

BROOKINGS

Know Your Price: How Valuing Black Property Shapes Our Communities

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The Brookings Institution

October 2023

Black cities

Largely located in the **Deep South**

and along the **East Coast**

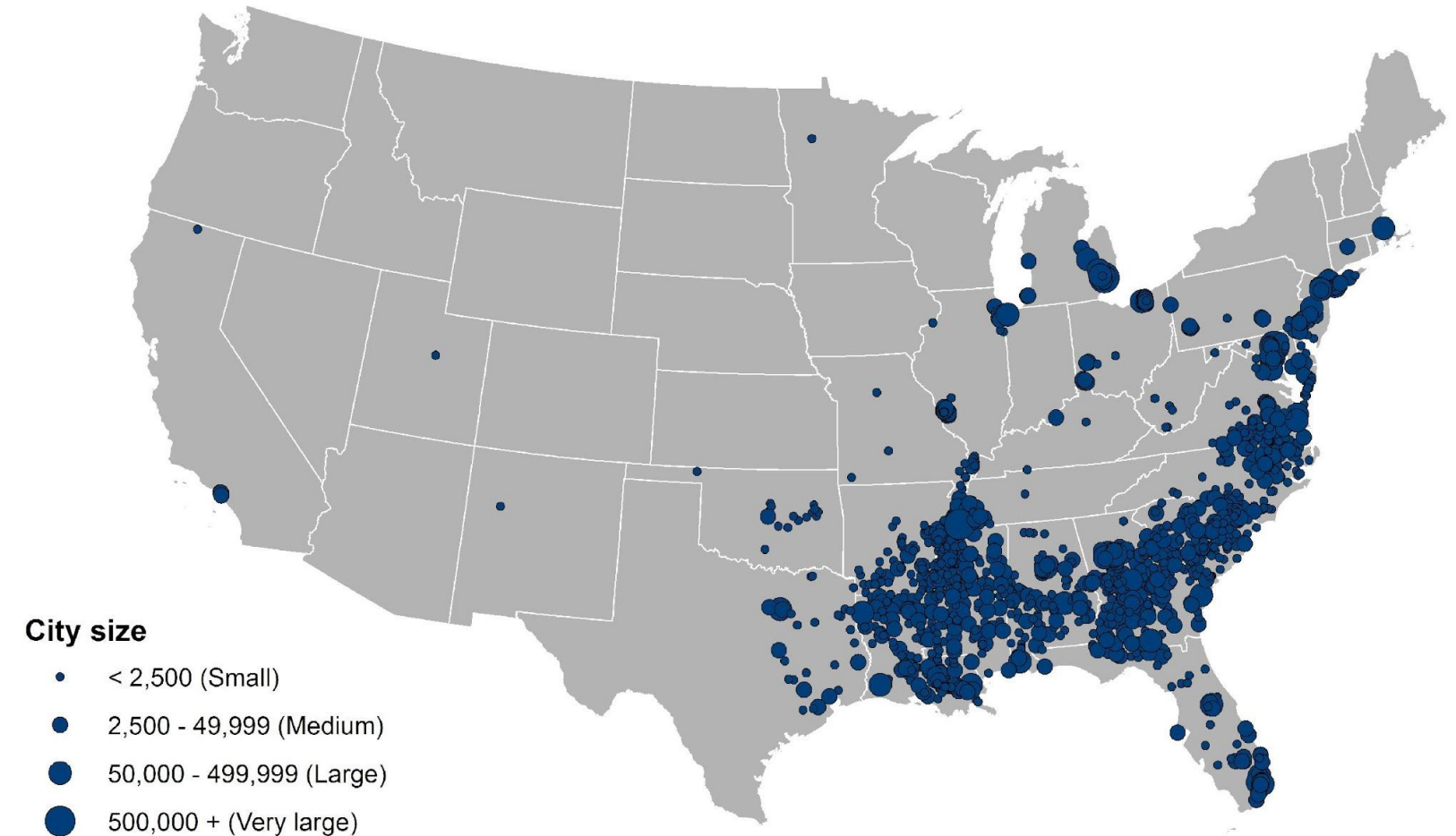
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@andreperryedu

All majority-Black cities by total population

U.S., ACS 5-year average 2015 - 2020



#KNOWYOURPRICE

What's better than one billionaire...

Median value of asset classes by race: Net worth and housing

Characteristic	Black	Hispanic	White
Net worth	18,430	39,800	217,500
Equity in home	100,000	120,000	152,000
Net worth (excluding home equity)	6,000	13,000	89,260
Rental property equity	85,000	163,000	175,000
Other real estate equity	23,700	40,000	80,000

Source: Tonantzin Carmona (Brookings) own analysis. Available at: <https://www.brookings.edu/articles/understanding-latino-wealth/>

Median value of asset classes by race: Financial assets

Characteristic	Black	Hispanic	White
Assets at Financial Institutions	3,000	4,090	12,000
Other Interest-Earning Assets	500	1,000	3,000
Stocks and Mutual Fund Shares	4,500	8,000	50,000
Retirement Accounts	26,200	30,000	97,400
Annuities and trusts	70,000	N/A	130,000
Cash value life insurance	6,000	5,000	13,000

Source: Tonantzin Carmona (Brookings) own analysis. Available at: <https://www.brookings.edu/articles/understanding-latino-wealth/>

Median value of asset classes by race: Other

Characteristic	Black	Hispanic	White
Educational savings account	15,000	10,500	15,000
Equity in motor vehicles	5,320	7,220	10,050
Other assets	5,000	5,000	10,000

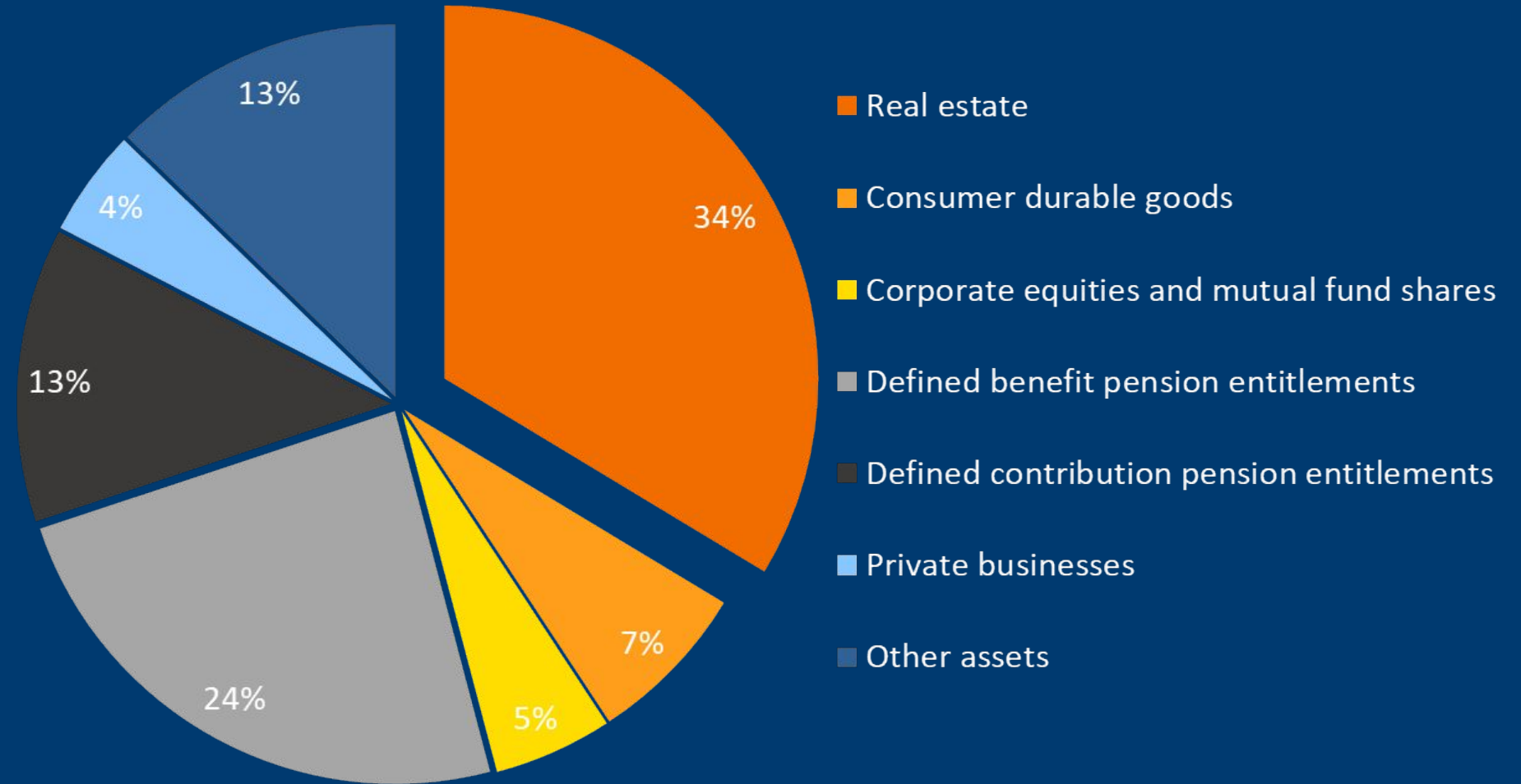
Source: Tonantzin Carmona (Brookings) own analysis. Available at: <https://www.brookings.edu/articles/understanding-latino-wealth/>

Value of asset classes by race: Debt

Characteristic		Black	Hispanic	White
Total debt		27,100	37,400	77,000
Secured debt	Total	45,000	76,900	106,000
	Home	133,000	170,000	140,000
Unsecured debt	Total	10,000	7,590	8,300
	Student loans*	27,000	17,000	20,000

Source: Tonantzin Carmona (Brookings) own analysis. Available at: <https://www.brookings.edu/articles/understanding-latino-wealth/>. * Unsecured debt also includes credit card and medical debt. Student loans are the largest mean component of unsecured debt

Asset shares for Black households



Source: Board of Governors of the Federal Reserve, 2023, Q2. Available at: <https://www.federalreserve.gov/releases/z1/dataviz/dfa/compare/chart/#quarter:135;series:Assets;demographic:race;population:all;units:levels;range:1989.4,2021.3>



WILMINGTON
TRACK & FIELD



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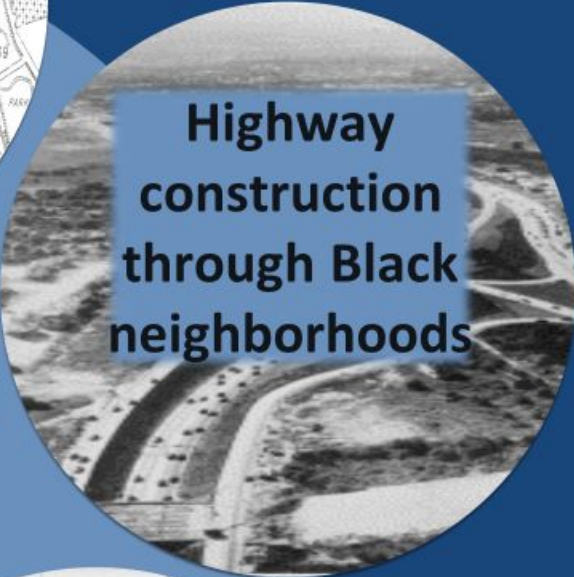




Redlining



Restrictive covenants

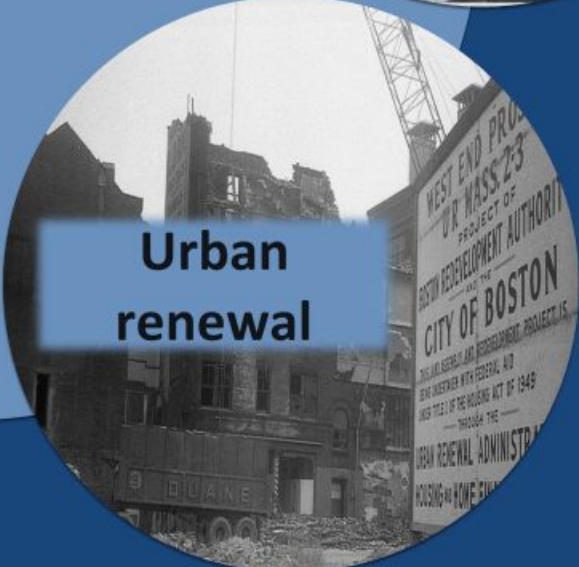


Highway construction through Black neighborhoods

Neighborhood Devaluation



Predatory lending

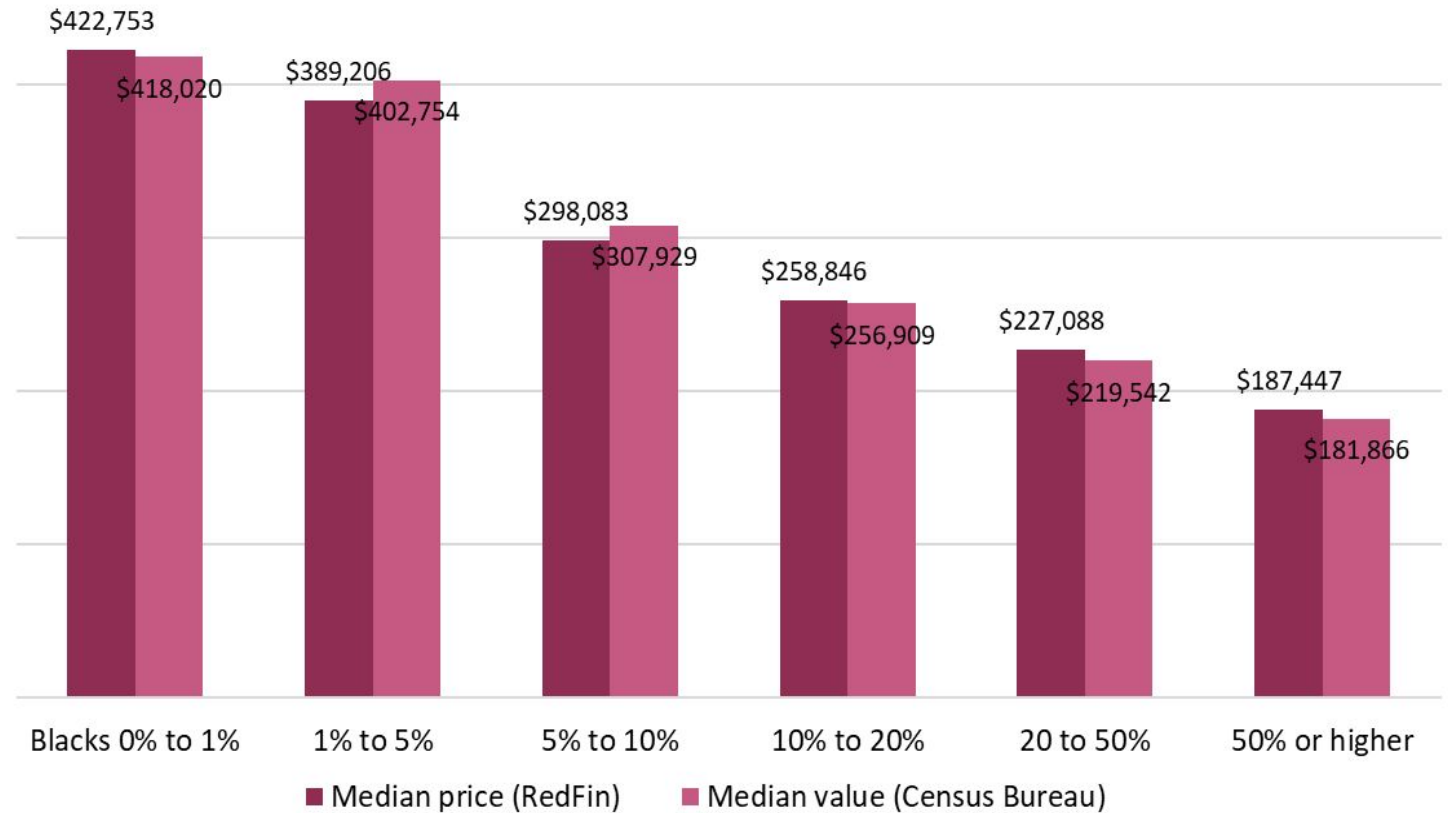


Urban renewal

Homes in Black neighborhoods are worth less, on average than homes in <1% black neighborhoods

Neighborhood median home value by black population share

U.S. metropolitan areas, 2016 -2021



Source: Authors' analysis of RedFin and 2021 American Community Survey 5-year estimates

Can we explain this difference in value?



Can we explain this difference in value?

\$

Absolute price
difference

Can we explain this difference in value?



Absolute price
difference



Structural
characteristics

Can we explain this difference in value?



Absolute price
difference



Structural
characteristics



Neighborhood
amenities

Neighborhood Composition

TABLE 4

Neighborhood characteristics by black population share

U.S. metropolitan areas, 2012-2016

Black population share	School test scores (Standardized)	EPA Walkability Index	Number of restaurants	Number of gas stations	Percent who use public transportation	Average commute time (minutes)
0%-1%	0.29	-0.31	53.2	6.9	3.6	26.7
1%-5%	0.28	-0.03	69.3	8.1	5.1	26.5
5%-10%	0.17	-0.01	69.7	9.2	4.7	26.6
10%-20%	-0.01	-0.01	67.5	10.0	5.4	26.5
20%-50%	-0.27	0.01	61.9	10.6	7.7	27.1
50% or higher	-0.85	0.23	50.0	10.8	15.0	29.2

Source: Authors' analysis data from 2016 American Community Survey 5-year estimates, Department of Education, Environmental Protection Agency, and County Business Patterns

Devaluation

-\$45,000
0 | **↓ 23%**

on average, compared to homes in neighborhoods which are <1% black

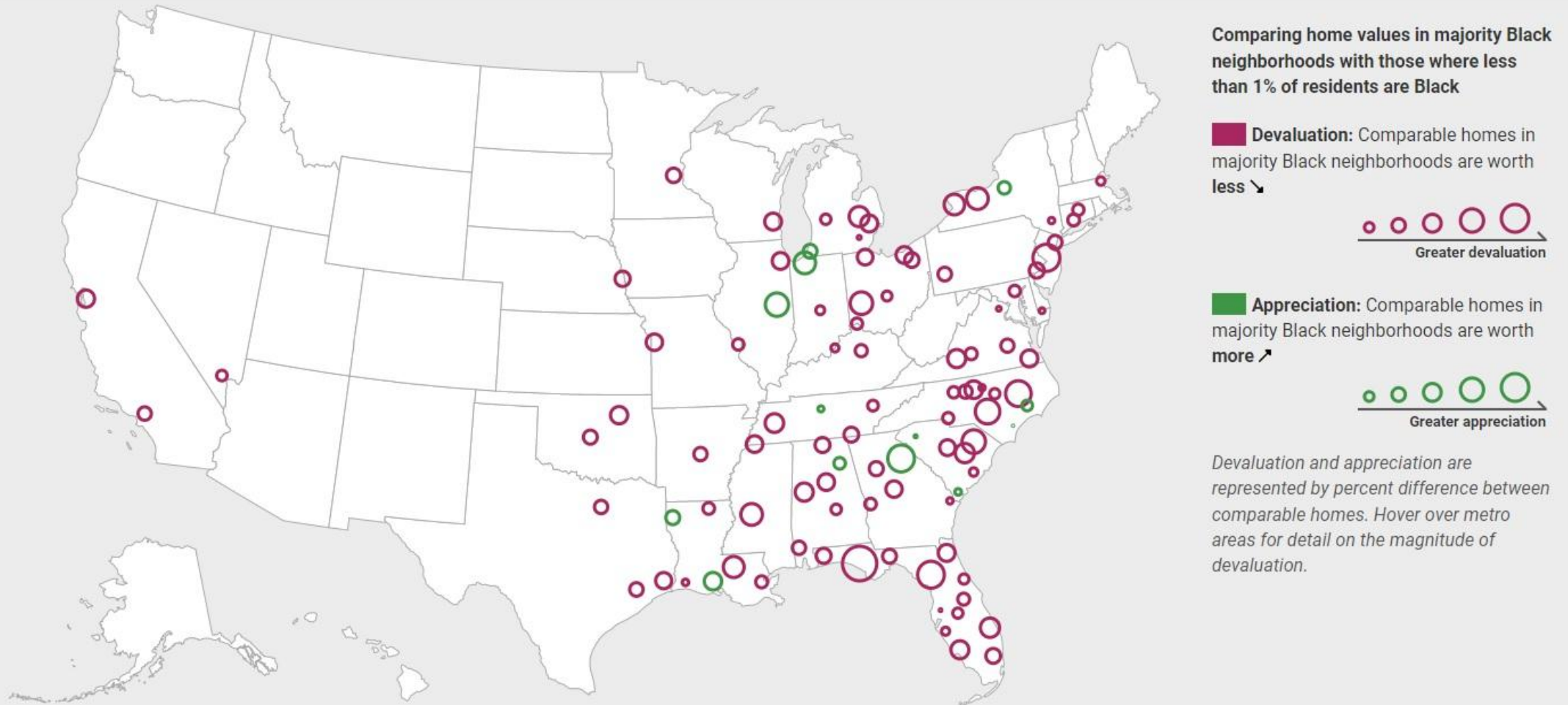
Devaluation

\$162 billion

in cumulative losses

Devaluation varies by metro

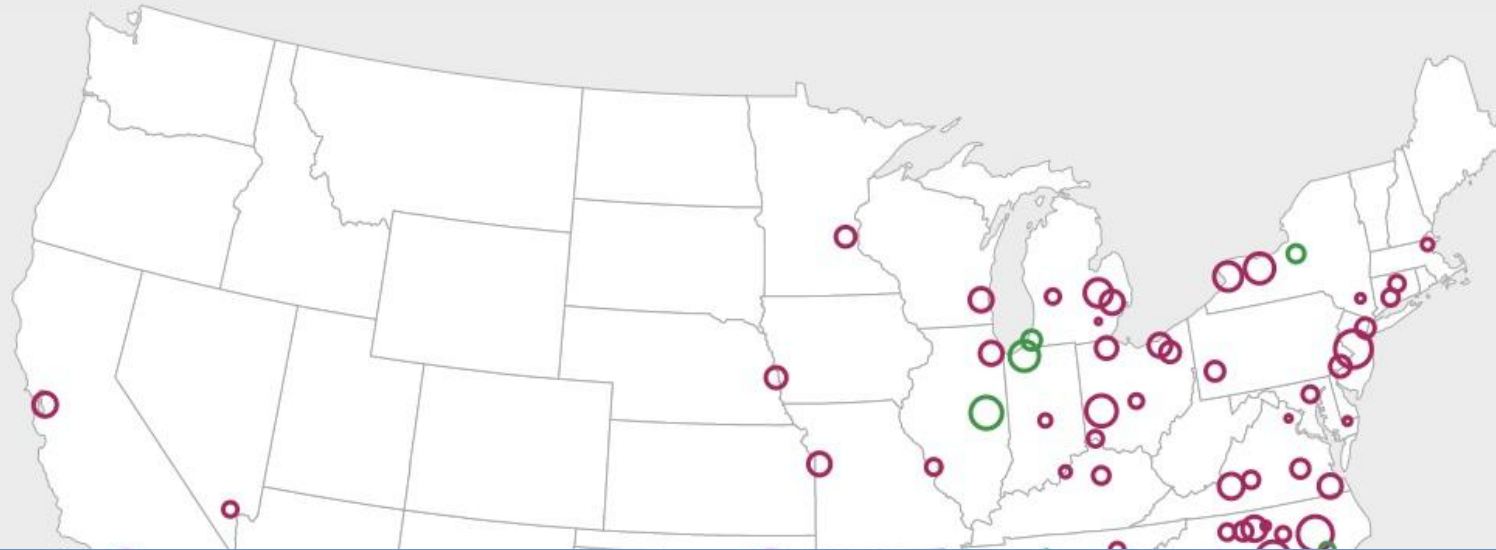
102 metropolitan areas with at least one majority Black neighborhood



We restrict this analysis to the 102 metropolitan areas with at least one majority Black neighborhood. We also give extra weight in the analysis to metro areas with larger Black populations to reduce the influence of measurement error; as such, the estimates should be thought of as characterizing the experience of the average Black person living in different types of metropolitan areas.

Devaluation varies by metro

102 metropolitan areas with at least one majority Black neighborhood



Comparing home values in majority Black neighborhoods with those where less than 1% of residents are Black

Devaluation: Comparable homes in majority Black neighborhoods are worth less ↘



Appreciation: Comparable homes in majority Black neighborhoods are worth more ↗



Chicago-Naperville-Elgin, IL-IN-WI

Percent difference: 31.1%

Price difference: 47,444

Devaluation and appreciation are represented by percent difference between comparable homes. Hover over metro for detail on the magnitude of devaluation.

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Devaluation

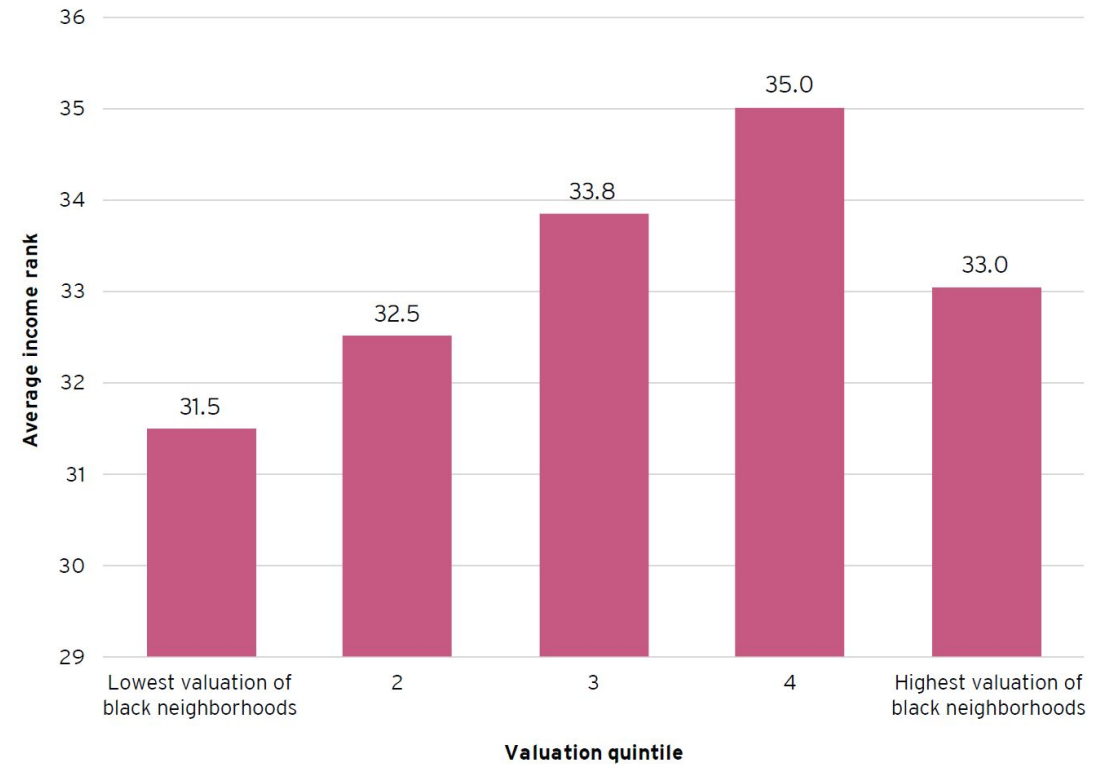
Metro Area	Valuation of homes in Black neighborhoods
Areas with the highest <u>negative</u> valuation of homes in black neighborhoods	
Panama City, FL	-132.8%
Trenton-Princeton, NJ	-81.4%
Gainesville, FL	-80.4%
Greenville, NC	-73.8%
Chicago Metro	-31%
Areas with highest <u>positive</u> valuation of homes in black neighborhoods	
Athens-Clarke County, GA	+80.4%
Champaign-Urbana, IL	+60.5%
Michigan City-La Porte, IN	+52.3%
Lafayette, LA	+34.1%
Shreveport-Bossier City, LA	+21.7%

Effect of Housing Valuation on Upward Income Mobility of Black Children

FIGURE 2

Effect of housing valuation on upward income mobility of black children

Majority-black neighborhoods in U.S. metro areas, 2012-2016



Note: Income rank calculated for black children born to parents at 25th percentile of national income. Devaluation measure is based on median list price per square foot after adjusting for home and neighborhood quality. Analysis is of 113 metropolitan areas with at least one majority black census tract and one tract with black population shares under 1 percent. Means are weighted by the number of black residents in metro area.

Source: Authors' analysis of data from Zillow, the 5-year 2016 American Community Survey and Equality of Opportunity Project. Devaluation measure is based on median list price per square foot after adjusting for home and neighborhood quality. Analysis is of 113 metropolitan areas with at least one majority black census tract and one tract with black population shares under 1 percent. Means are weighted by the number of black residents in metro area.

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What is \$162 billion?

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4.6 million black-owned businesses

Source: National Bureau for Economic Research

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4.6 million Black-owned businesses

Source: Stanford Institute for Economic Policy Research



11.4 million four-year degrees

Source: National Center for Education Statistics

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Replace pipes in Flint, MI **3,000** times

Source: American Water Works Association

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87% of the damage of Hurricane Katrina

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Double the annual economic burden of the opioid crisis

Source: Centers for Disease Control and Prevention (2013)

There is nothing wrong with Black people that ending racism can't solve.



There is Value in Facts

How Racial Bias in Appraisals Affect Devaluation

- Appraisal transactions in majority-Black neighborhoods 1.9 times as likely to be appraised under the contract price than homes in majority-white neighborhoods

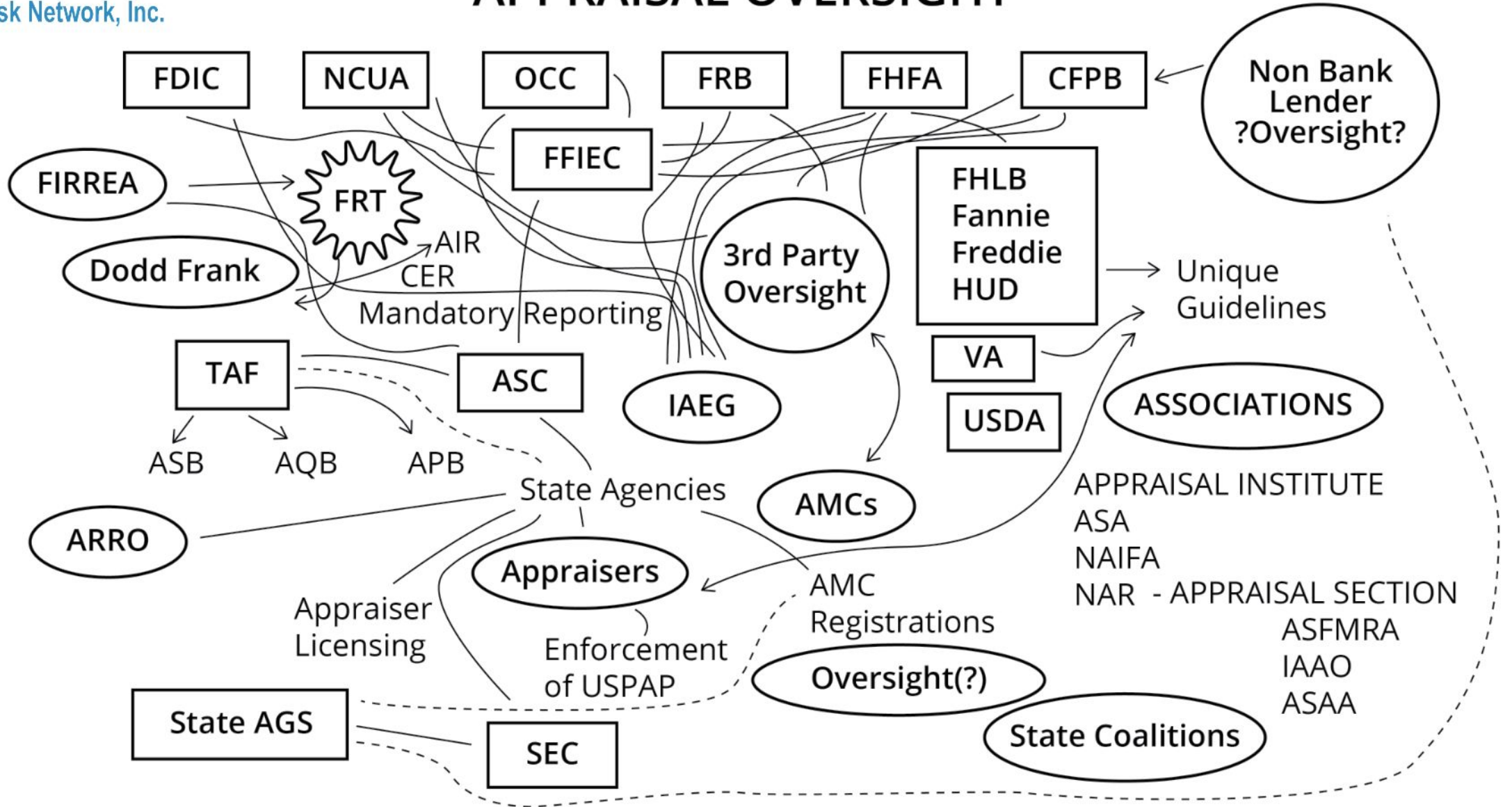
How Racial Bias in Appraisals Affect Devaluation

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- The median appraisal is 15% lower in majority-Black neighborhoods compared to homes in neighborhoods where share of Black residents is less than 1%.

How Racial Bias in Appraisals Affect Devaluation

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- The median appraisal is 15% lower in majority-Black neighborhoods compared to homes in neighborhoods where share of Black residents is less than 1%.
- Bad appraisals account for upwards of 20% of the value gap.

APPRAISAL OVERSIGHT



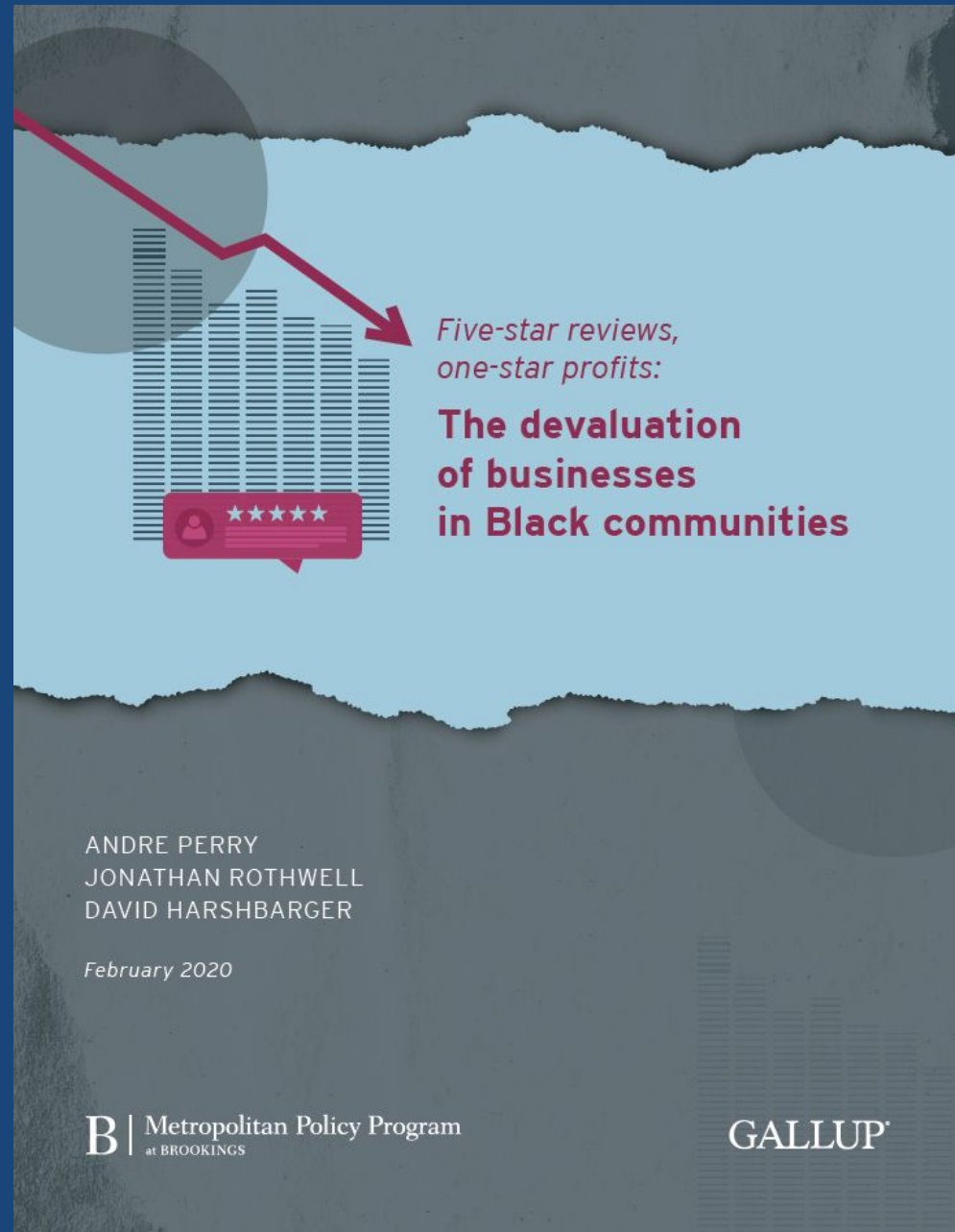
How HUD is Addressing Appraisal Bias

- In January 2023, HUD published draft guidance to make it easier and quicker for prospective borrowers applying for Federal Housing Administration (FHA)-insured loans to request a Reconsideration of Value (ROV) on a property if the initial valuation is lower because of suspected illegal bias.
- HUD awarded \$54 million to 182 fair housing organizations across the country. Eligible activities for the funding included testing for appraisal bias, enforcement activities and educating local communities on the issue.

How HUD is Addressing Appraisal Bias

- In October 2022, the Federal Housing Finance Agency (FHFA) published the first-ever publicly available datasets of aggregate statistics on appraisal records, providing the public with access to the data and trends found in appraisal reports.
- As outlined in the PAVE Action Plan, the Biden-Harris Administration is taking steps to remove unnecessary educational and experience requirements that make it difficult for underrepresented groups to access the profession and to strengthen anti-bias, fair housing, and fair lending training of existing appraisers.

Business Devaluation



The State of Black Businesses

- **Black people represent 13.7% of the U.S. population, but only 2.2% of the nation's 5.7 million businesses with employees (2017).**

Source: Census Bureau 2018 Annual Business Survey

- **Only 1% of Black business owners were able to obtain loans in their founding year, compared with 7% of white entrepreneurs.**

Source: Stanford Institute for Economic Policy Research

- **Black entrepreneurs are denied bank loans more than twice as often as their white peers — 53% to 25%.**

Source: Federal Reserve

- **People of color pay higher interest rates on average than their white peers — 7.8% to 6.4%.**

Source: Census Bureau 2018 Annual Business Survey

How do we measure business devaluation?



How do we measure business devaluation?

\$

Business
revenue

via Dun & Bradstreet
data for establishments

How do we measure business devaluation?



Business
revenue

via Dun & Bradstreet
data for establishments



Business
quality

via **yelp** 

How do we measure business devaluation?



Business
revenue

via Dun & Bradstreet
data for establishments



Business
quality

via **yelp** 



Neighborhood
conditions/weal
th

via US Census Bureau

Findings



Black, Brown and Asian-owned businesses are **rated just as highly** or higher than White-owned businesses on Yelp, on average

#KNOWYOURPRICE

Findings



But, businesses in Black

neighborhoods

receive **50 - 100 fewer**

reviews and are rated

0.2 stars lower

on average

#KNOWYOURPRICE

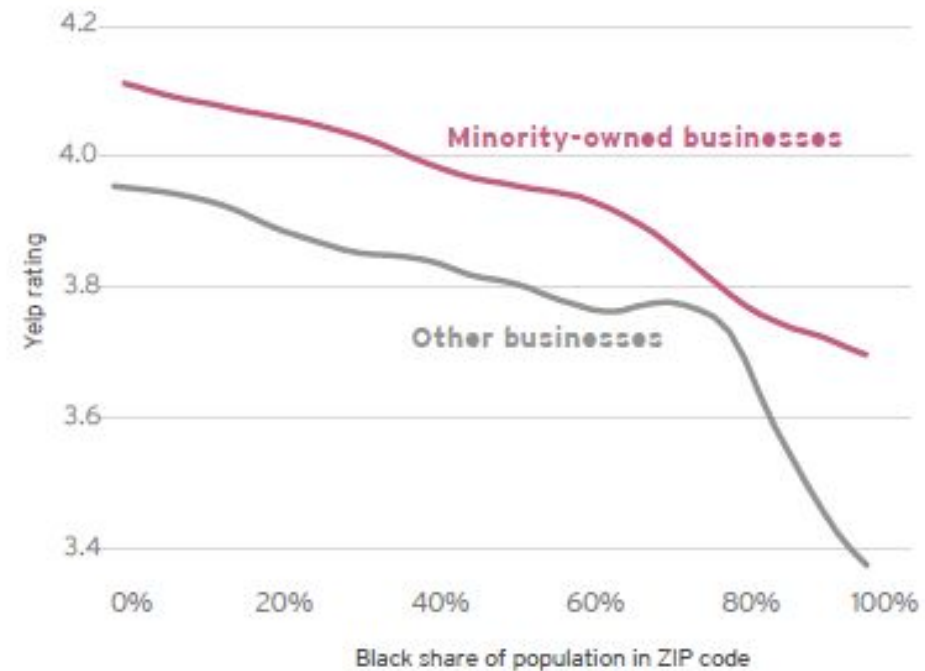
Findings



FIGURE 4

Yelp ratings decrease as Black share of population increases

Yelp sample of businesses in ZIP codes across 86 metro areas, 2016 - 2019



Source: Author analysis of merged data from Yelp and National Establishment Time Series Database (NETS) and 2017 American Community Survey estimates.

Findings



Highly rated businesses in Black neighborhoods experience

lower revenue growth than *poorly rated* businesses in neighborhoods that are less than 1% Black

Source: Analysis of Dun & Bradstreet and Yelp data

Findings



Highly rated businesses in Black neighborhoods experience **lower revenue growth** than poorly rated businesses outside of Black neighborhoods

Findings



What is the cost?

- Low estimate: **\$1.3B** in annual revenue lost
- High estimate: **\$3.9B** in annual revenue lost

Source: Analysis of Dun & Bradstreet and Yelp data

“Our ice is just as cold.”
- Black elders

Equity is Stimulus

- There are 4,142 Black-owned employer firms in the **Chicago metro area**, accounting for 2% of employer businesses. If Black businesses accounted for 17.6% of employer firms (equivalent to the Black population), **there would be 37,548 more Black businesses.**
- If the number of Black businesses matched the population size and the employees per firm matched the average business, it would **create 850,146 jobs.**

THE DEVALUATION OF ASSETS IN BLACK NEIGHBORHOODS: THE CASE OF COMMERCIAL PROPERTY

Jonathan Rothwell, Tracy Hadden Loh, and Andre Perry

Commercial Real Estate



CRE ownership is highly concentrated

The top 1% of households own vastly different portions of real estate categories

1% of households own the following in each category:



49% nonprimary
residential property



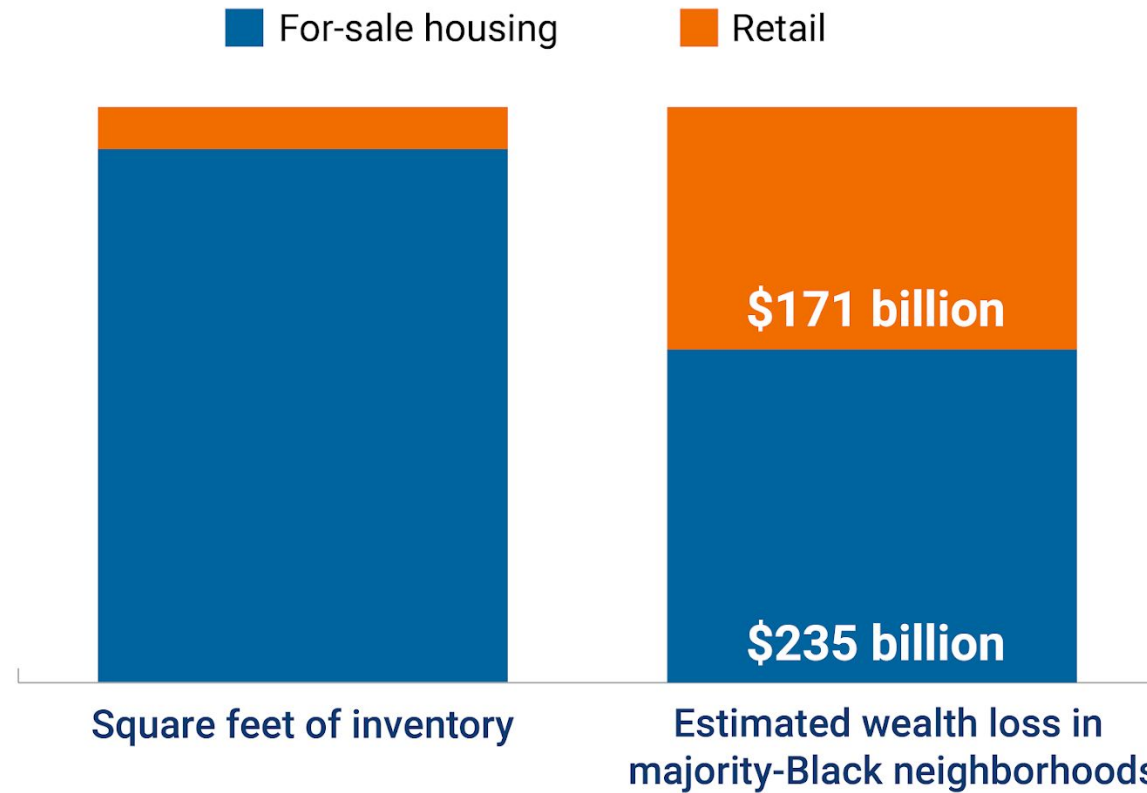
16% owner-occupied
housing wealth

Source: Brookings analysis of data from the 2019 Survey of Consumer Finances (SCF).

B | Brookings Metro

Devaluation harms Black neighborhoods

The residential real estate market is **10x** the size of commercial real estate nationwide

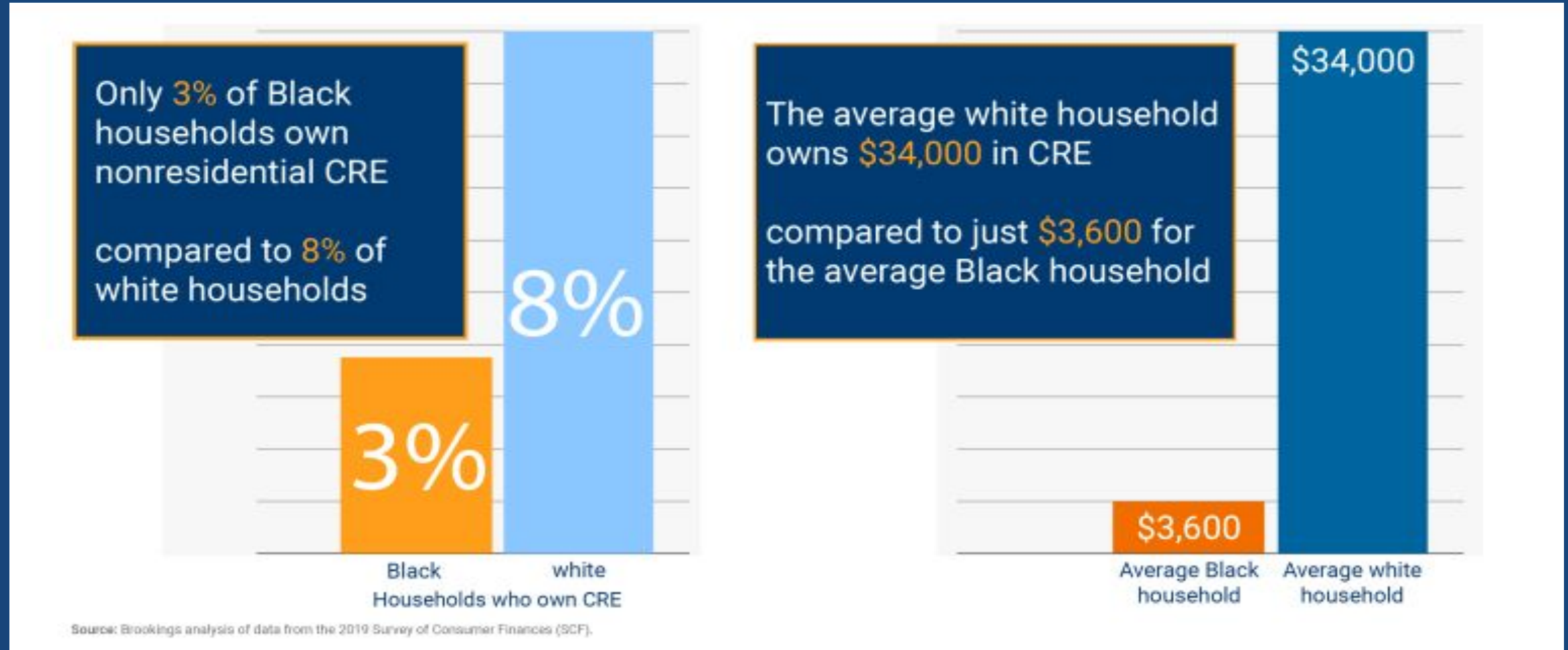


CRE makes up almost **one-half** of devaluation losses in Black neighborhoods

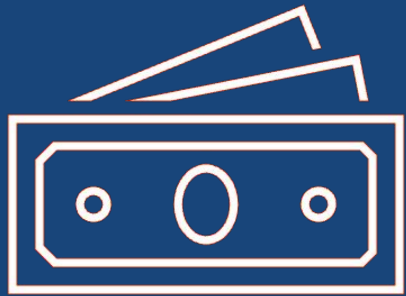
B | Brookings Metro

Source: Brookings analysis of Bureau of Economic Analysis Added by Industry, 2021 and other data

There are stark racial disparities in CRE ownership

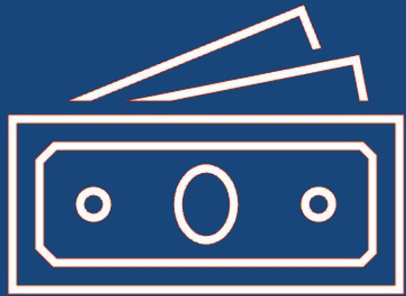


CRE in Black-majority zip-codes is devalued



Retail property located in Black-majority zip-codes nationwide is devalued by an average of **7% compared to zip-codes that are less than **1%** Black.**

In Miami, CRE in Black-majority zip-codes is devalued



Retail property in Chicago located in Black-majority zip-codes is devalued by an average of **20%** compared to zip-codes that are less than 1% Black.

How to counter devaluation

Invest in **PEOPLE**

- Direct capital toward Black, Indigenous, Brown and Asian-owned firms (DBEs) and homeowners (Cut the Check)
- Remove unnecessary bureaucratic barriers to entry for

Invest in **PLACES**

- Make targeted infrastructure investments in Black neighborhoods
- Partner with businesses and developers to incentivize renovation and provide commercial spaces

Divest from **RACISM**

- Remove policies that extract wealth from Black communities
 - Just as we score policies' budget impact, we should score for racial equity as well
 - Install anti-racist polices that encourage inclusion
- #KNOWYOURPRICE



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