

# IT TAKES A NEIGHBORHOOD:

## Purpose Built Communities and Neighborhood Transformation

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*About 70 percent of prisoners in New York State come from eight neighborhoods in New York City. These neighborhoods suffer profound poverty, exclusion, marginalization and despair. All these things nourish crime.<sup>1</sup>*

In December 1993, Atlanta developer and philanthropist Tom Cousins came across the above passage in the *New York Times*. Like most of us, Cousins understood that all cities have “good” neighborhoods and “bad” neighborhoods. He was nevertheless surprised to be confronted with statistics that illustrate how inadequate the bad and good labels are for characterizing the differences among regions in a single city. It’s not that some neighborhoods are simply bad; they are, in many ways, catastrophic.

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<sup>1</sup> Todd Clear, “Tougher Is Dumber,” *New York Times*, December 4, 1993.

These neighborhoods serve as the centers of dysfunction in a city. Although crime is generally a leading metric, most other dreary social indicators are attached to these areas as well, including rampant school truancy, elevated high school dropout rates, low employment, little if any private investment, a transient residential population, and, of course, entrenched poverty.

The truly negative outcomes of poverty flow directly from its concentration in a small number of isolated city neighborhoods. To successfully address the issue of poverty in American cities, governments must organize around this geographic dimension of the problem. Poverty, and its many negative outcomes, can only be solved on a neighborhood basis. Transforming these neighborhoods should be our highest priority.

The challenge is that the public mechanisms and resources available to transform neighborhoods are not organized around this goal. Large local, state, and federal bureaucracies and funding streams are focused on “silos” such as housing, education, public safety, and nutrition. None are focused on neighborhood health. As a result, government agencies attack poverty by applying solutions within these functional silos rather than using solutions tailored to neighborhood-specific needs. If the problem of concentrated poverty is to be effectively addressed, government—local, state and federal—needs to develop approaches that are *geographic, holistic, and specific* to the unique set of assets and deficits that exist within neighborhoods.

Purpose Built Communities offers one such model. The Purpose Built model can serve as one component among a family of solutions for transforming distressed neighborhoods and eradicating concentrated poverty in our urban centers.

## “SHAKING UP” YOUR CITY

Poverty is an elusive concept, almost too abstract to be of much use to those running municipal governments. Although poverty intuitively sounds like something city managers should care about, a cursory review of performance management systems

around the country found no reference to “poverty rate” as a metric that mayors or city managers use to measure their performance. Although some cities do deploy measures related to poverty—NYCStat, for example, tracks “persons receiving food stamps”—they are typically used to characterize the state of the city or neighborhood. They are generally not measures that city services are expected to directly affect.

In that sense, the poverty rate as a measurement of urban health lacks practical value even after setting aside the challenges associated with measuring it in a meaningful way. What does the poverty rate tell us? Although it certainly conveys how many individuals or families are living at a certain income level, it does not describe the conditions under which they are living. Are they safe? Can they easily travel to their jobs? Are their children being educated? In other words, does their neighborhood and accessible public services put them in a position to improve their lives?

If the answer is no, then the problem is not so much impoverished families as it is impoverished neighborhoods. It is not the absolute level of poverty that matters, but how it is distributed. Impoverished neighborhoods lead to truancy, unsafe streets, low employment rates and opportunities, underperforming schools, gang and youth violence, and deteriorating public and private infrastructure. These are problems that arise not from poor individuals and families, but from their geographic concentration.

This geographic concentration of poverty generates the social pathologies that concern all of us. Consider your own city. If it is like the typical American city in the 2010s, it is socially and economically segregated. Family incomes between the wealthiest region and the poorest likely differ by a factor of 10, perhaps even higher. In the worst performing elementary schools more than 70 percent of students will be receiving federally subsidized school lunches, which serve children from low-income families. High school dropout rates in those neighborhoods will exceed 40 percent. More than 60 percent of 911 emergency calls will originate within 10 percent of the local geography, all of which

will be in ZIP codes with the highest poverty rates. Foreclosures, vacant housing, and code enforcement complaints will also be disproportionately concentrated in these neighborhoods.

Consider Atlanta. Five of the 1,700 U.S. high schools labeled “dropout factories” are located in Atlanta. These schools are 99 percent minority and 76 percent of students receive free or reduced school lunch. More than one-half of freshmen in these schools will drop out before graduation. All five of these schools serve neighborhoods with average annual household incomes below \$25,000. In fact, there are 20 census tracts in Atlanta with household incomes below that level, whereas there are eight with incomes of more than \$100,000. The city’s poorest neighborhood—with an average household income of \$14,051—has less than 8 percent of the income of the city’s wealthiest neighborhood (\$168,411).

Now let’s suppose that we all go to sleep tonight in our divided cities and some maniacal ogre appears. The ogre picks up the city and shakes it like a snow globe. When the ogre stops shaking, all of the building and roads, parks and parking lots, hospitals and schools gently settle to the ground, but this time they are randomly dispersed. Everyone wakes up safe in their bed, but living in a radically reorganized city.

What changed? In short, everything. Rich, poor, and middle-class people now find themselves living side-by-side, sending their kids to the same schools, relying on the same roads and transit systems. Poor families are evenly distributed, living on safe streets, playing in clean parks, and learning shoulder-to-shoulder with kids from privileged backgrounds in high-functioning schools.

In effect, our maniacal ogre reversed a century of bad public policy. The impact of zoning laws that pushed affordable housing options out of high-income neighborhoods is no longer evident. The legacy of urban renewal and redlining that tore apart mixed-income urban neighborhoods is eradicated. The unforeseen consequences of busing policies that drove the middle class to the

suburbs are extinguished. And the highways, designed (apparently) for the express purpose of hollowing out the urban core of our cities, no longer serve that purpose. In short, our ogre has erased all evidence of the policies that impoverished our urban neighborhoods in the first place.

## **“I REALLY DIDN’T KNOW WHETHER THIS WAS GOING TO WORK”<sup>2</sup>**

Unfortunately, relying on crazed ogres to fix our cities is not a viable policy option. Tom Cousins understood this. After years of directing his family’s philanthropic dollars toward traditional national, regional, and urban issues and seeing no change in generational poverty and educational outcomes for low-income students, he decided to focus on a problem that he thought he could directly affect. He decided to take on the challenge of transforming and revitalizing a single neighborhood, the south-east Atlanta neighborhood of East Lake.

East Lake was a disaster. Known locally as “Little Vietnam,” it was neighborhood dysfunction writ large. Crime in the neighborhood was 18 times higher than the national average. Nearly 60 percent of adults were receiving public assistance, and only 13 percent were employed. A mere 5 percent of fifth graders were hitting state academic performance targets. “Can we believe this is America? If I was born here,” Cousins later speculated, “I would probably be one of those kids in jail.”<sup>3</sup>

With the East Lake Meadows public housing project at its center, this once prosperous region of the city was essentially ungovernable. The housing complex proved to be conveniently located for the gangs peddling drugs and arms in eastern Atlanta. Politicians stayed away. No one could look at the condition of this neighborhood and have any reasonable hope that it could be turned around.

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<sup>2</sup> “Miracle at East Lake,” CNBC Business Nation, March 2007.

<sup>3</sup> Ibid.

Cousins thought otherwise. He decided to embark on a neighborhood transformation project that was, as it turned out, largely of his own invention. It centered on the idea that to thrive, an area of concentrated poverty had to change to a neighborhood where families across a range of incomes, from the very poor to the upper middle class, were willing to live.

The first thing Cousins realized was that he could not tackle this problem one issue at a time. Replacing housing would not attract families if the schools were in poor shape. Schools could not be expected to perform well in neighborhoods where children feared for their safety and showed up hungry and unprepared. And it is hard to reduce crime in neighborhoods full of unemployed high school dropouts.

All of these issues needed to be addressed simultaneously. The neighborhood basically needed to be reconstituted with functioning families, safe streets, and high-performing schools. But how?

Cousins's plan was to partner with the Atlanta Housing Authority to replace the East Lake Meadows housing project. Simultaneously, he would secure the rights to build an independently operated public charter school. He would also attract nonprofit organizations to invest in community facilities and programs. This approach—pieced together though it was over several years—now constitutes the “Purpose Built model” (see Figure 1). At the core of the model is a new neighborhood with several key features:

- Quality mixed-income housing that ensures low-income residents can afford to remain in the neighborhood but that also draws new residents from across the income spectrum (effectively deconcentrating poverty);
- An effective, independently run cradle-to-college educational approach that ensures low-income children start school ahead of grade level, but that also attracts middle-income families and eradicates educational performance gaps;

## FIGURE 1

Adapted from Bridgespan Group

### THE PURPOSE BUILT MODEL

#### **If a neighborhood...**

creates high quality mixed-income housing

develops cradle-to-college education with local control

delivers workforce development and other social services

offers infrastructure and services that enhance quality of life

is directed by a community-based organization

#### **Then the neighborhood becomes...**

a community that is safe and economically sustainable with rising incomes and property values that can attract middle income families to its high performing schools

- Community facilities and services that not only support low-income families who may need extra help to break the cycle of poverty, but that also tie the neighborhood together and create a sense of community.

These attributes result from a planning and implementation process coordinated across a variety of strategic partners, including: a public housing authority in control of core residential real estate with access to redevelopment funding (in the East Lake case the Department of Housing and Urban Development provided some capital funding); a public school district willing to authorize a charter school; and nonprofit organizations willing to build and operate facilities and implement a set of social services central to the success of the project (in East Lake, the YMCA). And, of course, all of these partners must be engaged with the neighborhood's residents, without whom none of this transformation can occur.

“I really didn’t know whether this was going to work” Cousins later said.<sup>4</sup> Arguably the most important decision Cousins made was to establish an organization focused exclusively on managing this effort. The East Lake Foundation’s sole purpose was to facilitate all of the initiatives needed to move the neighborhood from distress to health. The Foundation created the forum for engaging residents in the planning process, financed one-third of the infrastructure investment, and, perhaps most important, coordinated all of the public, nonprofit, and private initiatives so that the project unfolded at the right pace and in the appropriate sequence.

In the end, the Foundation replaced 650 public housing project units with a 542-unit, mixed-income development. One-half of the housing units are subsidized and the remaining are market rate.<sup>5</sup> The Foundation also launched the Drew Charter School, with programs that emphasize early childhood education. It also partnered with Sheltering Arms, a premier early childhood learning provider, to build an early learning center serving 135 children. With the YMCA, it built and operates a state-of-the-art health and fitness community center in the heart of the neighborhood. Finally, the Foundation has worked to attract local commercial investments, including a grocery store, bank, and restaurants.

This was not a short-term endeavor. Creating a plan, aligning the public and private interests, and executing the specific projects was a 10-year undertaking. And yet the results are remarkable:

- The residential population of the Villages of East Lake increased from 1,400 to 2,100.
- Crime in the neighborhood declined by 73 percent and violent crime is down 90 percent.

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4 Ibid.

5 Because many of the existing units were vacant and uninhabitable, there was no net loss of affordable units. The Atlanta Housing Authority (AHA) replaced all of the 650 units demolished at East Lake Meadows through a combination of the new onsite replacement housing, offsite replacement housing (also delivered in a mixed-income setting), and by the acquisition by AHA of new section 8 tenant-based vouchers.

- The percentage of low-income adults employed increased from 13 percent to 70 percent.
- The Drew Charter School moved from last place in performance in its first year of operation among the 69 schools in the Atlanta Public Schools system to fourth place in 2011. Even with a 74 percent free and reduced lunch student population, Drew performs at the same level as Atlanta’s schools with just 10 percent free and reduced lunch or less.

## CLOSING THE ACHIEVEMENT GAP

The success of Drew Charter School is particularly important because it demonstrates that it is possible to eliminate the achievement gap—quite possibly the single most powerful result of the Purpose Built model. Drew students outperform their peers in the Atlanta Public Schools and in the State of Georgia in every single subject at every single grade level. Drew, where at one point only 5 percent of fifth graders could pass the state math test, now ranks 53rd of 1,219 elementary schools in the state. Among schools in the state with more than 60 percent African American students and 60 percent economically disadvantaged students, no school outperforms Drew.

Society pays a high cost for failing to graduate students from high school. A study by Columbia University argues that the net present value of one high school graduate yields a public benefit of \$209,000.<sup>6</sup> The introduction of a school like Drew into a neighborhood like East Lake is arguably as much of an economic investment, and as important to America’s continued prosperity, as any new factory or employment center.

The bottom line is that East Lake is now a healthy, functional neighborhood. More than \$200 million of private investment has poured into the neighborhood.<sup>7</sup> By any measure, Cousins’ plan for transforming a neighborhood has worked.

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6 “The Costs and Benefits of an Excellent Education for All of America’s Children,” Teachers College, Columbia University, October 2006.

7 Selig Center for Economic Growth, Terry College of Business, University of Georgia, June 2008.

## ONE COMPONENT OF A LARGER STRATEGY

In 2009, Cousins launched Purpose Built Communities to replicate the East Lake experience in cities across the country. Warren Buffett and Julian Robertson have made substantial funding commitments. As Buffett said, “Purpose Built Communities works... There is really no limit to how far this can go.”<sup>8</sup>

Projects in New Orleans and Indianapolis are already underway and the plan is to have 25 projects in progress by 2015. The challenge is that although the framework is indeed replicable, it does require a specific set of conditions, including:

- A housing development of concentrated poverty that, when replaced with quality mixed-income housing, has sufficient scale to transform the neighborhood from a housing and income perspective;
- The opportunity to create a neighborhood public charter or contract school accountable to the surrounding community;
- Strong civic and business leadership willing to create a new entity that will ensure the long-term success and sustainability of the community.

The economics of the Purpose Built model are not particularly daunting. The affordable housing component of the mixed-income investment can be financed with Low Income Housing Tax Credits, Choice Neighborhood or HUD project-based rental assistance, community development block grant funding, or other capital funds generated by development agencies. The experience of the past 20 years shows that the market-rate component of mixed-income housing can be financed through traditional commercial sources.

Much the same can be said for financing charter schools. When the East Lake effort began, charter schools were relatively new and finding viable financing was a challenge. Since then,

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<sup>8</sup> Warren Buffet interview, Purpose Built Communities 2011 Conference, Indianapolis, September 2011.

a variety of financial intermediaries have emerged willing to provide capital financing for charter schools. And given that nearly all charter schools are able to operate on their public state or local funding, no philanthropic operating subsidies are generally required.

The only component in the Purpose Built model that requires direct philanthropic participation is the community-based supportive programming—recreation, afterschool programs, financial literacy classes, job training, and the like. Many times, lead organizations can find existing groups to provide these programs with little extra effort. It is not unreasonable to ask local funders to pick up the cost of these traditional programs. As a practical matter, this funding does not have to be new. Given that similar programs already exist in cities, they simply need to be coordinated and focused on the Purpose Built neighborhood initiative. Convincing these providers that their efforts will be more effective by being leveraged with the Purpose Built model is not hard.

Of course, the Purpose Built model is not the complete answer to neighborhood transformation. Not all distressed neighborhoods in our cities have the required conditions to apply it successfully. It is therefore critical that other approaches be pursued in tandem.

What the East Lake experience does suggest, however, is that all neighborhood transformation efforts need to be geographic, holistic, and specific (see Figure 2). They should:

- Focus on a well-defined geography and a single community of interest;
- Orchestrate change across multiple dimensions, primarily housing, education, private investment, and social services; and
- Be specifically designed to leverage the unique assets of the target neighborhood.

Public authorities, in particular city governments, housing authorities, and public school systems, must find a means to

**FIGURE 2**

## **NEIGHBORHOOD TRANSFORMATION FRAMEWORK**

### **Geographic**

Focused on a specific geography

### **Holistic**

Addresses housing, education, social services, and economic development simultaneously

### **Specific**

Tailored to the unique geographic, housing, community and economic assets

collaborate across their operating silos such that neighborhood transformation becomes a central strategic imperative. Organizations like Purpose Built Communities can strike strategically in key neighborhoods, but they cannot push change across entire cities. To truly transform all distressed neighborhoods, there must be public-sector leadership.

This is hard. Although cities are an aggregation of neighborhoods, city governments are not organized around them. School boards, housing authorities, and transit systems have unique missions and generally operate independently of city governments. City governments themselves are organized in functional areas that do not have neighborhood health as a central strategic goal. This functional division of labor is mirrored in state and federal agencies, further compounding the problem. Although programs such as Choice Neighborhoods, Promise Neighborhoods, and Race to the Top are worthy attempts to increase collaboration across federal agencies, the vast majority of federal and state resources continue to be channeled through traditional, functional programs that do not have a geographic or neighborhood dimension. This must change.

## IT TAKES A NEIGHBORHOOD

In some respects, we, the public, are victims of our own unrealistic expectations governing the silos we have created. Schools systems cannot change educational outcomes on their own. Housing authorities cannot make up for the lack of affordable housing on their own. Police cannot on their own make streets safe. It takes a healthy, functioning neighborhood for these systems to stand a chance of delivering the outcomes we expect.

As a result, neighborhood transformation is not a complementary strategy in the fight on poverty: it is the central one. A specific, tailored plan is needed for every distressed neighborhood in the country. Alternative models must be developed for success, measuring results, and replicating them as rapidly as possible.

What East Lake has proven is that although neighborhood transformation is possible, it is tough work. It needs to be easier. When it is all said and done, the health of a city is inextricably linked to the health of its neighborhoods. They are in fact one in the same. Our nation cannot hope to advance the goal of improving educational outcomes and reducing poverty if there is not an appreciation and response to the geographic dimension of these problems. A vibrant and prosperous future for our cities can be created, but it needs to be created one neighborhood at a time.

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