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‘Excuse After Excuse’: Black and Latino Developers Face Barriers to Success

A racial wealth gap and discrimination that sets a higher bar for would-be developers seeking loans have contributed to the lack of representation.

By Colette Coleman

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Out of roughly 112,000 real estate development companies in the United States, about 111,000 of them are white owned. Those numbers are bad, but at the top of the market, they’re even worse: Of 383 top-tier developers that generate more than $50 million in revenue annually, one is Latino; none is Black, according to a new report.

Economists, social-impact strategists, and social entrepreneurs spent the last year studying the for-profit real estate development industry, trying to understand the stark representation crisis. Their report focuses on Black and Latino developers, because the theme of these groups’ lack of access to capital emerged in preceding qualitative research. They hope to look closer at other underrepresented developer groups, like women and Asian Americans, in the future, one of the report’s authors said.

The dearth of diversity at the top matters because that’s where developers can have the most impact on communities and drive the most economic growth. The lack of representation begins with lack of capital, as Black and Latino people hoping to break into real estate development often can’t even access the seed money to get started.

“A lot of times, developers, myself included, start out raising money from friends and family,” said Cecily King, 35, a structural engineer turned developer based in New Jersey and Detroit, who founded Kipling Development, which focuses on multifamily residential properties across income levels. “In order to raise money from friends and family, you have to have friends and family that have money and knowledge of investing and a desire to invest in real estate.”

A racial wealth gap means that many aspiring Black and Latino developers don’t have such investment-savvy friends and family with discretionary dollars: The median net worth for white families is $188,200, compared to $24,100 for Black families, and $36,200 for Latino families. Nearly three-quarters of white families own a home, but fewer than half of Black and Latino families do.

“Most people in our community don’t have an uncle or a friend that could bring that to the table up front,” said A. Donahue Baker, 50, a developer based in central New Jersey. “So that automatically reduces the number of minority applicants available.”

Victor MacFarlane, one of the most successful developers in the country, stands at the Baltimore Peninsula construction site. He said the lack of access to capital is driving the developer representation crisis. Matt Ryb

Victor MacFarlane's eponymous company is currently codeveloping the proposed $1.6 billion Angels Landing, a high-rise, residential, commercial, hotel and retail development in downtown Los Angeles. Mr. MacFarlane, 71, began his real estate career more than 40 years ago at Aetna Life & Casualty Company. Holding a law degree and master's degree in business, he initially funded his first development project in the 1980s, a 208-unit market-rate apartment community in Denver, with all of his savings from a commission-based job with a real estate syndicator, creative bond financing for the equity, and a construction loan from a Savings and Loan. He went on to found MacFarlane Partners in 1987.

He's now one of the most successful developers in the country, known by name from city to city. With his decades of experience in the industry, Mr. MacFarlane is troubled that lack of capital remains a barrier for would-be developers. "I happen to know for a fact that there are a lot that are trying but aren't being successful," he said. "A lot of that is around capital and inaccessibility of capital."

Don Peebles, 63, another top developer with decades of experience, whose Peebles Corporation is codeveloping Angels Landing with MacFarlane Partners, points to stark numbers. "There is $82 trillion currently invested in venture capital and private equity," he said. "Of that $82 trillion, less than 1.3 percent of that money is invested in firms run, owned or founded by women and people of color combined. So that means 98.7 percent of all venture capital and private equity goes to white men."

When Mr. Peebles set out to start a fund for women and minority developers in 2020 and 2021, he had trouble finding investors. “They kept coming up with excuse after excuse because no one really wants to make a change,” he said. “We’d get some good lip service, but then they would say it’s too risky to back minority developers.” Ultimately, Mr. Peebles gave up on the fund.

Derrick Tillman, a Black developer in Pittsburgh, plans to develop a vacant school that he owns in the city. Nancy Andrews for The New York Times

The interior of the former Braddock Junior High School, which Mr. Tillman hopes to transform into a 60-unit, mixed income development called Braddock School Lofts. Nancy Andrews for The New York Times

Twice as Good

The small group of Black and Latino developers who manage to pierce the ceiling at the top of the market often outperform their white counterparts in terms of typical transaction size, the study found. And on the lower end — developers that make up to $350,000 annually in revenue — Black and Latino developers also surpass their white peers in terms of average revenue.

These achievements counter a narrative that the lack of representation in the industry can be attributed to an inability to develop projects successfully, said Laura Maher, head of external engagement at the Siegel Family Endowment, which funded the report that was written by the Initiative for a Competitive Inner City (ICIC), an organization focused on using research to propel "inclusive economic prosperity," and Grove Impact, a social-impact consulting group.

The report's researchers "anticipated that argument, they looked into it, and they debunked it," Ms. Maher said.

Representation

WHITE-OWNED COMPANIES	BLACK-OWNED COMPANIES	HISPANIC-OWNED COMPANIES
111,013	447	175

Sources: Siegel Family Endowment; Initiative for a Competitive Inner City; Grove Impact • By The New York Times

But Howard Wial, one of the report's authors, said the success of some Black and Latino developers could also reflect the unfairness of an industry that sets a higher bar for the developers of color to even compete. Given Black and Latino developers' barriers to access capital, "they may need to work harder to get that access," he said. "I think overall it is a positive sign but, I would add just one possible cautionary note that small developers, small Black and Hispanic developers, may need to be better than their white counterparts just to be in the industry. And that may partially account for this finding."

Mr. Baker said he believes minority developers' projects, financials, and credentials may have to be twice as good to get traction. "Those deals that the minority developers get, I believe, are vetted a lot more than nonminority deals," he said. "So just under that premise, if you vet those deals a little more, what you have is a stronger project. You have a project that's going to be more profitable, a project that potentially will breeze through whatever zoning or any municipal hurdles that may exist."

A certified public accountant, Mr. Baker became a developer after seeing the power of real estate in his high-net-worth clients' portfolios. With experience completing more than 30 affordable housing developments, including the Allen Young Apartments, a 107-unit project in Plainfield, N.J., and current work developing one of the first Passive Houses in the state, Mr. Baker has seen how developers of color get stuck.

To get funding for a project from a lending institution, not only does a developer need to to bring at least 20 to 30 percent equity, they have to show they have experience with such projects. Since a lot of Black and Latino developers don't have large-development experience, they cannot get the financial backing — or the experience.

Oscar Sol, 44, co-founder of Green Mills Group, a Florida-focused development company, which built the $18 million 119-unit Forest Ridge community in Hernando, Fla., said that it took him a decade working for a large developer to master the "unique financing tool for affordable housing."

Mr. Sol was lucky to get that training. It's common for developers to only need small staffs, so "the opportunity to get in with a developer, unless they are massive, it's not really there that much," said Edmundo Gonzalez, 52, a developer in Jacksonville, Fla., who recently completed Villa Callisa, an 11-unit, luxury, waterfront townhome community in St. Augustine. This leaves many aspiring developers taking circuitous routes to enter the industry, often parlaying their knowledge and relationships from adjacent fields. Mr. Gonzalez has seen engineering, architecture, and construction be "great places to learn the business from the periphery" and "get your feet wet." "If you are entrepreneurial and business minded in nature, and you want to make money, development is honestly where you go in all those fields," he said. This path leads to fewer Black and Latino developers, because architecture and engineering also have very low representation.

For Mr. Gonzalez, the best way to get his foot in the development door was through a Master's program in real estate development at Columbia University. In his class of about 40 or 50, he recalls

there being four Latino students and no Black ones.

After seeing developers come into his community without respect for the residents, Mr. Tillman was motivated to enter the industry and take a different approach that focuses on equitable community real estate development. Nancy Andrews for The New York Times

‘A Better Way’

Affordable housing is often the path Black and Latino developers have to take to break into the industry because it requires less capital to get started. But its potential profits are limited, and experience in affordable housing doesn’t necessarily translate to the minimum qualifications that a lending institution will require for more lucrative projects.

Just as homes in Black and Latino neighborhoods appraise for less, so too do developers’ projects in such areas. A development in Newark may be valued at half as much as in a predominately white area 30 miles away, Mr. Baker explained. “That’s significant because the costs are the same,” he said. This can “greatly affect the overall profitability of a project.”

Still, many Black and Latino developers are eager to build and shape communities where the residents look like them, sometimes even the communities they come from.

Derrick Tillman, 42, grew up in Pittsburgh in Section 8 housing that he described as “substandard.” He recalls his mother and younger brothers being displaced when a new owner came in and doubled the rent. And the same thing happened to him in his first apartment.

“Just seeing developers kind of come into our community and not really respect or honor those that were there, I knew there was a better way,” he said.

In 2006, Mr. Tillman co-founded Bridging the Gap Development, which focuses on equitable community real estate development, like his company’s 36-unit Miller Street Apartments, an affordable housing project in the Hill District, a predominantly Black neighborhood of Pittsburgh.

Juan Zabala is an emerging developer in the Washington metro area, but he also received support to develop a project in Reading, Pa., his hometown. Kenny Holston/The New York Times

In Reading, Pa., one of the country’s poorest cities, Juan Zabala, 34, an emerging developer, rehabilitated a mixed-use property that now has a Black-owned nail tech business on the commercial level and two housing units above that each rents below $1,000 a month. Prepandemic, the site hosted an incubator Mr. Zabala created for small businesses, rap clubs for young people, community discussion nights and job training.

When Mr. Zabala decided to buy the property, he had trouble getting a loan to purchase and rehab it. Pedro Peguero, 61, of Long Island, the then-owner who had bought the property as an investment in 2005, took a “leap of faith” with Mr. Zabala and helped him to finance the purchase, using creative financing, taking out a loan himself for the balance that Mr. Zabala’s lenders wouldn’t cover, and having Mr. Zabala pay him.

“We’re from the same area, same Dominican Republic, same struggles. He had almost like the same

story. He looked like a young me at the time," Mr. Peguero said, explaining why he was willing to take a chance on Mr. Zabala. "I'm like, wow, this guy's really a go-getter, so why not?"

Black and Latino developers are more likely to understand and address the needs of their communities, and they're more likely to drive economic growth within them, according to the report. The study pointed to research that "Black- and Hispanic-owned businesses are more likely to hire Black and Hispanic employees than are white-owned businesses" and concludes that having more diverse developers would lead to more diversity in the "broader real estate industry."

'Level the Playing Field'

Many Black and Latino developers have been seeking out friendly locales, places like Newark, that welcome minority developers. Mr. Baker said he "can level the playing field" when bidding for projects in such areas, because developers of color often understand the Black and Latino communities where they're hoping to build, and their proposals show it. For example, in a large apartment building project, Mr. Baker thought to add a community center where children can play basketball and hang out. "It's not just putting up houses," he said.

To alter the demographics of developers, and ultimately who gets to mold cities and communities, a few welcoming municipalities won't cut it.

As an immediate next step to address the gaps in developer representation, the report's authors built a directory that provides an easy way to find Black- and Latino-owned development companies around the country. It also offers a map feature that shows how different parts of the country compare in their developer representation.

That's a start, and the report itself is a major step toward some progress, said Katy Knight, president and executive director of the Siegel Family Endowment. It's hard to gather data on real estate developers, so this area has been understudied, and the report's findings are the first to define the problems concretely, so that policy, institutions, and philanthropists can start to address them, she said.

Ms. Knight said the report provides "hard data for the people who are only moved by those sort of numbers."

The report's authors looked for local and national solutions, suggesting that the Community Reinvestment Act, a 1977 law that aimed to thwart redlining and ensure that banks are meeting credit needs across their communities, be updated so that there's more transparency around the racial and ethnic breakdown of those who are applying for business loans and receiving them.

To get more capital directly into Black and Latino developers' hands, lending institutions could adjust their minimum qualifications. Mr. Wial suggests that banks not rely as heavily on credit scores and instead expand to looking at other indicators of creditworthiness. And Mr. MacFarlane recommends considering lowering capital requirements and assessing an applicant's talent rather than just their organization's experience.

Some Black and Latino developers use joint ventures with other, often white, developers as a way

around the minimum-qualifications barrier. They collaborate with developers with more experience and capital to get in on larger projects. The structure can work to get a foot in the door, but isn't always ideal, as majority developers sometimes exploit the Black and Latino developers who they know need them. Mr. Tillman said that he has seen cases where Black developers are doing most or all of the work but having to give up a disproportionate share of the developer fee. They have little leverage to negotiate for more.

Without changes to who can get capital, and transparency around who's getting it, developer demographics will likely stay the same, the report warned.

Major structural shifts are necessary, developers and researchers said.

"The system," Mr. Tillman explained, "wasn't designed for us in the first place."