



ROADBLOCKS AND RECOMMENDATIONS FOR BIPOC DEVELOPER ACTIVITY IN NY

ACCESS is a \$40 million new initiative funded by The Community Preservation Corporation (CPC) to further our deep commitment to providing capital to underserved communities. ACCESS was created with the explicit goal of empowering Black Indigenous People of Color (BIPOC) entrepreneurs by providing funding, education, and other resources to build their capacity to compete in the development industry, while targeting projects that bring high quality housing to communities of color.

PURPOSE

- Provide flexible debt and equity capital, technical assistance, recoverable grants, and other resources to BIPOC real estate entrepreneurs and important projects in communities of color.
- Deploy CPC's capital and expertise in new ways, by engaging in intentional outreach to undercapitalized BIPOC operators and reaching more deeply into neighborhoods.
- Utilize CPC's existing connections with customers, partners, and stakeholders to address racial inequities impacting the physical, social, and economic infrastructure of communities.

In support of ACCESS, CPC assembled an Advisory Council of leading industry professionals to support this important work. The Advisory Council has undertaken research to better understand the roadblocks that emerging BIPOC developers face as they break into real estate development. This list of roadblocks is informed by the insights of the Advisory Council, the vast majority of whom are BIPOC developers, and the accompanying recommendations offered pull from industry best practices.

ROADBLOCK: Any new developer trying to break into the real estate market needs flexible and patient capital to cover upstart, planning, and pre-development costs, and to support taking out debt. Often, this capital comes from "friends and family" sources – individuals who take a risk on the developer based on either personal or professional relationships. For emerging BIPOC developers breaking into this historically insular and exclusionary field, they often lack the strong existing networks or connections to provide this upstart capital. Given the high financial barrier to entry for emerging BIPOC developers, these developers can gain experience and share costs by leveraging their MWBE status to partner with established developers. This allows the developers to share upfront costs of acquisition, RFP submission, carrying costs, and closing – all of which can pile up before a project even begins. However, these partnerships can leave emerging BIPOC developers at the mercy of established developers without translating to meaningful partnership/ownership.

RECOMMENDATION: Using the ACCESS Incubator model, NY-based CDFIs should commit to building capacity and offering favorable loan terms to emerging BIPOC developers. HPD or HCR could also create their own programs to provide patient capital to new developers. Also, in addition to providing beneficial pointing schemes for diverse development teams, there should be specific requirements for percentage shares of project ownership and labor division across all members of the project team. This could ensure that no team members are included in the application but ignored in the project.



ROADBLOCK: Currently NYC requires any affordable housing developments on public land to have 25% ownership stake from a minority or woman-owned business OR a nonprofit organization - but this lumps together minority owned businesses with nonprofits, essentially pitting emerging BIPOC developers against large, established organizations. Similarly, the City Council is considering legislation that would require city land dispositions for affordable housing or for any other public purpose to prioritize not-for-profit developers and community land trusts. While this legislation could succeed in preventing large corporate entities from obtaining city land for cheap, it again misses an opportunity to empower emerging BIPOC developers. This legislation as it is currently written could function to continue a cycle of exclusion for BIPOC developers.

RECOMMENDATION: To make meaningful progress towards closing the racial capital gap and increasing BIPOC developer capacity and activity, the city should create a priority carve out specifically for BIPOC-led development teams for affordable housing development on current or formerly public land, guaranteeing a defined pool of affordable housing projects that can go to emerging BIPOC developers.

ROADBLOCK: Guarantees can be a challenge for emerging BIPOC developers because conventional lenders often require the developer to have access to significant capital in order to be approved. In many cases, the BIPOC developer lacks sufficient financing on their own and is required to secure a guarantor partner which inherently dilutes their development returns. Even if there is willingness to structure guarantees creatively, the lender's reluctance to accept a non-conventional guarantee remains a barrier.

RECOMMENDATION: Emerging BIPOC developers with limited access to capital should be afforded the opportunity to secure lender financing without being able to make standard guarantees. It is our understanding that government partners may have adapted guarantee structures for priority partners (like nonprofit or community-based organizations) that do not have the capital needed for standard guarantees, which could be adopted for emerging BIPOC developers as well. Also, CPC's lending portfolio has adopted a practice of applying more flexible criteria for accepting guarantees from emerging BIPOC developers, especially in subsidized projects which have the backing of governmental partners. We are eager to share our approach with other regional public and private-sector lending partners, and support the adoption of similar strategies. Longer term, the industry should conduct further qualitative analysis of the value and effectiveness of guarantees as a risk mitigation tool.