

A Final Nail in the Coffin:
The Destruction of Houston's Minority-Owned
Restaurants Following the COVID-19 Pandemic

UGS 303: Afro-Entrepreneurship

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ABSTRACT

The COVID-19 pandemic has had an unprecedented impact on the health of small, minority-owned businesses in the United States. However, in the incredibly diverse city of Houston, Texas, the combination of decades-long and ongoing gentrification processes and, more significantly, the recent effects of the pandemic have left Black, Asian, and Latinx restaurant owners in a state of economic disarray - Houston's minority-owned small business sector has been bleeding for years and is now on the verge of collapse. The accelerated introduction of large corporate firms in Houston over the past several decades, such as Starbucks, KFC, and Chick-fil-A, has consistently threatened traditionally "hole-in-the-wall" restaurants by boasting unmatched low prices and efficient service - leaving smaller, minority-owned firms in a massive competitive slump. Coupled with the latter, the COVID-19 pandemic has now proved to be the fatal blow in the heart of Houston's minority entrepreneurs, with over 90% of Houston's small businesses reporting record low revenues in 2021.

To understand the recent dwindling of Houston's minority-owned restaurant population following the COVID-19 pandemic, minority restaurant owners in the Houston area were interviewed to gain insight into the various lockdown-related grievances, issues, and plans of action small entrepreneurs support in the hopes of revitalizing their firms. Utilizing this information, proposals that seek to expedite the recovery of and protect minority-owned small businesses can be devised. Subsequently, Houston's historically and culturally significant stores and shops can be effectively safeguarded to ensure that Space City remains the bustling, lively metropolis it has been for years.

INTRODUCTION

During the 2000s, Houston had seen enormous growth in the prevalence of chain-operated firms, such as McDonald's, Burger King, and Popeye's, as gentrification weeded out minority-owned restaurants and facilitated an influx of corporate business (Sin 2020). In fact, as of 2018, the city currently possesses the highest gross number of fast-food restaurants out of all major cities in the United States, with over 200 more locations than Chicago, Las Vegas, and San Antonio individually (Mattone 2018). This stark increase in fast-food chains within the Houston metropolitan area had become a byproduct of Houston's lengthy gentrification crisis as large corporations quickly became the only firms capable of maintaining healthy storefront operations in the face of skyrocketing property and living costs (Sin 2020). A 2011 study on such cost jumps found that the historically minority-populated communities of the Third Ward and Fifth Ward had seen median housing price increases of more than 30% from 2000 to 2010 (Podagrosi et al. 2011). A more recent study by Rice University expanded on the previous claim, finding that median housing prices had increased from 2011 to 2018 by over 120%, on average, as Houston's gentrification process rounded an exponential turn (Park 2021).

High-cost conditions had cornered Houston residents to rely on fast-food chains as their primary destination to "eat out" since chain firms are able to provide significantly greater amounts of food at more affordable prices, are more time-efficient, and boast higher availability than most minority-owned restaurants (Sirna 2013). Today, Houston's small businesses are unable to compete with the sharp productivity and low prices of large corporate chains due to a variety of reasons - the most prominent being the lasting effects of redlining practices in Houston communities during the 1930s. Redlining, a direct precursor to the process of gentrification, is a now illegal procedure by which legislative bodies and financial institutions demarcated low-

income regions of a city that were considered “off-limits” in the lending process. In Houston, this process was primarily conducted in minority communities and prevented ambitious entrepreneurs from obtaining housing, car, and business loans (Holmes and James 1996). Despite now being officially outlawed, the effects of redlining have seeped inescapably deep into the modern lending process as minority entrepreneurs currently comprise only about 25% of total Small Business Administration (SBA) loans distributed each year (Lee et al. 2017). Additionally, over 55% of minority entrepreneurs admit to not applying for credit out of fear of being turned down by lenders (Federal Reserve Bank of New York 2016). As a result of limited lending success, minority-owned businesses face low startup capital. Thus, they are forced to place ceilings on their workforce numbers, operational costs, and even the type of industry they can reasonably enter, as many business sectors, such as oil and gas, require high amounts of initial capital and investment (U.S. Census Bureau 2016).

In this manner, the impact of gentrification, including redlining, had essentially removed the safety net of minority-owned small businesses in Houston by minimizing startup capital and forcefully downsizing overall operations (Sin 2020). Before the COVID-19 pandemic, Houston’s small businesses, particularly its restaurants, tread upon thin ice due to the rapid emergence of corporation-backed competition and the absence of legislative action to protect minority firms (Dua et al. 2021). The cumulation of such factors had left Houston’s vivid restaurants, whether the “Asia-town” wonders of Bellaire or the soul food spots of the Fifth Ward, with no reliable backup plan or failsafe - reducing them to highly vulnerable businesses prior to the COVID-19 pandemic and effectively setting them up for failure during ensuing lockdown measures (Dua et al. 2021).

METHODS

To analyze both whether and the extent to which Houston's minority-owned restaurants have been affected by the COVID-19 pandemic, as well as gain insight into their recovery process, the following procedure was conducted: 40 minority-owned restaurants in the Houston area (limited to the counties of Waller, Fort Bend, and Harris) were contacted asking a set of predetermined questions. Interviews were either conducted by phone or email, and the owner was the only interviewee for each - all other employees, such as cashiers, managers, and cooks, were not interviewed - if the owner was unavailable, the restaurant was contacted during the next business day as a follow-up to speak with the owner, specifically. Out of the 40 restaurants contacted, eight declined the interview, five did not respond, two responded but left various questions incomplete and the survey was discarded. Our final sample included twenty-five respondents: twelve Black, nine Latinx and four Asian businessowners (Figure 1).

Questions posed in each interview with possible responses in parentheses:

- Did you suffer unprecedentedly low revenues during COVID-19? (*Yes/No*)
- Have your revenues recovered since January 31, 2021? (*Yes/No*)
- Describe the extent to which your revenues have recovered. (*Not at all, Slightly, Moderately, Almost, Fully*)
- Have you noticed an increase in the number of chain restaurants in the Houston area? (*Yes/No*)
- Describe the extent of your concern regarding the competition of these chains. (*Not at all, Slightly, Moderately, Quite a bit, Very*)

- What do you think was your biggest non-personal issue during and after the COVID-19 pandemic? (*Responses were open-ended and then summarized into short descriptions*)
- What do you think needs to happen on the legislative level for your business to successfully recover? (*Responses were open-ended and then summarized into short descriptions*)

Interview responses were then compiled and examined to observe trends in the data and make conclusions about the overall results. Through this, propositions seeking to rebuild minority-owned restaurants can be developed and implemented with the best interests of the respective business owners.

RESULTS

All respondents reported that they suffered unprecedently low revenues during the COVID-19 pandemic (Figure 2).

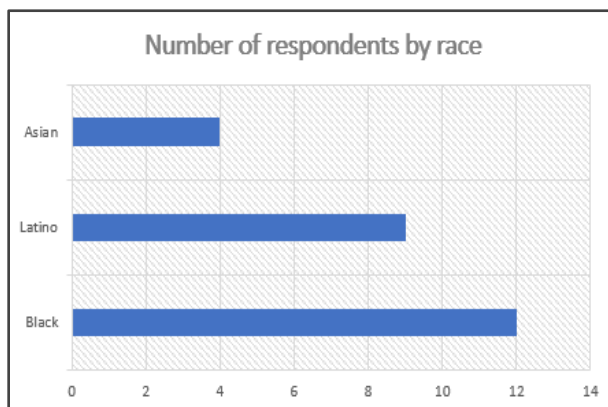


Figure 1. (Source: Author)

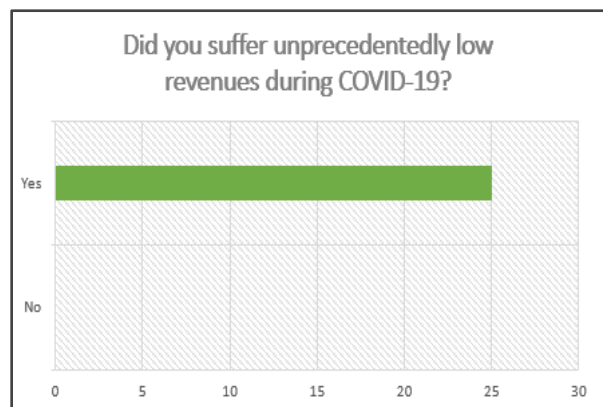


Figure 2. (Source: Author)

The majority (84%) informed that they had not yet recovered from the loss in revenue (Figure 3). Additionally, Figure 4 shows that three restaurant owners have not recovered at all and 16 have only slightly recovered.

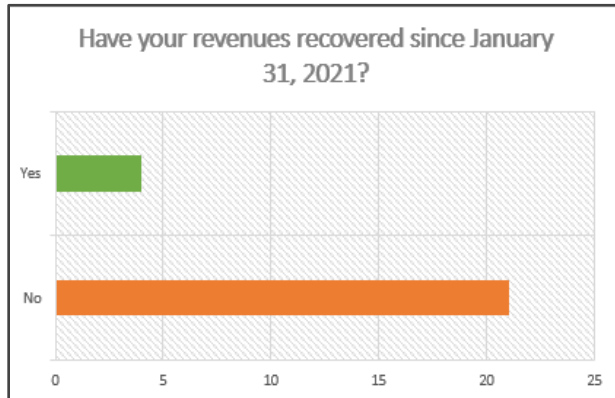


Figure 3. (Source: Author)

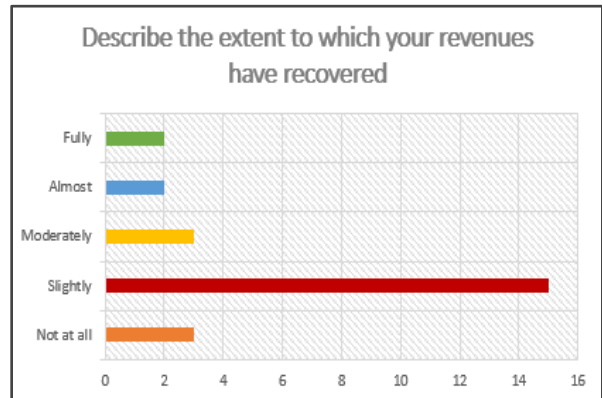


Figure 4. (Source: Author)

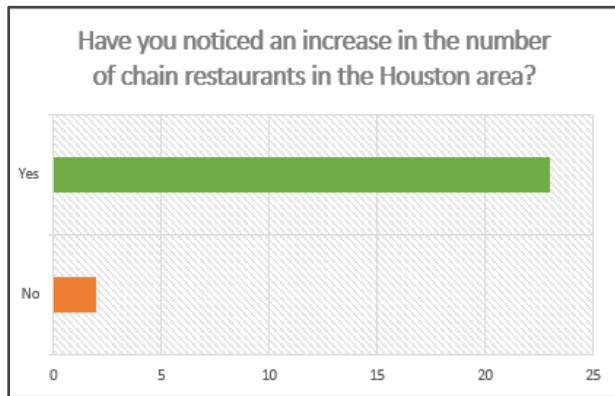


Figure 5. (Source: Author)

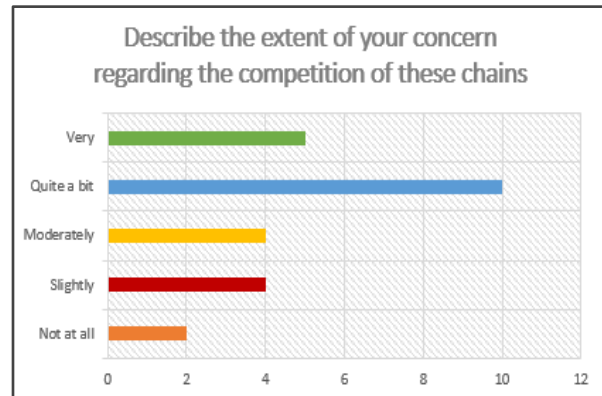


Figure 6. (Source: Author)

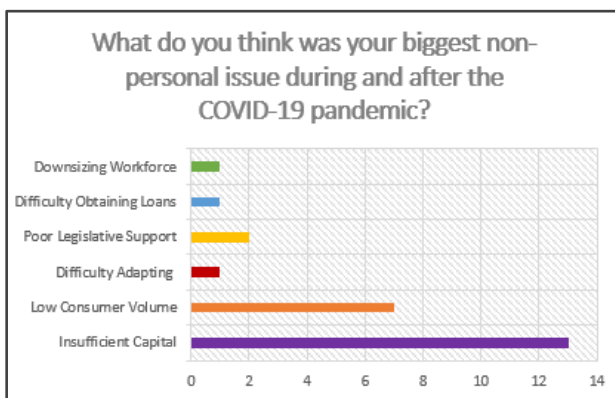


Figure 7. (Source: Author)

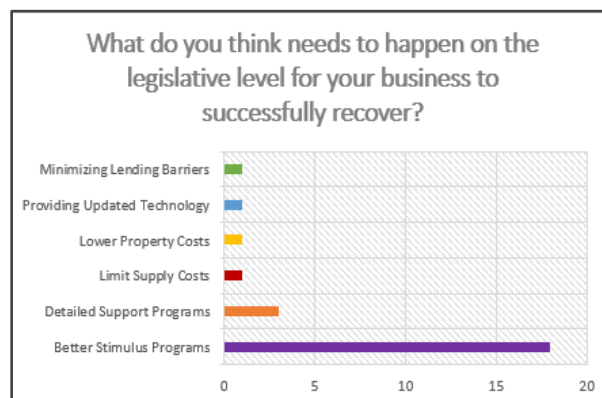


Figure 8. (Source: Author)

DISCUSSION

Upon further review of the results, it is evident that the recovery processes of Houston's minority-owned restaurants have yet to make sufficient progress (Figure 3 & Figure 4). To combat this, several major issues regarding the fitness of these businesses must be addressed to successfully rebuild: concern revolving around the expansion of fast-food corporations in the market (Figure 6), low consumer volume and insufficient capital (Figure 7), and the need for improved stimulus programs (Figure 8).

The rapid emergence of fast-food chains within the Houston area has been a significant source of worry for minority-owned restaurants during the COVID-19 pandemic, with 92% of owners interviewed stating that they had both witnessed an increase in the number of and expressed some degree of concern regarding the recent overreaching of fast-food restaurants in Houston (Figure 5 & Figure 6). While direct legislative procedures that limit the number of chains a corporation can operate within a region are unlikely to pass, indirect measures may be used to strike down the growing quantity of fast-food chains in the city. Most notably, Houston may implement zoning regulations for fast-food restaurants that restrict the number of chain outlets per unit area to improve the overall nutritional environment (Mair 2005). This strategy was famously implemented in south Los Angeles in 2007 by which LA City Ordinance 180103 simultaneously prevented the expansion of fast-food chains in the city, decreased the concentration of fast-food outlets per unit area, and increased the difficulty of obtaining a property permit for a fast-food operation by, for instance, requiring all incoming chains to adhere to strict dietary safety guidelines (Los Angeles Department of City Planning 2007). In this manner, the number of fast-food chains in Houston may be reduced without directly targeting the

freedoms of corporate firms, which may lead to both legal and legislative back-and-forth, and instead placing the focus on bolstering the city's nutritional environment.

Besides concern regarding fast-food expansion, other substantial grievances noted by Houston's minority restaurant owners were low consumer volume and insufficient capital, with 80% of interviewees listing either problem as their primary non-personal issue during the COVID-19 pandemic (Figure 7). While consumer volume can often be increased through abundant and repetitive advertising, such strategies are quite expensive; thus, insufficient capital prevents the ability to do so - in this way, capital and consumer volume are mutually connected, with one typically suffering without the other (Dorestani et al. 2006). Addressing both issues simultaneously is possible through a complete reformation of the modern lending process by which minority-owned businesses can more easily access capital, enabling them to reimburse it into their business and invest in avenues such as advertising, increase profits through higher consumer volume, and then repay the loan in a reasonable amount of time. Such an approach would be accomplished by dividing the lending process into two key checkpoints: a preliminary process that involves artificial intelligence (AI) reviewing a client's portfolio to approve a loan, thus minimizing the risk of racial bias, and the second which involves a human lender finalizing the loan, albeit with less authority. Currently, lenders often exercise discrimination toward minority entrepreneurs by treating them as more hostile during consultations and demanding greater degrees of financial stability than White male entrepreneurs (Lee et al. 2017). The implementation of AI would eliminate such obstacles for minority entrepreneurs and, overall, serve as a more just method of distributing funding, centering more on a client's business plan, profitability, and financial background rather than their race/ethnicity (Dolgorukov 2021). In this

manner, minority-owned restaurant owners in the Houston area can readily access and obtain funding, use it to strengthen their business, and then reciprocate the loan promptly.

Finally, a potential course of legislative action supported by Houston's minority restaurant owners was improved stimulus programs, with 72% stating that they received insufficient government funding during lockdown measures (Figure 8). To effectively increase stimulus capital provided to small businesses, it may be useful to first examine the differences between the two major stimuli distributed by the Small Business Administration (SBA) during the COVID-19 pandemic: Economic Injury Disaster Loans (EIDL) and Paycheck Protection Program (PPP) loans. EIDLs are to be used for any operating expense of a small business, including payroll, rent/mortgage, and utilities, while PPP loans are also applicable to any operating expenses, but 60% of the total capital received must be allocated to payroll (Small Business Administration 2020). However, since minority-owned small businesses typically have much smaller workforces, on average, than White-owned small businesses, this results in disparities between how effective PPP loans are by race (Zhou 2020). EIDLs, on the other hand, are more beneficial to minority-owned small businesses as they do not place restrictions on where capital is dispersed, allowing for a holistic method of recovery (Fairlie & Fossen 2021). Thus, a possible approach to improving stimulus programs for minority-owned small businesses would be to attribute greater amounts of funding to the EIDL program while simultaneously lowering the funding of the PPP to avoid any inflationary outcomes. In this way, minority-owned restaurants in Houston can capitalize on EIDLs as a jump starter to expedite the rebuilding of their businesses.

CONCLUSION

Houston's minority-owned small business population is a rich amalgam of culture, tradition, and bold ambition that represents the heritage and pride of the many ethnic enclaves within the city: Hillcroft's Mahatma Gandhi District, Bellaire's Chinatown, west Houston's Little Ethiopia, Greater Houston's "Katzuela", and countless more. After a near-century-long and continuous battle against gentrification and, more recently the tribulations posed by lockdown procedures enforced by the COVID-19 pandemic, it has become more crucial than ever to actively take steps to ensure the protection of the city's stunning diversity. Without measures that look to increase funding directed toward minority-owned restaurants and minimize fast-food competition, Houston's already deeply struggling food sector will inevitably implode – grounding the entrepreneurship dreams of minority diasporas within Space City definitively.

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