhoods. Indeed, according to the most recent figures, more than half of CDCs carried out their first development project more than 10 years ago. And most CDC directors, their boards, and the communities they serve have joined together at one time or another to develop a vision for the future of their neighborhoods. But CDCs have not always succeeded in going after this vision comprehensively, limited by funding and capacity constraints to a project-by-project approach.

The best community-based developers—with many deals under their belt and a record of effective organizing—have discovered that once they organize local investors and back sound planning with large, strategic investments, far more dramatic progress is possible. The next generation of CDC work has to focus not on individual deals, but on creating market conditions where both public and private investments happen as a matter of course; and not on organizing residents around individual issues, but on building the network of relationships that accord community members an effective voice.

> Boston's nonprofit Jamaica Plain Development Corporation (JPDC) has turned community involvement into an art form, aiming to simultaneously improve neighborhood quality *and* capture the benefits of growth for long-term poor residents. JPDC's "campaign of conscience" secured new affordable housing resources from the city. Its collaboration with a tenant rights groups led to voluntary rent stabilization agreements with area landlords. It has helped cooperative housing communities successfully balance affordable housing and open space interests. And JPDC has invested in rental property improvements in some of the worst areas of Jamaica Plain.

Most everybody has a role to play in supporting this new generation of community development. Philanthropies, nonprofit institutions, lenders, and private investors can all help if they further change the way they do business. Their programs, investments, and partnerships must support systemic, not project-by-project, approaches to community change, which means they must be carried out as part of an urban "coalition of the willing," not as go-it-alone initiatives.

But the single most important gap in the practice of community development nationally—the one that holds back the real promise offered by the build out of a mature

community-based development industry—is the chronic unwillingness or inability of public community and economic development agencies to make investments that are strategic enough, and of a sufficient scale, to carry neighborhoods across the threshold of sustained market and social development. Three problems are paramount.

First, public investments have tended to be scattershot, without regard to their value to the marketplace. This means that many investments, however beneficial to people who reside in newly affordable housing or fill jobs created in new commercial establishments, do not yield the additional payoffs that we should expect from tax-supported dollars—the willingness of prospective residents and businesspeople to view low-income neighborhoods as good places to live and work. But too often, governments lack the information they need to determine where their investments would be most productive.

Second, even where agencies have attempted to invest strategically, they have been unable to claim a full measure of support from other public agencies, even when these agencies have a real stake in the outcome. Many public agencies critical to neighborhood health—public works, police and fire, schools—have not been willing to be a part of community development decisionmaking. Few cities have established systems to hold all public agencies accountable for making positive change in neighborhoods.

Third, viewed from the perspective of the neighborhood, public decisions too often lack coherence and appropriateness. Even where community leaders have struggled to create visions for the neighborhood and plans to carry them out, these too often lack

real clout because neighborhood leaders can little influence the expenditure of public dollars.

The good news is that the fix is in sight. New ways to pay for public improvements, collect and use information, and hold public agencies accountable for results now set the stage for a resolution of the chronic problems that have held back previous community development efforts.

Across the country, city (and state) governments have opened up access to information about neighborhood conditions and trends to citizen groups, public agencies, and elected bodies. Civic associations in Los Angeles, Chicago, and Boston, among others, have developed new neighborhood indicator systems that contain detailed data on housing quality, crime, public health, jobs, and education. These rich stores of data have begun to be mined by analysis in support of strategic public investment choices. This will allow city agencies to invest in the most promising neighborhoods and avoid scattershot project-by-project decisionmaking.

In addition, cities are learning to decentralize some of the authority for spending decisions, just as they have decentralized agency decisionmaking in key areas, such as crime fighting and elementary education. For example, in Chicago, where a portion of the taxes generated within neighborhoods are placed at the disposal of community boards, public agencies have real incentives to cooperate with one another to promote market renewal. Minneapolis has experimented with, and learned from, a system to earmark tax funds for spending by neighborhood associations, able now to match agency dollars in ways that have produced genuine changes in city policy.

Finally, national, state, and local pressures on public agencies to better account for their expenditure of public dollars has led to quiet adoption of new ways to test the performance of cities in improving neighborhoods. Cities as diverse as Charlotte, Minneapolis, Austin, and Portland (Oregon), are perfecting ways to insert measurement of community outcomes into the routine decisionmaking of city departments. With increasing strains on the federal budget—the source of some of the most valuable dollars for investment in the poorest neighborhoods—there is new urgency to widespread adoption of performance assessment.

The practical payoff from new information and performance measurement systems is difficult to overestimate. Major nonprofit institutions, such as hospitals, performing arts centers, universities, and art museums, have taken the first steps to form genuine partnerships with minority and immigrant communities. And they have begun to understand and promote their role as economic engines in cities. But for the most part, they have continued to view public sector agencies with suspicion, fearing that cooperative efforts will be wasted. Private foundations have pioneered the funding collaboratives that have transformed the institutional landscape in community development. But many foundations have yet to overcome their aversion to direct funding of public sector agencies—the workhorses of urban change. Financial institutions have been foremost among corporate contributors to community development funding collaboratives, reflecting their clear interest in seeing inner-city markets expand. But more often than not, corporate America is a passive supporter of urban improvement efforts, tending not to invest executive energy into shaping strategies for change.

A new emphasis on performance and information, backed by neighborhood fiscal empowerment, can help dispel these understandable doubts. High-quality information on neighborhood trends allows public, private, and nonprofit sectors to judge one another's contributions and hold each other accountable. Public sector embrace of performance measurement brings agencies into line with long-standing corporate practice. By reducing the risks of involvement with public initiatives, these new tools can engage new actors in the hard work of community change.

What Is to Be Done?

Just as the last revolution in community development practice required the combined efforts of government, private foundations, and the nonprofit community development industry, so too the effort to bring community development agencies into the 21st century will require a multi-sector approach. Here's what each party will need to do:

First and foremost, the federal government will need to invest in local implementation of state-of-the-art community development performance measurement models and the neighborhood information systems needed to make them work successfully. This is not just a matter of spending money; federal community development programs will need to be reformed to remove some of their vaunted flexibility and steer local governments toward more strategic, neighborhood-centered investments. This will be actively resisted, but under new threats of drastic funding cuts for community development, new accountability and less flexibility is an acceptable sacrifice.

Second, foundations will need to overcome their historic aversion to direct funding of public agencies and to active cooperation with one another in pressing for local change. Politicians know their cities can use as much foundation support they can get; they may not welcome, but they will go along with, foundations' insistence that local governments better account for the value of public investments and support neighborhood information.

Third, the nonprofit community development industry, which has the most to gain from improvements to city community development policies and programs, will need to redouble its own efforts to build and use information systems to guide neighborhood change, and to account for its own contributions to better-functioning markets and communities.

Fourth, all these parties should seek ways to further develop and promote wider adoption of new models in public finance. These efforts are likely to be longer term, and there are real and legitimate barriers to more widespread adoption of devolved taxing-and-spending authority. But without such efforts, the voices of neighborhoods will not be heard in the day-to-day decisions that public agencies make, decisions that are critical to genuinely accountable, and effective, community change.

For too long, most Americans have assumed that city neighborhoods were a lost cause and that suburban sprawl was inevitable. But now we know we can achieve a better future. Community development corporations have proved their potential as both market makers and community builders. With 21st century support from local governments, philanthropies, nonprofit institutions, and the for-profit sector, CDCs can step up to a

new level of performance, bringing market vitality back to inner-city neighborhoods without sacrificing the communities for whom these neighborhoods are home.