Empowering Housing Developers of Color:

Addressing Inequities in the Housing Industry

LISC HOUSTON

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Introduction

Over the last 90 years the US government played a significant role in creating urban decay through deliberate policies and practices that perpetuated racial segregation. One of the primary ways the government contributed to urban decay was through redlining. Redlining was a discriminatory practice by which federal agencies and banks marketed certain neighborhoods, usually populated by people of color, as "risky" for mortgage lending and investment. This led to disinvestment, preventing these neighborhoods from thriving economically. This pervasive government involvement in segregation shaped the landscape of American cities and continues to impact housing and racial equity today. Beginning in the Civil Rights Era the federal government legislated legal and policy reforms, but despite these reforms challenges persist. Tackling urban renewal through housing development has produced some success however, it requires diversity and inclusion to create thriving neighborhoods.

Many have realized that Developers of Color (DOCs) need to be at the forefront of the revitalization of the communities impacted by urban decay. Often-times DOCs grew up in impacted communities and tend to view projects through a more people centered lens. Because DOCs understand the communities' needs and have a vested interest in addressing them, they are likely to find innovative ways for their project to benefit existing residents. However, Developers of Color face a lot of the same historical inequities resulting in a range of challenges that can hinder their success and full participation in the housing industry.

Addressing these challenges requires a comprehensive approach which involves fostering collaboration between DOCs and financial institutions and creating public policy to encourage community investment. Supporting and increasing their numbers can lead to stronger, more vibrant communities while fostering economic growth and reducing disparities. By repairing historical inequities and embracing diversity, the housing industry can make a positive and lasting impact on the lives of individuals and communities.

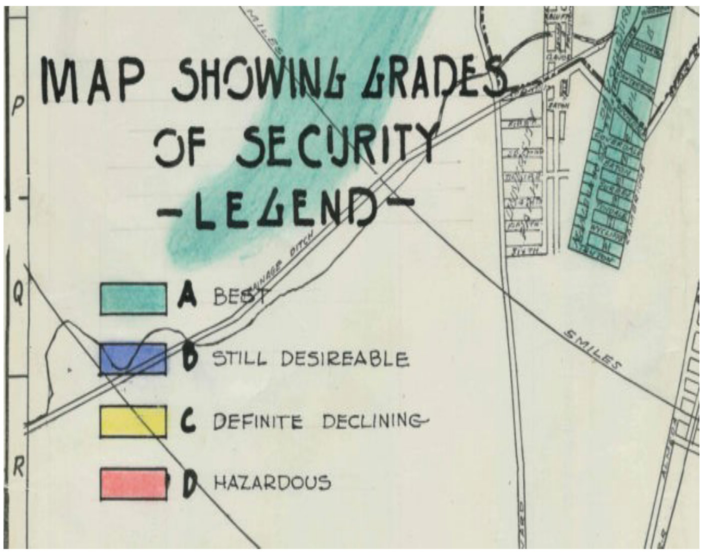
The Problem and Origin Methodology

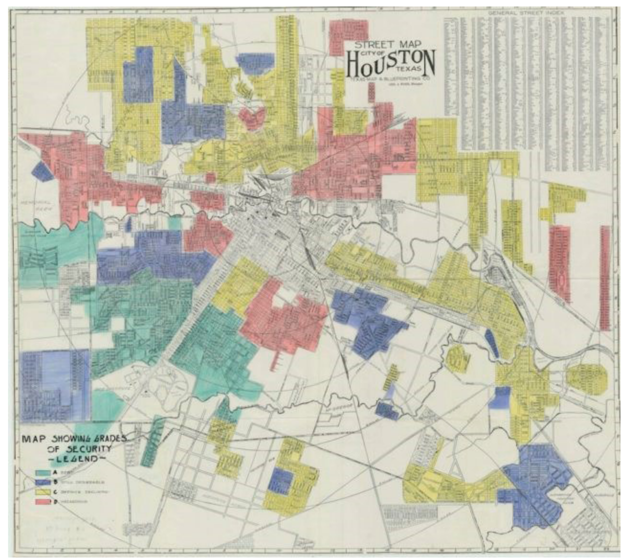
Since the end of the Reconstruction Era, segregation and government policies at every level actively promoted and enforced racial segregation. Racially restrictive covenants, zoning laws, and redlining practices limited African Americans' access to quality housing resources, concentrating them in underdeveloped and economically disadvantaged urban areas. These policies denied communities of color equal opportunities for investment and growth, leading to urban decay.

The origins of redlining stem from The Homeowners' Loan Corporation (HOLC) which was created by the New Deal Policy in 1933 during the Depression to support existing homeowners who couldn't make their payments. The HOLC purchased existing mortgages that were subject to foreclosure and issued new amortized mortgages. To gauge risk the HOLC considered the racial composition of neighborhoods. "The HOLC created color coded maps of every metropolitan area in the nation, with the safest neighborhoods colored green and the riskiest colored red. A neighborhood earned a red color if African Americans lived in it, even if it was a solid middle-class neighborhood of single-family homes." Because minorities were denied mortgage loans, minority communities were confined to neighborhoods with limited resources and investment, effectively segregating them from predominantly white areas.[i]

Even more egregious, The Federal Housing Administration created in 1934 only provided insurance for mortgages issued in white-only neighborhoods. In fact, this was an official requirement of the federal mortgage insurance program as specified in their underwriting manual. After World War II, the Veterans Affairs (VA) also began to guarantee mortgages and it adopted FHA housing policies including their Underwriting Manual. By 1950 the FHA and VA combined were insuring half of all new mortgages nationwide "As a result between 1930 and 1950 only 2% of FHA backed mortgages went to non-white famlies."[ii]

In the HOLC maps of Houston circa 1935 (below) , the effect of redlining on present-day homeownership is evident. "Communities that were rated either "D" or "C" in the 1930s tend to have lower homeownership rates compared to communities that were given "A" HOLC grades. For example, 31.2% of residents in Fifth Ward (previously redlined) are homeowners compared to 48.1% of residents in the Museum District and 65.6% of residents in the Heights (rated "A")."[iii] Across the Houston area, 72% of white residents are homeowners compared to 41% of Black residents.





Nationally, the disparity in community investment significantly contributed to the racial wealth gap. Denied access to homeownership and equitable investment, communities of color were deprived of the benefits of property appreciation and wealth accumulation over generations. The FHA contributed heavily to the expansion of the wealth gap between whites and African Americans. This was not accomplished through discriminatory evaluations of individual mortgage applications, but in its financing of entire subdivisions, in many cases entire suburbs. The most famous example of these suburbs is Levittown in Long Island, NY. Built by William Levitt, a development of 17,500 homes was for servicemen returning from World War II. These homes were to be sold with no down payment required.

The project was backed by the United States government which guaranteed bank loans to Levitt and other mass builders for nearly the full cost of the proposed sub-divisions. Builders like Levitt were able to submit drawings and specifications of projects to the FHA for approval. The FHA approval meant builders could receive low interest loans from banks to finance the land acquisition and construction of the sub-divisions.[iv] Approval of course was contingent on a commitment not to sell to African Americans. The FHA even withheld approval if the presence of African Americans in nearby neighborhoods threatened integration.

The value of white working and middle-class suburban housing appreciated substantially over the years. This wealth was passed down to generations continuing the legacy. “In 1948 Levittown homes sold for about $8,000, or $75,000in today’s dollars. Now, properties in Levittown without major remodeling sell for $350,000 and up. White working-class families who bought those home in 1948 have gained over three generations, more than $200,000 in wealth. Most African American families who were denied the opportunity to buy into Levittown or into the thousands of subdivi-sions like it across the country remained renters, often in depressed neighborhoods, and gained no equity. As a result of policies like this, “The median net worth of white families in 2019 was $188,200 compared to $24,100 among Black families — de-spite a 33% increase in wealth for Black families between 2016–19.”[v]

Seventy years ago, many working and lower-middle class African American families could have afforded suburban single-family homes that cost about $75,000 (in to-day’s currency) with no down payment as did millions of whites. But today most work-ing and lower middle class African American families cannot save the down payment (20% or $70,000) to buy new homes at $350,000.[vi]

Time line of Government Policies over the years

1933

The Home Owners' Loan Corporation (HOLC) was established to assist homeowners who were in default on their mortgages and in foreclosure. HOLC created "Residential Security" maps, which documented how various professionals evaluated mortgage lending risk, systematically grading neighborhoods. The grading included (among other criteria) the economic class and employment status of residents, and the race/ethnicity of residents in the area. Neighborhoods were color-coded on maps ranging from green for "Best" to red for "Hazardous," this came to be known as "redlining." Redlining reinforced negative stereotypes about non-White neighborhoods and directly limited access to home ownership and business development in those neighborhoods, consequently benefitting predominantly White areas.

1934

The Federal Housing Administration (FHA) began insuring home mortgages but required that the properties be in White-only neighborhoods. This institutionalized the industry standard practice of redlining on a federal level, which systematically withheld credit from homebuyers in predominantly Black neighborhoods. In addition, the FHA favored loans for new suburban construction over older urban properties, simultaneously contributing to urban decay and the growth of White suburban neighborhoods, while discriminating against Black/African American and other non-White communities.

1938

Congress created the Federal National Mortgage Association (Fannie Mae) to boost homeownership levels by making low-cost loans widely available. Fannie Mae buys mortgages from local banks and securitizes them, freeing banks to increase mortgage lending. FHA guidelines severely limited Black access to mortgages. Only two percent of the $120 billion in new housing subsidized by the federal government between 1934 and 1962 went to non-whites. These institutionalized discriminatory lending patterns persisted for generations.

1944

The GI Bill promised many benefits for service people returning from WWII, including low-interest home loans, but the program's structure prevented Black people from fully accessing these benefits. As a result, Black veterans were left out of the post-war housing boom, which became a key source of intergenerational wealth for White middle-class families.

1947

Levittown (NY) was the first mass produced, large-scale archetypal suburban development meant to provide affordable housing to veterans during the severe post-war housing shortage, setting the pattern for the post-war suburban housing boom across the U.S. The FHA and VA financially backed these housing initiatives despite the use of racially restrictive covenants that prevented home sales to non-White people. The combination of tax incentives, single-family zoning, widely available financing, and home building innovations combined to fuel an unprecedented growth of suburbia along with racial segregation, inequality, and car dependency.

1949

The American Housing Act of 1949 greatly expanded the federal government's role in housing. It included significant funding and authorized the use of eminent domain to clear "slums," paving the way for "urban renewal" in the subsequent decades. By 1974, 2,100 urban renewal projects covering 57,000 acres had been completed. In the process, 300,000 families were forced to move – more than half of whom were non-White.

1956

The National Interstate and Defense Highways Act funded the construction of the Interstate Highway System with $25 billion for 10 years, the largest public works project in U.S. history. The act accelerated and subsidized suburbanization, which disproportionately benefitted White middle-class families. These highways often cut through or demolished urban areas – displacing and further impoverishing the residents of these neighborhoods who were mostly Black, Indigenous, people of color or immigrants.

1968

The Fair Housing Act (Title VIII of the Civil Rights Act of 1968) expanded on previous acts and prohibited discrimination concerning the sale, rental, and financing of housing based on race, religion, national origin, sex, (and as amended) handicap and family status. Despite the promise of this and many other pieces of civil rights legislation and the clarification in the Fair Housing Act regarding discrimination at the point of sale and/or rental, in 2019 only 44.6% of Black households, 48.1% of Latinx, and 57.1% Indigenous, Asian, or Pacific Islander households owned their homes compared to 73.7% of White households.

2015

The US Department of Housing and Urban Development (HUD) issued a new regulation to implement the Affirmatively Furthering Fair Housing (AFFH) requirements of the Fair Housing Act to ensure that states, towns, or public housing authorities themselves did not discriminate in their housing programs.

2020-2021

In 2020, HUD terminated the AFFH Act and established the Preserving Community & Neighborhood Choice in its place, removing requirements to address fair housing in meaningful ways. Then, under the Biden Administration, in June of 2021, HUD issued a ruling to restore the original AFFH definitions, ensuring that institutions meant to provide housing supports are assessing their own potential for furthering inequity.

Why Empower Developers of Color?

During the Civil Rights Movement in the 1960s, there was increasing pressure to reverse systemic discrimination. To address housing disparities, “The Fair Housing Act of 1968 was passed prohibiting discrimination in the sale, rental, and financing of housing based on race, color, national origin, religion, sex, familial status, or disability.”[vii] Action was also taken to create more equitable opportunities for underrepresented entrepreneurs. As a result, legislation passed in the 1960s, 70s, and 80s to support minority entrepreneurs in various sectors, including housing. Some DOCs such as Herman J. Russell in Atlanta were able to benefit from early initiatives like the Minority Business Development Agency (MBDA) and Community Development Block Grants (CDBG), which provided resources and funding to promote minority participation in housing development. H.J. Russell became one of the largest builders of HUD affordable housing by the 1970s. However, he and a few others were the exception.

Significant challenges persisted, including limited access to capital, discriminatory lending practices, and institutional barriers.

In the 1990s and early 2000s, the focus on DOCs intensified as it became more apparent that a more diverse development industry benefits everyone, with more competition, jobs, ideas and capacity. Community Reinvestment Act (CRA) regulations required financial institutions to invest in the communities they served, including minority neighborhoods, encouraging more equitable lending practices and investment in affordable housing proj-ects. Non-profit organizations and CDFIs such as Local Initiatives Support Corporation (LISC) also played a vital role during this period. They offered technical assistance, low interest loans, and training programs to support minority developers and address the disparities in access to housing. In spite of these initiatives, the 2008 financial crisis further exacerbated housing inequalities, particularly affecting minority communities, and it would be an understatement to say there is still much prog-ress to be made.

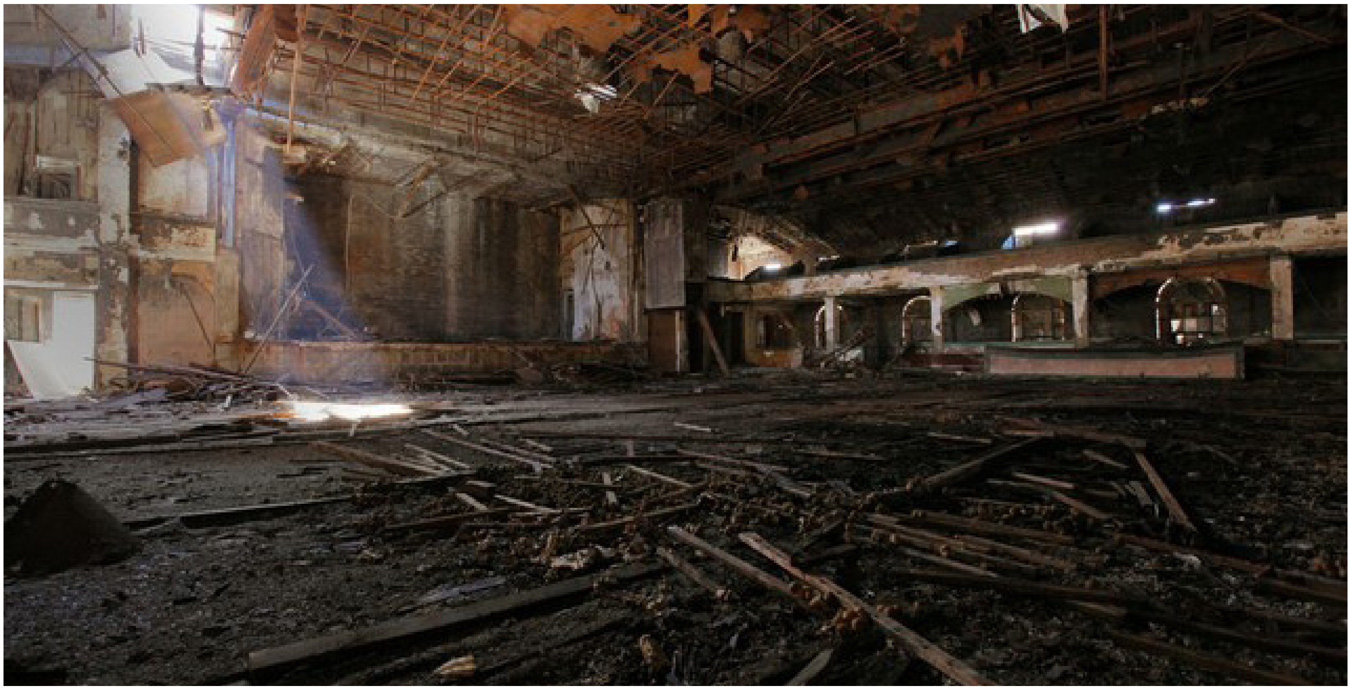
Nonetheless, there have been policy and legal reforms that have moved the needle. For example, community development tax credits are important tools in helping to overcome inequities in accessing financing. The New Markets Tax Credit Program (NMTC Program), established in 2000, helps economically distressed communities attract private capital by providing investors with a federal tax credit. For every $1 invested by the federal government, the NMTC Program generates more than $8 of private investment. It catalyzes investment where it's needed most – over 76% of New Markets Tax Credit investments have been made in highly distressed areas. Since its inception through 2021, the NMTC Program has awarded $71 billion to developers.[viii]

In addition, the low-income housing tax credit (LIHTC), has financed the construction or preservation of more than 3.6 million affordable rental homes, according to the National Council of State Housing Agencies."[ix] In 2022 the House Ways and Means Committee held a hearing titled, "Overcoming Racism to Advance Economic Opportunity" to discuss how racism is perpetuating economic inequalities for people of color. Housing was one of the topics discussed. There are more proposed tax credit programs such as, the neighborhood homes tax credit (NHTC), and if adopted could be a tool to advance racial equity by promoting homeownership to low-income households.

The Tax Credit programs revitalize distressed communities by attracting private investment that fosters economic development. It has proven to be a part of an effective formula to bridge economic disparities and promote sustainable growth in underserved areas.

Developers of Color bring a unique perspective and firsthand understanding of the challenges faced by residents in distressed communities. Their leadership can empower these communities by ensuring that revitalization efforts are responsive to the specific needs and aspirations of the people of the community. They are more likely to be culturally sensitive and attuned to the historical context of systemic discrimination and disinvestment in these neighborhoods. This sensitivity can lead to more thoughtful and respectful development that preserves the cultural heritage of the area.

An example of this is the BRP Companies development of the site that was once the Renaissance Ballroom and Casino in Harlem, New York. Referred to as “The Renny” by Harlemites, it opened in 1921, and was built, and owned by African Americans until 1931. The “Renny” was a significant entertainment center during The Harlem Renaissance, and in the 1920s it was known as a



“Black Mecca”. It was a source of cultural pride for generations, but the building became vacant in the 1970s and fell into disrepair. It was deemed structurally unsound when it was purchased in 2015 by BRP Companies. The project was controversial due to the historical significance of the property, however, BRP was able to able to preserve part of the façade of the building and incorporate it in the design. The project was also named “The Rennie”, in honor of the ballroom. It was built as mixed income housing with 20% of the units priced as affordable.

In an interview with The Real Deal magazine, BRP co-founder Meredith Marshall said, “We recognized the limited supply of condos in the Central Harlem Market and we’re excited to continue working with the community to expand neighborhood offerings.”[x] This is a demonstration of the implementation of inclusive strategies that prioritize affordable housing, community input, and preservation of existing residents’ interests, mitigating the negative impacts of gentrification. The goal is to foster a sense of hope and encourage community members to take an active role in shaping their neighborhoods. Community engagement is crucial for sustainable revitalization efforts. By centering the voices and experiences and of these developers, more inclusive, sustainable, and vibrant urban neighborhoods can be created.

Access to Capital

DOCs have successfully provided inclusive community development, however, securing funding and accessing capital remains a significant obstacle today. They may encounter difficulties in obtaining loans and investment due to historical lending practices, bias, and a lack of established networks with financial institutions. They face challenges in establishing these relationships with lenders due to limited access to networks dominated by non-minority groups. Historical and systemic disadvantages have led to developers of color having limited collateral and credit history, which

The “Rennie” completed in 2018

makes it harder for them to secure loans from traditional financial institutions. Therefore, they tend to face higher interest rates or more stringent requirements when applying for loans compared to non-minority developers with similar qualifications. Given these factors, DOCs may struggle to accumulate the necessary equity and initial investment required for housing projects, making it harder to qualify for loans or attract other investors.

The Washington Post article " Black Developers Call for a Reckoning in Real Estate mentioned that Black developers say they face major hurdles in accessing capital, connecting with influential networks and expanding their businesses." Washington D.C. developer Diarra McKinney of Rosewood Strategies said "It's not the 1950s, I can go through the loan process and get an offer. But the terms are not the same; the interest rate will be much higher. And you don't know why that is. It's all behind the scenes." The article goes on to say" developers also need equity in the form of investments from friends, family or private firms to close their deals. And that can be even harder to procure for Black developers than bank credit. The asset management industry which includes institution investors and private equity groups is overwhelming White. And friends and family, even well-off ones simply may not have the extra funds to invest in a real estate project."[xi]

Impact Investing has helped to mitigate this dilemma. It is a term first coined in 2007 and has a basic goal of investing to help reduce the negative effects of business activity on the social environment. It can also be considered an extension of philanthropy and a way to provide socially conscious returns for financial institutions.[xii]

In recent years, impact investing has proven a viable means for DOCs to access capital. And could provide a straight-forward route to form long-term a relationship with a financial institution. This type of relationship could change the trajectory of a Developer of Color.

Goldman Sachs, the second largest investment bank in the world has committed to impact investing. The mission statement for their Urban Investment Group is "We believe that strong communities are the foundation of a prosperous society. Through our Sustainability and Impact Investing initiatives, we find innovative commercial solutions that address social and civic challenges in communities across the United States."[xiii] This group deploys over $1 billion annually in community and economic development through real estate projects, social enterprises, and lending facilities for small businesses.[xiv] BRP Companies, a DOC, has benefited tremendously from their partnership with Goldman Sachs. Goldman Sachs' Urban Investment Group first invested $10 million dollars in project with BRP in 2007. After the success of that project a joint venture was formed.

This joint venture helped transform BRP Companies from a small upstart development firm into a vertically integrated organization offering a full range of development, acquisition, construction, property management and New Markets tax financing. To date Goldman Sachs Urban Investment Group has invested over $1.0 billion in capital to BRP developments. The partnership has yielded of over 4.4 million Square Feet, ("SF") of completed real estate projects, 2.7 million SF currently in construction and 8.7 million SF in predevelopment for a total portfolio of 15.7 million SF.

BRP is uniquely positioned to meet the demands of urban housing consumers. The firm is an innovator in developing mixed-use, mixed-income, "walkable" urban housing with high-quality, energy-efficient infill properties.[xv] BRP has become one of the largest developers in New York State and second largest DOC in the country. This shows how instrumental partnerships can be in helping developers overcome significant barriers and achieve success in the real estate and development industry.

LISC, as one of the largest Community Development Financial Institutions (CDFIs) in the country, possesses a unique opportunity to actively contribute to narrowing the wealth gap by fostering an inclusive ecosystem for developers of color. By leveraging its resources and expertise, LISC can provide tailored training, access to crucial resources, and essential capital to empower developers who have historically faced significant barriers to success.

Below are some of their projects.

320 Washington Avenue, Brooklyn, NY
Historic Preservation
Completed 2002: $8,000,000

150 Clermont Avenue, Brooklyn, NY
New Development
Completed 2008: $33,000,000

2110 Frederick Douglass Blvd., New York, NY
New Development
Completed 2010: $25,000,000

BRP's development of "The Rennie" in Harlem, an example of inclusive community development

Caton Flats 794 Flatbush Avenue,
Brooklyn, NY completed 2021
Total Development Cost $135,000,000

The Crossing at Jamaica Station Jamaica
(Queens), NY completed 2020 Development
Total Development cost $405,000,000

Arch Towers 1 Jamaica (Queens), NY
construction commenced 2021
Total development cost $291,000,000

500 Main St. New Rochelle (West Chester county)
NY construction commenced 2022
Total development cost $294,000,000

The Supporting Empowered Emerging Developers (SEED) Academy, an program in partnership with National Development Council for instance, serves as a prime example of an initiative aimed at cultivating emerging developers' skills and capacity across all stages of the development process. From conceptualization to land acquisition, financing, construction, and project completion, participants receive comprehensive training that equips them with the necessary tools to succeed in the real estate development landscape. By nurturing a network of academy graduates, LISC facilitates knowledge-sharing and provides ongoing support, enabling developers to tackle larger and more complex projects that cater to the needs under-served mixed income communities.

Conclusion

It is widely recognized the legacy of housing and discrimination and redlining has had lasting effects on communities of color, contributing to racial segregation, wealth disparities, and limited access to housing opportunities.

Addressing these historical and ongoing issues requires a comprehensive approach that focuses on equitable housing policies, increased affordable options, and targeted investment in distressed urban communities.

DOCs are acutely aware of the historical context of systemic discrimination in these communities; and efforts to support minority housing developers highlight a gradual shift towards recognizing and addressing systemic barriers. Long-term success can be achieved through changes to policy and programs, as well as new partnerships and collaborations.

We must remain agile in addressing challenges. The call to action is to continue to foster partnerships and alliances between housing, DOCs, government agencies, community organizations, and financial institutions to create community-centered housing solutions. We can unlock the true potential of our cities, creating spaces that embrace diversity, foster prosperity, and provide a foundation for a more equitable society.

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