Measuring the Impact of Community Development

by Sean Zielenbach, Housing Research Foundation

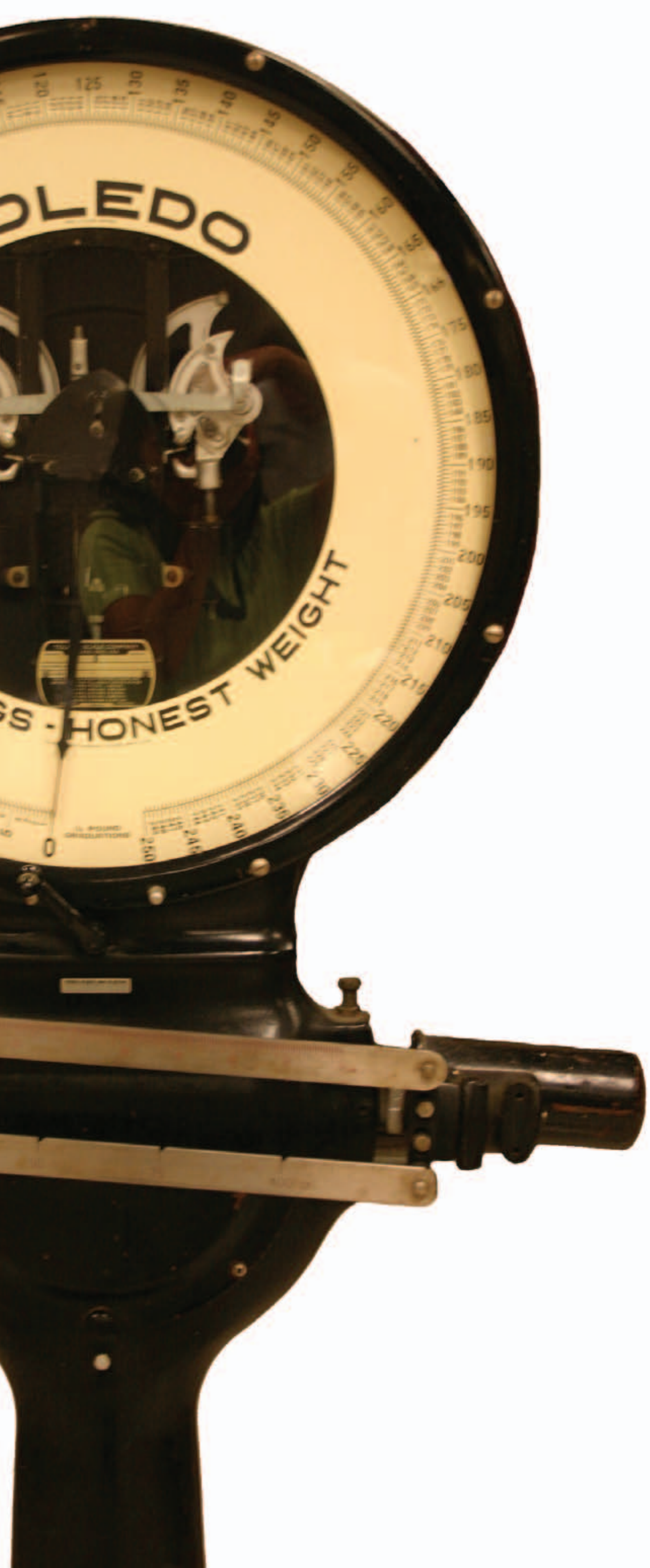
Impact, Impact, Impact.

The community development industry has recently been bombarded by questions of impact. Foundations, lenders, and government agencies have begun demanding that funding recipients measure and demonstrate the impacts they have on low- and moderate-income communities. Likewise, board members are increasingly insisting that their executive directors prove that outcomes are both meaningful and cost-effective. Reporting the conventional indicators of success—the number of loans closed, the number of units built, the amount of commercial square footage developed—no longer meets the demands of these stakeholders. Rather, organizations are now being asked to track and quantify the *benefits* that they produce for lower-income individuals and neighborhoods—*how have they really improved the community?* It is a difficult task, complicated by organizations' limited resources and the often ambiguous definition of successful community development.

How should a community development organization respond? This article offers guidance to organizations that are searching for the most appropriate ways to define and measure the impact of their efforts. First, it looks at changes in the funding environment that have fueled the recent drive for measurable impact. It then lays out a framework designed to help groups organize their thinking about meaningful impact, and it discusses several sources of useful data. Finally, it reflects on the prickly question of causality—is it possible to identify the factors responsible for a particular set of results?

The New Push for Impact Measurement

More so than ever before, the community development field is under the gun to prove that it is making a difference in its targeted markets. In its first 25 years, the industry found it sufficient to point to real estate development in an economically distressed market as an indicator of success. But recently, the bar has been raised. Now people want to know whether a development has really improved a community. To a certain extent, this new standard reflects the growth and success of the industry. No longer novices, a number of lenders, such as the Local Initiatives Support Corporation and the Massachusetts Housing Investment Corporation, have been around for at least 15 years, and in this time, financing and developing housing in low-income areas has become much more feasible—even relatively common. It is reasonable for stakeholders to ask this maturing industry what its efforts have been able to accomplish.



A lot of pressure is coming from foundations and other private funders. Community development organizations have long depended on various forms of subsidy to survive, a significant portion of which flows from the philanthropic community. The stock market downturn of 2000–2002 shrank many foundations' endowments, and most were forced to cut back on their giving. With declining resources yet more requests from a growing industry, funders are increasingly using objective impact measures to differentiate between organizations and determine the best allocation of their funds.

Public sector financial support is also crucial for community development organizations, and the recent sluggish economy had made for a lean public funding environment. Faced with weak revenues in the past several years, many states and municipalities have cut funding to various social programs in order to balance budgets. Moreover, a growing federal deficit and changing political priorities have introduced further uncertainty about the future availability of community development and affordable housing money. Possible reductions in the HOPE VI public housing redevelopment program, the Section 8 voucher program, and the Community Development Financial Institutions (CDFI) fund could significantly affect future funding streams for community development organizations. To preserve these programs, community development advocates and practitioners must make the case that their efforts make an important difference.

New Measures of Impact Are Needed

Unfortunately, the traditional ways in which community development organizations have tracked and reported impact do not sufficiently address whether their efforts make a difference. For example, the standard measures used by affordable housing lenders are the number of units or families financed and the amount of financing "leveraged" in a deal. These measures have two major limitations. First, they fail to capture the real social and economic benefits of the project. They say nothing about how the quality of life for the new residents and the community has been affected. Second, these measures of quantity are often deceiving. For example, one organization might provide a $500,000 five-year mortgage in support of 25 units, whereas another contributes a $50,000 six-month predevelopment loan for a 200-unit project. Relying solely on the standard quantity measures, the latter group would report eight times as much "impact" as the first for one-tenth of the cost. In another example, the impacts of developing 20 units of low-income housing in Springfield, Massachusetts, are not the same as developing them in Stamford, Connecticut, where the barriers to affordable housing are greater.

Traditional measures also imply a certain amount of causality that often does not stand up to scrutiny. The statement, "Loan Fund A's financing created 120 units and leveraged an additional $4 million in private investment," in reality might describe a fund that provided a $250,000 equity bridge loan to a $4.25 million project. While the fund cer-

"Keep It Simple"

Lessons from the Connecticut Housing Investment Fund's Impact Study

Before: Abandoned apartment building in Hartford, Connecticut..

Assessing impact is harder than you might expect. The Connecticut Housing Investment Fund (CHIF) learned this lesson firsthand when it undertook a study of its Neighborhood Rebuilder Loan Program last year. Based in Hartford, CHIF is a private, statewide, nonprofit organization that has been financing affordable housing and community revitalization efforts in Connecticut since 1968. Its Neighborhood Rebuilder Loan Program is designed to address a problem common to many of the state's distressed urban neighborhoods: Redeveloping abandoned housing and vacant lots often costs more than the after-construction appraised values of these properties. CHIF's program provides subsidies to close this gap, helping to eliminate this financial hurdle and increasing housing development in these neighborhoods.

"Last year, the Board was deciding whether to commit more funds to Neighborhood Rebuilder, so they asked us to find out how well the program was working," recalls Cynthia Russell, President and CEO of CHIF. To respond to the Board's request, CHIF began an impact analysis of 150 homes that had been financed through Neighborhood Rebuilder in Hartford and New London.

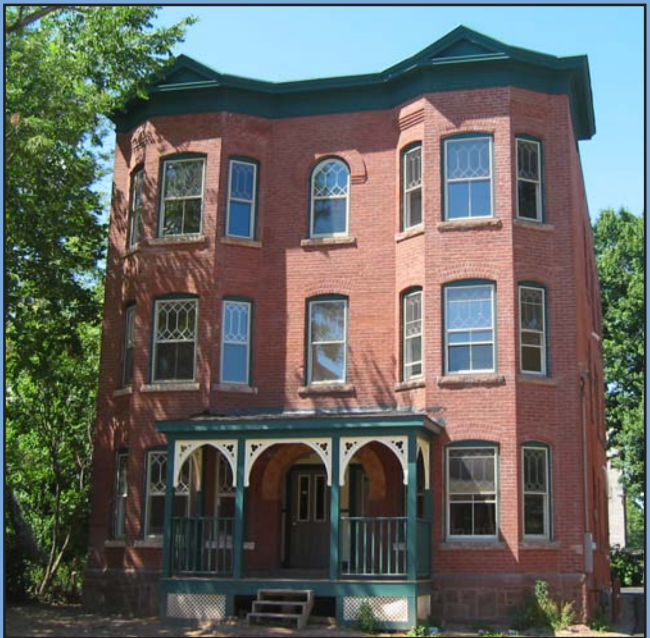
The task would prove to be a challenge. First, a literature search revealed that little had been written on the topic. "We quickly learned that there isn't a lot to guide loan funds that want to measure impact," says Russell.

Drawing on the knowledge that was available, CHIF consultants developed a set of indicators and began collecting data to measure the program's effectiveness. They rated the physical appearance of each Rebuilder property and its surrounding neighborhood. They used census data to capture the socioeconomic status of neighborhood residents and collected local crime and housing data to assess any changes in the safety, stability, and desirability of these neighborhoods.

Unfortunately, the data were far from perfect. The physical appearance measures were subjective and open to inconsistency. Census data provided only a snapshot from each decade, and many of the housing indicators that CHIF had hoped to analyze were difficult to find. The fact that Rebuilder properties had been built in various years also complicated things, particularly by making crime and property value data hard to interpret. Finally, CHIF did not have an adequate "before" picture with which to compare the "after" data.

The data difficulties muddled the results. "We had wanted to be able to tell the board that the program was a clear success," says Russell. "We were able to conclude that the neighborhoods had improved since CHIF started financing new construction and rehabilitation in these communities. However, we discovered that we need to do further analysis to determine the chief contributors to this improvement."

Regardless, the impact analysis has been a valuable learning experience for CHIF and a good starting place. The organization is using the results to create a baseline measurement of Rebuilder neighborhoods that can be used as a benchmark against which to compare future changes. CHIF has also realized the importance of good data collection and has decided to focus future analysis on several key variables. "CHIF wanted a lot from our study," says Russell, "and I think we were overly ambitious. My advice to other loan funds is to determine exactly what you are looking for in an impact study. Keep it small at first and build from there."



After: CHIF funded the rehabilitation of the building into a two-family home.

tainly played an important role in ensuring the success of the project, did it really "leverage" monies that were already committed to the deal? Was its loan really responsible for creating the 120 units? The bank that financed $2 million of the project could presumably make a stronger case for its role. Likely, the bank and each of the other lenders on the project will report that their financing produced 120 units, counting these units multiple times.

None of these critiques is meant to blame community development organizations for their traditional data collection methods. Funders and intermediaries often require this type of data so they can easily standardize and aggregate information across institutions. Additionally, data collection requires time and resources, and unless funding is available for more sophisticated analysis, entities have little choice but to concentrate on simple, easily tracked measures. Nevertheless, community development organizations are now being called to a higher standard of impact measurement and challenged to develop a new set of relevant benchmarks.

What are the more appropriate measures of successful impact, and how can relevant information be collected in a reasonable and cost-effective way? Before answering these questions, an organization must first step back and identify its goals and its definition of achieving them. Too often, community development organizations and their funders establish a vague and lofty goal—"make the neighborhood a more livable community" or "improve housing opportunities for low-income people." However, they never specify (1) what the goal means in practice, (2) how to determine if the goal has been met, or (3) how their efforts will contribute to meeting the goal. Clarifying these questions is critical, and only afterwards can an organization begin to identify meaningful and convincing measures of impact.

The next three sections offer some specific suggestions for how an entity might define and measure its success. Using affordable housing lenders as an example, the first section focuses on assessing internal issues. The second concentrates on determining the direct benefits from an affordable housing development, and the third looks at how to measure a project's broader effects on the community.

Internal Measures of Success

Assessing the impact of the activities of a community development organization must begin with an internal evaluation of the organization and a recognition of institutional limitations. Before an organization can fulfill the social half of its double bottom line, it must address its ability to generate enough revenue to cover expenses and remain in operation. To illustrate, take lenders. Their primary purpose is the provision of loan capital, and their effectiveness depends on their ability to make successful loans. Thus, an affordable housing lender's first responsibility must be to ensure its own sustainability; if it cannot continue to provide financing, then it cannot fulfill its purpose, and its potential social impacts become moot.[1]

For a lender, organizational sustainability boils down to three major issues:

Can the lender effectively get its money out into projects, where the dollars can generate both financial and social benefits?

Unless the bulk of a lender's money is out "on the street" earning interest, the lender cannot hope to gross enough to cover costs. With few exceptions, the interest a lender makes on its loans is more lucrative than the interest it could make in a money market account or in other short-term funds. Thus, the percentage of loan capital currently invested in loans provides an indicator of sustainability, although it is important to keep in mind that a lender must also have an adequate amount of cash on hand to facilitate ongoing lending. Historically, the best affordable housing lenders have deployed about 75 to 80 percent of their loan capital in order to maximize their financial return and maintain sufficient liquidity for future deals.

Can the lender get its money back from borrowers in full and on time?

A lender's sustainability depends on its ability to recycle its loan dollars; money goes out, comes back in, goes out again, and so forth. A break in the cycle can delay or even preclude future lending activities. Thus, low loss and delinquency rates are important measures of success. The best affordable housing lenders show loss rates of less than 1 percent and overall delinquency rates of no more than 2.5 to 3 percent.

What portion of operational cost is covered by earned revenues?

The greater the self-sufficiency of a lending program, the more an organization can direct the fruits of its fundraising efforts toward building its capital base. Revenues should ideally cover 100 percent of costs, but this level is often unrealistic for nonprofit lenders. The high risk profile of their loans requires that significant time and resources be devoted to pre-loan counseling, loan servicing, and loan restructuring in order to maintain low default and loss rates. Moreover, the returns on small loans may not fully cover the costs associated with them. The characteristics of a lender's portfolio should be kept in mind when assessing self-sufficiency ratios. Organizations that provide large loans that require little technical assistance should be better able to cover their operating costs from earned revenues. In contrast, entities that provide extensive counseling and smaller loans to individual borrowers will inherently rely more heavily on grant money to cover their operations.

Direct Benefits for Lower-Income Individuals

Successful community development efforts improve the lives of lower-income people. For example, affordable housing is designed to provide quality shelter at an economical price and to make residents better off than they were before. To evaluate how well this goal is achieved, affordable housing lenders must determine who lives in their homes and how their lives have been improved by living there.

To assess the direct impacts of a particular home or development, a lender should ask the following:

Who will be living in the homes? How economically distressed is the targeted population?

Arguably, affordable housing that helps the lowest-income individuals has the greatest social benefit, by assisting those least likely to have other quality housing options. Thus, determining the socioeconomic status of program participants is a crucial part of any impact evaluation. Fortunately, obtaining income information is relatively straightforward. Lenders can collect this information from loan applications if they lend directly to individuals. If they are lending to developers, project prospectuses provide reasonably accurate estimates of tenant incomes, which can be verified after leasing is complete.

When reporting a resident's income, it is useful to report it as a percentage of the area's median income to correct for cost of living differences across regions.[2] For example, a household earning $30,000 would be considered moderate-income in Springfield, Massachusetts, where median income is $30,417. The same household would be categorized as low-income in Stamford, Connecticut, where its income would be less than 50 percent of the median.

To what extent does the housing represent a social and economic improvement for the targeted population?

In many cases, an affordable housing unit constitutes a physical upgrade over a program participant's previous residence. For others, it provides an escape from overcrowding, domestic or neighborhood violence, or unsafe living conditions. Additionally, the new housing may offer substantial cost savings over what residents were paying before. Ascertaining the previous living situations of program participants and comparing them with current conditions allows lenders to measure the impact that a project has made.

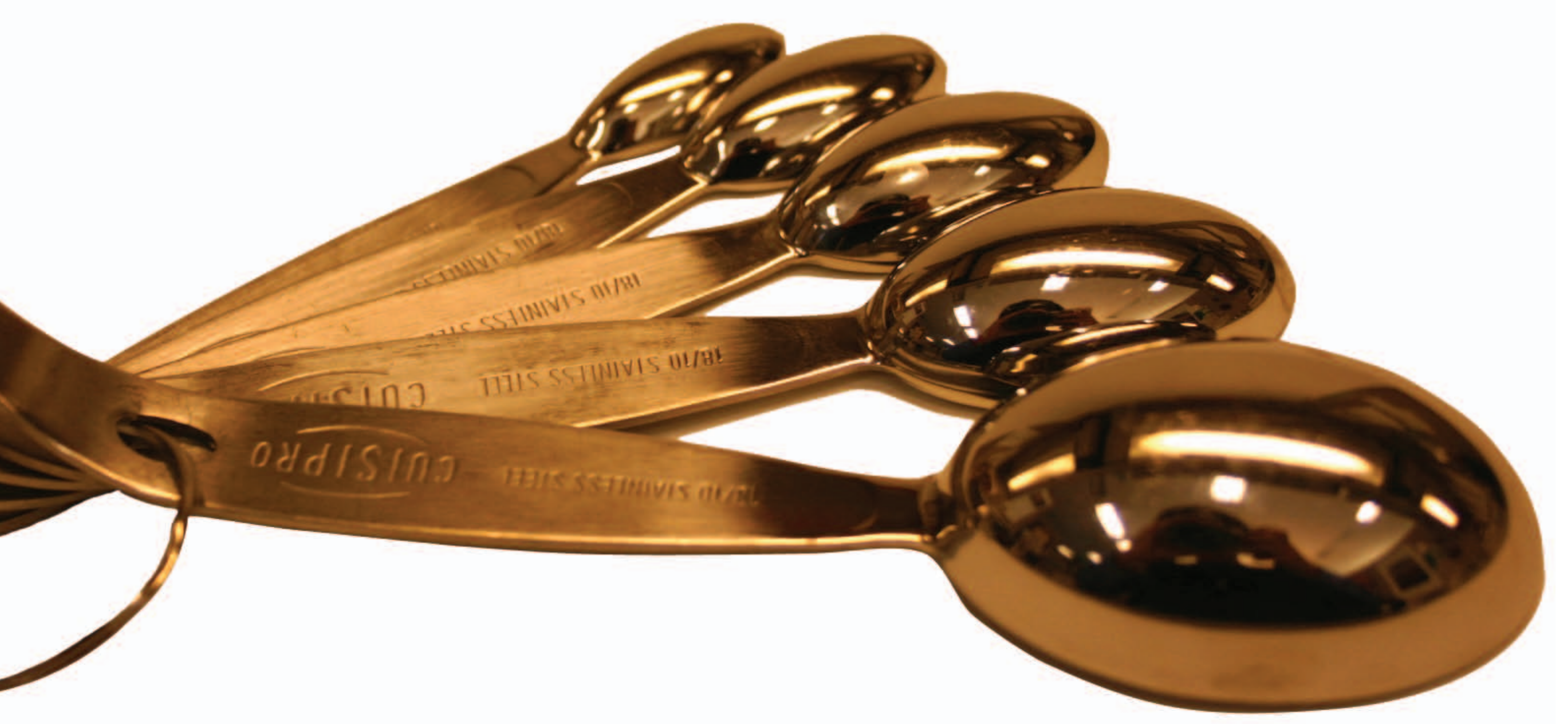
To gather this information, a simple survey of new residents could be conducted: What was the previous housing situation? How much did it cost? How much are they paying now? Why did they move? How would they rate the current housing situation relative to the previous one? If resources or logistics preclude a survey, the lender could estimate the monthly cost savings to a resident by comparing the rent of a financed unit with the typical market-rate rent for a similar unit—data gathered by a scan of local apartment listings, a call to a local real estate broker, or a survey of area apartment-complex owners.

What other new services are being provided?

In addition to the value of the housing unit itself, some developments offer other important services that might otherwise be unavailable to residents, such as onsite child care or recreational facilities. Lenders should be sure to capture the value of these additional services in any survey or any comparison with market-rate projects.

To what extent does the housing build wealth for program participants?

Affordable housing lenders should assess the extent to which their developments help low-income individuals build wealth over the long term. In rental housing complexes, lenders can annualize the monthly cost savings in rent and calculate the additional money available to each household each



year. From there, it is easy to estimate this savings as a percentage of total household income. A similar approach can be applied to homeownership efforts. The program participant's monthly mortgage payments can be compared with either previous rental payments or average housing costs in the area, and an annual income gain can be computed.

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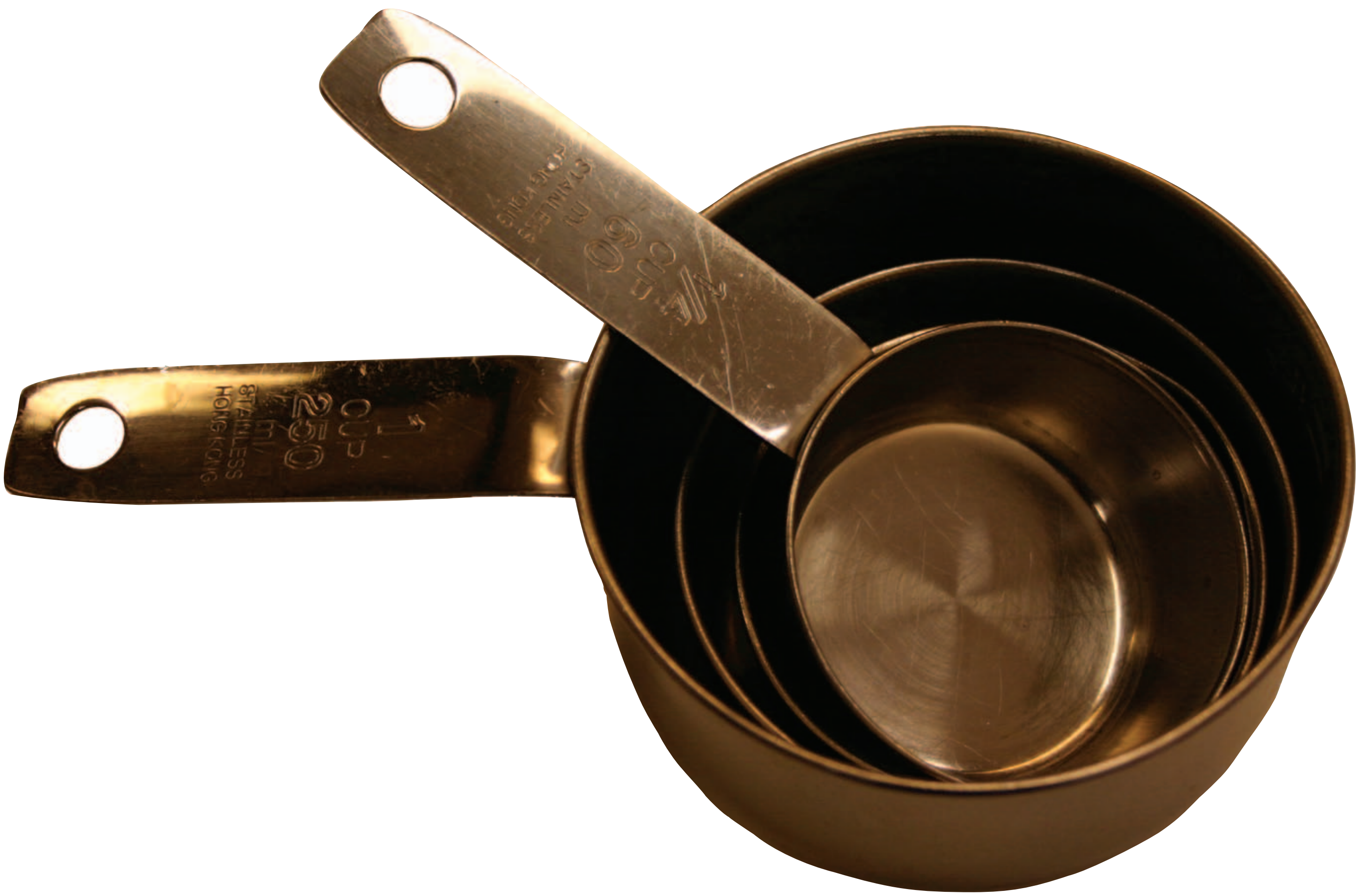
Over time, homeowners increase their wealth by paying down their mortgage principals and experiencing increases in the value of their homes. Lenders can compute growth in a homeowner's equity by tracking the amount of retired loan principal and by estimating the value of the home over time. For the latter, some agencies use local real estate broker price estimates of comparable neighborhood properties to judge the current value of the home in question. Other lenders track the sale prices of surrounding properties to estimate changes in value.

Benefiting Neighborhoods: Other Important Impacts

Community development advocates and practitioners have long contended that affordable housing development can trigger positive change in surrounding neighborhoods. They argue that homeownership contributes to greater residential stability and enhanced social capital. They maintain that residential rehabilitation and new construction tend to increase surrounding property values and to lead to additional private investment in neighboring homes. They reason that increased residential density attracts retailers, restaurants, and other stores to the area, and that development, in concert with increased security and resident involvement, can contribute to a reduction in crime.[3]

However, these improvements rarely take place immediately and may not happen at all. Whether, when, and to what extent they occur depends on a range of factors, including the scope and concentration of development activity. These benefits are not easily documented, and advocates and practitioners have typically relied on anecdotal evidence, not data, to evaluate this type of impact. Regardless, community development organizations should attempt to calculate the value of these important impacts, and there are a number of concrete ways to do so:



• Assess the physical improvement to the property in question. In many cases, development and rehabilitation efforts turn a vacant or abandoned property into one that generates quantifiable tax revenue. Additionally, new development may eliminate a problem property such as a drug house. Performing a simple before and after comparison of the property can document these and other important qualitative and quantitative community impacts.

• Examine the condition of the surrounding properties. Lenders should assess whether there has been any physical change to adjacent or nearby properties. Again, a simple before and after comparison of the surrounding neighborhood can reveal whether there has been any variance in the number of foreclosures, home repairs, or other physical improvements since the project was completed.

• Measure changes in area property values. Improved perceptions about an area increase the number of interested buyers, generally resulting in higher property values. In turn, these higher values lead to enhanced wealth for homeowners, additional tax revenue for the community, and further investment. By tracking neighborhood property sales prices, tax assessments, or real estate broker price estimates, or by using Home Mortgage Disclosure Act (HMDA) data, lenders can quantify the change in property values following a new development.[4]

• Track new private investment. In improving neighborhoods, the number of conventional home purchase, home repair, home equity, and multifamily loans should increase over time. Calculating the change in the number of new residential mortgages in a particular census tract is a simple way that lenders can measure new private investment in a community. These data are collected annually by the Federal Financial Institutions Examination Council and are made available to the public on its web site.

• Gauge changes in crime rates. Arguably, properly managed development improves a neighborhood by helping to reduce crime, and lenders can use crime data to assess this impact. However, crime statistics may not reflect this relationship very neatly. Crime rates may actually initially increase after the completion of a new housing development if the area experiences an influx of people in response to the improved conditions or the improved conditions trigger greater reporting of offenses by residents and police officers. Crime rates can also spike for reasons completely unrelated to the neighborhood, such as a larger than normal population of teenage males or a large release of former prisoners. If a lender wants to focus on changes in crime rates, it is important to keep these outside factors in mind and to track data an on annual basis to help smooth out anomalies.

A Final Thought: Causality

The indicators discussed above provide a more sophisticated and methodical way for community development organizations to begin measuring how well they are meeting their prescribed goals. However, as organizations embark on this task, it is important to remember that only a few of a project's benefits are the direct result of any one organization. Most projects involve multiple actors. The typical affordable housing development includes a combination of at least four lenders, equity providers, or donors—it is impossible to attribute success to any single one of them. Furthermore, financing is only one element of a successful community development project. Project management, the local economy, community support, co-existing development, and other factors are also critical to a development's ultimate success.

Given the complicated nature of causality, the community development industry should be realistic about its ability to demonstrate impact. Funders must move away from a mindset that seeks to attribute outcomes to a specific actor or to judge an organization on impacts that are largely outside of its control. At the same time, organizations must clearly articulate the particular role that they play in a community development project. By collecting, analyzing, and reporting useful, mission-relevant data, the community development industry can enhance overall knowledge, improve outcomes, and make a more compelling case for the importance and effectiveness of its work.

Endnotes

[1] The National Community Capital Association has done considerable work tracking and benchmarking the financial performance of CDFIs throughout the country and regularly publishes analyses of CDFI trends and best practices. Visit www.communitycapital.org for more information.

[2] Using local consumer price indices to adjust for cost of living differences would be preferable. Unfortunately, such indices are available only for metropolitan areas and do not differentiate among individual municipalities.

[3] Research related to neighborhood spillover effects includes the following: Ding, Chengri, Robert Simons, and Esmail Baku. "The Effect of Residential Investment on Nearby Property Values: Evidence from Cleveland, Ohio." *Journal of Real Estate Research* 19:1 (2000), 23-48; McCarthy, George, Shannon Van Zandt, and William Rohe. "The Economic Benefits and Costs of Homeownership: A Critical Assessment of the Research." Research Institute for Housing America Working Paper #01-02 (May 2001); Rohe, William M. and Leslie S. Stewart. "Homeownership and Neighborhood Stability." *Housing Policy Debate* 7:1 (1996), 37-81; Sampson, Robert J., Jeffrey D. Morenoff, and Felton Earls. "Beyond Social Capital: Spatial Dynamics of Collective Efficacy for Children." *American Sociological Review* 64 (Oct. 1999), 633-660.

[4] For more information on using HMDA data, see Zielenbach, Sean. "Assessing Economic Change in HOPE VI Neighborhoods." *Housing Policy Debate* 14:4 (2003), 621-655. For an example of using an econometric model to assess the impact of particular programs on local property values see Galster, George C., Peter Tatian, and Robin Smith. "The Impact of Neighbors Who Use Section 8 Certificates on Property Values." *Housing Policy Debate* 10:4 (1999), 879-917.

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