

# Comment on Donald R. Haurin and Hazel A. Morrow-Jones’s “The Impact of Real Estate Market Knowledge on Tenure Choice: A Comparison of Black and White Households”

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## *Abstract*

Racial differences in tenure have been large and persistent, with white householders much more likely to own their homes than blacks. Haurin and Morrow-Jones surveyed a sample of 1,002 in metropolitan Columbus, OH, in 2005 to determine the causes of the tenure gap between blacks and whites.

Social and economic differences played a dominant role, but Haurin and Morrow-Jones also identified a racial difference in real estate and financial knowledge, a difference they suggest could be reduced or eliminated with education. This comment raises questions about national homeownership goals and points out that Haurin and Morrow-Jones overlook the consequences of pervasive racial residential segregation and the effects of both past and current discrimination.

**Keywords:** Discrimination; Homeownership; Minorities

## **The persistent racial gap in tenure**

At the beginning of the civil rights revolution, the 1960 census reported that 68 percent of white householders and 47 percent of black householders owned or were buying their residences (U.S. Bureau of the Census 2006). Despite extensive efforts to mitigate discrimination and promote homeownership, the 2005 American Community Survey—an annual sample of 3 million households—reported an even larger racial gap. Among non-Hispanic white households, 74 percent owned or were buying their residences, in contrast to only 46 percent of non-Hispanic blacks (U.S. Bureau of the Census 2005). The percentage of black householders owning their homes is virtually the same as it was in 1960. It is surprising to note that the homeownership rate for blacks in 2005 was far below that of other minorities: 58 percent of Asians and 58

percent of American Indians owned their homes, as did 51 percent of Hispanics. Among native-born Hispanics, the homeownership rate was 54 percent—8 percentage points higher than it was for blacks (U.S. Bureau of the Census 2005).

Homeownership rates rose with increasing household income for all races, but at every economic level, black rates lagged behind those of whites. For example, among those households reporting an income of \$60,000 to \$80,000 in 2005, 83 percent of white households versus only 67 percent of black households owned or were buying their home. Among both whites and blacks, homeownership rates attained a plateau when household income reached about \$150,000. But even at this high level, the racial gap persisted: 93 percent of white households were owners, compared with 86 percent of black households. Taking other key demographic variables into account greatly reduced, but did not eliminate, the tenure gap. Looking at black and white households that had an income of \$150,000 or more and in which the householder had completed college and was married, 96 percent of whites and 93 percent of blacks owned or were buying their home.

Haurin and Morrow-Jones seek to account for the racial gap by focusing on metropolitan Columbus, OH, where they conducted telephone interviews with 1,002 heads of household—some owners and some renters—in 2005. Their careful, scholarly work was motivated by the hypothesis that racial differences in real estate and financial knowledge were key to explaining why blacks were less likely to own than whites. In metropolitan Columbus, the racial gap in tenure (71 percent of white householders and 44 percent of black householders were owners in 2005) was as large as the national gap (U.S. Bureau of the Census 2005).

One major finding clearly summarized in their article is that once racial differences in socioeconomic status are taken into account, race has a small and statistically insignificant net effect on tenure. Educational attainment, household income, marital status, and self-perception of credit quality were strongly linked to whether the respondent owned or rented. Equating Columbus-area blacks and whites on these variables accounts for virtually all of the racial difference in tenure. Rather than stopping at that point, Haurin and Morrow-Jones carefully measured respondents' real estate and financial knowledge by asking questions about interest rates, minimum down payments, and government programs that assist home buyers, as well as two questions about whether the respondent knew his or her credit score and how to obtain it.

Real estate and financial knowledge had an impact on homeownership, but its significance depended on how models were fit. The probit model that treated knowledge of the housing market as independent of the respondent's current tenure showed that housing market knowledge had a strong effect on

tenure. But the first time a person buys a home, he or she likely gains a great deal of real estate and financial knowledge. The model that treats knowledge of the housing market as endogenous and uses instrumental variables reveals a much less substantial net effect of housing market knowledge on tenure. Quite appropriately, the authors call for the development of programs that will provide renters with real estate and financial knowledge to encourage homeownership. Their models suggest that were such programs effective, they would have a modest effect on closing the racial gap in tenure but that a large difference would remain, primarily because of differences in income, wealth, and marital status between blacks and whites.

### **Black-white parity in homeownership: Necessary but not sufficient**

What should our national homeownership goals be? At least since the 1930s, numerous federal programs have encouraged homeownership, and there is a popular consensus that both householders and their communities benefit from it. Owning a home has been a realistic possibility for many or even most U.S. households since the end of World War II. Nevertheless, if the index of success is actual homeownership, it appears that whites have benefited much more from these programs than blacks. Often the emphasis has been on promoting homeownership itself. This is an extremely important goal, but there are other housing market issues to consider.

If black homeownership rates are high, but blacks are residentially concentrated in largely black communities where there is little white demand for housing, their homes will likely appreciate slowly vis-à-vis those of whites. If blacks purchase homes in communities where tax rates are high or where car and home insurance rates are extremely elevated and city services and public schools are deficient, the benefits of being an owner may be much diminished.

The Haurin and Morrow-Jones article contributes useful information but overlooks the largest discrepancy between blacks and whites in the housing market—they generally live in different neighborhoods. The most popular book in the 1990s about racial differences in the housing market—and one that is still widely sold—was titled *American Apartheid* (Massey and Denton 1993) to quickly describe the neighborhood pattern that still characterizes the older, larger metropolises of the Northeast and Midwest.

Metropolitan Columbus, OH, was not at the top of the list of segregated metropolises in 2000, but the census showed a black-white segregation index of 71 at the block level, meaning that more than 7 in 10 blacks or whites would have to shift where they lived to eliminate segregation. Whites in metropolitan Columbus typically lived on blocks where 88 percent of their

neighbors were other whites and only 6 percent were blacks. By comparison, blacks in Columbus lived on blocks where 55 percent of their neighbors were black and 39 percent were white (my computation of 2000 census data reported at <http://enceladus.isr.umich.edu/race/racestart.asp>).<sup>1</sup> What are the short- and long-term implications of the long-standing *American Apartheid* pattern for the tenure decisions of white and black homeseekers? These implications need to be considered and addressed as we advocate increasing the black homeownership rate.

### **Racial discrimination in the homeownership process**

Studies of the housing market, especially those focused on locating a place to live, obtaining a mortgage, and residential segregation, have traditionally emphasized racial discrimination. A variety of studies conducted in the 1950s and 1960s provided evidence of blatant discrimination that effectively kept blacks in segregated neighborhoods.

Federal housing policies just after World War II allowed whites to easily leave racially changing neighborhoods in the central cities and purchase attractive housing in suburbs where blacks were not welcome, thereby creating the Chocolate City–Vanilla Suburbs patterns sung about on Soul Music stations 40 years ago (Farley et al. 1978). The Fair Housing Act of 1968 prohibited racial discrimination in the housing market, and Congress, recognizing that racial, age, and gender discrimination might deny opportunities for mortgage credit, went on to pass the Equal Credit Opportunity Act four years later.

Possible racial discrimination and its consequences receive, at most, modest attention in the Haurin and Morrow-Jones article. The authors do not speculate about how past or current discrimination could play a substantial role in the large racial differences in educational attainment, income, or wealth that they show to be so important in Columbus. Nor do they speculate about whether residential segregation or discrimination might account for racial differences in housing market and financial knowledge. To be sure, we have strong indicators suggesting that racial discrimination in the housing market has decreased, but it has not been eliminated.

The U.S. Department of Housing and Urban Development (HUD) recently sponsored three national studies of possible discrimination in the marketing of advertised housing in large metropolises. These housing discrimination studies, which used paired teams of white and black testers to detect discrimination,

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<sup>1</sup> This Web site is maintained by the University of Michigan's Population Studies Center (2006), which uses data from the 1990 and 2000 censuses to create indexes of racial residential segregation for cities, counties, and metropolises.

report that black and white homeseekers are increasingly being treated equitably when they visit brokers who advertise properties. Federal laws presumably produced substantial changes in how brokers treat those minority customers who come into their offices, although steering and discrimination may still occur. Nonetheless, many of the statistical models in the most recent HUD study of housing market discrimination show significant racial differences, albeit in the more subtle components of housing sales such as agents' providing more information or more favorable information about neighborhoods to whites than to blacks. As the authors of this study of racial discrimination summarized:

In both rental and sales markets of metropolitan areas nationwide, black and Hispanic homeseekers experience significant levels of adverse treatment relative to comparable white homeseekers. Our "best estimate" of discrimination, which reflects the extent to which whites were consistently favored over their minority partners, ranges from 17.0 percent for African American homebuyers to 25.7 percent for Hispanic renters. (Turner et al. 2002, 8–1)

We know less about whether blacks and whites are increasingly treated identically when they seek mortgages or insurance for the homes they may purchase. If an education program such as the one suggested by Haurin and Morrow-Jones eliminated racial differences in real estate and financial knowledge, it might be more difficult for real estate brokers to steer blacks or to discriminate against them in subtle or blatant ways.

### **Racial differences in the search for housing and consequences for tenure**

Research shows that blacks and whites are similar in many regards when they conduct searches to buy a home, but they also differ in ways that may perpetuate long-standing racial differences in tenure. In 2004, Mick Couper of the University of Michigan, Maria Krysan of the University of Illinois at Chicago, and I began a comprehensive investigation of the causes of continued black-white residential segregation in metropolitan Detroit and Chicago—two of the nation's most completely segregated locations (Logan, Stults, and Farley 2004).

This study focused on how blacks and whites searched for housing. The representative samples we selected consisted of 586 black and 669 white respondents who lived in metropolitan Detroit or Chicago and were interviewed in 2004 or 2005. Of these, 211 black and 300 white respondents reported that they were involved in a housing search with the intent to buy a

home within the previous decade. We wished to determine whether blacks and whites sought housing in the same ways and whether they searched in identical neighborhoods. The comments that follow refer to those respondents who reported searching for a home. We found many racial similarities:

1. Blacks and whites did not differ significantly in the duration of their search. For both, the modal response was that their search took six months or more.
2. Whites visited more homes during their search than blacks, but the difference was not significant. Whites went into an average of 10.7 homes, and blacks saw 7.4.
3. Blacks and whites did not differ significantly in their evaluation of how difficult their search was. For many people, the search for a new home does not appear to be onerous. The modal response for both races was that their search was “not very difficult.” That is, 52 percent of whites and 49 percent of blacks said that their search was “only a little difficult” or “not difficult at all.”
4. Among our sample, there was no difference between blacks and whites in having access to a car during their search. That is, 95 percent of whites and blacks could use a car in their search.
5. There was no significant difference in the use of the Internet to obtain information about neighborhoods or communities. Among both races, about one searcher in six used the Internet.
6. Nor was there any significant difference in the use of the Internet to locate information about financing. About 10 percent of whites and 10 percent of blacks who searched for a home to buy used the Internet to obtain information about financing.
7. Among homeseekers who used a real estate agent, there was no significant difference in how they located one. Some 45 percent of whites and 48 percent of blacks used an agent recommended by a friend or relative. Many more searchers found their brokers through their relatives or friends than through newspaper ads.
8. Among those who used an agent, there was no significant difference in how satisfied they were with their agent. Some 60 percent of blacks and 56 percent of whites said that they would strongly recommend their agent.
9. Among those who used an agent, there was no significant difference in the gender of that person. A total of 56 percent of both races used female agents.

There were, however, several large and significant racial differences that may have implications for the persistent gap in tenure between blacks and whites:

1. Blacks and whites differed significantly in their housing search strategies, with whites using real estate agents more than blacks did. Blacks were more likely than whites to rely on friends and relatives or newspaper ads. Whites were significantly more likely than blacks to use the Internet to locate homes.
2. Blacks and whites differed significantly in the number of homes on which they made offers. Among those who bid on a home, the average white made offers on 1.5 houses before purchasing, thus suggesting that about two-thirds of the bids were successful. Blacks, on average, made offers on two homes before they purchased one, implying a significant racial difference in outcomes after offers are made.
3. Among those who used an agent, there was a highly significant difference in the race of the agent. Although blacks tended to use black agents, a substantial minority employed white brokers. That is, 71 percent of blacks who used an agent in their search said that the agent was black, while 22 percent of blacks had white agents. Whites who sought housing used black real estate brokers extremely infrequently. A total of 93 percent used white agents, and less than 2 percent—just 3 of the 190 white homeseekers in our sample who used an agent—employed a black agent. This suggests extensive racial segregation in the marketing of homes. Some white agents may deal with both white and black customers, but when whites sought housing, they almost invariably dealt with a white agent, thereby suggesting that black brokers are confined to dealing with black customers.
4. There is a large and highly significant racial difference in the perception of being taken advantage of at some point during the search for a home to purchase. Among black homeseekers, 21 percent said that they felt that someone took advantage of them. Only 12 percent of whites expressed this feeling. This is not a consequence of black homeseekers' perceiving that white agents took advantage of them. Blacks who used a black agent were just as likely to feel taken advantage of as those who used a white agent.
5. We gave all respondents in the Detroit survey a colorful map of the metropolitan area and identified 33 specific locations. Five of these were well-known sections of the city, including downtown, midtown, and north-west Detroit. The other locations were well-known suburbs, including Dearborn, Southfield, Warren, and the Grosse Pointes. We then asked

respondents where they definitely would or would not search for a new residence should they move away from their present home.

Whites overwhelming said that they would search in largely white suburban communities and that they would not look for housing in any of the central-city neighborhoods or in those suburbs where the black population had grown rapidly in recent years. Southfield is an attractive, prosperous suburb, but its composition is changing rapidly. Its population, which was less than 0.1 percent black in 1970, was two-thirds black in 2005 (Farley, Danziger, and Holzer 1992; U.S. Bureau of the Census 2005). Some 60 percent of whites in our survey said that they would not look for housing there. Blacks were much less constrained by racial composition in their search. They reported that they would look for new housing in most areas of the city and in many of the suburbs, including those that had overwhelmingly white populations. Dearborn and Warren—two of the largest suburbs—had a reputation for great hostility to black residents in the past. Nevertheless, one-sixth of black respondents said that they would look for new homes in these suburbs.

We have yet to determine how the racial differences in the housing search exacerbate racial gaps in tenure. Does the finding that whites are more likely than blacks to use brokers mean that whites are provided with more effective information on how to obtain a mortgage and reasonably priced insurance? Is our finding that blacks felt taken advantage of much more frequently than whites linked to the Haurin and Morrow-Jones finding that blacks have less real estate and financial knowledge than whites? That is, do black homeseekers with lower levels of real estate and financial knowledge have unrealistic expectations about finding and financing a home? Does the racial pairing of searchers and agents make a difference? Are white agents more likely than black agents to encourage homeownership, and are they better prepared to help clients overcome the numerous hurdles to first-time ownership?

The huge racial differences in where blacks and whites say they would search for a new residence may have both short-term and long-term consequences for tenure. Whites are more likely than blacks to say that they would look for housing only in areas where most people own. Does that have an impact? If there is little white demand for housing in neighborhoods with large black populations or in neighborhoods where blacks are entering, this diminished demand suggests that housing prices in these areas will appreciate slowly if at all. The disproportionately black buyers who purchase homes in these areas are likely to see the equity in their properties increase more slowly than it does for people who bought in a largely white neighborhood. Is one important consequence of residential segregation a truncation of the wealth holdings

of blacks, a factor that Haurin and Morrow-Jones show to be important in explaining racial differences in tenure?

## Summary

Findings from the Haurin and Morrow-Jones study provoke thought about national housing goals. To be sure, there is an almost universal consensus that racial discrimination in the housing market is reprehensible, and strong federal and local laws now proscribe it. If there were no discrimination in the housing market, roughly equal proportions of black and white households would be expected to own their homes. This is not the case, and the Haurin and Morrow-Jones article points out key reasons for the tenure discrepancy in Columbus (OH): racial differences in education, income, net worth, and marital status. If it were possible to quickly equate the races with regard to these variables, the tenure gap might diminish. That is not likely to happen, however. Haurin and Morrow-Jones observe that there are racial differences in real estate and financial knowledge and propose an education campaign to eliminate the gap.

This is a reasonable strategy, but it may be only one step in a larger review of what might be needed at this time to eliminate racial disparities in homeownership. Should the aim be merely to eliminate the racial gap in homeownership rates, or is it appropriate to consider broader goals? Ideally, if the value of property is held constant, race should make no difference in seeking mortgages, in the interest rates homeowners pay for their first or second mortgages, in their insurance payments, and in their tax rates. More important, properties owned by blacks should have the same risk of appreciating or depreciating as similar properties owned by whites. Whites and blacks should be able to access mortgage products suited to their particular circumstances, with the result that the incidence of default and foreclosure should not be concentrated within either population. Is it possible to achieve these desirable goals if the *American Apartheid* neighborhood pattern persists?

The pursuit of racial parity in homeownership needs to delve deeper than just the question of whether households can purchase a home or not. Ideally, regardless of race, households should have the knowledge and access to use appropriate mortgage products to purchase quality housing in quality neighborhoods and be able to maintain homeownership over the long run. Existing research has concentrated on examining the simple homeownership gap, with less focus on the quality and duration of homeownership and little research on the consequences of racial residential segregation. Future research should dig deeper into the nuances of what parity in homeownership really means.

The lingering consequences of past racial discrimination and possible continuing discrimination—in the housing market, in education, and in employment—may have strong adverse effects for blacks. Undoubtedly, the effects of past discrimination will gradually wane, but this may not be a rapid process. If our findings about racial differences in searching for houses in Detroit and Chicago apply to other older industrial centers that have grown slowly in recent decades, racial differences in the housing market and residential segregation seem likely to persist. Presumably, whites use white agents who may not be familiar with neighborhoods with dense or growing black populations. In addition to maintaining segregation, does this lead to racial differences in mortgage financing and in the decision or ability to buy a home rather than rent one? In theory, this seems likely. Future research should help us understand this connection as we continue efforts toward racial parity in homeownership.

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