

LANDING CAPITAL

The Capital Absorption Framework for Community Investment

By Loren Berlin

SINCE 2015, REPRESENTATIVES FROM VARIOUS PUBLIC AGENCIES, FOUNDATIONS, AND NONPROFIT GROUPS in the San Francisco Bay Area, Los Angeles, and Denver have been jointly participating in “capital absorption” workshops, to forge solutions to local affordable housing shortages through strategies that attract land, capital, and other resources. They represent not just housing, but transit, planning, and economic development organizations—stakeholders that often don’t join forces to solve problems, even though they work on overlapping issues in identical geographies.

At one of these meetings in January 2016, Abigail Thorne-Lyman, program manager for transit-oriented development (TOD) at Bay Area Rapid Transit (BART)—a public transportation system that annually shuttles more than 125 million passengers across the region—realized her agency might be able to make a game-changing contribution to solving the local housing crisis, which is among the nation’s largest. More than 250,000 of the region’s very low-income households lack access to affordable housing. The median home value in San Francisco is \$1,147,300, compared to \$197,500 nationally; the median monthly rent is a whopping \$4,350, more than three times the national median rent of \$1,500. Nearly half of local renters spend more than 30 percent of income on rent.

Each six-member team of participants from each region had drafted a spreadsheet of all pending development projects that included affordable housing units. “Staring at our list, we realized that capital wasn’t the primary constraint to building more housing,” explains Thorne-Lyman. “What we needed—the missing piece, so to speak—was land.”

“We realized that capital wasn’t the only constraint to building more housing. What we needed—the missing link, so to speak—was land. . . . BART already owned 300 acres across the region.”



In San Francisco, the Daly City-bound BART train passes the Outer Mission (opposite, credit: Tim Adams/flickr), and passengers disembark on Market Street near the Montgomery BART station (above, credit: Sharon Hahn Darlin).

In the Bay Area, developers don’t buy land until they are confident they can assemble the necessary financing for their project, making it difficult to compete in a hot real estate market, Thorne-Lyman says. But BART already owned 300 acres across the region.

That evening, Thorne-Lyman started imagining scenarios in which BART made all its land available for developments that included affordable housing. She ran the numbers. “I saw that we could produce maybe 30,000

units if we put our land in play,” she explains, and 10,000 could be affordable—which is significant, given that the typical affordable housing development in the Bay Area produces 50 to 200 units. “And if we put ourselves out there first, maybe other transit agencies in other counties would come along,” as BART serves only four of the Bay Area’s nine counties. Together they could make a bigger dent. “The 30,000 units could turn into 60,000 units, all on public land,” says Thorne-Lyman.

Thorne-Lyman and the rest of the capital absorption team delivered the analysis to BART’s general manager, Grace Crunican. Both Crunican and the BART board of directors decided to increase the agency’s commitment to both market-rate and affordable housing on BART land. Then they asked Thorne-Lyman and the team to model scenarios above and beyond any they had privately imagined.

“That conversation with Grace was like a slingshot,” says Thorne-Lyman. “We had these ideas and played them out. Then the board asked for an even more ambitious vision for our land. Through our work with the capital absorption team, we had all these willing partners—including the affordable housing advocates, community development financial institutions, and foundations—who backed up the idea and pushed it out to the public.”

BART’s new TOD development targets, adopted in December 2016, call for production of 20,000 new housing units and 4.5 million square feet of office space on BART land by 2040. At least 35 percent of these units—7,000, to be exact—will be affordable to low- and very low-income households. So far, BART has produced 760 affordable units on its land, meaning the agency has some work to do. Nonetheless, Thorne-Lyman is encouraged by the challenge. “California has this affordable housing crisis, and we can say that BART will be part of the solution,” she explains. “We have land. And we are willing to offer it up.”

“Someone has to be thinking big about how to address this crisis. We are putting forward something big,” she says.

The Capital Absorption Framework

The capital absorption workshops that Thorne-Lyman attended are part of a program designed to help cities attract and deploy community investment and to leverage other critical resources, such as land and expertise, to achieve their goals. Community investment is defined as “investments intended to achieve social and environmental benefits in underserved communities—such as loans, bonds, tax-credit equity, and structured investment vehicles.”

The program’s chief architect, Robin Hacke, says, “It’s a way to make resources go to places where they’re not going by themselves, to address the failures of mainstream finance to produce enough affordable housing, reduce health disparities, or minimize the impact of climate change on vulnerable places, among other factors tied to land use.”

Hacke, who is the director of the new Center for Community Investment at the Lincoln Institute, is piloting a new “systems change” strategy that she designed in collaboration with colleagues David Wood of Harvard University’s Initiative for Responsible Investment, Katie Grace Deane, and Marian Urquilla. Called the Capital Absorption Framework, the model is predicated on this idea that mainstream capital markets frequently fail to address the needs of low-income communities, requiring a systemic approach to repair this breakdown and achieve meaningful outcomes at scale (opposed to one-off projects that are difficult to accomplish and, even when successful, fail to move the needle in a significant way). By “bringing to the table” stakeholders who rarely join forces to solve problems despite having aligned interests, the model also augments available assets and power, helping to identify effective new tools and strategies to address unmet community needs.

The framework is a response to challenges Hacke and Urquilla faced while working on The Integration Initiative, an \$80 million program begun in 2010 to improve the lives of low-income residents in five pilot cities—Baltimore,



A transit-oriented development on BART land in Hayward, a city in the East Bay. Credit: BART

SYSTEMS CHANGE

In order to overcome the effects of discrimination and the market’s failure to deliver adequate goods, services, and opportunities to disadvantaged communities, we need to ensure that capital can flow to those places. Ensuring that residents can thrive means finding ways to finance affordable housing; developing healthy environments with access to fresh food and safe places to walk, bike, and play; and providing access to quality education and jobs. It is not enough simply to invest in a single project and expect places to be transformed. The Center for Community Investment is committed to strengthening the systems that engage a community in planning for its future, creating a platform and network of relationships that unite the institutions and individuals with the capacity to advance the community’s vision; developing and executing investment transactions that implement that vision; and shaping the policies and practices that accelerate how transactions proceed.

—Robin Hacke

Cleveland, Detroit, Minneapolis/St. Paul, and Newark. Administered by Living Cities, the idea was to align interests across a range of players and invest capital in neighborhoods that traditionally can’t access funds.

The Integration Initiative demonstrated that participating cities not only lacked capital; they lacked the capacity to absorb and deploy the funds allotted to them through the program, says Hacke.

“Spatially inequitable distribution of low-income people across the United States is an outgrowth of decades of public policy that basically starved communities of capital, whether through redlining by banks or redlining aided and abetted by the Federal Housing Administration,” says George McCarthy, president and chief executive of the Lincoln Institute of Land Policy, who was involved in The Integration Initiative during his tenure at the Ford Foundation.

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“Because we starved communities of capital, we think the way to help them recover is just to provide them with money. But that misses the point that over the years we didn’t just strip out the capital but also the capacity of those places to help themselves. Many people in the community development movement believe that if we just find a way to get more capital to places, then good things are going to happen. But one of the hard lessons we have learned is that, even if you can get the money to those communities, they don’t necessarily have a way to use it. It may sound like I’m blaming the victim, but that’s not it. Rather, it’s understanding that when you deny a place critical resources for long enough and then suddenly provide it, the community may not be ready to deploy it. It’s like people. If you starve someone for too long and then provide food, that person may not be able to eat it.”

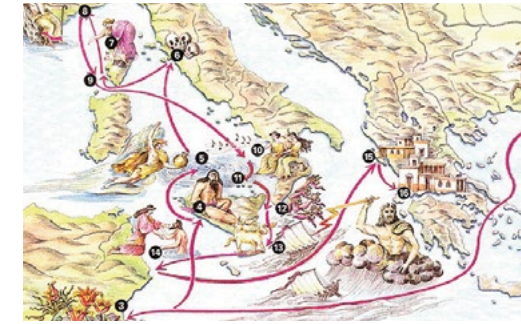
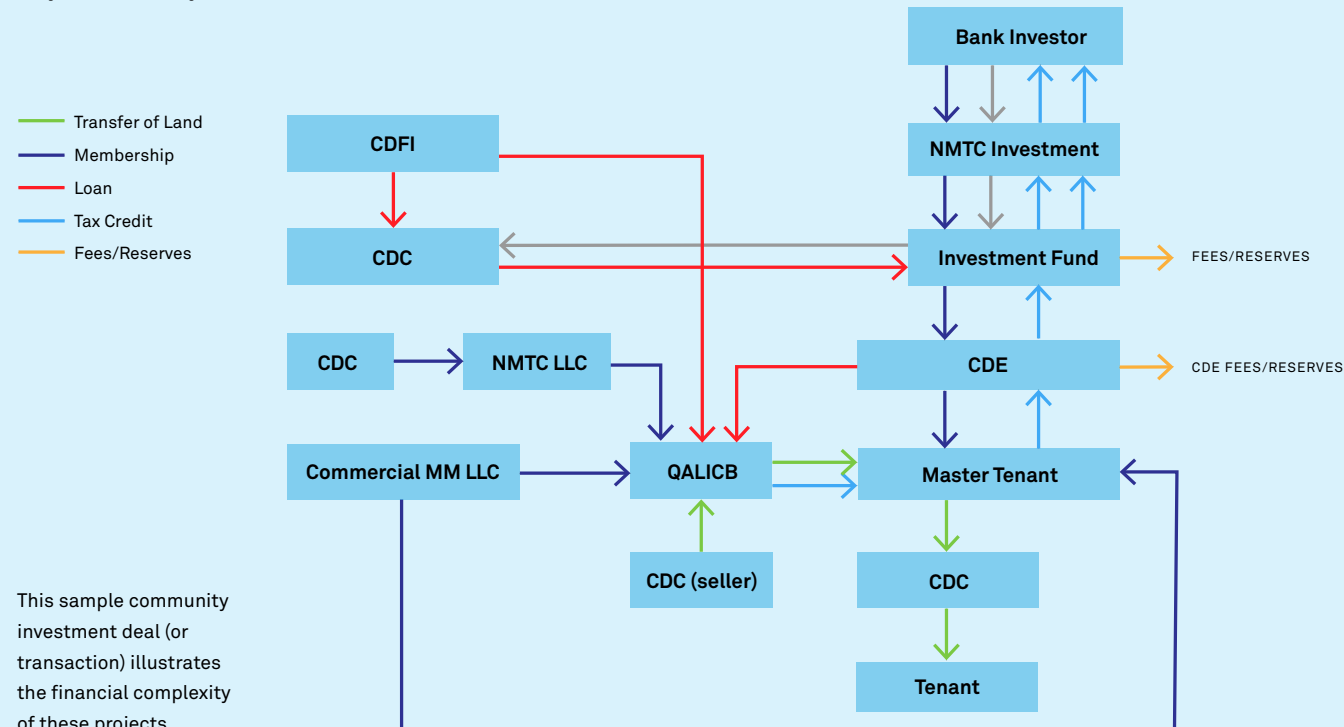
Managing the Pipeline

“To deploy capital successfully, places need to identify sources of capital as well as projects that can use it. Proponents of impact investment have focused on organizing capital *supply*; our focus is organizing *demand* for investment,” Hacke says. “For example, in Detroit, Baltimore, and Cleveland, they were not primarily looking at housing. They wanted to accelerate all kinds of development, including commercial and mixed-use developments. Getting the right set of deals and the right conditions to supply capacity to those deals required much more than just investment capital. The work both took longer than we expected and required much more upfront arrangement of the plumbing than we had anticipated,” she adds.

“Despite the great need in disadvantaged communities, stakeholders have to overcome major obstacles to complete projects,” says Hacke. “If people don’t believe that the deals have a decent-sized chance, they give up on them. So we organize stakeholders around what is most urgent at that time and organize the resources that way as well to increase the probability and the confidence that the critical deals will get done.”

The lack of confidence stems from the cold truth that community development projects are usually difficult to realize (figure 1). Hacke confronts that fact head-on by asking participants to identify what she calls “exemplary community impact deals. The ones that stick

Figure 1
Why is Community Investment So Hard?



Practitioners evoke the language of heroic quests to describe the obstacles they face while completing community investment projects, like the lotus eaters, Cyclops, and sirens encountered by Odysseus on his voyage home to Ithaca after the Trojan War.

out in people’s minds as representative of the field tend to be complex, time-consuming, and politically fraught, balancing the interests of many stakeholders and blending many different sources of capital with varied constraints and requirements. Practitioners evoke the language of heroic quests to describe these deals.”

Identifying and examining “exemplary deals” is helpful in two ways. First, it highlights the complex and convoluted nature of many community investment projects, clarifying the need for a more efficient, scalable strategy. More importantly, analyzing exemplary deals can help stakeholders determine the potential resources and constraints of the larger community development system, including the engagement level of various players, the availability of an array of skills and resources, and opportunities for collaboration.

3 Components of an Effective Community Investment System

Once stakeholders in a region have used the exemplary deals framework to examine how the community investment system is currently operating, the next step is to identify ways to improve the functioning of that system so that it can deliver impact at greater scale. As organized by the framework, an effective system requires three things, which are the focus of Hacke’s work with communities.

IDENTIFY SHARED PRIORITIES

First, stakeholders must articulate a well-defined set of priorities that are widely embraced across the community. Affordable housing is not always the anchor for establishing these priorities, but it has proven the easiest starting point in Hacke’s pilots—in part because the field has reliable, effective funding sources, such as the Low-Income Housing Tax Credit, and a robust network of experienced organizations.

“We work really hard to convene and build cross-sector relationships so that we can operate from a set of shared priorities,” says Thomas Yee, the Initiatives Officer at LA THRIVES, a nonprofit that works to advance the equity agenda around smart growth and participates in the Capital Absorption Framework pilot.

“There’s going to be disagreement among really progressive advocates, elected officials, and private developers, so it takes a lot of working together, building trust, and finding common ground. But that’s the way to organize system-level approaches. It allows you to boil down the work to a few principles that excite people and keep them focused on the system instead of their particular neighborhood or project.”

One of the shared priorities to emerge out of the Los Angeles work is the importance of ensuring that LA Metro, the public agency responsible for bus and rail services in Los Angeles County, effectively serves low-income residents, who are the agency’s core riders.

Prior to joining the workshops, LA Metro knew its core riders were low-income. Based on the findings of a research study the agency had commissioned prior to joining the Los Angeles team, the agency also understood how it could assist those riders to live near transit lines. It was developing aggressive housing targets on agency-owned land when it joined the LA THRIVES collaborative.

“The sea change was coming together to get LA Metro to think about what that means for how the agency runs its business—about the bottom-line question of what happens if those core riders are living farther and farther away from existing transit systems,” explains Yee.

According to Yee, LA Metro was interested in additional ways to counter displacement, and joining the collaborative was “really the water needed to grow those seeds.”

The idea that low-income riders would be pushed farther afield disturbed the other members of the pilot’s Los Angeles team. The transportation planners balked at the cost and inefficiencies of expanding service to outlying areas, while the conservationists worried about the environmental impact. The community advocates were concerned about economic and social isolation, and the housing folk feared there was a lack of affordable housing in the outer ring areas. Resolving this issue correctly would present an opportunity to simultaneously address these seemingly unrelated concerns, and so it became a shared priority among the collaborative. In response, LA Metro adopted a new term for thinking about transit in the context of displacement: the Transit-Oriented Communities frame.

But LA Metro wanted to do more. It was clear that, unlike BART, the agency did not have much additional land that could allow for thousands of new affordable housing units. Instead, LA Metro, in partnership with other members of the team, created a loan fund to support the development of affordable housing and retention of existing low-rent, nonrestricted units near the agency’s transit lines. Critically, the units do not have to be on agency-owned land, but they must be close enough to provide easy access to the transit.

“We are so excited that LA Metro is willing to make investments off their property,” says Yee. “Making it easier to develop affordable housing on agency-owned land is one thing—and obviously a huge step in and of itself. But for them to go beyond agency-owned land is a big innovation and demonstrates a commitment to limiting the displacement of core riders.”

Developed by Abode Communities in partnership with landowner T.R.U.S.T. South LA, Rolland Curtis Gardens—a mixed-use, transit-rich development along Metro’s Expo/Vermont rail line—is expected to provide 140 affordable family homes in a culturally rich, historic South Los Angeles neighborhood. Credit: Courtesy of Abode Communities



ESTABLISH A PIPELINE OF DEALS

Once stakeholders identify a set of strategic priorities, they can then focus on establishing a pipeline of deals—the second step in implementing the framework. Stakeholders begin by examining deals in progress, analyzing whether they support the priorities and where there may be gaps.

The practice of examining the deal pipeline also helps to highlight the resources that are necessary for success.

For the Denver team, analyzing the city’s pipeline resulted in the recognition that the team needed to focus more on attracting mission-driven private capital, says Dace West, a leader of the Denver pilot and, at the time, executive director of Mile High Connects, a nonprofit with a mission to ensure that the Metro Denver regional transit system fosters communities that offer all residents the opportunity for a high quality of life.

“We had this powerful moment as a community when we realized that the way we are doing community development work is really driven by specific, restrictive funding sources that are more mature systems—like tax credits, which are oversubscribed—or, in other cases, sources of capital that are not very predictable,” says West, referring to the takeaways from the pipeline analysis.

“We realized that we are so often falling short in the developments we are working on because of an inability to be very systematic about the way we draw down and deploy capital. So, going forward, we are very focused now on how we leverage private-sector impact investment capital into the system, looking at traditional capital sources in new ways and at what we need to do to unlock significant capital seeking a place to land,” West says.

“We have discovered, from deep and intentional work, that impact means really different things to impact investors. When some say they want impact, what they are really saying is that they want to be able to squint and see something good; that is good enough for them, because what they really want is liquidity and rates of return. We think, ‘That’s good to know, because we have been wasting our time on these things



In Denver, Mile High Connects ensures that the Metro Denver regional transit system, including the light rail shown here, opens opportunities for residents from all walks of life. Credit: Evan Semon/City and County of Denver

that aren’t real issues.’ Now we can focus on questions such as: what is that target rate of return, and where are the right places to leverage that capital versus other kinds of capital? And that’s been a real ‘aha’ moment—this recognition that real estate, which is something we had been thinking of as a more traditional investment, can be an actual community impact investment, which creates new and interesting connections.”

One of those connections is to Denver’s housing finance agency.

“As we have been thinking about ways this new capital could land, we have discovered that we have a very unusual housing finance agency. It is very creative and flexible and is already managing a huge number of siloed, structured funds that have a community purpose in some way,” says West. “We are working to build out a platform that uses the agency as a base to draw in capital that can go to specific sleeves but can also flow across those gaps and allow us to pursue projects driven by the community and its needs. The housing finance agency is not responding merely to existing funding sources any longer; it’s acting as a broad-based intermediary that can work across and among agencies in the system.”

CREATE AN ENABLING ENVIRONMENT

After building out a pipeline of deals, it's a natural next step to the final piece of the framework—strengthening the “enabling environment.” This is defined as “the latent conditions that shape the system’s operations,” including but not limited to “the presence or absence of needed skills and capacities, political realities, formal and informal relationships among key actors, and the cultural norms and behaviors that manifest differently in different places.”

In the capital absorption workshops, participants are asked to figure out which areas of the environment are or are not working well, and which policies and practices directly affect their strategic priorities. In doing so, they can better grasp the opportunities and limitations inherent in the current system.

For Thorne-Lyman and the rest of the San Francisco team, it was analysis of the enabling environment—of what resources are and are not available and functioning well in the ecosystem of affordable housing—that immediately revealed that shortage of land.

The Richmond development provides affordable housing near transit on BART land in the San Francisco Bay area. Credit: BART



Center for Community Investment

Thorne-Lyman is not the only one excited by the work that has come out of the Capital Absorption Framework. McCarthy is also encouraged.

“Land is one of a community’s most valuable and scarce resources,” he says. “Land policies can play a central role in attracting or generating the investment needed to tackle vacancies and blight produced by dysfunctional land markets or to address the disparate impact of pollution and climate change on poor and disadvantaged families.”

For that reason, the Lincoln Institute of Land Policy has recently launched the Center for Community Investment with support from The Kresge Foundation and other major national foundations. The Center is a leadership development, research, and capacity-building initiative to help communities mobilize capital and leverage land and other assets to achieve their economic, social, and environmental priorities. Hacke will direct the new center and use it as a platform to advance the capital absorption model.

“We have seen over and over again that land really is an important part of the solution, whether we are talking about the health of people or green infrastructure and the health of natural ecosystems. Being at the Lincoln Institute, which has such tremendous expertise in the use of land to generate and capture value, is a real boon for us,” says Hacke.

At Lincoln, Hacke hopes to expand her work by piloting it in additional communities. Participants in her current cohort encourage those cities to seize on the opportunity. “When we started this work two years ago, it felt like an abstract academic exercise replete with homework assignments. But we hung in there with their approach and have seen such value in the framework,” says Christopher Goett, a senior program officer at the California Community Foundation, one of the supporters of the Los Angeles pilot. “Robin, Katie, David, and Marian pulled together a safe space that allowed us to tackle difficult work and created a support



Fruitvale Transit Village is about to enter a second phase of development to include more affordable housing near a BART station in Oakland, California. Credit: Peter Beeler

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system that strengthened over time. In hindsight, these activities have been critical moments for us in our evolution and growth.”

“Community and economic development work is often addressed through programs in their own respective silos, but that’s not how the world operates,” Goett says. “Average Angelenos wake up and use transit to get to work or drop off their children at school. Systems such as housing, employment, and education all interact, and that’s how the Center’s frame is laid out.”

“For someone who manages a smart growth portfolio here at the California Community Foundation, the framework continues to become increasingly useful; smart growth is, by its nature, integrated. We have to think about public health at the same time we think about infrastructure and housing, and with this frame we can walk through the transit-oriented development door and still see the anti-displacement and housing angles.” □

Loren Berlin is a writer and independent communications consultant in Chicago.

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