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Intersections Podcast

Realizing the value of black neighborhoods

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(MUSIC)

PITA: Welcome to Intersections, the podcast where two experts explore and explain the important policy issues of the day. We're part of the Brookings Podcast Network and I'm your host, Adrianna Pita.

Homeownership has long been the cornerstone of financial stability for American Families. Building block for savings and mechanism for building wealth and passing that wealth on to the next generation. The wealth gap between black Americans and other racial groups can be attributed to differences in homeownership rates and the value of housing. So, with us today, are two of our David M. Rubenstein Fellows, Andre Perry and Jenny Schuetz, to discuss how racial bias affects the value of black neighborhoods, how better housing and land use policies can help address economic inequities, and ultimately, how do we realize the value of black neighborhoods in cities. Andre and Jenny, thank you for being here today.

PERRY: Hey, thanks for having us.

SCHUETZ: Good to be here.

PITA: So, there's sort of a longstanding assumption that a lot of the present-day issues in terms of the value of neighborhoods in majority black neighborhoods is a consequence of past racism from segregation to the redlining that banks set up, around mortgages and lending policies, more restrictive housing covenants and all of that created these concentrations of poverty in these neighborhoods and so that's why there's problems today. However, Andre, you and your coauthors, Jonathan Rothwell over at Gallup and David Harshbarger set up to examine the effects of present-day racial bias in the housing market or as Johnathan put it at your launch event, that

neighborhoods can be discriminated against just like people can. Can you tell us about your research and some of what you found out?

PERRY: Yeah, it all starts with my home. I grew up in a majority black neighborhood, Wilksburg, Pennsylvania. Many people have not heard of it, but it's a municipality actually inside of Pittsburgh and it's in that class of city East St. Louis, Ferguson, and other small municipalities. And I grew up in a place that used to be one of the wealthiest neighborhoods in Pittsburgh. Very wealthy, largely conservative Whites lived in Wilksburg. There was always a small percentage of black people who lived in the town. Actually, in its founding it was known as little Africa. I haven't found the source of that, but it was known as little Africa so I'm assuming there were black people in the place. But over time, the town went from approximately 20 something percent prior to 1970 to over 67% black today and throughout that time, it got progressively poorer.

Now, remember, it had the same housing stock, the same main street. There's actually a tech boom in Pittsburgh right down the street. The Pittsburgh Google Headquarters is on the same thoroughfare that I used to run on in high school. And I noticed something along one of my runs when I returned last year at that. As soon as you crossed over the Pittsburgh line and got closer to Google, you saw development everywhere. New restaurants. You saw new housing developments for the workers at Google. But as soon as you cross over to Wilksburg, it was nothing and I said, "This can't be just about the municipality differences. There something else going on."

And so I went out and started just looking at home values in the area and I asked my colleagues, Johnathan Rothwell and David Harshbarger, to look at home values and we set out to study places where the share of the black population was over 50% and

compare those to homes where the share of the black population is less than 1% so essentially where no black people live.

And initially what we found is not surprising. Home values are worth 50% less in majority black places. But then we said, "Okay, let's control for the things that people talk about as the reasons why that the home values are different." So, we controlled for, or accounted for, education. We created a proxy for crime. We looked at walkability, the number of restaurants, and just a number of variables. So, after controlling for those things, homes were still 23% less in black neighborhoods. So, it wasn't education, it wasn't crime for that devaluation we're calling. But that number is astounding. That 23% is roughly 48,000 per home, 156 billion accumulatively across the country that's robbed from black neighborhoods because of racism.

And so, our study essentially puts a dollar figure on the racism that is occurring in majority black places.

PITA: There were differences between different cities about how big that gap was. Did you come across anything that looked like an explanation for why some places were better or worse?

PERRY: I think in the main it is the accumulation of negative policies over time and its impact on our social and individual psyches. So, clearly segregation, racial housing covenants, redlining, has an impact on the neighborhoods ability to improve their homes, to use that equity to fund municipal services, and things like that so it's that, but there's still modern-day practices. We look at majority black neighborhoods differently. We don't see them as worthy of investment and so that continues today, but it's accumulation of past policy and current attitude certainly.

PITA: And there's really a nasty feedback loop that happens between the value of the property and the quality of the public services because local governments depend almost entirely on property taxes, which are based on the value of properties to pay for things like schools and roads and local economic development so if you have majority black cities or neighborhoods with lower property values, the local government doesn't have as much money and so they can't provide as high quality services, which then means that people are less willing to buy into the neighborhood or invest in the housing there and so you've got this downward spiral and a virtuous spiral and upward spiral in prices on appreciating neighborhoods. So, breaking the link between particular things like funding of schools and property taxes is one of the potential ways we could think about getting out of this.

SCHUETZ: That's great. Everyone wants to look for a technological answer given that a lot of this is based on human biases. Is there a role for technology in fixing some of this or are there risks of just baking the biases into whatever systems you come up with or new algorithms?

PERRY: Once we identify the neighborhoods that had been devalued, we certainly want to create a financial fix. Call it reparations, call it some kind of restoration of property, but I do believe that we can use policy to empower these neighborhoods the same way we disenfranchise them and so we know and can identify the places where there's a lack of opportunity because of the things Jenny just described. And so, I do believe that there is a federal role in making sure that these neighborhoods can actualize the American dream like everyone else to a certain extent. So, if there's a technical solution, I do think it comes in the form of federal policy.

SCHUETZ: Okay. I thought you had mentioned in the report, or maybe this was at the event, where you were talking about the use of online searching, Zillow or Redfin or what it is, that helped a little bit because you just put in parameters for how much money you want to spend on a house and you say I want it to have three bedrooms. They'll show you houses everywhere, but there were then some other flaws baked into that.

PERRY: Oh, yeah. There's racial bias in a lot of the crowdsourcing search engines, but we did find with Zillow in particular it was actually a great predictor of housing bias so a lot of users are looking at homes in a black neighborhood and homes in a white neighborhood and they can really eyeball the comparison. They said, "These are exactly the same homes." And whenever end users have information, they're empowered to demand either when they're selling a higher price, or some people are getting a discount where that might be helpful as well. So, for me the crowdsourcing data is generally a positive, but there's also biases in those sources as well.

SCHUETZ: I mean, sort of been hoping for a long time that technology and taking human beings farther away from the decision point would reduce some of the disparities so the development of automated underwriting for mortgage lending in the 1980's and 90's was supposed to make it less likely for Blacks and Latinos to be denied for home loans, but when we look at the outcomes of mortgage applications we still see a pretty large gap and some of this is that the algorithms are sort of secret to most of the public so if there is bias built into it, it's actually pretty hard to reverse, engineer that, and figure it out. And, of course, with real estate you're never going to get entirely away from human interactions and human activities so most people still buy their house or sell

their house through a human real estate agent and real estate agents still engage in a lot of steering. Black buyers are shown one side of neighborhoods, white buyers are shown a different side of neighborhoods and as long as there is room for human interaction, there's the potential for bias to creep in.

PITA: Andre, you've also been looking at not only the home values, but the values of business properties in these majority black neighborhoods. I understand that report isn't coming out until a little bit later Spring, but maybe you can tell us about what you're finding so far.

PERRY: Yeah, we're examining evaluation in other areas because it's just not about housing, but housing is so important to everything else. So, typically people use the equity, or a large percentage of people use the equity in their home to start the business. So, we naturally went there and what we're seeing initially is sort of the same thing that there are businesses in majority black places that are getting receipts. They're busy, but they're not getting the kind of investment where they can grow to a scale where they can hire more employees and that comes from typically outside investment or municipal investment in the infrastructure around the business and things like that. And what we're initially seeing is that these productive businesses aren't getting that kind of investment.

So, what we want to do with this report is not to suggest that people should not start a business in majority black neighborhoods, so we have to be careful in how we present this information. But it is to stay that there are businesses that are churning the economy that deserve greater investment and we all lose out on the benefits when we don't invest in the businesses that are actually delivering what they said they were going

to deliver at a high level.

PITA: There often seems to be a bit of a chicken and egg problem when you have a neighborhood that is already devalued and you want to attract more investment to it trying to find the impetus to tell investors, “No you should be driving investment here,” whether it’s about population density or about amenities aren’t there yet but could be. How do you address some of that? Do you bring more people to the area first? Try to bring in more housing opportunities that then businesses will see that there will be an audience there or do you try to bring the businesses first so that then people will want to move there because there is restaurants and shops and that kind of thing.

SCHUETZ: So, the general rule of thumb with commercial activity particularly with things like restaurants and stores and services, dry cleaners, and so forth, the businesses follow people. So, businesses are reluctant to locate someplace that just doesn't have a population density or doesn't have the income or the demand to support something, particularly neighborhoods service businesses. They really rely on people living in the area, walk-in traffic from the street, so usually you have to have the population density. But this gets into an area where I think we also need to worry about the other side of too much investment going into majority black neighborhoods without having some protection for the residents who are already there so the flip side of this investment is gentrification and we’ve certainly a number of majority black neighborhoods or cities that are located close to employment centers, on subway lines, or other kind of good transit access and often they have very good bones. So, you know, Harlem for many years was sort of the subject of disinvestment, but it’s really close to the employment centers in midtown Manhattan and on the subway lines and



has these beautiful old brownstone houses that became a real draw for outside investors so then you have money coming in both for residential real estate and for local businesses, but not necessarily with protections for the residents who've lived there and you start getting competition for the local small black owned businesses in the neighborhood where you've got other investors coming in and competing with them who may be able to bring more capital.

So, this is really a balancing act and I don't think we've really found the right balance of this.

PERRY: And I'll just add I agree with everything that was just said that when we are looking at investing in businesses, we always have to look at protecting housing issues of black residents in those places. You can't have an economic development plan without a housing plan. It doesn't make sense.

We know that people actually do, as Jenny described, invest in black neighborhoods, but it's really an investment in white folk to live comfortably in those places and it leads to pushing black folk out and so we definitely know that we discriminate not necessarily in a legal sense, but we certainly privilege I should say homeowners and property owners and we have yet to figure out a way to balance that out with folks who are renting and making sure that they have an opportunity to grow and thrive and live in the places that in many cases that they have a reasonable claim to. In places like New Orleans, everything we enjoy about New Orleans is created by black folk, you know, from the food to the culture, the music, the architecture and yet, many black people can't benefit from those because they were actually denied the ability to own property. And so that privileging of property owners is something we have

to grapple with in terms of policy, but I always encourage people to invest in majority black neighborhoods because it benefits everyone.

One of the criticisms I get about this report, people tend to think it's focused on black people. I'm like, there's actually lots of white people who live in majority black places and their homes are devalued as well. And we spotlight majority black places to show that the biases against people actually do transfer to inanimate objects, but the point is we want greater investment in majority black places, but we also want renters by and large to be protected.

PITA: What would some of those protections look like?

SCHUETZ: So, one problem is that we aren't building enough rental housing in neighborhoods that already have good schools, that are safe, that have access to jobs and local service amenities, so their rental housing tends to be restricted to pretty small areas even in most cities. Opening up some of the existing high-income white neighborhoods to more apartments gives you a little bit more room. It makes more neighborhoods available. But there is also a lot of interest at this point in thinking about renters some sort of a consumer protection lens similar to what we do for homebuyers.

So, for instance, when you buy a house and you take on a mortgage, you get this huge legal document with lots of terms that most people don't understand and don't even read through. I mean, nobody reads through 150 pages. You just initial on the corner and move to the next page. It's pretty similar when renters sign a lease and so lots of times renters don't even know the terms under which the landlords could evict them. They don't know how much advance notice they have if the landlord is going to raise the rent. If there are activities that theoretically they could be in violation of. So,

there's interest I think in providing renters with more information so that they can negotiate with landlords. If they're in a neighborhood where they see rents going up over time and they'd like to be able to stay, they should have the option to sign a multi-year lease to be able to say I want my family to be here for the next three or four years until my kid finishes school. We're willing to accept rent increases but know in advance what those are so that we can accommodate those.

So, there are a number of things we could do to make renters lives a little more stable and more predictable, which is really important particularly for family with kids to know that they have a stable living environment, that they're going to be protected, that they're going to have reasonable housing expenditures for some period of time.

PITA: Particularly on that family issue, that's another factor with the housing isn't it? That a lot of the apartment buildings that do go up are often studios and one bedroom and a lack of multi-family housing. Are there movements about trying to increase that capacity?

SCHUETZ: Yeah, so there's a lot of debate about how we can make more family size rental units and the new buildings often are small units because that is a lot of the demand for sort of younger households. But, you know, going back to the point that we should have more rental options in high income neighborhoods. Neighborhoods that have mostly single-family houses, you could split up some of the big single-family houses into say a two family or three family building on the same lot. You don't even have to tear it down and rebuild it. It's just subdividing the unit. That's going to be cheaper to rent than, you know, a six-bedroom house, which most people don't need anyway, and so there's more a movement to producing sort of more gentle density in

some of the single-family neighborhoods, which gives people access to new neighborhoods at a lower cost.

PITA: I think you've written about Minneapolis. You've cited as a great example of this. Can you talk just a little bit more about what they're doing.

SCHUETZ: Sure. So, they're the first large city to really pass something like this. They have a new comprehensive plan, which would allow two family and three family apartment buildings by right in all the single-family neighborhoods. So, anywhere you can build a single-family home, you could have a three-unit apartment building. That's a big improvement in affordability in some of these neighborhoods. It fits very well in with the character of the houses that are already there, so you get less push back from neighbors and that covers the entire city. So, that opens up a lot more neighborhoods that are available to people.

They are also doing this in conjunction with really larger apartment buildings that can be built along transit quarters and closer to jobs. It's also important we want to make sure we're building enough housing in the locations people want to live in so that we're not then putting pressure on some of the closer in black neighborhoods that are desirable because of their location, but we don't want them to bear all of the brunt of new construction.

PITA: We've mentioned a couple of different policy levels. There's cities making decisions about this. There's roles for federal level of policy. How do we deal with some of that the fact that there are multiple levels of this? Even at the city level, you know, Washington DC can say, "We would like to increase our housing capacity to keep housing costs down," but Ward Three can go, "Yeah, no, we're not going to do that," or,

you know, “We’re not going to increase density over here.” And then that does put the pressure on the other neighborhoods. How do we handle some of that who makes the decisions and who sets the priorities and who gets to agree to what?

PERRY: Well, I’ll answer from a broader perspective. I mean, we do have goals of the democracy around occlusion that we’ve got to hold ourselves accountable to and this is tough because we’ve literally grown up in segregated communities. We’ve gotten accustomed to saying that I only want to live with my social relative so to speak whether that’s by income, by race, and we’ve got to figure out ways to hold ourselves accountable to living in a diverse inclusive way. The reason why we need multi-family homes and single-family homes in places because that’s how we actually live. The reason why we should want black, white, Latino, Asian folk living together because that’s who in our communities particularly in the metropolitan areas. And so just from a very high level that we’ve got to realize or focus on goals of a democracy. We are constantly focused on what individuals want, but that has to be balanced out. That sense of freedom should be balanced with a sense of fairness along the way and our policies are high on freedom and individuals sort of making sure individuals get what they want. But it’s having a cost on our ability to live collectively. To operationalize the sense that were all in this together. So, a lot of my work focuses on the democratic goals. What are they and how can we get there?

SCHUETZ: This is an area where traditionally local governments have made most of the decisions. They make the land use decisions, they provide the financing for things like schools and public safety, and so we’ve devolved a lot of control to local governments, but they wind up making parochial decisions so protecting who are

already there, trying to keep other people out. When you have disparities in property values across local jurisdictions, it really sets the table to be very unfair for places that start off with lower value properties.

So, there's room for state and federal intervention. States already to a fair amount of redistribution of school funding across localities particularly the handful of states that have been sued over disparities in funding, so some redistribution financially is helpful. States and the federal government can also put more pressure on local governments to have more inclusive housing policies and to integrate their transportation systems better. So, for instance, state governments provide a lot of money to local governments to cover things like roads and physical infrastructure. They could make the funding contingent on reforming their land use to allow more apartments in single family neighborhoods and to provide some better connectedness to the local labor market.

The other thing is that the federal government is responsible really for insuring the fair housing laws and so insuring that there isn't discrimination in mortgage lending, that realtors aren't steering their clients to different neighborhoods, and the federal government is the only one that can sort of do this consistently across the country. It's really important for the federal government not to back away from its responsibility. That's been a little bit uncomfortable with this administration. Ben Carson has sort of waffled on whether he thinks that enforcing for housing is a responsibility of the federal government, but if the federal government doesn't do it nobody will.

PERRY: I just want to emphasize what's Americans by us living in these segregated ways. That 156 billion in worth evaluation could have funded 4.4 million

black owned businesses, 8.1 million four-year degrees, replace the pipes in Flint more than 3,000 times, and would have funded essentially all of Hurricane Katrina damage or about 97%. Our inability to live together and fairly is robbing people of opportunities and our country to thrive.

SCHUETZ: And it's important to understand that wealth building is not a zero-sum game. It's not that if black people and black neighborhoods and black businesses become wealthier that that's at the expense of any other group. The country is better off when more people have more resources and they can consume more, they can invest in more businesses, they can build their communities up.

If we look at the gap in homeownership rates between Blacks and Latinos on the one hand and Whites and Asians on the other and we look at the changing demographics of the country, if we don't figure out a way to close that homeownership gap, the country will have less wealth overall and that's bad for everybody.

PITA: That's a great way of putting. Andre, you've don't a lot of work looking at majority black cities as well, not just black neighborhoods. Well, some of them are more struggling, a lot of them on the smaller side, but there are some that are really prospering. Can you talk about how they are managing to do that?

PERRY: You know, in our study we found, it's the minority, but there are more than a dozen places where homes are appreciating or they're higher in value than their white peers. I caution people to not think that these places are less racist than others. We run a model and sometimes that's what comes out. If there's a general explanation, I would say that there are places like Boston where your professors, your physicians, your upper middle-class folk live in concentrated areas and around places where there

are a lot of working-class Whites. That's a general explanation, but it's not consistent throughout.

But I will say that we are trying to learn a lot from those places where Blacks are doing well relative to other Blacks. I generally look at majority black cities because I believe that some of the comparisons to white people and white areas is unfounded. Racism is the given in the country and so, yes, when we compare middle class Blacks to middle class Whites, Whites had the ability to earn wealth in ways Blacks didn't. So, a lot of my research aimed to look at okay where are Blacks doing well and look at that as signs of progress or their way to fight back against racism. So, when I see that educational levels in a particular area are higher, I'm like, what's going on in that region of the country? How did they push back against the same racism that was leveled against Blacks is somewhere else where folks are not doing as well?

So, my goal in the majority black cities work is to discover assets, discover community organizing as a city metro level because there are places where there are successes in overcoming structural racism in this country.

PITA: Do you have any good examples or takeaways from that so far?

PERRY: You know, what's interesting Maryland is the black bougiest place in America. I mean, it is the middle-class heaven of the 164 majority black places where blacks earn higher than the national median. Half of them are in Maryland.

PITA: Wow.

PERRY: And that has a lot to do with the percentage of blacks here, the proximity to federal government, and also, state government and local government. And so, where Blacks are in government you have more benefits and more stable living. The



federalization of jobs here in DC essentially enable Blacks to buy in the suburbs. Blacks are vulnerable and that played out during the recession no question. But folks are congregating in Maryland in positive ways. People know how to access resources here. They know how to get loans. They have banks and bankers they can trust. So, Maryland is an interesting case and there are spots throughout the United States where that is true, but by and large, Maryland is an incredible place for black people to live.

PITA: I'm curious if you have thoughts on yesterday's Chicago mayoral race.

PERRY: Oh man, I mean, I'm excited because this follows a small trend. We actually release two reports with our partners Higher Heights, and they are an organization focused on electing black women into office and it's not surprising to see black women grab these city seats. Charlotte, for instance, New Orleans, Shreveport, Baton Rouge. They're leveraging their social capital in places and they're leveraging their other kinds of capital in certain cities.

Chicago has a deep, deep black middle class there. People focus on the shootings and that certainly should get our attention, but there's a reason why the Obamas live in Chicago. It is another place where the black middle class has found a home, and so it's not surprising that you see black women rise politically, because it's one of those areas that there's equal opportunity to grab, to gain success. So, in elected office, one vote counts for everyone, you know, and so black women are leading the charge. And it does definitely follow the demographics. You look at their education levels. They're not earning as much as their male peers certainly, but they're trajectory is incredible, and so it's not surprising that they're grabbing the brass ring in some of these cities.

PITA: Wonderful. So, at your launch event you played a bit of a song by Mos Def and you riffed off a lyric of his and you talked about people get better when they understand that they have value. So, I'm wondering if you can bring this around. You also talked about how we haven't yet looked at building on the assets that exist in black majority neighborhoods and black majority cities. How do we do that? How do we bake this into policy into realizing the value of these people and these neighborhoods and these cities?

PERRY: I typically answer that question by letting people know about my favorite play in the world. My favorite play is Two Trains Running by August Wilson also from Pittsburgh and in the play the main character Memphis is about to have his business seized through eminent domain for \$15,000. The main character is angry and livid, and he goes back and forth with the city demanding, "I'm not going to sell my business for \$15,000. I know my price. I got my price." There's another character Hambone in the play. He paints a fence for a proprietor for a ham. He paints the fence. He never gets his ham. He goes back and forth with the proprietor and says, "Give me my ham, give me my ham." We're not clear if he had mental illness before painting the fence, but he certainly developed over time and he goes crazy and dies. But there's a happy ending to the story that the main character Memphis gets much more than he has asked for and at the end he's happy and he's ecstatic and he says, "I have my price. I got my price."

The whole point of this devaluation report, which many people actually are saddened by to see these numbers, but when people have the information where they can name their price, they can actually start demanding more of themselves. Our

homes are priced different than they are valued and that's a metaphor for a lot of my work that people tell us, black people, that you're not as worth as what you say you are and my products out of Brookings, they show that oh, there's actually assets worth building upon on majority black places. That they are devalued on purpose and so my forthcoming book on Brookings Institution Press, Brookings Press, is titled, "Know Your Price". And we will look at not only housing businesses, but we also look at education and infrastructure and other assets in majority black places that are devalued, but they certainly have worth. So, the point of this is to honor, recognize, and validate the worth that people have, but to help them. To say here's the information that you can use to demand your proper price.

PITA: That's wonderful. Andre, Jenny, thank you so much for being here with us today and talking about these issues. We'll have links of course to the papers that exist, and we'll tell our listeners to your new book when it comes out in the Fall. Thank you.

SCHUETZ: Thanks.

PERRY: Thanks.

(MUSIC)

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