Color Coded:

The Growing Racial Inequality in Home Appraisals

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Background

Nearly a decade ago, my collaborator, Dr. Elizabeth Korver-Glenn, and I began studying the appraisal process. At the time, we were both living in Houston, Texas. Like other cities, homes in Houston's White neighborhoods were appraised at considerably higher amounts than comparable homes in communities of color. For example, a recently renovated, three bedroom, two bath, 1,500 square foot home in a predominantly White community sold for ten times more ($550,000) than an extremely comparable house in a predominantly Black neighborhood ($56,000). Although the inequity was striking, we initially perceived it as primarily a legacy of historical racist policies.

Like most people raised in the United States, we had been explicitly and implicitly taught a property's worth was based on the desirability of its location. Communities with larger, well-constructed homes, spacious lawns, highly resourced schools, ample retail establishments, accessible parks, and quality infrastructure were appraised as more valuable than communities without these characteristics. However, which communities have these more advantageous resources is not random.

For decades, scholars have meticulously documented how racist urban planning processes combined with racist financial services and employment practices enabled the creation of racially separate and unequal residential neighborhoods (Jackman and Jackman 1980; Jackson 1985; Stuart 2003; Taylor 2019; Faber 2020; Marchiel 2020). Federal, state, and local governments alongside industry leaders hyper invested in White communities at the expense of communities of color (Du Bois 1899; Johnson 2016; Trounstine 2018; Taylor 2019; Dunbar-Ortiz 2021).

Given this history, we assumed the appraisal inequality observed between White neighborhoods and communities of color was largely due to racial inequities in amenities and socioeconomic status. Yet, upon closer inspection, we quickly realized amenities and class did not explain the observed inequity. Some of Houston's most sought after middle-class Black and Latinx neighborhoods not only had lower appraised values than similar White communities, but appraisers routinely provided estimates that were drastically lower than their contract prices. Time after time, we observed hotly contested homes with multiple offers receive an appraisal under the contract price—requiring renegotiations and often sinking the deal all together.

We were intrigued and disturbed. The contemporary appraisal processes seemed to be perpetuating decades' old racial inequality. Yet, few were investigating the extent to which this problem existed, its implications on residents' wellbeing, and what could be done to address the inequity. So, we began what has now become a decade-long qualitative and quantitative investigation into the appraisal process and its contribution to racial inequality. Throughout this process, we have published three empirical studies, given dozens of presentations, and worked alongside multiple government and industry leaders to derive solutions.

In what follows, I will briefly summarize the empirical findings of our three studies, discuss the implications of this inequity on communities, outline the mechanisms driving the observed inequities, and propose alternative approaches aimed at increasing equity and promoting justice.

Empirical Studies

Using multiple data collection and analytical tools, we have produced three nationally recognized studies on neighborhood racial inequality in residential property values. Below I briefly describe each study's key findings. For interested readers, the three studies can be accessed in full at the following links: Howell and Korver-Glenn 2018; Howell and Korver-Glenn 2021; Howell and Korver-Glenn 2022.

Study One: Mixed-Methods Examination of Houston's Appraisal Industry, 2015

As already mentioned, we began our investigation of the appraisal industry in Houston. We first conducted over 100 interviews with industry professionals (e.g., appraisers, brokers, real estate agents, and developers) and 12 months of ethnographic observations (following appraisers, observing their processes, and inquiring about their decisions). Across industry actors, we routinely found assumptions about a neighborhood's racial composition shaped assessments of property desirability and profitability. In particular, appraisers' conception of the neighborhood's racial composition shaped how they selected comparable sales and evaluated the properties' characteristics.

To be clear, the uniform appraisal report explicitly reminds appraisers, "race and racial composition of the neighborhood are not appraisal factors," and the vast majority of appraisers do not explicitly use a homeowner's race or the neighborhood racial composition as formal justification for their appraised values. Yet, the federal underwriting manual and federally endorsed trainings encourage appraisers to pull their comparable sales from the same or similar neighborhoods. Unlike practices in the 1930s that explicitly defined neighborhood boundaries and comparable areas, contemporary practices encourage appraisers to imagine a property's 'ideal' buyer and select comparable sales based on their assumption of where else this buyer might purchase property. In our interviews and observations, the primary factor shaping appraisers' selection of comparable neighborhoods was race.

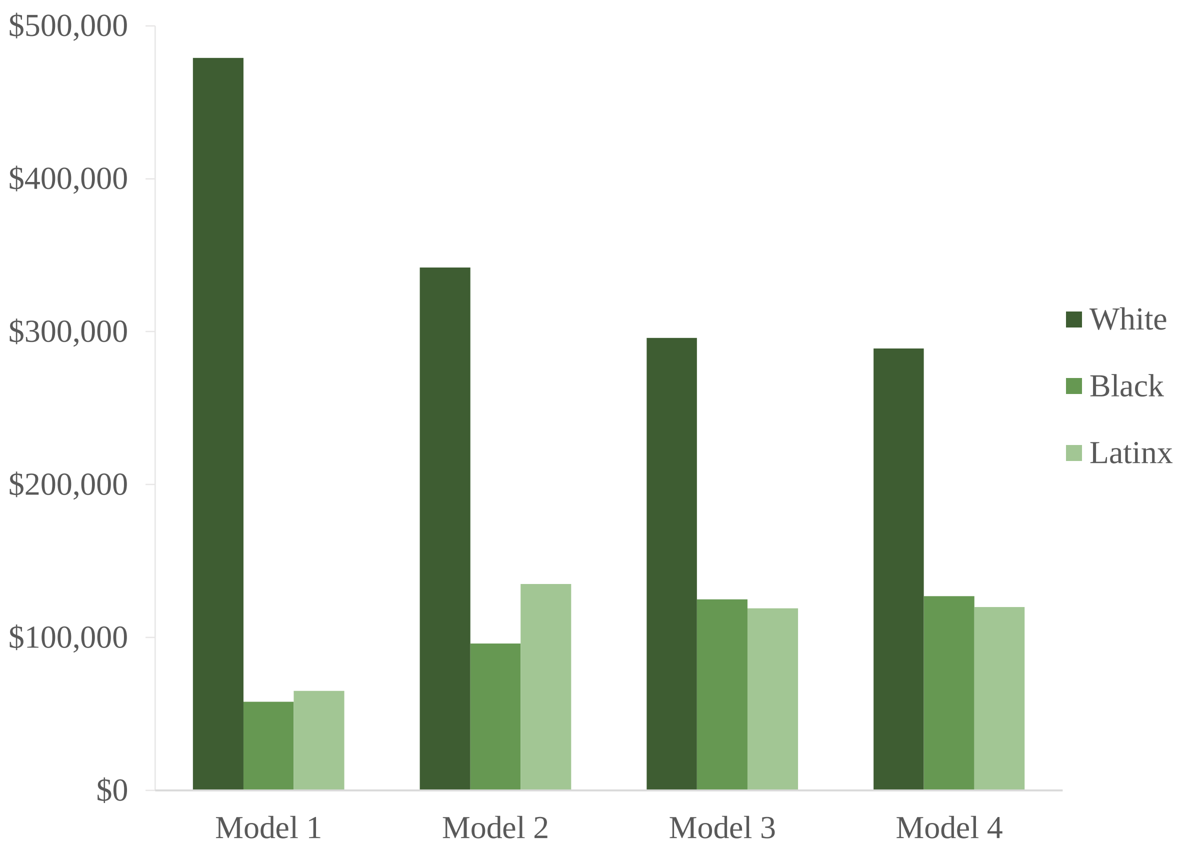
When appraisers were unable to find a recent, comparable sale in proximity, they selected sales from neighborhoods with similar racial composition even if the neighborhoods were drastically different in their socioeconomic status, amenities, and physical location. Additionally, when asked about their evaluations, White appraisers repeatedly shared race-based explanations, including derogatory stereotypes, to justify their assessments.

Our qualitative data and analysis conclusively illustrated how appraisers' racialized assumptions of neighborhoods were directly contributing to the observed inequality in appraised values. However, this is not how the appraisers themselves understood their processes. They perceived the sales comparison approach and their implementation of it as enabling them to accurately reflect the real estate demand. In other words, any racial inequality in the appraised values was not due to their decisions. Rather this inequality could be explained by differences in property characteristics, construction quality, neighborhood amenities, and, most importantly, what properties were most highly valued by buyers in the market.

To test their assertions, we undertook a quantitative analysis. We initially hoped to analyze uniform appraisal reports directly. Unfortunately, it took us years to obtain these reports. In the meantime, we decided to use proxies of appraised reports to pursue our questions. Through a series of robustness checks, we determined that the Houston area (Harris County) tax assessments were the most comprehensive proxy for the appraisal reports available. We knew that tax assessments generally have less inequity across neighborhoods than market appraisals, meaning that if we found neighborhood racial composition was influencing the tax assessments, this inequality was likely even greater in the market appraisals.

We began our analysis of nearly one million single family residential properties by examining the overarching relationship between neighborhood racial composition and tax assessments. In 2015, a home in Harris County's White neighborhoods was worth, on average, $420,000 (or eight times) more than homes in Harris County's Black and Latinx communities (see Figure 1).

Figure One. Harris County (Houston) Predicted Tax Assessments, 2015



Note: These estimates come from Howell and Korver-Glenn's (2018) Table 2. Model 1 examines how neighborhood White, Black, Latinx, and other racial group proportions correlates with tax assessments. This model has no controls. Model 2 adds house characteristics and quality controls to Model 1. Model 3 adds neighborhood housing stock, community socioeconomic attributes, and neighborhood amenities controls to Model 2. Model 4 adds consumer housing demand variables to Model 3.

Some of this inequity is the result of racist housing, finance, and employment policies that have concentrated residents of color in smaller, lower quality housing. To take this into consideration, we ran a model holding constant property characteristics (e.g., home and property square footage, fireplaces, garages, patios, porches, decks, pools, and tennis courts) and quality (e.g., year upgraded, construction quality, and physical condition). As expected, comparing identical homes reduces the gaps between White neighborhood tax assessments and their counterparts in communities of color. Yet, homes in White communities are still valued nearly $250,000 (or three and half times) more than comparable homes in neighborhoods of color (see Figure 1).

Next, we took into consideration the surrounding area's housing stock (e.g., median number of rooms, median year built, vacancy rate), community socioeconomic attributes (e.g., owner occupancy rate, poverty proportion, unemployment rate), and neighborhood amenities (e.g., school quality—measured by state standardized tests, violent crime rates, park accessibility, and commute times). Contrary to expectations, holding neighborhood conditions constant resulted in only a slight decrease in observed inequality. Despite the repeated claims of real estate professionals, the divergent values assigned to communities does not reflect the socioeconomic status or amenities within those communities.

Finally, we took real estate demand into consideration. We used the common economic measures of real estate demand: the speed at which homes sell and whether they are selling at the original asking price. Unlike the common assumption within and outside of the industry, demand does not explain the remaining racial inequality.

Contrary to appraisers' assumptions, the sales comparison approach and other evaluation tools are unable to accurately reflect neighborhood amenities or demand. Rather, the sales comparison approach continues to produce racially unequal evaluations—assessing homes in White neighborhoods as $170,000 (or 2.5 times) more valuable than comparable homes in comparable neighborhoods of color—even ones that are equitably sought after on the open housing market.

These results systematically demonstrated large inequities in Houston's real estate market, leading us to ask was Houston an anomaly or was this pattern national? Additionally, to what extent are these patterns a legacy of historical practices, not contemporary methodologies? To answer these questions, we embarked on our second study.

Study Two: National, Longitudinal Investigation of Home Values, 1980-2015

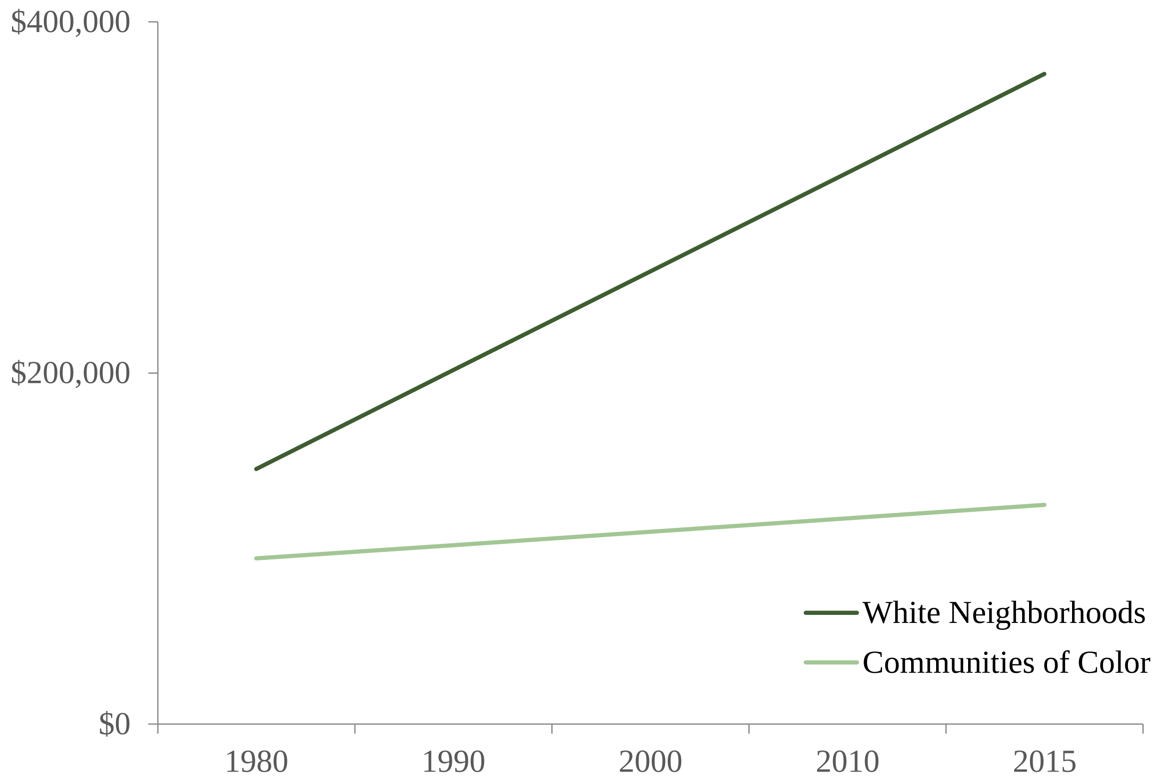
Building on our previous research, academic literature, and appraisers' perceptions of the reasons why inequity persists between White neighborhoods and communities of color, we identified four mechanisms contributing to the observed racial inequality: ongoing socioeconomic inequality, real estate demand, historical redlining, and contemporary appraising practices. To empirically test the influence of all four of these mechanisms, we needed national, longitudinal data. At this point, we still did not have access to appraisal reports—especially national reports tracing back to the end of redlining. Thus, we ran several tests to select the best proxy data and chose Census Bureau data of homeowners' self-reported home values aggregated to the census tract (or neighborhood) level.

Additionally, given the vast differences in housing markets across the country, a national assessment of appraisal practices required analyzing models for each metropolitan area separately and then using these results to derive national averages. Otherwise, our models would compare Kansas City's neighborhoods to San Francisco's without considering the vast differences in their housing market cost. We selected the largest 107 metropolitan areas to ensure the individual metropolitan area had enough neighborhoods to run our analytical model.

Mirroring our first study's results, we found considerable inequity in home values across neighborhoods of different racial compositions. Houston was not an anomaly—quite the opposite. Houston epitomized the national pattern. In 2015, homes in White neighborhoods were valued as $246,000 more than comparable homes in socioeconomically comparable communities of color. Yet, even more startling than the pervasiveness of the inequality across the nation was the fact that it was increasing over time.

From 1980 to 2015, properties in White neighborhoods accelerated seven times faster than comparably sized, aged, and quality properties in communities of color with the same socioeconomic status, amenities, and homeownership rates (see Figure 2). During this time, home values became less correlated with housing characteristics, construction quality, neighborhood amenities, and area socioeconomic status while the correlation between home values and neighborhood racial composition became stronger. In fact, this correlation increased by fivefold from 1980 to 2015.

Figure 2. Appraisal Values in 2015 Dollars for Comparable Homes in Comparable Neighborhoods in an Average Metropolitan Area, 1980 and 2015.



Source—Howell and Korver-Glenn 2021: Figure 2, page 15. Communities of color defined as Black and/or Latinx

Like we did in our first study, we also examined real estate demand. Unlike our first study that only included one city, our second study was able to compare demand factors across metropolitan areas. Metropolitan areas with smaller White populations and lower demand for White neighborhoods saw greater home value inequity between White neighborhoods and communities of color. This suggests consumer preferences are not driving the observed inequality.

Housing characteristics, neighborhood conditions, and real estate demand could not explain the persistent neighborhood racial inequality. This provides empirical evidence that contrary to appraisers' assumptions about the sales comparison approach, this appraisal method is not reflecting differences in neighborhood socioeconomic status or real estate demand—which invites the question: how much of the inequality is a legacy of historical practices?

If the contemporary inequality was merely a remnant of historical discrimination, we would expect this inequality to gradually diminish over time. The fact that it is increasing suggests that the inequality is not merely a reflection of historical policies. Yet, to further delineate the influence of historical racist policies from contemporary practices, we ran dynamic panel models to differentiate the influence of historical home values from contemporary appraisal practices.

Given that past sales are used to determine contemporary prices, it is not a surprise that historical inequality in home values explains some of the observed inequality. However, contrary to the expectations in the literature and among appraisers, contemporary racial composition has a considerable influence on home values—even when holding the neighborhood's historical values constant. In other words, neighborhoods that were historically redlined have seen higher increases in home values if White residents moved into the community. Conversely, communities that were initially White and had corresponding high historical home values experienced decreasing assessments of their home values as Black and/or Latinx residents moved in. Even when we set aside the historical racialized processes that created the socioeconomic and geographic inequalities, the mere presence of White people still elevates appraisers' perceptions of a property's value.

This national, longitudinal, systematic study provided comprehensive evidence that contemporary appraisal practices were perpetuating racial inequality in home values. Moreover, the study's documentation of the differential property appreciation rates provided empirical evidence that a considerable proportion of the growing racial wealth inequality was due to contemporary practices within the real estate industry. However, some within the industry were concerned that our quantitative models examined proxies for appraised values. They conjectured the observed inequality might not exist if we were analyzing uniform appraisal reports directly.

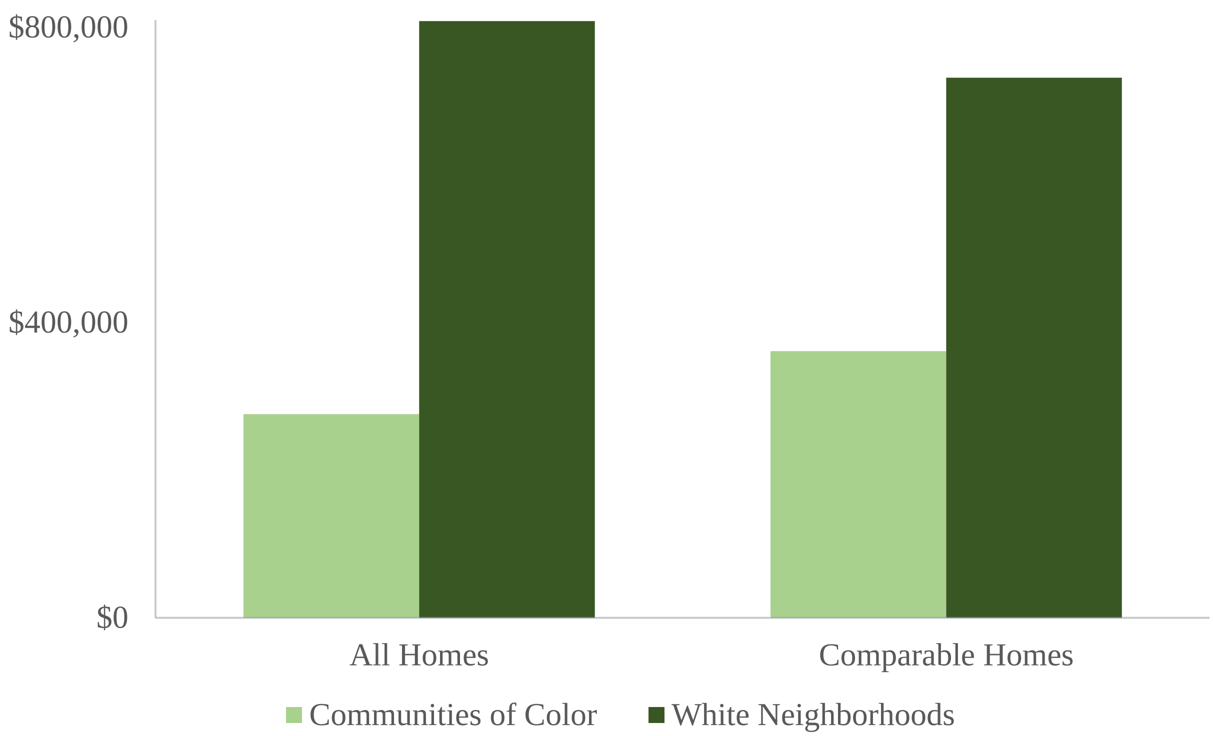
Study Three: National Analysis of Appraised Values, 2013-2021

On October 24, 2022, the Federal Housing Finance Agency (FHFA) in collaboration with the Interagency Task Force on Property Appraisals and Valuation Equality (PAVE) released an aggregated version of the uniform appraisal data (UDA)—including the average appraised value in each census track for every year from 2013 to 2021. With this data, we were able to assess the role neighborhood racial demographics had on appraisers' exact assessments of properties.

Like our previous studies, we linked the FHFA UAD data to data on neighborhood socioeconomic status and amenities from other governmental agencies. We then ran distinct models for all metropolitan areas with at least 500,000 residents and 50,000 residents of color. This included 105 metropolitan areas. For completeness, we ran distinct models for year, each type of appraisal (sale appraisals, refinance appraisal, and all appraisals combined), each estimate (mean and median appraisal values), with and without neighborhood controls, and two operationalizations of race—a total of 22,680 statistical models.

We used these models to answer five questions: (1) In 2021, did appraisers evaluate homes in White neighborhoods as more valuable than homes in communities of color? (2) How did the racial gap change from 2013 to 2021? (3) How did the pandemic affect the neighborhood racial inequality in appraisals? (4) Is the racial inequality growing in the fastest growing markets? (5) How does the racial inequality vary across different communities of color?

Figure 3. Mean Appraised Values in White Neighborhoods and Communities of Color, 2021



Source—Howell and Korver-Glenn 2022: Figure 2. Communities of color defined as all non-Hispanic, non-White.

For our first question regarding the extent of inequity in 2021, we found homes in White communities were appraised as worth over $500,000 more than homes in neighborhoods of color. Part of this inequality is due to other racist practices that have concentrated White residents in larger, newer homes located in higher socioeconomic status neighborhoods. Yet, even when we compare comparable homes in neighborhoods with similar amenities and characteristics, homes in White neighborhoods are still worth a staggering $370,000 more than their counterparts in communities of color (see Figure 3). Using recent data directly from appraisers from across the country, the inequity was still present—appraisers evaluated homes in White neighborhoods as over double their counterparts in communities of color.

Given this, we were curious how patterns might have changed in the most recent decade—bringing us to our second question. Following the pattern we observed from 1980 to 2015, racial inequality in appraised values continued to increase from 2013 to 2021. In just these last nine years, racial inequality in appraised values increased an additional 75 percent.

In fact, much of the recent growth in inequality was due to the pandemic. During the pandemic, homes in White neighborhoods appreciated in value twice as quickly as homes in communities of color. This further expanded the racial gap by an additional $76,000. To put this into historical perspective, our previous research estimates that the racial gap in home values grew $5,000 a year from 1980 to 2010. From 2013 to 2018, racial inequality in appraisals grew an additional $6,000 a year. Yet, during the pandemic, the gap grew by a staggering $38,000 a year—7 times the historical trend.

In housing markets that saw the largest increases in average house price, the racial inequality was even greater than the national average. In the 29 metropolitan areas that saw the most unprecedent home inflation during the pandemic (e.g., Boise, Austin, Charlotte), racial inequality grew by $45,000 annually (9 times faster than the historical trend). The rising tide of home values was not floating all boats. Rather, in the cities experiencing the highest price increases, racial inequality grew at the most staggering rates.

Figure 4. Difference between Communities of Color and White Neighborhoods Relative to the Mean Appraised Values in Each Community of Color, 2021

Source—Howell and Korver-Glenn 2022: Figure 6.

Finally, our last research question disaggregates our overarching communities of color category into six mutually exclusive groups: American Indian and Alaskan Native, Black, East Asian (e.g., Chinese, Japanese, and Korean), Latinx, South Asian (e.g., Indian, Pakistani, and Sri Lankan), and Southeast Asian and Pacific Islander (e.g., Malaysia, Filipina, and Indonesian). Compared to comparable homes in similar White neighborhoods within the same metropolitan area, properties in Black and Latinx neighborhoods are appraised at approximately two times less, properties in American Indian and Alaskan Native neighborhoods are 2.5 times less, and properties in Southeast Asian and Pacific Islander neighborhoods 3 times less. By contrast, properties in East Asian neighborhoods are appraised just slightly more than White neighborhoods and properties in South Asian neighborhoods are indistinguishable from White neighborhoods (see Figure 4).

Although the specifics varied across metropolitan areas, years, and outcome variables, this most recent study provides overwhelming evidence that appraisers' own reports evaluate homes in White neighborhoods as considerably more valuable than homes in American Indian/Alaska Native, Black, Latinx, and Southeast Asian/Pacific Islander communities—even when home, neighborhood, and historical factors are taken into consideration.

Mechanisms Creating Inequality in Appraised Values

The contemporary neighborhood racial inequality in appraised values is the result of how appraisers implement the federally approved methodologies and the methodologies themselves. Given that the primary contemporary methodology is the sales comparison approach, in what follows, I outline the ways in which the application of the sales comparison approach and the methodology itself creates the observed inequality.

Appraisers' Discretionary Decisions

As outlined by the federal underwriting manual, the sales comparison approach entails four steps: evaluating the subject property's features and condition; selecting comparable, recently sold properties; adjusting comparable sales prices based on the subject property features; and deriving an opinion of value. Although appraisers must follow this set process, they have a large amount of discretion in how they measure a subject property's quality, define comparable sales, make adjustments, and select the final opinion of value.

This discretion creates wide variation in appraisers' valuations. Even seemingly small distinctions in the measurement of a property's square footage can result in tens of thousands of dollars differences in appraised value. Ethnographic observations and interviews demonstrate that as appraisers are making these various decisions, they consciously and unconsciously draw from their racialized assumptions about property owners and the surrounding neighborhood (Howell and Korver-Glenn 2018; Korver-Glenn 2021).

Even when appraisers do not formally report racial demographics or record racially biased assumptions, they use their assumptions about the neighborhood racial demographics and the race of the 'ideal' buyer to evaluate property condition, define neighborhood boundaries, estimate the area's desirability, select comparable sales, adjust sale prices, and select their opinion of value. In the aggregate, these individual appraisers' decisions and biases perpetuate the evaluation of White homes in White neighborhoods as more valuable as Black, Indigenous, Latinx, and Southeast Asian homes and communities.

Appraisers' racialized assumptions of people and places is a critical factor contributing to the observed inequality—a factor that is epitomized in some high profile cases and lawsuits where two appraisals produce dramatically different appraisals on the same house. That said, individual differences in appraisers' implementation of the sales comparison approach only explain some of the observed inequality. In fact, our analyses as well as those conducted by Freddie Mac (2021; 2022) demonstrate differences in appraisers' discretionary decisions can only explain a proportion of the inequity. The vast majority of the inequality is a result of the methodology itself.

Appraisal Methodology

The sales comparison approach continues to perpetuate neighborhood racial inequality while failing to accurately capture property, location, or demand distinctions. To understand why this is the case, it is critical to consider its historical creation and adaptations over time.

When European Colonizers settled in North America, they conceptualized land inhabited by Indigenous nations as virtually worthless (Banner 2005). This served as legal justification in treaties to exchange the land for little to no compensation. Yet, as soon as it was inhabited by

White Settlers, European Colonizers appraised the land as quickly appreciating in value because it was now under their dominion (Marchiel 2020).

This initiated a system of valuing land based on the racial composition of the residents. By the late 1800s, White scholars began mapping this pattern. Yet, instead of acknowledging the racism that created this inequity, they turned their maps into deterministic theories that used Eugenics and Social Darwinism to argue Whites were the most evolved humans, living in the most desirable and expensive neighborhoods (Winling and Michney 2021). Building upon these theories, one of the first professors of real estate, Richard T. Ely, proposed a new approach for appraising property that ensured White, middle class communities were assigned the highest value (Winling and Michney 2021).

Desiring to systemize and legitimize the emerging real estate industry, the newly formed National Association of Real Estate Boards hired Professor Ely to write the first textbook on real estate where he formalized his ideas about property values being associated with residents' racial composition. The National Association of Real Estate Boards then commissioned Ely's student, Frederick Babcock, to write the first manual on appraising (Winling and Michney 2021). This manual elevated the sales comparison approach above the other existing and more popular appraisal methods of the time because of its ability to ensure racial inequality in home values.

Shortly thereafter, the stock market crashed, and millions of people were laid off and unable to pay for their housing. President Franklin D. Roosevelt made housing a central pillar of this presidential campaign and agenda (Jackson 1985; Stuart 2003). In 1934, Congress passed the National Housing Act—creating the Federal Housing Agency and transforming the U.S. housing market. One of the key transformations was the introduction of amortized, longer-term, federally-insured mortgages and the creation of Fannie Mae (Marchiel 2020). Combined, these changes provided millions of families with capital to purchase homes. Yet, they also ensured the federal government held a key regulatory role in overseeing the housing market—including requiring all federally insured mortgages to obtain an appraisal.

Up to this point, no national appraisal standards existed. So, the government needed to create them. Partnering with newly formed industry groups and government agencies, the federal government hired Frederick Babcock to write the first underwriting manual. Building on his previous publications, this manual stressed neighborhood conditions, specifically neighborhood racial composition, as the most central factors for determining value. To aid in its uniform implementation, government agencies and industry groups across the country graded neighborhoods and created corresponding color-coded maps—ensuring White, affluent areas were appraised as most valuable (Marchiel 2020; Winling and Michney 2021; Michney 2022).

Noting the devastating implications that these policies had on Black, Indigenous, and Latinx communities, activists and Civil Rights organizations began documenting and litigating the racially discriminatory practices within the housing market industry (Taylor 2019; Marchiel 2020). Their diligent efforts led to a series of legislative acts and lawsuits from 1968 to 1977 that outlawed the explicit use of racial demographics as a justification for value and provided new avenues for borrowers and communities of color to receive credit. However, these legal changes did not include any alterations to the appraising approach. Thus, appraisers continued to use past racialized property evaluations as justifications for current sales alongside their subjective evaluations of neighborhood demographics and appeal. Consequently, racialized property evaluations persisted as communities of color were offered predatory mortgages to gain ownership of devalued and dilapidated housing (Taylor 2019). This predatory inclusion combined with the ongoing racialized appraisal system fostered growing devaluation and disrepair in communities of color.

At the same time, the privatization of Fannie Mae, creation of Freddie Mac, and regulatory changes overseeing savings and loan associations increased the capital available for mortgages while delocalizing the distribution of these mortgages. Formalizing and expanding the instruments that treat property as a speculative investment has incentivized investors to purchase land. Affluent and White residents who are granted access to more low-interest capital have increasingly purchased property based on its potential returns—rather than their personal housing needs (Baradaran 2015; Baradaran 2017; Taylor 2019; Marchiel 2020). However, they would not get access to the capital to purchase homes if appraisers did not agree that the homes they wish to purchase are worth what they are desiring to invest in them. For White home investors, appraisers assume White buyers' offers reflect real estate demand and concur with the appreciating values. Yet, these same appraisers often assume people of color's contract offers do not reflect demand and provide lower appraisals curtailing appreciation.

As a result, the housing market has become increasingly divorced from the "supply and demand" of housing. The appraisal system should ideally keep home prices tied to the "supply and demand" of housing by ensuring prices correlate with property quality, neighborhood amenities, and housing demand. Yet, since our current methodologies are unable to do this, the housing market has increasingly reflected the "supply and demand" of capital. Capital that is disproportionately distributed to White and affluent buyers in White communities—leading to multiple detrimental effects on all U.S. residents.

Impacts of Appraisal Inequalities on Residents' Wellbeing

The large and growing racial inequality in appraised values has multiple detrimental impacts on U.S. residents including: expanding racial wealth gaps, instability of economic investments, and decreasing affordable housing stock.

Racial Wealth Inequality

In the United States, a family's wealth (the summation of their assets minus their debts) often determines their ability to access quality healthcare, education, food, and other essential goods for physical and mental wellbeing. Thus, scholars are understandably concerned by escalating racial wealth gaps—a notable proportion of which is the result of the growing inequities in appraised values.

To comprehend the real world impacts of these differences, consider two families—both of whom bought an averaged size single family home in 1980. However, one family purchased a house in a White neighborhood and the other in a community of color. Despite making comparable investments to maintain the quality of their house *and* their neighborhoods being identical in their socioeconomic status and available amenities, the family living in the White neighborhood has experienced $275,000 more appreciation in their home value than the family living in the community of color. A $275,000 difference in wealth is the equivalent to three children's entire college tuitions, four small businesses' startup costs, ten serious hospital stays or medical procedures, or nine years of living expenses for retirement.

This illustration illuminates how even in the last generation, housing appraisal practices have dramatically influenced racial wealth gaps. Yet, we do not even have to go as far back as 1980 to see the detrimental impacts of this inequity. Even if our two hypothetical families bought houses ten years ago, in 2013, the family living in the White neighborhood house would have accumulated $118,000 more than the family living in a community of color—significantly influencing what resources the two families are able to access.

In addition to the ability to access more capital for essential goods and services, the racial inequality in appraised values is also influencing families' access to governmental aid. For example, post-disaster aid programs use "market value" to establish the amount of aid families are eligible for after their properties are damaged in disasters. FEMA aid, in particular, has been linked to exacerbating racial wealth gaps (Howell and Elliott 2018; Howell and Elliott 2019).

Through multiple mechanisms, federally backed appraisal methodology continues to increase racial wealth inequality, leading to several negative outcomes that directly impact residents and communities as a whole (McGhee 2021).

Economic Instability

Initially, appraisals were required for federally insured mortgages to ensure the capital lent to borrowers did not exceed the amount the property could be resold for in case of a default. By definition, this means the appraisal needs to predict what the property would resell for in the near and distant future. Rather than deriving an appraisal method that used empirical data to evaluate trends over time and predict future values, Frederick Babcock and others working for the federal government in the 1930s used explicitly racist stereotypes to assert homogeneous White neighborhoods were the most likely to increase in value while other communities were likely to "decline" in value or remain stagnant (Marchiel 2020; Winling and Michney 2021; Michney 2022).

Even with the expansion of the secondary housing market in the 1970s and increasing access to empirical data, the federal government had not revised the appraisal method to capture likely prices during the duration of the loan. Instead, the recommended appraisal method has continued to use recent past sales to justify appraisal values. The connection between sale prices and accessible low-interest capital, rather than the cost of housing construction or the need for housing, has resulted in an increasingly volatile housing market. The 1934 National Housing Act institutionalized a national appraising system to reduce the collective cost of defaults and stabilize markets. Unfortunately, the method they endorsed and we continue to use is unable to accomplish this noble goal.

Housing Affordability and Homelessness

As housing values are increasingly connected to available capital from speculative investors, housing costs are inflating faster than wages and other customer goods. From 1975 to 2019, the bottom 25 percent of the income distribution saw a fourfold increase in their wages but an eightfold increase in their housing costs—primarily propelled by the tenfold increase in property values. An increase that has further skyrocketed during the pandemic, growing another 30 percent from 2019 to 2022. As a result, the most recent American Housing Survey estimates low-income U.S. residents spend a startling 64 percent of their income on housing costs. With so little income to spare, families are much more likely to fall behind on housing payments—especially in the wake of personal and environmental disasters—increasing the likelihood of eviction and homelessness.

Although the shortcomings of the appraisal method have contributed to the dissonance between home values and the supply and demand for housing in all communities, the largest disconnects are in White neighborhoods, where home prices have seen historically unprecedented increases in the last three decades. As established above, this inflation is perpetuating racial wealth gaps. Yet, it is also contributing to the broader inflationary pressures that increase the gulf between those who have excess invested capital (including owning property) and those who are reliant on their wages to meet basic needs.

Alternative Approaches for Increasing Equity and Promoting Justice

Moving towards a more equitable appraisal assessment process will require making changes to the contemporary appraisal practices and redressing past injustices.

New Appraisal Practices

The contemporary appraisal inequities are the result of both appraisers' discretionary decisions and the appraisal methodology. Thus, both need adjustments to ensure appraisals produce equitable and effective estimates.

Within the current methodology, several procedural adjustments can be made to decrease the extent to which racialized assumptions influence appraisers' discretionary decisions. These alterations could include (but are not limited to): creating pre-set systematically defined groups of properties for comparable sales selection, ensuring comparable sales include properties from similar areas that are racially distinct, defining guidelines for comparable adjustments, using cost estimate ratios rather than additive and subjective components, providing ranges of values based on all comparable sales used in the assessment rather than a single point estimate, and enabling flags for values that contradict existing property records.

However, as outlined above, fully addressing the multiple shortcomings with the sales comparison approach will require deriving new appraisal methods. Various individuals, companies, and groups are working on innovating new appraisal methodologies. Personally, I have been working on developing and testing a lifespan approach that explicitly attempts to connect the value of property to the supply and demand of housing. This approach separates the value of land from the enhancements upon it. The land is then evaluated by local governments based on the amount of communal resources required for inhabits to reside upon each particular parcel. The enhancements are appraised using a hybrid (meaning in-person and machine learning) approach that attempts to distribute the initial cost of each property component (e.g., roof, foundation, flooring, and cabinets) across all the residents who have and will likely benefit from it.

Moving towards a more equitable system will require the further development of the lifespan and other approaches and altering legal mechanisms for these approaches to be tested for their effectiveness at producing racially equitable, longitudinally accurate, and communicatively beneficial estimates.

Redressing Past Injustices

Tribal land treaties, the 1930s housing policies, and the World War II G.I. Bill enabled millions of White middle-class families to purchase property at federally subsidized prices and benefit from its racialized appreciation (Jackson 1985; Stuart 2003; Marchiel 2020). No comparable opportunities have existed for Asian, Black, Indigenous, or Latinx Americans. Instead, their land and labor has been repeatedly stolen, devalued, and degraded (Howell and Korver-Glenn 2021). Creating a de-racialized housing market requires adjudicating these injustices.

Multiple activists and scholars have derived detailed plans for how federal policy could provide housing reparations. Unlike some other historical injustices, local and federal governments have fairly robust housing records that could help evaluate the cost of various policies and identify families who have been directly affected. That said, these policies have also had multiple indirect effects on residents. Thus, comprehensive reparations for the inequities will also consider how to ensure we even the playing field for all residents.

One policy approach that could move in this direction is restitution refinances. Restitution refinances would entail a partnership between the Securities and Exchange Commission, the Government-Sponsored Enterprises, the U.S. Department of Housing and Urban Development, the federal government, and mortgage originators to enable property owners to refinance their properties for a value using the lifespan or other racially equitable approach. For property owners whose new appraisal is lower than the owed capital, they could elect to get the difference between their new appraisal and the owed amount forgiven with the clause that they utilize the new appraisal when they resell the property or establish monthly rental amounts.

Restitution refinances in combination with other policies designed to redress the centuries of housing injustices could begin to ensure all U.S. residents have the ability to pursue life, liberty, and happiness as set forth in our Declaration of Independence.

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Biography

Junia Howell, Ph.D. (she/her) is an urban sociologist and race scholar who uses quantitative and qualitative tools to identify and dismantle the specific policies, processes, and practices that uphold White supremacy. Currently, her work focuses on the housing industry and disaster relief. Dr. Howell's research has won multiple national awards, been featured in hundreds of news articles, and been used as the bases for local and federal legislation. Dr. Howell received her PhD from Rice University. She currently holds a faculty position at the University of Illinois-Chicago and is the founder and co-director of eruka. Learn more at Dr. Howell's website.