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# **Impact of Urban Revitalization on Small Businesses: Third Ward Survey**

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# Impact of Urban Revitalization on Small Businesses: Third Ward Survey

## Introduction

This report details findings from “Understanding the Impact of Urban Revitalization on Small Businesses Study,” a research project conducted by the [Baker Institute McNair Center for Entrepreneurship and Economic Growth](#) in cooperation with the [Ewing Marion Kauffman Foundation](#). The community-engaged study, which began in January 2022, sought the perspectives of small business owners in a historically African American community experiencing economic and demographic change. The goal of the study was to learn directly from [Third Ward](#) business owners and community members how urban redevelopment impacted small businesses in the ward during 1999–2021.

This research was conducted with the assistance of community research assistants TaCorra Brooks, Vernon Jackson, Natasha Living, and Leah Clark. The study also analyzed community business revenue data. Findings were presented to the Third Ward community on March 25, 2023.

## Survey Methodology

The study began with researchers sampling businesses with 99 or fewer employees located in the 77004 zip code – heart of Third Ward in Houston, Texas.

- An introductory letter was sent to approximately 1,600 businesses in that zip code requesting their voluntary participation in an online questionnaire.
- The letter provided a web link to a unique participant code allowing participants to complete the confidential survey.
- The survey asked business owners about their perspectives on operating a business in a community undergoing economic development initiatives.
- The survey consisted of original and adapted survey questions.

In March 2022, field data collection began. Third Ward community research assistants, TaCorra Brooks, Leah Clark, and the principal researcher, Alisha Small, performed field research within Third Ward. The research team met weekly at the community partner SHAPE Community Center and proceeded to visit businesses across the ward. The researchers visited over 650 business locations and performed data collection through personal visits to business owners – these visits account for over 90% of the data collected for the study.

## Summary of Participants

In total, 52 business owners within Third Ward responded to the survey. The businesses employed an average of six employees and the majority of respondents identified as male (54%).

**Race** – Nearly 6% chose not to disclose their racial identity, and other respondents identified their racial background as follows (figures are rounded): 67% Black or African American, 12% white, 12% Asian, 2% Middle Eastern or North African, and 2% multiracial or biracial.

**Education** – The educational attainment levels of the sample were:

- High school: 17.7%.
- Associate’s degree: 15.7%.
- Bachelor’s degree: 31.4%.
- Master’s degree: 31.4%.

**Age** – Most of the survey respondents (67%) were between the ages of 25–64 and nearly 29% were 65 or older.

## Survey Results

The survey participants were asked questions on a wide range of business-related themes:

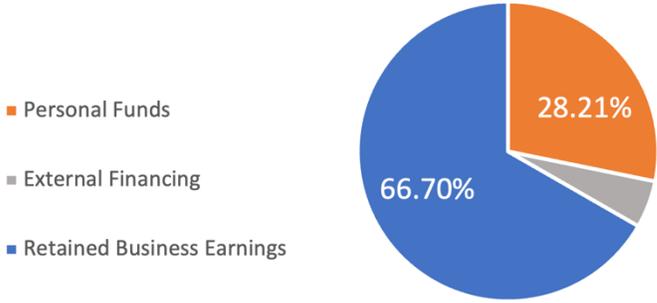
- Access to capital.
- Perception of inclusiveness.
- Business owner characteristics.
- Business owner income.
- Perception of business success and satisfaction with urban renewal.
- Financial challenges.
- Business characteristics and operations.
- Utilization of external business resources.

In the next sections we examine, discuss, and illustrate the results of each topic in turn.

## Access to Capital

As having access to capital is integral to building, maintaining, and growing businesses, the questionnaire inquired about Third Ward business owners’ views regarding the availability of capital, either from outside sources or from personal or family sources.

**Figure 1 – How much do you rely on personal or family savings for ongoing business capital needs?**



**Source:** Figure created by authors from survey data.

As shown in Figure 1, two-thirds (67%) of respondents primarily used retained business earnings to fund their operations. Furthermore, nearly 30% relied on personal funds to fund the business. Only 5% reported relying on external financing.

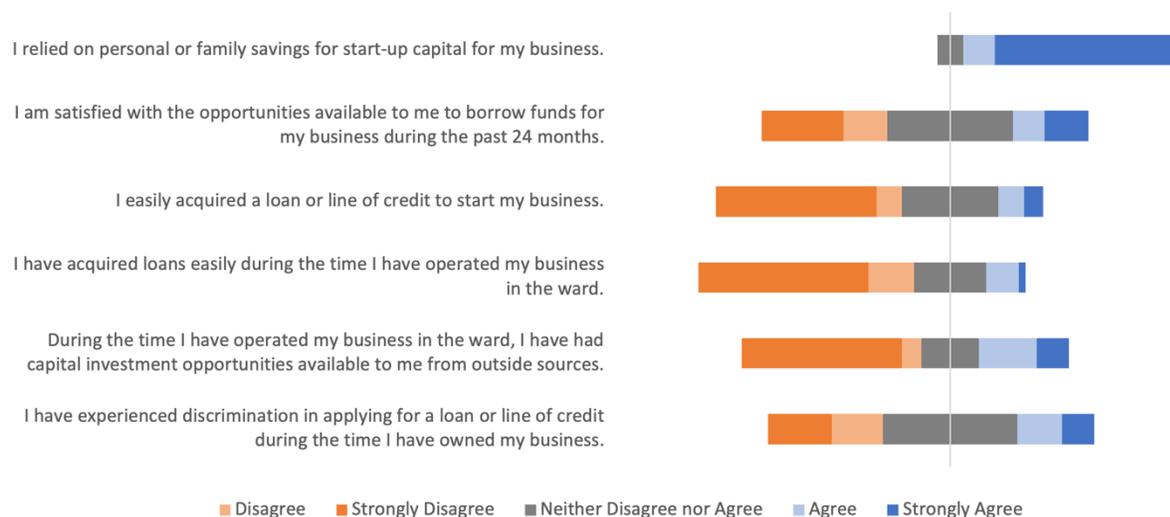
**Applications for Financing** – The survey asked business owners if they had applied for financing in the previous 24 months (2019–21). More than two-thirds (68%) of the respondents did not apply for any financing; about a quarter (24%) did.

Due to the role that credit scores play in the approval of business financing, the questionnaire also asked about the type of credit score on which business owners relied. When applying for financing:

- Around 53% of respondents depended on their personal credit score.
- 22% relied on the business’s credit score.
- 14% relied on both personal and business credit scores.

As illustrated in Figure 2, for those who did seek external financing, a loan/line of credit (36%) and a credit card (20%) were the top two types of financing reported. Less than 20% of businesses used other types of financing such as equity investment, merchant cash advance, factoring or leasing. There was nearly an even split between respondents who held outstanding debt – 51% reported they had outstanding debt and 46% did not.

**Figure 2 – Do you agree with the following statements regarding capital either from outside sources or from personal/family sources to start and operate their business?**



**Source:** Figure created by authors from survey data.

**Note:** The questioning covered access to finance to start and operate their business from either outside sources or from personal or family sources.

**Ease of Access to Financing** – For start-up and operating costs, the majority of the business owners (57%) relied on personal and/or family savings. A similar proportion (55%) agreed that capital investment opportunities were not readily available to them for these purposes.

Although 22% of those surveyed agreed that borrowing funds was easy, close to 40% felt that borrowing funds for initial and operating costs was a difficult process. Most respondents reported it was not easy to acquire a loan or line of credit to start their business, both in general terms and specifically from resources within Third Ward.

**Discrimination** – Responses to the questions about discrimination were varied. Faced with this statement, “I have experienced discrimination in applying for a loan or line of credit during the time I have owned my business,” more than a third (35%) of the business owners disagreed, while 41% neither agreed nor disagreed.

However, 24% agreed that they had experienced discrimination in the process of applying for a loan or line of credit. Among those who perceived discrimination, 50% attributed it to their race, 28% to their gender, and 17% to their ethnicity.

## Perception of Inclusiveness

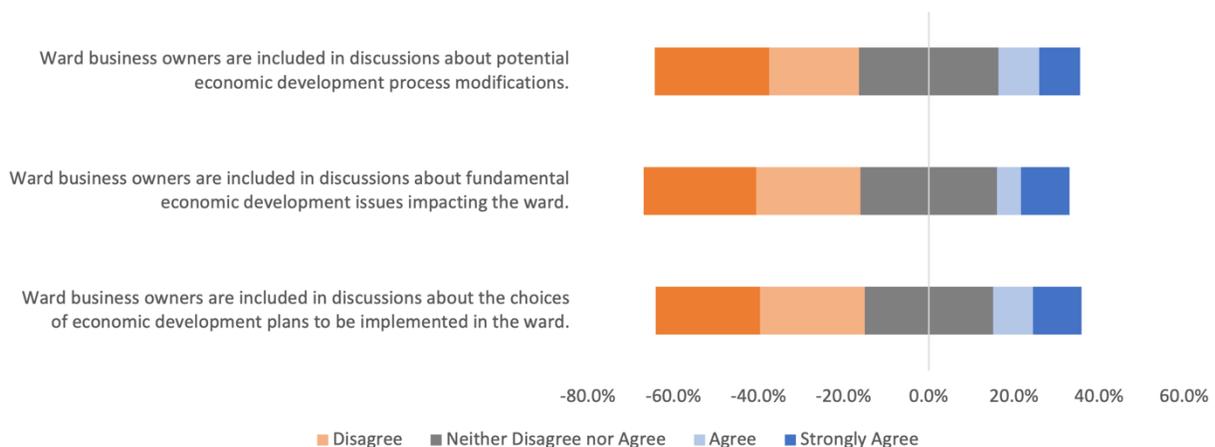
As part of the Third Ward Urban Redevelopment Plan of 1999 and the [Complete Communities Initiative of 2017](#), the City of Houston invested in revitalization programs to enhance economic development in Third Ward. The questionnaire gathered business

owners’ perceptions regarding the extent to which they felt included in shaping the development in the community. The survey responses also illustrate owners’ views of their businesses’ performance in the period 1999–2021, when the revitalization programs were operating.

Business owners were asked if they were made aware of urban revitalization programs through offerings such as a public hearing or discussion, business council, education, or seminar during the redevelopment period. A vast majority, 90%, responded “No.”

As shown in Figure 3, about 50% of those surveyed believed that they were not included in the ongoing urban redevelopment decision-making processes during the period under study. As seen in the figure below, nearly 50% did not think that Third Ward business owners were included in the economic development discussions about fundamental issues impacting the ward, potential development process changes, or development plan choices to be implemented. However, almost one-third (30%) of the owners’ responses were neutral – neither agreeing nor disagreeing that they were included in such discussions.

**Figure 3 – Do you agree with the following statements regarding business inclusion in the urban renewal?**



**Source:** Figure created by authors from survey data.

## Business Owner Characteristics

**“Cross-Generational Know-How”** – This is a term used in the research to explain business knowledge or education passed down to business owners from previous family generations or family members. To understand the extent of cross generational business knowledge transfer, the survey inquired about the family history of business ownership.

Results show that 75% of respondents came from families where their grandparents did not own a business. Although a majority of the respondents (57%) did not have parents who were entrepreneurs, 43% reported that they did.

**Longevity** – Additionally, nearly half (45%) of the business owners operated a family-owned business in Third Ward. However, only 15% reported that the business was passed down to them from a previous generation, and almost half (47%) planned to pass their business to the next generation. More than half (57%) of the surveyed Third Ward business owners were first-generation entrepreneurs.

Over a third (35%) reported that their current business was their first, 20% reported that they had started two businesses in their career, and another 22% reported starting three businesses in their time.

**Educational Background of Business Owners** – Business was the most common field of study, at 33%. Beyond that, respondents’ survey answers varied widely, with 46% falling into the “other” category – ranging from education, communications, human resources, law, health care, geology, to photography. The data provides further detail of education attainment for the business owners:

- One-third had earned a bachelor’s degree.
- 31% had a master’s degree or higher.
- 31% had a parent who attained a high school or GED level of education.
- Just over 20% of the owners’ parents obtained a bachelor’s degree and 17% had a master’s degree or higher.

**Residence of Business Owners** – Only a quarter of the business owners grew up in the Third Ward 77004 zip code, which covers the largest part of the ward. Among those who lived in Third Ward, almost half (45%) had lived there for more than 10 years. For those business owners who did not live within the 77004 area, the most common other residence zip codes are listed in Table 1.

**Table 1 – Business Owner Residence by Zip Code**

77003	Second Ward
77019	Fourth Ward
77021	Greater Third Ward
77057	West of 610, North of I-69
77071	Fondren/Meyerland
77401	Bellaire

**Source:** Table created by authors from survey data.

## Business Owner Income

The research evaluated household income of owners in the ward in 2019 prior to the COVID-19 pandemic and after the pandemic in 2022, the year of data collection.

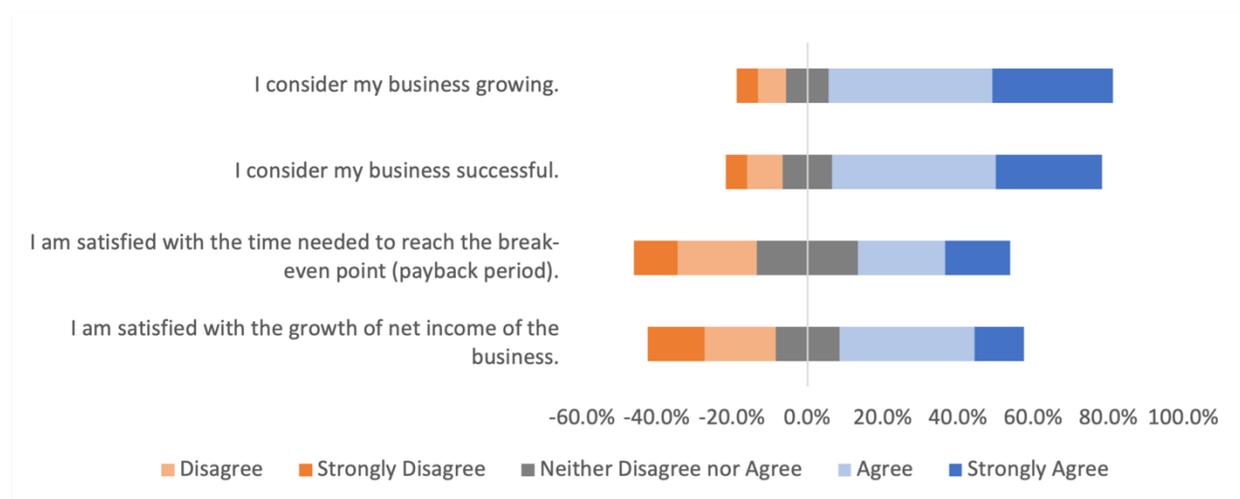
In 2019, slightly over a quarter (26.5%) of the business owners surveyed earned \$50,000 or less as their annual household income. Another quarter (24.5%) earned between \$50,000 and \$100,000. Only 10% brought home between \$100,000–\$250,000 in earnings. In 2019, over 35% of the owners reported that all of their household income was derived from their current business: Compare 2022, when 29% reported all their household income came from their current business.

## Perception of Business Success and Satisfaction with the Urban Renewal

Given that various urban renewal and revitalization programs were started in Third Ward between 1999 and 2021, the survey asked business owners to elaborate on their experiences of operating a business during this time (Figure 4). They were also asked about their perceptions of the performance of their business and the extent to which they were satisfied with the redevelopment.

A majority of the respondents perceived their business as growing (72%) or as successful (75%). However, fewer business owners, about 40%, were satisfied with the net income growth of their business or the time it took their business to reach the break-even point.

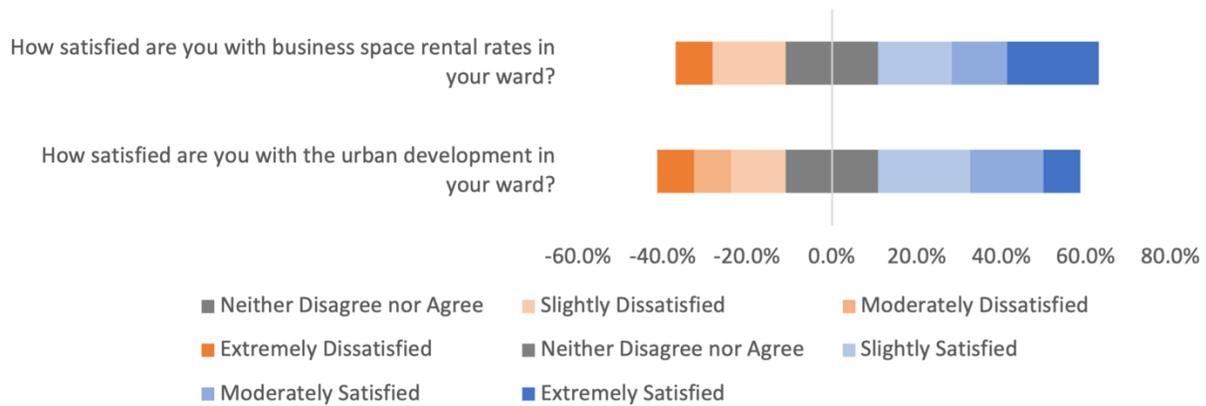
**Figure 4 – Do you agree with the following statements regarding the success of your business and your satisfaction with your business?**



**Source:** Figure created by authors from survey data.

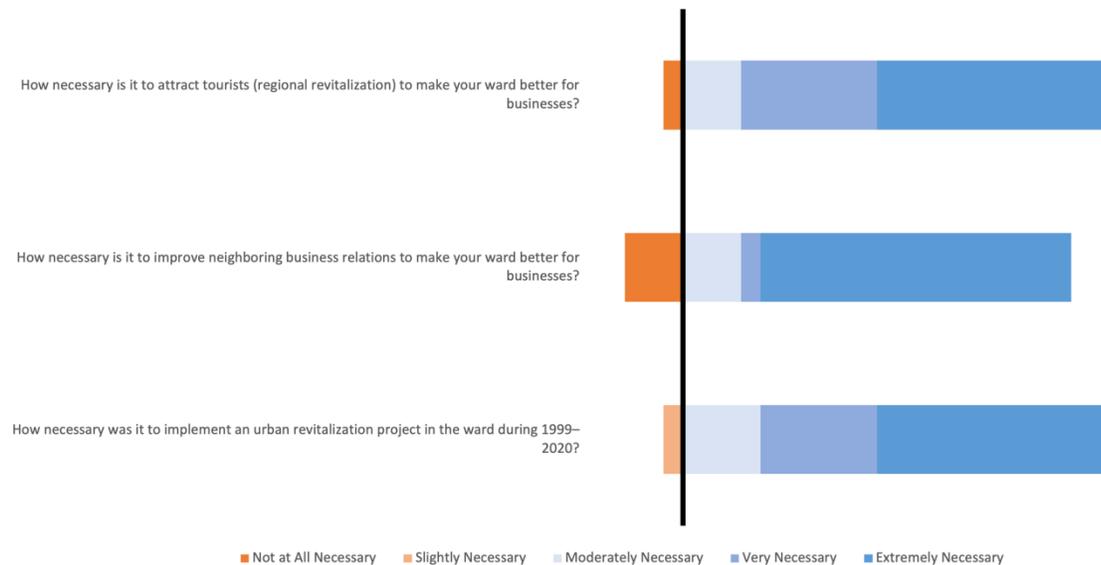
The questionnaire also asked if it was necessary to implement redevelopment in Third Ward, and all respondents (100%) thought it was. Overall, nearly 40% of owners reported being satisfied with the development in the ward (Figure 5). Questions were also asked about local neighborhood revitalization and neighboring business relations, with a clear majority seeing these as necessary (Figure 6).

**Figure 5 – How satisfied are you with the rental rates and urban development?**



**Source:** Figure created by authors from survey data.

**Figure 6 – How necessary are the following items regarding the redevelopment in the Ward?**



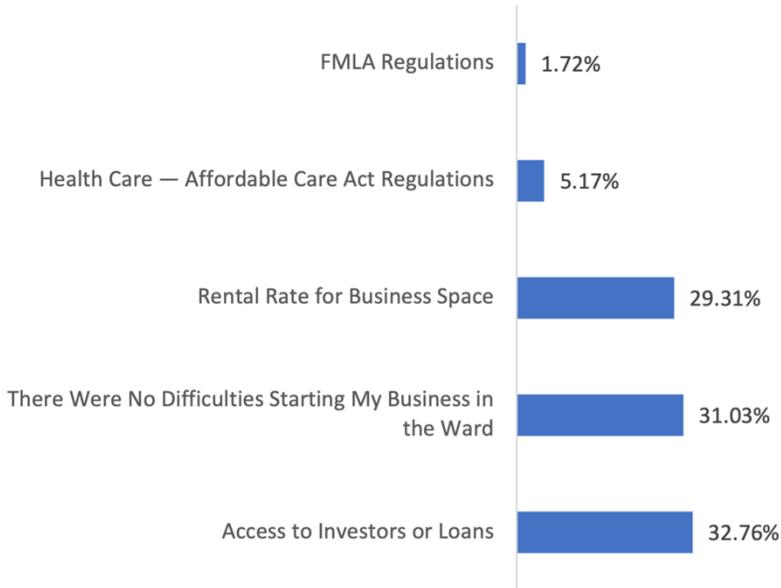
**Source:** Figure created by authors from survey data.

# Financial Challenges

The survey examined financial impediments business owners in Third Ward experienced during the period of urban revitalization and through the COVID-19 pandemic (Figure 7). Although a third of the respondents noted that they did not experience any financial difficulties in establishing their businesses, others identified the primary financial barriers as:

- Rental rates for a business venue.
- Access to investors and loans.

**Figure 7 – Are there factors that made it difficult to start your business in the Ward?**



**Source:** Figure created by authors from survey data.

In addition to the initial financial barriers, owners provided information on specific financial challenges in the previous 24 months (2019–21) and how they mitigated these challenges (Figure 8). One third highlighted the difficulties they faced in covering operational expenses, acquiring inventory or supplies, and managing debt repayment.

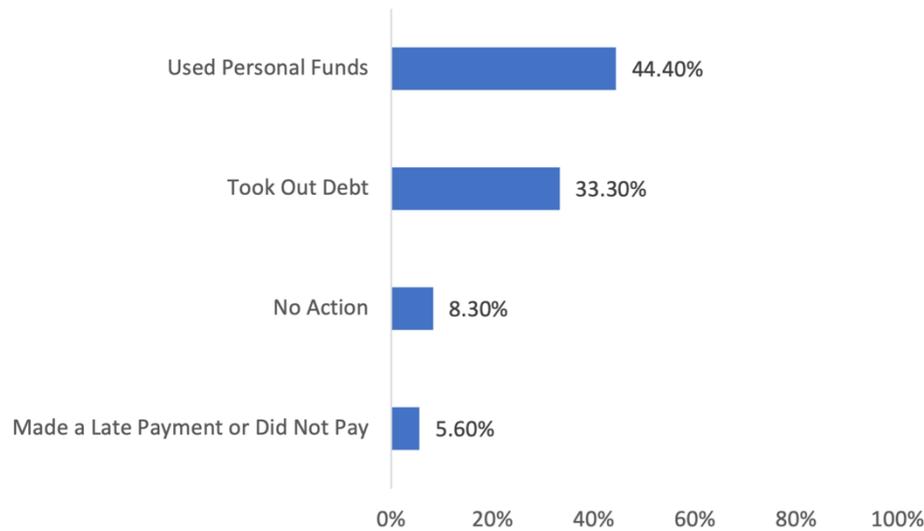
- About half (44%) mitigated these challenges by funding their business expenses using personal funds.
- Almost a third of the business owners took on more debt to resolve their financial barriers.

**Figure 8A – What financial challenges did you experience and what actions did you take?**



**Source:** Figure created by authors from survey data.

**Figure 8B – What actions did you take to mitigate financial challenges?**



**Source:** Figure created by authors from survey data.

Other financial challenges noted by owners:

1. Mechanical break-downs.
2. Staff issues.
3. Slow sales.

4. Keeping good product for sale.
5. Growing relationships with prospective funders.
6. COVID-19.

## Business Characteristics and Operations

Business owners also provided a perspective on the type of businesses operating in Third Ward. The following show the array and share of industries represented by the businesses.

**Table 2 – Types of Businesses**

Retail Trade	30%
Professional, Scientific, and Technical Services	13%
Health Care and Social Assistance	11%
Accommodation and Food Services	11%
Manufacturing	9%
Arts, Entertainment, and Recreation	8%
Other Services	8%
Educational Services	4%
Real Estate and Rental and Leasing	4%
Finance and Insurance	2%

**Source:** Table created by authors from survey data.

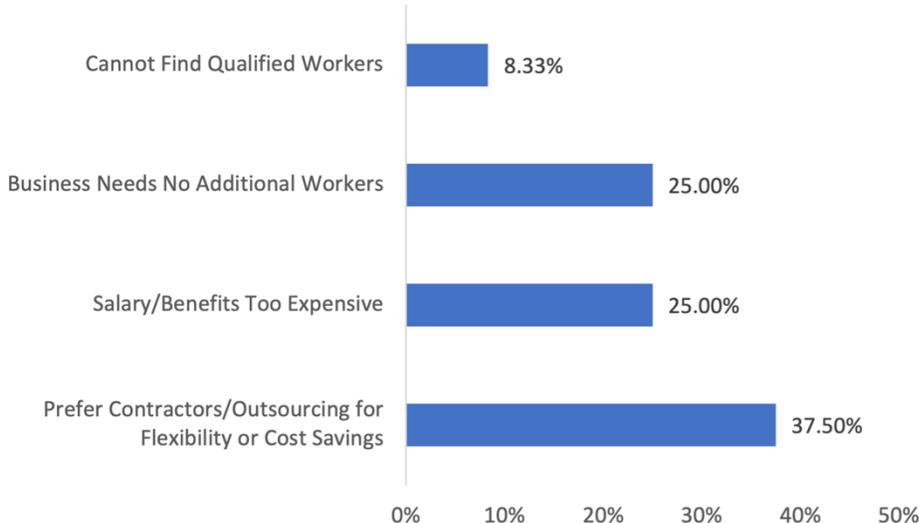
**Note:** Percentages are rounded to the nearest whole number.

The retail industry led the responses at 30%. The next highest industry share – 17 percentage points lower – was professional, scientific, and technical services at only 13%. [This sector includes](#) services such as legal, management consulting, accounting, and engineering.

**Business Longevity and Experience** – Thirty-seven percent of businesses had been operating in Third Ward for two to five years. Over a quarter (27%) had established roots in the ward for 20 years or longer. Meanwhile 15% of businesses had been in the community between six and ten years, with only 10% of surveyed businesses being newcomers, in operation for less than six months.

**Hiring Practices** – Close to 60% of the owners had paid employees not including the owner and contract workers, whereas 39% reported they had no such employees. Figure 9 shows owners’ top reasons for not having employees.

**Figure 9 – Why have you chosen not to hire payroll employees?**



**Source:** Figure created by authors from survey data.

The average number of full-time employees reported by owners was six, while the average number of part-time employees was two. As to contract workers, replies were almost evenly split, with 46% of respondents stated that they hired contract workers and 43% indicating that they did not.

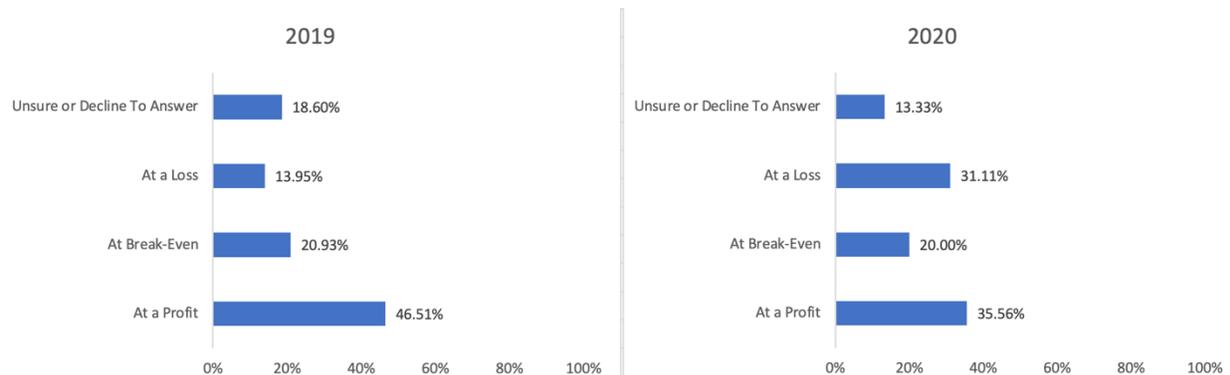
When asked about their future revenue, owners were optimistic: More than three-quarters (77%) expected revenue to increase over the next 12 months – 16% did not expect any change. Regarding new hiring, responses were divided: Although 51% did not expect to see a change in the number of employees they employed over the next year, 48% reported that they did expect to increase their hiring over the same time period.

### **COVID-19 Pandemic Impact on Operations**

Business owners reported a 10% decline in profits in the first year of the COVID-19 pandemic. Comparing business operations in 2020, the first year of the pandemic, with the year before:

- Nearly 47% of respondents indicated that their businesses earned a profit in 2019 compared to only 36% in 2020.
- In 2019 only 14% of the businesses ended the year at a loss: This percentage more than doubled in 2020 with 31% reporting a loss (Figure 10).

**Figure 10 – At the end of the following years was your business operating at a profit, break-even, or loss?**



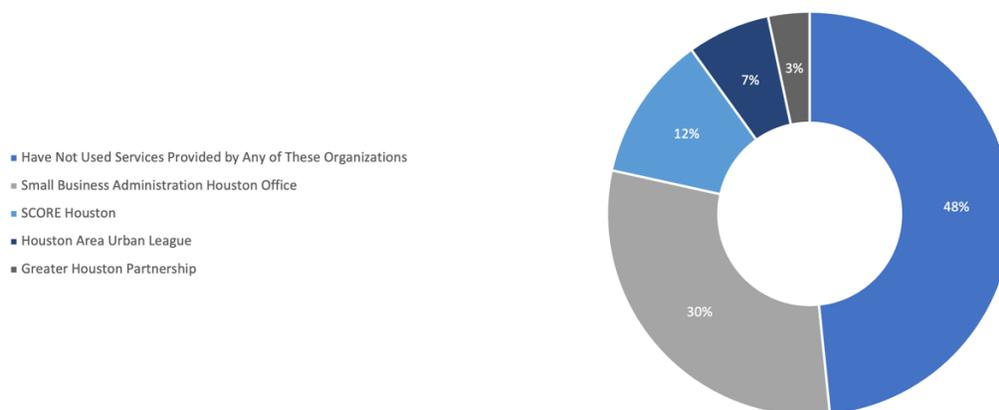
**Source:** Figure created by authors from survey data.

### Utilization of External Business Resources

The survey assessed whether Third Ward business owners accessed services such as mentoring programs for entrepreneurs and networking offered by certain organizations or agencies that primarily serve the small business community. Almost half (48%) of the respondents did not use any of these services (Figure 11). A third (30%) of the respondents received services offered from the Houston office of Small Business Administration. Only about 10% of the business owners were also familiar with the Houston chapter of SCORE (Service Corps of Retired Executives).

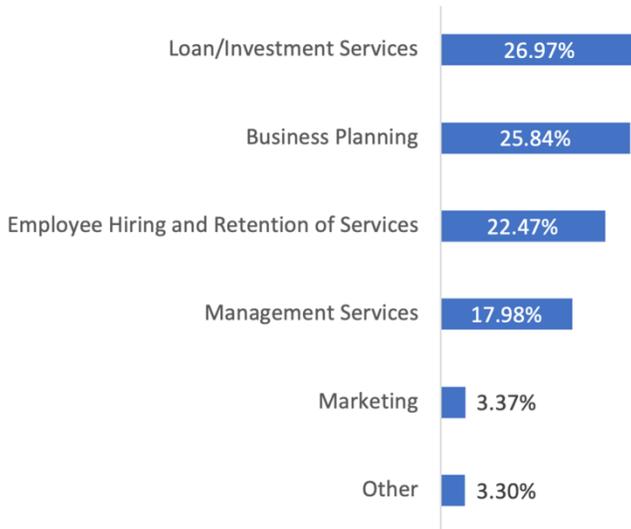
Figure 12 shows the services that respondents felt would be useful. Additional resources noted by respondents in the “other” category included technology, training, and business scholarships.

**Figure 11 – Have you used services provided by any of the following organizations?**



**Source:** Figure created by authors from survey data.

**Figure 12 – What services would be most helpful to your business?**



**Source:** Figure created by authors from survey data.

## **Community Benefits from the Research**

One aim of the community-engaged research was to provide a tangible product to be a resource to the community. When asked in the questionnaire if an online business directory would be helpful for their business, 96% responded positively.

Thus, as part of the study, an [online Third Ward community business directory](#) was developed for Third Ward business owners at no cost to them. This free resource will remain within the community for future business support through a community partnership with the Greater Southeast Management District.

In addition, an [online business map](#) showing business dynamics of the community in the period 2000–21 was produced by the Rice University Spatial Studies Lab team. The map also features a historical gallery of “Houston Forward Times” business articles from the personal archives of Georgia Provost. Provost is the author of the featured articles and owner of the 75-year-old Third Ward photography business, Provost & Associates.

## **Community-Engaged Results**

These research results – covering access to capital, business owners, perceptions associated with urban renewal, financial challenges, business characteristics, and business resources – are a product of more than 14 months of community input. The research team developed positive, long-term relationships with Third Ward business owners, community members, and stakeholders who are foundational to the results of this work. The project concentrated on outreach to hundreds of business owners to gain their perspectives. Alongside community research assistants, community

members, and community partners, the study focused on leaving tangible economic, educational, and historical benefits to leave within Third Ward after the completion of the research. Without the participation of the Third Ward business community, and the support of Third Ward stakeholders the study could not have been accomplished. The McNair Center for Entrepreneurship and Economic Growth and the Ewing Marion Kauffman Foundation acknowledge and appreciate the community partnerships forged from the research.