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## Minorities and the Home Building Industry

*A look into the reasons why very few minorities actually own home building companies*

By Felicia Oliver, Senior Editor

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Professional Builder

We've seen it over and over again. When the housing industry gathers, there are few minority faces in the crowd. At PCBC last year, a black woman came up to me in between sessions and excitedly said something to the effect of, "Wow, there are two of us here!" At an event with thousands of attendees, spotting someone black, Asian, Latino or Native American is a big deal — and a bigger deal still if they are actually builders. The few in attendance, like me and the woman I encountered, often aren't builders but work in another capacity in the industry.

I'm not surprised that those who constitute a minority of the population don't constitute a majority — or even large minority — of the industry. But except for Hispanics and Latinos in certain parts of the country, the number of minorities at the reins of builder companies is miniscule. I wanted to know why opportunities afforded these groups in certain other industries have eluded them here.

I could not find reliable statistics on the exact number of minority owners in the home building industry.

"Nobody has any good numbers," says Jay Shackford, NAHB staff vice president for public affairs. "We don't ask about ethnic or racial backgrounds, so nobody knows. But you would assume they are underrepresented. I think that's a fair assumption."

"The census on construction takes place only every five

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years, and that data is not even separated [according to minority ownership]," says Gopal Ahluwalia, staff vice president of research for the NAHB's Economics Group. "They have the ability to separate them, but the Census Bureau has some criteria. They don't collect racial information on this because of federal laws. We know the population [by race] and the household number. We know from the Department of Labor the [racial makeup] of trade workers. But beyond that the information is very narrow and limited."

**Barriers to entry**

"The industry is not particularly minority sensitive," says Allen Warren, president of New Faze Development in Sacramento, Calif., and one of the black builders with whom I spoke. "Throughout the construction industry as a whole, the percentage of minorities is pretty low. As you move up into management, and then into ownership, it's much lower."

With the exception of Hispanics and Latinos, minorities aren't well represented in the trades, which is where a great number of people learn the business and go on to work for themselves.

"You don't see as many African Americans in the home building trade any more as laborers or workers," says Frank Hawkins, president and executive director for the Community Development Programs Center of Nevada, a non-profit corporation that promotes community and economic development, housing and lending. He is a builder and developer.

"They are in the union, but they are not in the field per se or in the non-union business. On the West Coast, it's 90 percent-plus Hispanic. If we're not the contractors or the lead foremen or working in the trades, the likelihood of starting our own subcontractor company or being a developer or home builder isn't very good."

Even those in the trades can have a hard time breaking through the glass ceiling.

"I've been going to builder shows for a long time," says Augusto J. Gil, president of Gil Development in Miami and president of the Latin Builders Association, which advocates for builders in the area. "You have your Hispanic and Latino builders, but you don't see it as much. I think the workforce is really driven by Latinos. Upper management,



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older company owners or executives are usually your Anglos, or people who have been educated and have lived here for a very long time."

"The challenges that minority builders confront are not dissimilar from the general market," says Henry G. Cisneros, former Housing and Urban Development secretary under President Bill Clinton. "This is a tough business. It requires some very tough and focused people to succeed. But minority builders have some particular hurdles. You have to have resources in capital, assets and experience. You just don't go out and start building overnight. If your family wasn't in the business, you start from scratch. That's a challenge."



**Henry G. Cisneros**

Cisneros is the chairman of CityView, a development company with access to about \$600 million of funding from the California Public Employee Retirement system and other investors to build for-sale homes for working families in urban areas. His company often works with minority construction firms and subcontractors.

### **Cash, capital and collateral**

Several black builders I spoke with say access to funds is a prime reason they are poorly represented in the industry.

"Traditionally our community faces issues of low credit, low assets, low home ownership and a lack of banking relationships," says Robb Jones, a partner with JLW Homes and Communities in Atlanta. "In this industry, these are the primary things you really need to get started."

"Cash flow is so important," says Hawkins. "To get a project underway is a 12- to 18-month process. To turn your first unit after all your entitlements, acquisition and development, you're talking another eight to 12 months. So you've got to have cash flow to carry your payroll and not get the benefit from overhead and profit until you close. The banks don't want to fund your profit and overhead. They want you to get that at closing. It's a difficult process."

There are several reasons minorities have difficulties accessing credit. Part of it is that some have high income to debt ratios, which credit-granting entities frown upon. Countless reports show that minorities' average income is lower than whites'; it follows that those with less-disposable income would become more credit-card reliant.

"Some of it is inherent bias," says Cisneros. "That is to say, they have a little bit tougher time persuading the investment banker. Part of it is that they have not been in the position to inherit something, to continue something, to build on someone else's platform, or stand on someone else's shoulders. That by definition makes it more difficult."

### **Overcoming the novelty of the business**

Many people came from the trades or worked for a builder before launching on their own. But there are many more who have had no prior exposure to the industry.

Alexander Muhammad is black and is president of Eastern Design Home Builders in Houston. A first-generation builder, he says, "I never knew anyone in the business, black or white."

Says Hawkins: "Most of these guys who become home builders first worked for a big corporate builder. They were a vice president or president who left the company after 10 or 12 years. They went out and formed a company. They knew industry people. They had people invest in their business to help them get started. From the minority side, you don't have those kinds of resources readily available."

Working for a home builder in a below-C-level position means there can be information holes when it comes to running your own business.

"My first job as a home builder I worked for Kimball Hill Homes," Muhammad says. "I learned a lot about the building process, how to get your subcontractors together, how to schedule a plan. But I didn't know how to get financing and how to purchase land. I didn't know about the sewage, water and the electricity. I never had to worry about that. It was already done.

"It's easy now," Muhammad adds, "because I understand it. But the time that it has taken me — if I had someone to tell me about this step, that step — to talk to consistently — then I could have made a lot more progress than I have made."

### **The need for relationships**

In the world of business — and home building is no exception — it's about whom you know. Many builders I spoke with echo Muhammad's sentiments. They are disappointed there wasn't someone to mentor them and show them the ropes as they learned the business. Was there really no one they could turn to, no one to take them under their wing, and if so, why not? Is some form of discrimination taking place?

None of the builders with whom I spoke pointed to that as the explicit cause. But the underlying issue is one I think most of us know if only on a subconscious level: We have our comfort zones, and transcending racial, ethnic and cultural differences takes us out of them. It's reflected in our social networks, and in lieu of some formal system that dictates otherwise, our mentors come from these groups.

"If you don't have minorities in the industry," says Warren, "and generally people hire people that they know, their parents know, their kids go to school with, etc., I have to believe that's a factor. It's the socialization. People find it easier to do business with people they are comfortable with."

Outside of our family, school and community, we build social networks through shared common interests, which can still pose problems.

"I would like to be able to buy acres of land and develop it," says Muhammad. "But I don't play golf with the guys who would be able to say, 'Hey Alexander, you could probably get this.' If you don't play golf — and I don't; I play

basketball — [it's a disadvantage]. The culture is a little different."

"You're not there where the power is because it's not your way of having fun," says Fernando Pagés Ruiz, president of Brighton Construction and author of "Building an Affordable House." "Right now I live in a place where everybody is into American football. I don't have any connection with that whatsoever."

### **Industry response**

I know NAHB and local HBAs and BIAs offer various conferences and programs to specifically give builders an opportunity to learn more about the business and network with each other. But builders with small staffs and small budgets often can't afford the cost or time away.

"I know some builders building three or four houses a year," says Hawkins. "They are their business. They are out there hammering, doing the numbers — they are doing everything."

"Because of communication issues, because of cultural differences, [immigrants] are reluctant to become involved in an association that probably looks and feels very Anglo," says Jim Folkman, executive vice president of the Home Builders Association of Central New Mexico.

"They feel like they would be intimidated," says Margie Lopez-Bolivar, accounting manager at the HBACNM and unofficial liaison with its Hispanic membership. "They also try to save money, so they want to understand the benefits of membership. It's hard ... when they are intimidated by the members."

Folkman told me the association doesn't have a lot of resources to reach out to minority communities, which is why he solicited the volunteer efforts of Lopez-Bolivar. "But it certainly has been a shift in our attention and consciousness."

The NAHB is in the initial stages of forming a task force to look into better ways of reaching the Hispanic building community.

"There is no doubt that is among the fastest growing segment of the industry, particularly among subcontractors," says Shackford. "It's obviously an area of interest for the association."

"I think our association probably does a better job understanding and knowing how to reach the Hispanic and Latino community," says Folkman, "because Margie is from Guatemala, and I was born and raised here next to a barrio and have a fundamental understanding of the culture."

The challenge many builders face, he suspects, is not understanding the different cultures. "It's vastly different. I think they've done a poor job, quite honestly, of understanding the culture, reaching out and being of more service to them. They need to start making that shift in their thinking."

### **The outlook**

I'm certain the success or failure of minority builders has consequences for the future of the building industry as a

whole. The industry can't be dynamic if it lags in opportunities for the country's growing minority population, many of whom are concentrated in city centers — a target of future home-building growth. As the need for new homes increases, the industry would do well to encourage the success of all comers, especially those buying in and familiar with the country's urban core.

"One of the great untold stories of the American future truly is the growth of minority populations, their increasing prosperity, their movement into the middle class, and their pursuit of the American dream," says Cisneros. "Those things are going to converge in a way that is going to transform particular American industries. And home building is one of those. Minorities are going to constitute the live-or-die dimension for some home builders. They are either going to get it, and they are going to build appropriately and they are going to grow, or they are going to wonder where the market went."

"Inner-city or minority talent is one of the largest untouched resources we have in our country," says Warren. "These inner cities are becoming more popular, and people are moving from the suburbs back in. One of the biggest value propositions in our country is to really understand and redevelop these urban cores and make them vibrant."

And guess what? Many minority builders know the neighborhoods where larger builders will want and need to build in the future.

"You will find some high-production builders teaming up with minority firms in joint ventures to produce in central city areas and particular markets," Cisneros says. "You may also see partnership groups where big projects are involved, where a city is assembling land that has a public interest component. In the interest of fostering a diverse team they would partner a high-production builder and a minority firm."

CityView has such a partnership with Mel Washington, a black builder who is president of Phoenix Development outside Detroit. With Kimball Hill Homes and a non-profit community group, he is developing a 700-acre site.

"Mel is going to be the principal vertical builder on the ground," Cisneros says. "Having someone like Mel Washington who knows the situation on the ground is invaluable."

And partnering with a larger firm provides the mentorship so many minority builders want, which strikes me as a win-win-win situation. The larger builder has access to knowledge about the markets in which he'll have to build in the future; the minority builders gets the help they need to better run their businesses; and together, they begin to bridge this building divide.

As Muhammad says, "If you help us, then you've got a friend for life. We won't forget it."

### Association Profile

**The Latin Builders Association** was founded in 1971 by a small group of Hispanic contractors and a few builders who felt they weren't fairly represented. Back then it focused on residential issues; today it lobbies for issues concerning both commercial and residential developers in the state and county — Hispanic or not.

**Bridging the divide:** "There are a lot of people who have ventured with private money from places like Chile, Argentina and Venezuela. A lot of them seek the Latin Builders Association to make contacts and build relationships. We deal with people from Spain who have engineering firms that have actually moved into our market. They have issues with getting certifications for their engineers, things like that. That's where we come in and help out."



**Augusto J. Gil is a second-generation builder and president of Gil Development**

### Builder Profile

**How he started:** After he got out of college, Muhammad knew he wanted to be a home builder, but he didn't know how to go about it. Then he read an article in the newspaper about a building class at a church.

"It was a six-week course," says Muhammad. "The guy had been a builder for 30 years. He told us a lot of good things. A lot of people in that class just wanted to build a house for themselves. But I wanted to be there as a builder."

He's built on his own for about 12 years.

**Bridging the divide:** "The Builders' Show should seek out minority builders to speak at the convention. I know it's a volunteer thing, but you have to reach out to them and let them know that their input could be valuable."

**Perspective:** "I've been lucky and blessed that I've gotten a lot of projects where owners wanted me to build on their lot. That helped me a lot.

"I don't get discouraged very quickly," he adds. "I already knew this was going to be my life's work."

## Builder Profile



**Robert Jones met his future home building partners while in college.**

**How he started:** Jones went to college with Gregory Winn, whom he now partners with at JLW. Winn's dad, Carey Winn, is a longtime Atlanta home builder.

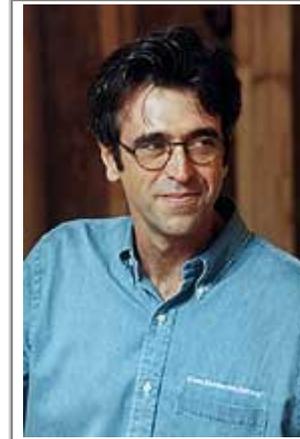
"My other partner, Komichel Johnson, was buying a house from Greg's dad, who's now our mentor," says Jones. "Carey saw the potential in Komichel as a business person. I was in business school with Komichel. So I came in as the third piece of the puzzle. That's how the partnership was formed."

**Bridging the divide:** "A lot of minorities don't know there is a white-collar side to a blue-collar industry. You see the homes being built, but you don't see the bank account, the offices and the internal operations of the people that built it. It's not just a good ol' boy, back-of-the-truck industry anymore."

**Perspective:** "If there are challenges that presented themselves to us as minorities, we were so persistent and dogmatic about success that we probably just overlooked it," says Jones. "If we were discriminated against, it wasn't overt. I'm not saying that it's not there. But a challenge is a challenge for us. At the end of the day, it's about finding solutions."

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## Builder Profile



Fernando Pagés Ruiz says Latinos are often seen as loyal, hard workers, but not intellectual or company leaders.

**A deep divide:** Pagés Ruiz says a friend wanted to bring him into an affordable housing project — a specialty of his and a subject he's written a book about.

"Then it kind of ran into static," says Pagés Ruiz. "I suddenly started getting this feeling that something's going wrong, and I think it's related to me."

His friend was at a party with the mayor of this community, who'd had a little too much to drink. "The mayor pulls him over and says, 'Look, I don't know about that Fernando guy. I don't want him bringing a lot of Mexicans to my town (Pagés Ruiz is Venezuelan).'" I ended up just telling him, 'Don't worry about it. I'm out of it.'"

**Perspective:** "I'm really grateful to have immigrated to the United States where I have been able to overcome any obstacles and find my way. I found my niche. I was willing to go into the heart of the inner city and work and do projects and fix buildings and make repairs. That's why I do affordable housing. I go where no white contractor dares to go."

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### Builder Profile

**How he started:** "My college roommate was white. I got to know his family, and he got to know mine. His father was a real-estate developer and encouraged me to consider the industry. At the time, his son did not want to go into the industry. After graduation I took a job as a stock broker. In analyzing financial statements and different sectors of the economy, I saw that the real-estate sector is so vast — you don't even have to scratch the surface to make a living if you really work at it. So I called him up one day and said 'Hey, I think I want to give it a shot.'"

**Perspective:** "We're an edgy company. We're a little spicy. We like challenging projects, and we like to do things a little more creatively. Everyone here in Sacramento knows I'm black; our company is very well-known. It's not to be hidden or it's not for me to wear a shining star. It's just who I am. I didn't think about building a black-owned company; I thought about building a company."



Allen Warren knew that from his stockbroker days the building industry could be profitable.

### Builder Profile

**What he does:** "I'm a production builder and developer. We build multi-family for seniors and families, and we do for sale. We are also a general contractor."

**Bridging the divide:** "We build 60 houses and 100 apartments a year. Our goal is to get up to 100 houses. But to do that, you've got to have the land. You've got to have the entitlements — and that requires cash. I'm sure the majority would argue the same thing, that they face the same challenges. But not to the same degree."

**Perspective:** Hawkins says he goes to IBS, PCBC and other annual conferences. "I learn so much it takes me until the next conference to get everything read. But I add it to my business plan, and every day I try to do something."

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