



# Improving Subcontractor Diversity in California's Affordable Housing Development

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# ● Problem Statement

For decades, California has faced an escalating affordable housing crisis and is deploying an unprecedented amount of investment in housing development in order to alleviate it.

This creates an opportunity to not only increase the number of affordable housing units in the market but also could advance economic opportunity for diverse and woman-owned firms to access development related contracts. Without explicit and specific plans to do otherwise, affordable housing development resources such as these have time and time again gone to white-led firms across the state at a rate that is disproportionate with the state's racial and ethnic diversity. Over the years, this has led to diverse firms losing out on billions of dollars in potential contracts.

Billions in procurement opportunities are created annually through affordable housing development. Between 2015 and 2020, developers in California spent upwards of \$52B, of which 60% went to construction costs. In order to drive forward racial and economic justice in California, the affordable housing development industry must intentionally uplift and invest in construction or construction-adjacent professional services firms led by people of color. By diversifying the pipeline of people who share in the revenue resulting from these vital public investments, we can increase wealth amongst communities typically excluded from such valuable opportunities.

Simultaneously, nurturing diverse construction firms will help increase the volume of desperately needed construction, design, engineering, and other related firms operating successfully across the state.



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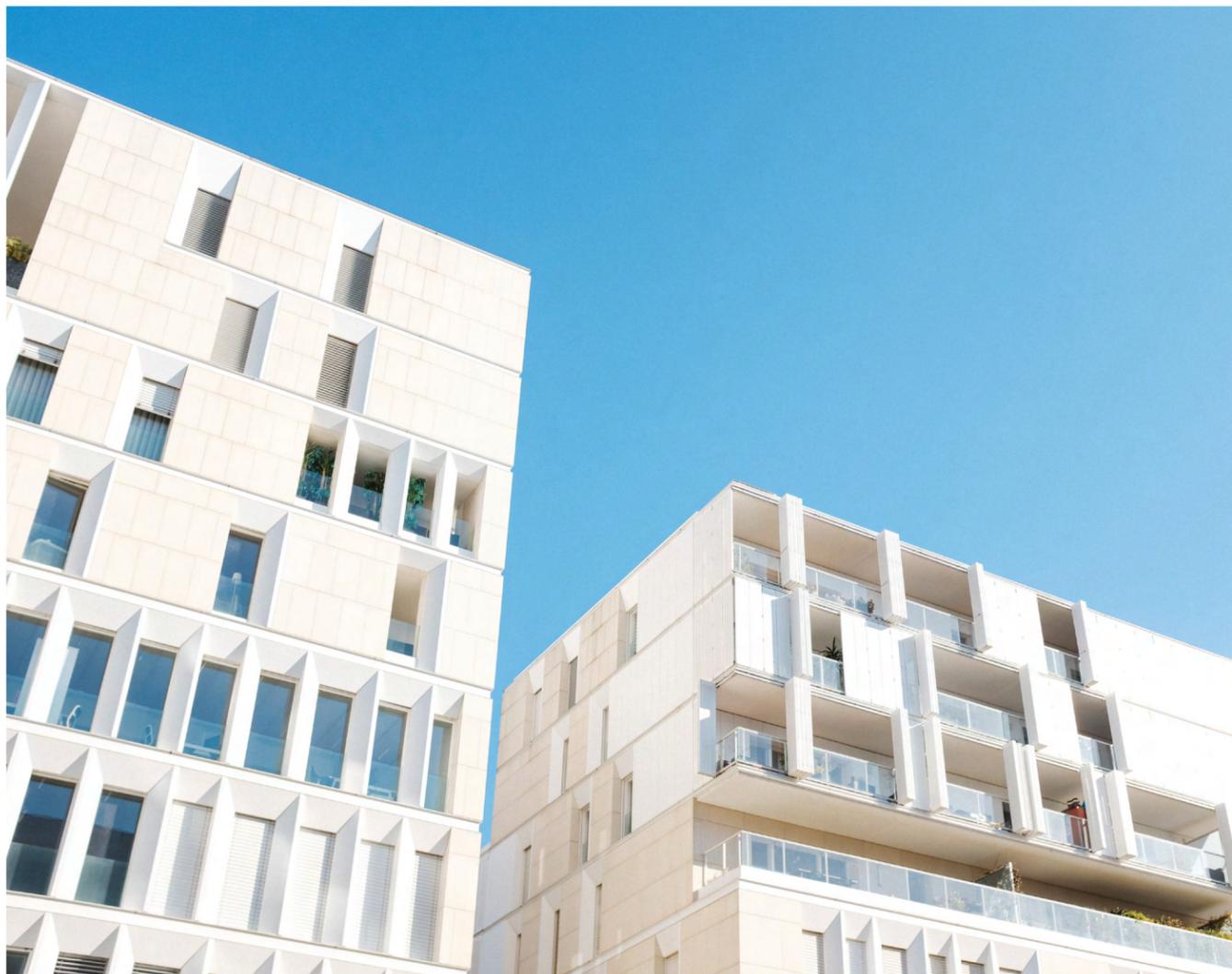
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# ● Background

Across California, more than a [third of residents](#) are living in or near poverty. This group is [disproportionately](#) comprised of people of color, with 21.4 percent of Latinx residents and 17.4 percent of Black residents living in poverty. Comparatively, just 12.1 percent of white Californians live at or below the poverty line.

Families with limited economic means in California therefore end up spending a disproportionate amount of their income on housing. This is especially true for communities of color. Research shows that two out of three households that are rent burdened are headed by people of color. So, while a significant number of the families that the affordable housing developer industry seeks to house are people of color, diverse developers are much less likely to participate in the contract, construction and/or professional services contracts associated with affordable developments.



The reasons why more diverse construction related firms aren't participating in the contracted opportunities to develop affordable housing isn't simply related to a lack of willingness of developers to hire them but that there simply aren't enough firms. Historical patterns of discrimination in housing and economic policies have had a devastating ripple effect on access to high quality education, jobs in diverse communities and wealth building opportunities leading to few resources to start and sustain businesses. For example, in comparison to their counterparts, diverse construction companies often [struggle to get off the ground](#) due to decades of under-capitalization, inaccessible bonding and insurance access, lack of access to bank loans, high interest rates, and systemic exclusion from financial relief programs.

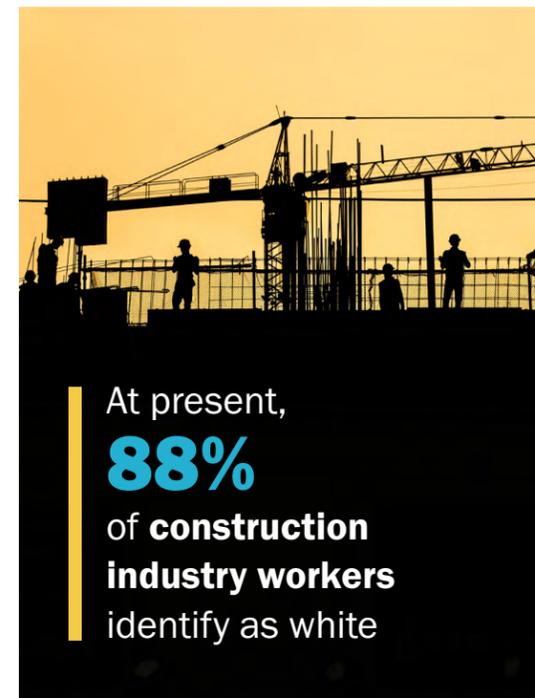
The story doesn't end there. Fewer diverse construction related firms are part of a continuum of fewer construction industry workers of color. Unfortunately, structural barriers to success, as highlighted herein, have led to an underrepresentation of Black and Latinx workers in the construction industry and a dearth of firms to meet the state's new housing demands.

Across the United States, white people make up 88 percent of the construction industry. Conversely, Black Americans make up just six percent of the nation's construction industry, and while Hispanic and Latinx Americans make up 33 percent of the industry, they are often relegated to lower-level positions and are not given the training or opportunities needed for advancement.

For decades, the construction industry has been marred by [rampant discrimination and racism](#), from [nooses left at construction sites](#) to [racist graffiti](#) scrawled across buildings. Despite our state's progressive reputation, California is not immune: Black and Latinx construction workers across the state have faced ["abusive and hostile working environment\[s\]"](#) and [racial harassment and retaliation](#). At the local level, [discriminatory hiring processes](#) also take a toll: despite representing 10 percent of all new construction apprentices and nine percent of Los Angeles' total workforce, Black Angelenos account for only five percent of L.A.'s construction workers.

Within the construction industry, outright, ingrained racism had led to a dearth of desperately needed workers. However, our nation's long, undeniable history of systemic exclusion of Black and Latinx individuals and families from access to capital and upward mobility has only worked to further exacerbate the homogeneity of the construction industry.

LISC LA surveyed developers on diversity, equity and inclusion (DEI) in housing development and construction and found that while they are interested in developing DEI policies, only 33% were tracking contractor diversity and none of them had explicit diversity goals. In contrast, California's Public Utilities Commission implemented a successful diversity supplier program under General Order 156. According to their [2021 report](#), supplier diversity reports submitted by the utilities participating in the program demonstrate that utilities have been steadily increasing the proportion of their procurement from diverse suppliers: from 7.5% in 1987 to 33.2% in 2019. Suffice to say – [inclusive procurement systems exist, and they work](#).



At present,  
**88%**  
of **construction**  
industry workers  
identify as white

# ● Inclusive Pathways

The affordable housing field and the momentum to increase the availability of resources to build more housing, specifically more affordable housing represent a unique setting to increase contracting to diverse firms. In local jurisdictions across the state of California, voters and elected municipal leaders are taking steps to increase the level and number of resources that are available in the market to subsidize and support the development of housing.

In 2016, the City of Los Angeles passed Measure HHH, adding \$1.2B in resources to develop 10,000 units of permanent supportive housing. In the Bay Area, sales tax measure Proposition K passed in 2020, authorizing San Francisco to develop 10,000 units of low-income rental housing.

In 2022, with a large state budget surplus, California housing advocates are calling on Governor Newsom to allocate \$4B in one-time funds to support the development of affordable housing. There is a real need for unprecedented levels of resources and in many cases, advocates have successfully secured billions to support future pipelines of affordable housing.

The housing investment resources are larger than they have ever been, and advocates continue to push for more. The affordable housing industry has tried and true strategies that have had decades of sharpening largely in response to the highly regulated nature of the industry. These systems that have sprung up around the development of affordable housing have worked successfully and efficiently for many years, making it so that infrastructure can more easily absorb new firms.

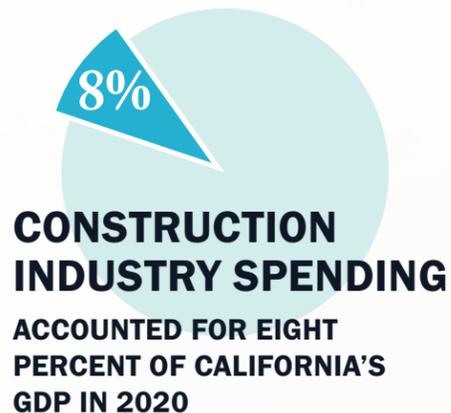
**By opening up inclusive procurement opportunities, the affordable housing development field can extend more supply chain contracts to diverse firms.**

On the other end of the contracts is the need to build the network and pipeline of diverse firms that can successfully compete for and take on the contracts offered by the affordable housing field. More resources are needed to help create peer-to-peer networks and other training initiatives to ensure that there is a pipeline of diverse firms in the construction and professional services industry to bid on opportunities. In California, the construction industry [plays a vital role in the state's economy](#): construction industry spending accounted for [eight percent](#) of California's GDP in 2020, and construction paid for \$62.3 billion in California wages and salaries in 2018.

## VOTER APPROVED PROJECTS

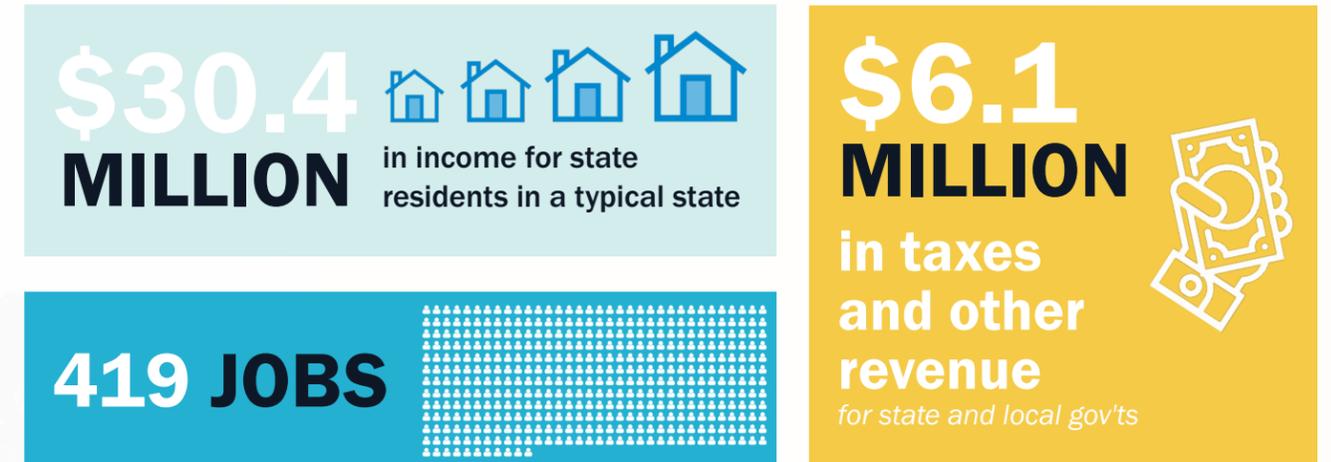


## CONSTRUCTION INDUSTRY IMPACT IN CALIFORNIA



During the COVID-19 pandemic, state leaders deemed construction as an [essential business](#) keeping the economy afloat and workers employed.

## BUILDING 100 SINGLE-FAMILY HOMES BRINGS ON AVERAGE:



When a new construction project begins, other local businesses often see [immense benefits](#) as well due to the influx of workers spending money in the area and the construction project purchasing supplies from local companies, such as those that sell hardware, flooring, and paint.

In addition, construction projects can provide benefits to the community by filling a void in needed services. For example, non-residential construction projects often include new schools, hospitals, and hotels, all of which not only improve the quality of life for existing residents but attract new residents and visitors to the area. New projects like these can also increase property values for residents' homes in the area, thereby bolstering homeowners' financial status.

Diverse construction firms present an enormous opportunity to boost their surrounding communities, which have oftentimes been economically neglected. In California, if the construction industry was as diverse as the state's population, communities of color could expect approximately [\\$32.4 billion in payroll investments](#) alone. This money is also more likely to remain in these diverse communities, as builders of color employ workers of color at [higher rates](#) compared to their white counterparts. When diverse firms build new construction projects in diverse neighborhoods, they are also more likely to take a [people-centered approach](#) that is mindful of how the project can benefit and uplift the surrounding community.



## Solutions

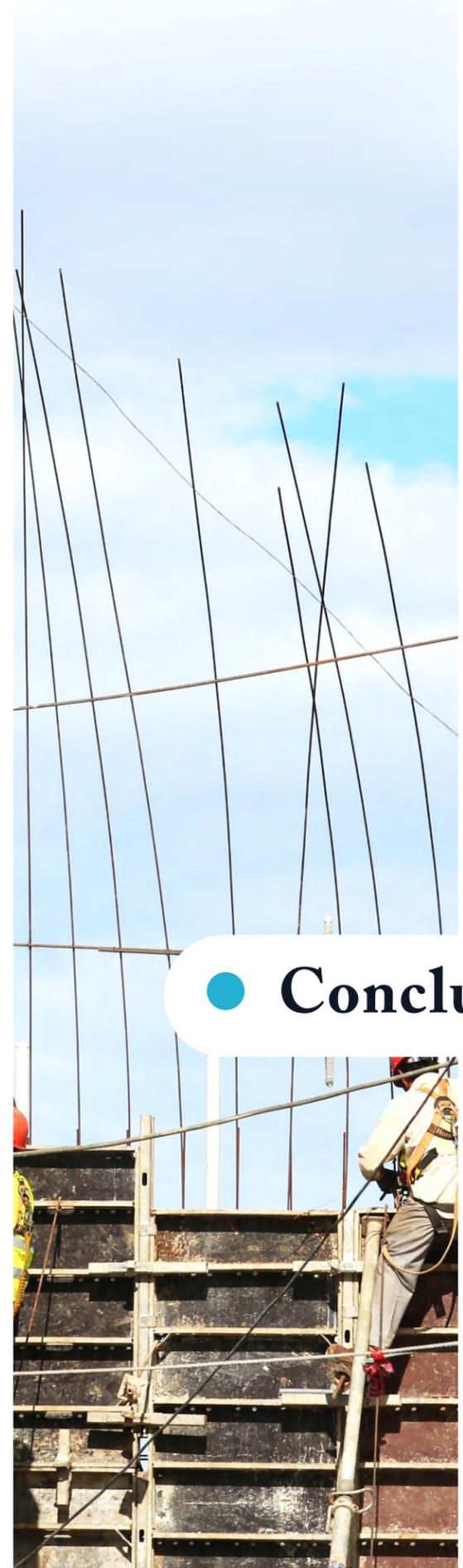
The need for legislation that seeks to uplift diverse construction companies and workers in affordable housing development is abundantly clear. The following framework would set out to achieve that in three manners: **Sunshine, Incentivize, and Funding.**

### Sunshine

Sunshine would seek to shed a light on racial inequities within the construction industry by tracking diversity. As a condition of compliance, developers would track diversity through numerous metrics, including their individual diversity goals, contractors' race/ethnicity and gender, and contractor census tract, which would help target firms in low- and middle-income neighborhoods. With time, demographic tracking would take place at the worker-level, and the California Tax Credit Allocation Committee (CTCAC) would use this information to produce a publicly available annual report.

### Incentivize

By incentivizing diversity in affordable housing construction, developers would be rewarded who meet or exceed their Diversity, Equity, and Inclusion (DEI) goals with more points in funding applications. This incentivization process would be implemented through applications to CTCAC and/or the California Department of Housing and Community Development (HCD), and similar practices would be encouraged within local jurisdictions. This process would prioritize inclusive development pipelines at all funding levels.



## Conclusion

### Funding

Funding would earmark resources for vital support services for diverse firms and workers, including networks and capacity building. Both support services are crucial, as networks help identify diverse-led firms and provide a platform for peer-to-peer support and sharing of best practices, and capacity building and training prepares firms for procurement opportunities and helps them understand labor compliance regulations so they can take on more complicated projects.

There are numerous models for how support services such as these can be provided, including [LISC's AscendLA program](#), the [most recent cohort](#) of which was specifically geared toward businesses providing construction services. In addition, CTCAC and HCD can partner with ethnic trade associations, such as the [National Association of Minority Contractors](#).

The framework outlined above is not unprecedented: similar efforts include the [California Public Utilities Commission's Utility Supplier Diversity Program](#) and the [California Energy Commission's Empower Innovation Network](#).

Centering diversity, equity, and inclusion throughout the affordable housing development process will provide tremendous benefits to all of California. Uplifting diverse construction firms and workers will help financially empower communities of color that have long been shut out of paths to upward mobility and prosperity.

## ● ABOUT THE AUTHOR

Tunua Thrash-Ntuk is a community development professional whose public service career spans more than two decades leading racial equity initiatives and billion-dollar governmental programs with the goal of building better communities for those in greatest need. As the Executive Director of Los Angeles Local Initiatives Support Corporation (LISC LA), Tunua oversees LISC LA's efforts to forge resilient communities through neighborhood revitalization, affordable housing and small business empowerment.

To help advance equity and economic inclusion, LISC LA and Tunua have continued to develop programs and urban initiatives in Los Angeles focused on affordable housing and commercial development. Tunua has helped deploy \$131,981,770 in grants and loans to support the development of 2,413 affordable housing units and 690,967 square feet of commercial space across the greater Los Angeles region, stabilizing both individual families and whole communities.

Prior to joining LISC, Tunua served as Executive Director of West Angeles Community Development Corporation, where she was responsible for the asset management and oversight of the WACDC real estate portfolio valued at \$150 million. Tunua is a graduate of Massachusetts Institute of Technology (MIT) where she earned her Master's in City Planning as well as an alumna of UC Berkeley where she received her Bachelor of Arts Degree in Interdisciplinary Studies.



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