Racism and the Economy
focus on Housing

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Title: The value of Black lives comes out in home appraisals

“We are here today because we are tired. We are tired of paying more for less.”

Dr. Martin Luther King Jr. said these words in 1966 to 35,000 people in Chicago’s Soldier Field as part of the Chicago Freedom Movement, also known as the Chicago Open Housing Movement.

Dr. King went on to relay housing price differences that resulted in Black people paying higher rents in Black-majority communities for worse housing than their white counterparts.

“Now is the time to make real the promises of democracy,” King declared. “Now is the time to open the doors of opportunity to all of God’s children.”

More than a half-century later, “now” is still the time.

According to the most recent census figures, the Black homeownership rate in America is 46%—almost the exact same level that it was when King spoke in 1966. The white homeownership rate is roughly 74%. In 2017, home prices in Black-majority neighborhoods across the country were priced $48,000 less on average than similar-sized homes in comparable white neighborhoods. And we’ve witnessed viral news stories revealing how appraisers value Black and white homeowners differently:

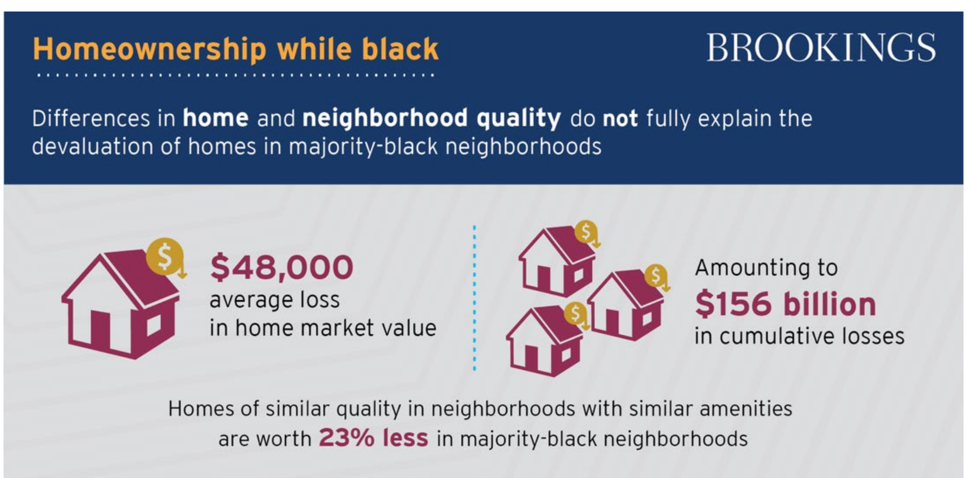
- In Jacksonville, Fla., a Black family looking to sell their home in a predominantly white neighborhood received an original appraisal of $330,000. After removing family photos and other indicators of race, a second appraisal came in at to $465,000.[1]
- In Denver, a Black family in another white neighborhood was looking to make renovations and sought an appraisal for a loan, which initially came in at $405,000. At first, comparisons were drawn from a separate Black-majority neighborhood. During the second appraisal, the family removed indicators of race and received an appraisal based on comparisons from within their own neighborhood, which came in at $550,000.[2]
- In San Francisco, a Black family invested $400,000 into renovations, and received an increase in appraised value of only $100,000. After removing indicators of race,

effectively scrubbing Blackness from the home, it was appraised a second time for $500,000 more.[3]

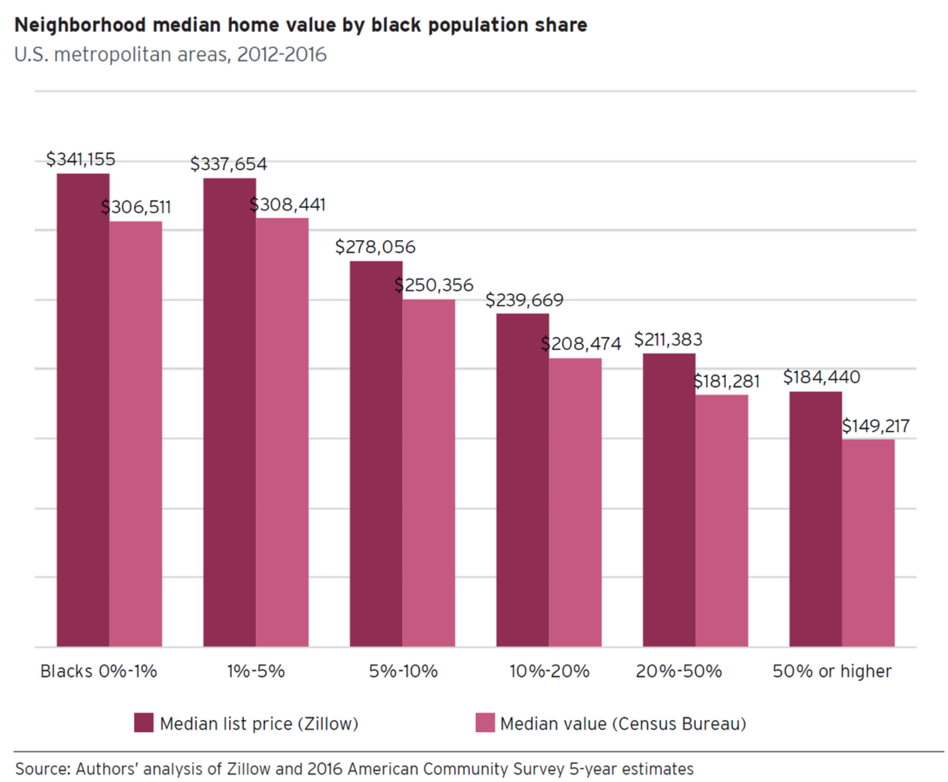
On their face, each one of these bad appraisals shows some form of malpractice. Certainly, it's in the entire nation's interest to hold individual appraisers accountable for these seemingly racist outcomes. Municipalities fund vital services such as education and infrastructure based on the priced value of homes. Individuals use the equity in their home to start businesses, pay for soaring tuition at postsecondary institutions, and move to better neighborhoods. If not for the ingenuity of the homeowners in the examples provided, those biased appraisals would have robbed the homeowners of hundreds of thousands of dollars. However, Brookings Institution research shows a much more systemic and costly problem, which largely goes unaccounted for and involves many more parties than the appraisal industry.

In the 2018 Brookings report "The devaluation of assets in Black neighborhoods," Jonathan Rothwell, David Harshbarger, and I make an apples-to-apples comparison of homes in Black neighborhoods to similar homes in similar neighborhoods that are predominantly white.[4] We did not recreate the job of the appraisal industry with direct comparisons, because differences in structural characteristics of homes between Black and white neighborhoods do exist. Instead, we built a research model that assessed variation in price relative to similar homes in comparable conditions, carefully looking at the impact of the racial composition of the neighborhood.

We found that even after accounting for structural characteristics of homes such as square footage, age, and number of bedrooms (as well as neighborhood characteristics such as location, crime, school quality, and walkability), homes in Black neighborhoods were valued on average 23% less than they would have been if the residents of the neighborhood were mostly white. That's $48,000 less per home on average—a cumulative loss of $156 billion nationwide that year.



Past racist housing policies have contributed to this loss, including redlining—the government-sponsored practice of outlining areas with sizable Black populations in red ink on maps as a warning to mortgage lenders, effectively isolating Black people in areas that would suffer lower levels of investment than their white counterparts. Racial housing covenants, predatory lending, and neighborhood-destroying highway construction have also contributed to consistently lower home prices in Black-majority neighborhoods. These lower home prices have led to a wealth gap in which white families have roughly 10 times the net worth of the average Black family.[5] Past discrimination that privileged whiteness—and current biases that do the same—heighten white homeowners' ability to increase assets while throttling Black individuals' capacity to acquire, retain, and grow assets that are critical to well-being.



Many anti-Black, discriminatory practices officially ended with the passage of the 1968 Fair Housing Act and the 1977 Community Reinvestment Act, which barred redlining.[6,7] But de facto segregation continues, evidenced by home price variations.

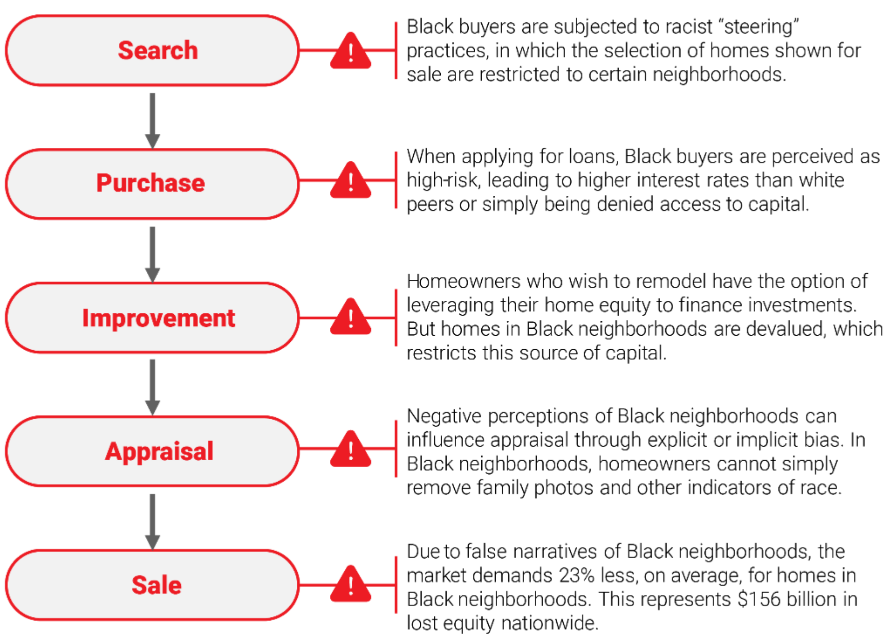
Sociologists Junia Howell and Elizabeth Korver-Glenn found homes in metropolitan areas increased, on average, by $68,000 from 1980 to 2015 after adjusting for inflation.[8] But homeowners in disproportionately Black and Latino or Hispanic neighborhoods are gaining wealth at around half the speed as homeowners in disproportionately white neighborhoods. Howell and Korver-Glenn argue that appraisal practices contribute to this form of segregation in two ways. First, appraisers continue to explicitly use neighborhood racial demographics in their modeling to determine which homes are comparable. Second, because no steps were taken to mitigate historical redlining practices, when appraisers use previous home sales to predict future home prices, they are feeding discrimination into their modelling only to produce more.

This disparity cannot be wholly explained by the physical quality of Black homes or by the actions of any individual actors in the market. The fact that home values vary widely between white and Black neighborhoods (with homes in Black-majority neighborhoods worth less than half that of homes in white neighborhoods) reflects the magnitude of the systemic obstacles faced, not the quality or characteristics of the homes or neighborhoods themselves.

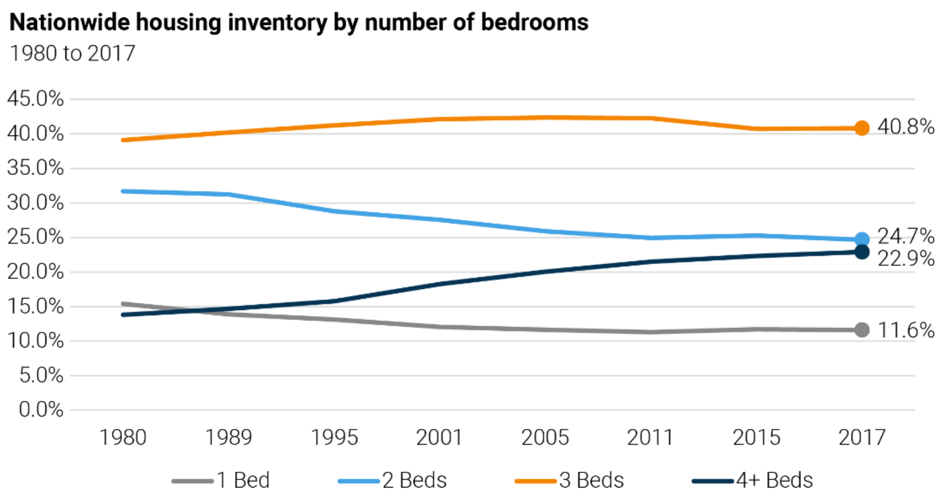
The 23% difference that we found in the housing devaluation study suggests that homes in Black neighborhoods have twice as much crime as there actually is, or if education and walkability are far worse than they actually are. In other words, the negative perceptions of Black neighborhoods reveal themselves in the form of lower prices. Those negative perceptions are shared by leaders and practitioners throughout housing and other markets.

High-profile reporting of instances of appraisal bias should also draw attention to the systems that facilitate those behaviors. We must understand that these stories are not isolated incidents (racist appraisal practices have occurred and continue to occur without making headlines), and that the appraisal is not the only step of the process in which racism distorts housing markets and extracts wealth across numerous systems.

How racism distorts the housing market



Even with the prohibition of overt racial discrimination and oversight, the housing market is structured to disproportionately exclude Black and brown households.[9] For instance, our zoning codes and building practices are streamlined to deliver large single-family homes at the urban fringe. My colleague Tracy Hadden Loh and I showed in a recent piece that for decades, the very largest houses (four or more bedrooms) have grown as a share of all housing inventory, while smaller configurations have stagnated or declined. Because people of color are far more likely than white people to be first-time rather than repeat homebuyers, a mass of housing inventory weighted against attainable starter homes disproportionately favors households with higher concentrations of generational wealth to pay bigger down payments.[10,11] Over 6 million Black and brown millennials would be considered mortgage-ready if there were any attainable homes for sale in prime locations.[12]



Source: Brookings analysis of American Housing Survey data. This chart was originally published on https://www.brookings.edu/essay/trend-2-americas-demographics-are-transforming-but-our-housing-supply-is-not/.

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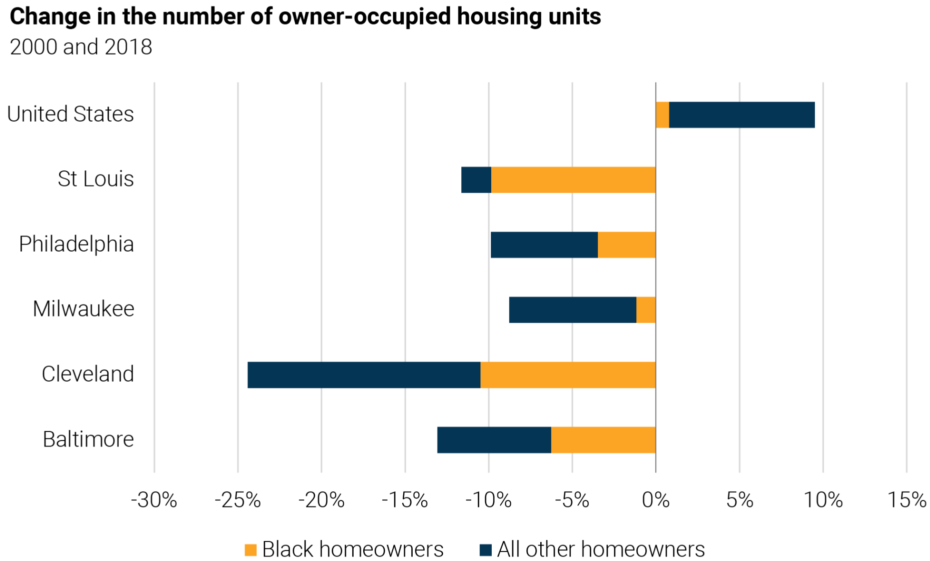
Meanwhile, during the last two decades, even as overall U.S. homeownership has grown, there has been a catastrophic loss of homeownership in key cities that have large shares of Black homeowners.[13]



Source: Updated and expanded from Mallach, 2018. Data from the 2000 census and 2013-18 American Community Survey 5-year estimates. This chart was originally published on https://www.brookings.edu/essay/trend-1-separate-and-unequal-neighborhoods-are-sustaining-racial-and-economic-injustice-in-the-us/.

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The root cause for these negative trends is structural racism, which is systemic. Corrective policies and prescriptions must be as well. We must create a new regulatory environment and market-based solutions that address various facets of the home pricing gap.

In closing, homeownership lies at the heart of the American Dream, representing success, opportunity, and wealth. Progress has been made toward racial equity in housing in the last 100 years, particularly through the landmark legislation of the Fair Housing Act. But structural racism—as much as personal racism—still inhibits the growth of Black wealth. Because of the legal triumphs of the civil rights movement, the most insidious forms of discrimination that were once supported by federal policy are now illegal. However, it would be a mistake to believe that the largest obstacle Black families face in the housing market today is the personal bias of an individual appraiser, realtor, or lender.

We made individual racism in the housing market illegal, and when it finds a way back in, we make it a headline. But structural racism rigs the game from the start. To unlock the potential of Black neighborhoods and their residents, systemic racism must be pulled at its roots rather than trimmed neatly, only to grow again.

Endnotes

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