



Empowering Diverse Real Estate Entrepreneurs (EDREE)

Diverse Real Estate Entrepreneurs and Barriers to Success

Real estate development companies headed by racially and ethnically diverse owners face many challenges, and the most significant are at startup. Whether for-profit or nonprofit, they struggle to access early-stage development financing and working capital necessary to launch new projects or to keep them moving forward.

This lack of capital access can limit opportunities to earn fee and operating revenue, grow the business and hire employees, and build personal or organizational net worth or wealth. Racially and ethnically diverse developers often lack family connections or previously established networks that can open doors to success in the real estate industry.

Compounding these challenges, minority developers are often unable to access financial resources due to low credit scores, lack of liquidity, and undercapitalization. Nearly all these factors have their roots in historic and systemic racism, much of it carried out through federal policies dating back decades.

We need a more flexible, targeted approach focused on the intersection of racial and economic equity, which is why Leviticus is developing an initiative called Empowering Diverse Real Estate Entrepreneurs – EDREE.

EDREE will narrow the gap described above by providing flexible, low-cost loans to racially and ethnically diverse real estate developers in Connecticut. Through the program, we will also collaborate with other funders and government agencies seeking to have similar impacts and provide technical assistance to developers and a menu of opportunities for training by third parties customized for the need of individuals entrepreneurs.

Our strategy for developing this new program is simple: listen and learn.

- Leviticus is a listening organization. We actively listen, and we want to know the genuine needs of the people and communities where we work. By listening and considering new ways of doing business, we address the needs that are priorities of the communities we serve.
- Leviticus is a learning organization. We strive to understand the roots and history of poverty, racial, social and economic injustice, and the inequity that suppresses people and communities. This knowledge informs our ability to deliver capital, development assistance, and resource connections more effectively.

Developer Roundtable

On March 15, 2021, Leviticus co-hosted a roundtable discussion with six Black developers to share their experiences in the field and the barriers that stand between them and success. Over three hours, the developers spoke openly and honestly about challenges they face in establishing and growing their firms. The discussion surfaced several common threads around the lack of access to training and other educational resources, capital, and social capital.

- *Education and Training:* The developers highlighted the need for more training programs to help small developers of color find success in the field. One developer spoke passionately about the lack of guidance on the types of certifications he could apply for and training programs he could attend that might help him run his firm more efficiently. He talked about how mentoring programs are vital in helping small businesses grow.
- *Capital:* Lack of access to seed capital to start and grow a business, as well as capital to finance a project, is a major barrier to scaling up firms and building wealth. Participants said the application process for banks and CDFIs for funds could be cumbersome, with pre-development loans the most difficult to obtain. One developer said he was forced to bring in an equity partner to complete larger projects; this forced him to give up fees and profits from ownership on a project he had the capacity to develop on his own.
- *Professional Network:* In addition to the shortage of readily available training and capital, lack of access to an established professional network is a major barrier to success. One developer mentioned that he does not have the same access to a network of established developers, financial advisors, engineers, and land-use consultants that his white colleagues enjoy. With better access to opportunities and valuable market information, he could take on larger projects, build his balance sheet and hire more staff.

We listened to developers and are planning a bottom-up approach for EDREE.

Leviticus will build our initiative around what we are hearing and learning from developers “in the trenches” of neighborhood development. Instead of developing the program based on our perceptions - or worse, assumptions - about what diverse real estate developers need to succeed, we will tailor our program to address the needs the developers identify.

Based on our initial outreach, the diverse developers will likely fall broadly into two categories:

- emerging or young developers who are interested in and familiar with the housing and community development process but lack expertise, who may or may not have completed a project, but could benefit from technical assistance and training; and
- experienced developers who have completed a few projects and have the skills and knowledge to support their businesses, but still face barriers to fair access to capital.

We will engage technical assistance providers who can provide real-world examples to help diverse developers level up their businesses. Training topics already identified include evaluating project benchmarks, identifying sources of funding and identifying and achieving project goals.

Program Goals Include:

- Increasing earnings of developer principals;
- Building net worth of developer principals;
- Increasing housing stock, with a clear preference for projects creating or preserving housing available to low- and moderate-income persons; and
- Helping participants build the professional network and connections that can help diverse developers access financial capital.

EDREE will focus on removing historic and contemporary barriers to capital while providing technical assistance to create the pathways for people of color to flourish in the business community.