

## Lessons Learned Talking Points

By Michael C. Rohrbeck, 1996

**Note to Reader:** *What follows below are notes made in preparation for panel discussion sponsored by LaSalle National Bank and the Chicago Rehab Network in the fall of 1996. At the time, I had just stepped down as executive director at PRIDE. Despite our many struggles, the organization was considered one of the better grass-roots, community controlled CDCs in Chicago. This was particularly true among groups who did multi-family development and management without heavy reliance on project based Section 8. The points made are regrettably prophetic, even of the demise of PRIDE. It should perhaps be renamed Lessons Not Learned in Community Development.*

We're living in the City of Chicago. In Chicago, some people, developers and neighborhoods are more equal than others. This status allows them to succeed and prosper beyond flash-in-the-pan novelty. Some things distinguish organizations from the pack, both CDCs and other for-profits and non-profits, although they may not have a lot to do with organizations "capacity" to be good community developers. They must be strong in one or more of the following:

*I believe organizations can't only be good at the services they provide and programs they administer.*

- political access
- public/media relations
- organizing that strikes fear in the heart of politicians
- access to financial independence or sugardaddy (i.e. non-traditional fundraising or government through one or many sources)

PRIDE may not have been excellent at any one of these things, but with "no frills" and a good mix of "professional" and home grown talent, we will start looking more unique among the crowd with time and attrition of our peers. "Capacity", as defined as experience, knowledge and ability to do the job is frequently confused by CDCs because of the following factors

- inability to cope with socio-economic realities over time (income and traditional expense and social cost trends) and "diseconomies of scale"<sup>3</sup>
- inability to gain better than equal status relative to peers (a harsh funding reality) and
- intentional avoidance of "creaming" in the housing market i.e. targeting highest of the low income, or renters with less children or special needs

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<sup>3</sup> In the 1980's, I participated in a "Social Cost Accounting Project" with the Property Management Resource Center. At the time, most local non-profits were using the conventional wisdom in development of multi-unit residential buildings i.e. maximum leveraging, minimum operating cost assumptions and high rent increase projections. Simultaneously, they were attempting to manage and engage tenants in socially responsible ways. I saw how property management with 150 units, with dedicated folks being entirely committed and working like dogs in support of residents, resulted in quality housing within a supportive community of people. However, much of what the organizations did appeared to represent unfunded, in-kind subsidies to projects and residents (including staff overtime among many things). What became apparent to me was that when housing is operated without the proper economic assumptions, a growing portfolio cannot be matched with proportionate increases of in-kind, unfunded subsidies. I theorized that there was a "diseconomy of scale" in property management. Most researchers theorized that scale was exactly what was needed to make property management viable. My point was that it all depends. Looking backwards, most of the CDCs and private housing groups whose portfolios reached 200-400 units either recapitalized/refinanced in very favorable ways, or they gave up management and control to others who promptly recapitalized/refinanced their buildings in favorable ways. Further research is needed to confirm this.

Community Development is in decline as an “answer” to urban problems, much like model cities or other approaches which may have been abandoned before refining their approaches. Here in Chicago, the government, foundations, corporations and lenders have through their patterns of support enabled the start-up of many community development corporations, but have refused to properly sustain them. They’ve also allowed for the creation of for-profit peers and entry to the market of large church-based and social service non-profits doing similar things, further increasing competition and thinning resources.

The Enterprise Foundation noted in their newsletter a few years back that CDCs as they grow do not need less support for operations, but more... Unfortunately, we are now going to witness the death of many organizations, and even the survivors may not call themselves community developers in the future.<sup>4</sup>

With the exception of no-debt or no-interest approaches, homeownership is a sham for those who target working class people with incomes less than \$20-25,000 a year. Unless of course you believe that the trend of the last 15 years of stagnating incomes at the lower levels will change dramatically.

*If you believe that after infusing the employment market with former welfare recipients that you will have increasing wages at the lower levels, maybe you should take Economics 101 again.*

Property Management is a bitch. It is the hardest work in community development. But in property management lies incredible opportunities to positively impact people’s lives and influence positive changes in behavior so the residents can advance themselves. It can complement in the best ways possible what can happen with organizing, community involvement, referrals and linkages with services and economic opportunity programs. Unfortunately, not doing property management well can also taint the relationship with residents, undermine the mission and devastate an organization financially.

In confidentiality, most CDCs who have given up property management will admit that they are more distant from their constituents, less able to know their tenants, impact their lives and follow through on their mission. If it weren’t such a bitch, both financially and organizationally, they’d take back property management in a second.

The ineffectiveness of our social service system presents real opportunities for community development agencies. If people are in a hostile living environment, get short-term attention from an agency at the point where they are destitute and have no more supports, and then return to that same environment, what do you think the success rate is? It’s pretty bad obviously. Every social service provider will tell you that if their clients had stable, safe and affordable housing, their prospects for successful intervention will go up dramatically.

*In social service lingo, affordable and decent housing provides a strong “point of stability” from which people in need can address their other social and economic challenges.*

All the building blocks of community development, especially tax credits, lending and underwriting in general are based on helping others to preserve wealth, not on what is logical to

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<sup>4</sup> In retrospect, some CDCs died, others held on by a shoestring, others shifted emphasis to development and programming intended to benefit special needs populations or new/prospective homeowners. This, of course, coincided with federal and local shifts in emphasis. Question is, what is available for families who work, but whose income is inadequate for responsible ownership?

develop and preserve affordable housing. Tax Credits are no charity for the corporations involved, and if the US treasury gives up two dollars of taxes for one development dollar, what sense is that?

*Focused development, like historic designations, empowerment zones or TIFs in blighted or otherwise desirable areas e.g. by-the-lake, are rarely inspired by government and the private sector players wanting to "do the right thing".*

If lenders want to preserve their CRA status, they are going to get involved in community development lending. If the so-called "profit" is in the development itself, and not the preservation of the housing through property management, should we be surprised to see the proud project dedication of 1976 be the vacant lot of 1996? Surprisingly, we haven't had more of this.

Too much development and the underwriting has been funder driven, creating a very narrow market of eligible renters -- typically those whose incomes are between \$18-28,000 have tremendous mobility to go from one subsidized development to the next.<sup>5</sup>

Unfortunately, this market leaves out a huge segment of "low income" which we cannot serve without rent subsidies or without debt and real estate tax relief. As George Stone of our board so aptly says, "the maximum income and eligibility limits almost always become the minimum". The government wants to spread its money around and get private sector lending, and the community developers succumb to carrying more debt than what makes sense, assume lower costs of management, and expect that tenants can afford rent increases of 3-5%... Logic tells us to

- limit debt service to the minimum (if not zero)
- increase property management costs and reserves to the ideal
- reduce key cost categories through concerted advocacy and business practices (real estate taxes, insurance, bidding of professional services etc.)
- spread the band of income eligibility to the lowest and highest levels possible, and
- work like hell with your tenants so they can be upwardly mobile or otherwise capable of absorbing rent increases.

*Tenant Services of all kinds, including crime prevention organizing, is becoming an economic requirement of non-profits and for-profits in order to minimize vacancies, evictions and control for maintenance costs.*

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<sup>5</sup> Even though specific development funding programs may be targeted to individuals/families at or below 50% or 60%, good management practices require that an eligible renter must have incomes adequate to pay 30% or less of their income for rent – rent that must pay for ever increasing property management costs, as well as any debt service and owner profit that is required/reasonable. Thus, many "affordable housing projects" can only serve those that effectively earn between 40 or 45% of median and 50-60% of median, except for those who have rent subsidy vouchers. It's my opinion, which should be verified by research, that this narrow "band of income eligibility" is a predictor of long-term project marketability/viability. It's possible that this should be an important underwriting consideration for government and private lenders. It may also explain high rates of vacancies in layered family projects in the region. Indeed, people in this income bracket can exercise housing choices.