

# LAYING THE FOUNDATION FOR A MORE DIVERSE REAL ESTATE INDUSTRY



Over the last decade, the United States has become more racially and ethnically diverse than ever before. The white population comprises 57.8 percent of total citizens, down nearly 6 percentage points since 2010, the most recent Census shows. Diverse leadership teams have been proven to drive more creative thinking, foster innovation, and improve financial results, regardless of industry. They are also more likely to outperform, according to a McKinsey study which followed 1,000 firms in 15 countries since 2014. Companies that ranked in the top quartile for ethnic diversity on executive teams were 36 percent more likely to show above-average profitability than their peers in the fourth quartile, the study found.

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In the commercial real estate industry, integrating a diverse range of voices in decisions about where to invest and what to build can help produce developments that are more responsive to community needs, more inclusive and accessible, and offer the broadest appeal. One can reasonably argue that this should lead to better long-term value as these types of developments are more likely to attract an increasingly diverse workforce and population.

Unfortunately, diversity is sorely lacking in the industry today. Senior executives are overwhelmingly white and male. One study found women as a whole comprise about 14 percent of leadership; Hispanic men, 2.9 percent; Asian men, 1.6 percent; Black men, 1.3 percent; and minority women, less than 1 percent. Moreover, the real estate industry has a long and troubled history of racism. It includes discriminatory lending, segregation, ruinous urban planning, and extreme instances of violence and disenfranchisement, such as the Tulsa massacre of 1921. The Tulsa riot killed 300 people and destroyed 35 acres of commercial and residential property in a district known as "Black Wall Street." These nefarious events and systemic practices have robbed people of color of their lives, jobs, health, the opportunity to control the destiny of their communities, and the chance to



create generational wealth. The property seized after the Tulsa massacre alone would be worth \$200 million today.

Though less explicit than in the past, systemic issues continue to drive a lack of diversity. As one researcher put it, “Commercial real estate’s whiteness problem does not necessarily stem from pernicious evilness and overt discrimination—although the ghosts of real estate’s racist past are still with us—but it is more about the underlying sociological systems that underpin the industry and how those social systems revolve around the legacy of white social networks. Those social networks are self-perpetuating, and... can lead to social exclusion.”

While we cannot change the past, we can be proactive about the future. Presidio Bay Ventures has long been active in our community in support of underrepresented and minority groups. From our ongoing partnerships with non-profit organizations, to our commitment to cultural and gender diversity in the workplace, we strive to make a true difference in our community. Last year we made a major commitment to When We All Vote, a non-profit, nonpartisan organization working to increase participation in every election and close the race and age voting gap. It is our belief that educating voters and increasing voter participation is *the* key to driving the legislative reform our communities so desperately need to address structural racial and socioeconomic inequalities.

In addition, in the midst of the Black Lives Matter protests in 2020, we took steps to expand our work addressing systemic racism and implicit bias in the industry. In summer 2021, we launched our Presidio Bay Ventures Real Estate Scholarship initiative to give young people of color in the Bay Area an opportunity to gain a foothold in the commercial real estate industry. We partnered with Operation Genesis, a local non-profit whose mission is to instill self-confidence in disenfranchised youth, through the Rotary Club of San Francisco SoMa. Our rotational summer program is designed to provide in-depth exposure to all aspects of development to entrepreneurial high school juniors and seniors who have a strong interest in the real estate, finance, design and construction industries.

Our collective hope is to enhance educational pathways. We want the program to encourage students to think creatively about the built environment and how our communities serve us, while also providing information about and access to the many career paths related to this industry.

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# CHALLENGES FACING BAY AREA HOUSEHOLDS

The United States has the highest child poverty rates among developed countries, and California has the largest number of children living in poverty. There are approximately 1.3 million children in the Bay Area, a region of extreme wealth, and equally extreme income inequality. People in the top tenth percentile in income earn more than 12 times those in the bottom tenth percentile, the highest disparity in the state.

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Some 17 percent of Bay Area households live in poverty, with Black and Latinx families among the most affected groups, according to a 2020 study by researchers at the non-profit Tipping Point Community, the University of California, Berkeley, and the Othering & Belonging Institute. Black and Latinx households with children are twice as likely to be living in poverty as White and Asian American households with children (29 percent vs. 12 percent). Nearly 3,000 Bay Area children are homeless. Even those who live above the poverty threshold are struggling. Half of all Bay Area households cannot pay all of their bills over the course of the year, and one in three ran out of money before the end of the month, the study found.

Education is a crucial component of economic security, and a strong predictor of poverty: Just 9 percent of people who held a bachelor's degree were experiencing poverty, compared to nearly one-quarter of those without a college degree, the report noted. Two-thirds of people with less than a four-year degree said they had difficulty making ends meet, compared to just a quarter of those with a four-year degree or higher. Meanwhile, hardship fuels a vicious cycle: Children in families experiencing economic difficulties missed school more often, impeding one of the most important tools to support a path out of poverty. Those who make it to college face daunting bills, with the average cost rising nearly 500 percent between 1985-1986 and the 2017-2018 academic years, twice the rate of inflation.

The San Francisco Unified School District serves nearly 53,000 students. More than half are eligible for free or reduced lunch, or have parents who did not finish high school. The graduation rate among African American, Hispanic and Native American students is 80.6 percent, 76 percent and 63 percent respectively, compared to 87 percent for all students. (Early indications suggest that remote learning during COVID-19 may have depressed graduation rates for the class of 2021.) But a high school diploma — and even an associate degree — does not make a significant impact on economic outcomes. “We found that having some college, but short of a four-year degree, offers little financial security,” the Tipping Point study noted. And while a college education is considerably more expensive than two decades ago, in California, the income gap between college graduates and non-grads is a whopping 133 percent.

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Along with the promotion of education itself, research suggests that expanding opportunity across industries and geographies can help improve outcomes. “Large employers, industry groups, unions, professional societies, and educational institutions can focus on diversifying talent pipelines into higher-paying fields,” a McKinsey report noted. “Companies can also consider expanding their footprint and corporate operations into underserved communities and more diverse parts of the country.”

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With these significant challenges in mind, Presidio Bay Ventures created a program designed to provide an introduction to the world of commercial real estate development and the melting pot of skills and expertise involved. The eight-week program educates students about the complex process and considerations involved in envisioning and designing a new development, plus the collaboration and stakeholder support required to build it. The program provides exposure to the multitude of related careers that collectively come together to deliver a successful development project, including architecture, construction, finance, community organization, and local government. We assembled a team of individuals across the industry to share their passion about the work they do and its impact on the people and places around them.

Student participants compete for scholarships and the opportunity to receive ongoing mentorship, networking, and career development guidance.

Our first cohort of 12 minority students, ranging from high school students to college seniors, joined us for the inaugural program from June 7 through July 31, 2021. In the first four weeks we hosted a series of sessions led by Presidio Bay's industry partners across a variety of disciplines, including architecture, engineering, construction management, city planning, community organization and finance. Students met in person and virtually via Zoom with our partners for four to six hours per week. They had the opportunity to learn about each field, and ask questions such as: "What does it mean to be a professional within each of these disciplines? What are the career opportunities? What are the real-world applications and impacts of these career paths in our neighborhoods and communities?"

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Each of our professional partners developed individual tracks with a different extracurricular challenge for students to dive deeper through independent work, and the opportunity to earn an additional scholarship award. For example, our community representative curated TED talks, articles, and case studies on successful neighborhood developments, and asked students to reflect and submit proposals on how these lessons could be applied to their communities.

We also hosted surprise guest speakers, including Willie Brown, 87, San Francisco's first Black mayor, who served the city from 1996 until 2004. He spoke passionately about his journey from an impoverished, segregated childhood in rural Texas through college and law school, to become the first Black speaker of the California State Assembly, the longest-serving speaker of that body, and finally mayor. Brown discussed the importance of relationships, mentorship, and seizing opportunities along his path. He also described decisions he made as a city leader about development projects that resulted in radical neighborhood transformations. They include the San Francisco Giants baseball stadium, funded by a private-public partnership and opened in 2000; and Octavia Boulevard, which replaced the Central Freeway damaged in the 1989 earthquake. An area once blighted by liquor stores and auto shops now features pedestrian plazas, parks and trendy retail.



The second half of the program focused on a case study for a site currently under development by Presidio Bay Ventures in the Dogpatch, a vibrant neighborhood between Potrero Hill and the bay, where warehouses have been transformed into residential housing, retail and creative office space. Presidio Bay Ventures acquired Parcel K North, part of the Pier 70 masterplan by Brookfield, where we intend to build up to 250 residential units. Students were divided into teams of three and challenged to create a vision and plan of their own for the development site, similar to a business school case study. We exposed them to different use types, including office, residential and retail, and the benefits and trade-offs associated with each.

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Students had to think critically about how each option responded to the neighborhood and community needs, address architectural and design decisions, evaluate real-world building costs and financial returns, and provide creative ideas to make the building stand out from others and attract users. The groups walked through the process of engaging various stakeholders – including equity partners, city planners and the local community. We discussed pragmatic themes surrounding affordable housing, community pushback and planning restrictions – the hard choices to be made and the frustrations that can accompany them.

Presidio Bay also led site walks through the neighborhood, during which we experienced a concrete example of the power of diversity. Our company had gone through several rounds of discussions with community associations around how the development could honor the neighborhood's history and culture. During our tour, one student suggested a shipyard museum to honor the hundreds of thousands of African Americans who immigrated from the south to the Bay Area in the 1940s to work on military vessels. The student's own grandfather had come to California during this great migration. This history had never been referenced during our prior meetings by any of the community groups -- who tend to include less diverse, upper-income homeowners. And it is difficult to imagine this idea coming from developers who do not have roots in the community.

At the end of the program, each group presented a final project to a panel of four judges, consisting of a representative from each of the industry partners. The winning team of three students received an academic scholarship of \$3,000 per student for up to four years to help fund their college educations. The funds will be disbursed through Operation Genesis, and require a minimum grade point average of 2.5 to be maintained.

## STUDENTS BEGIN TO DESIGN THEIR BUILDINGS AT A HANDS-ON MASSING WORKSHOP HOSTED BY HANDEL ARCHITECTS







## A MODEL FOR OTHER PROGRAMS

Our inaugural scholarship program exceeded our expectations. Students who started out skeptical expressed heartfelt gratitude for the experience and takeaways. As one student put it, “I honestly didn’t even know or care about what real estate development was going into the program. All I knew was that I was pissed off that my neighborhood didn’t look and feel like the wealthier neighborhoods. I didn’t know why, but it was easy to just complain about it but not know what to do about it. After this program, I feel more educated about the process and I feel like I can talk to my family and friends about it more, and educate them on how we can try to drive more change in our communities.” Yet another program participant is already preparing to take a risk on her own real estate venture by raising money from investors to purchase rental properties in secondary markets outside California, where real estate is more affordable for young, atypical players in the business. She will continue to receive access to our internal mentors and partners who can help her avoid mistakes and maximize the chances of success.

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— Student from the 2021 Cohort

With the success of our inaugural program, we are energized by the creative and collaborative possibilities we can harness for the benefit of future students. Using our initial efforts as an anchor, we hope to grow this initiative far beyond San Francisco. In the near-term, we are assisting several participants with follow-up internship opportunities, while other participants from our first cohort have offered to come back next year as volunteers. Every one of our industry stakeholders agreed to return in 2022, and pledged to contribute financially to the scholarship. Other industry partners who heard about the program expressed interest in helping us build on our effort and bringing in more disciplines. In addition, we are working to formalize internship opportunities through a digital job board for alumni and participants, to encourage professional networking within the group. We hope

to eventually create an endowment for students pursuing relevant disciplines or careers: sponsoring a budding architect's portfolio for college applications; paying for certifications and classes; and potentially investing in projects to start their own development careers. We are also looking to create sponsorship opportunities for industry partners who may not be able to directly participate in the curriculum but want to contribute financially. Our goal is to iterate on our initial success and test the limits of what we can accomplish in our own community. Moving forward, we hope that our collective experiences, through an established program, curriculum and "playbook," can become a model for other industry participants in major urban centers across the country to provide the means for upcoming generations to access real estate careers.

Presidio Bay Ventures recognizes that our program is a drop in the ocean of need. Change can be frustratingly slow and incremental. But through collective action we can make a meaningful impact. If we can change the life of even one student, our efforts will have been more than worthwhile. As a recent McKinsey report noted, "Closing racial gaps across the economy is not only about righting historical wrongs. It is also about choosing a more dynamic future and realizing the full potential of a massively underutilized source of talent, to the benefit of all Americans."



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