

17 • Another Kind of City

A study of racial transition and property values

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THIS CHAPTER PRESENTS a study of the impact of racial transition on property values. Studies of this topic are not new. Since the early 1920's, sociologists and real estate analysts have examined the effects of Negro entry on the prices of houses in communities across the country. These writers have focused attention on two main questions: (1) What is the effect of race on housing values? (2) How is this effect achieved? So far, however, no clear-cut answers to these questions have been provided.

Until the 1930's, it was generally agreed that Negro entry into any neighborhood depressed property values. Abrams, for example, cites a book published in 1923 by McMichael and Bingham in which they say:

With the increase in colored people coming to many Northern cities they have overrun their old districts and swept into adjoining ones or passed to other sections and formed new ones. This naturally has had a decidedly detrimental effect on land values for few white people, however inclined to be sympathetic with the problem of the colored race, care to live near them. Property values have been sadly depreciated by having a single colored family settle down on a street occupied exclusively by white residents.¹

This is typical of earlier expressions; even the threat of Negro occupancy was thought uniformly to lead to lowered property values. This was seen as the automatic result of the unmodifiable refusal of whites to accept Negro neighbors.

ANOTHER KIND OF CITY

During the 1930's and early 1940's, this pessimistic description was revised somewhat. Myrdal,² for example, argued that although Negro entry depressed property values, these values would rise again once racial transition was complete. His reasoning seemed to embody the notion of the self-fulfilling prophecy. Whites, he thought, would panic and sell when the Negro "invasion" took place. Thus, whole neighborhoods would change their racial character. After this transition, however, prices would return to a realistic level. In Myrdal's view, stereotyping and prejudice were still the critical explanatory factors.

In the late 1940's, a major change in thinking took place. Weaver³ observed that Negro entry into a neighborhood did not invariably result in a decline in selling prices. Sometimes prices remained stable, and sometimes they increased. He concluded, therefore, that "*There is no one universal effect of Negro occupancy upon property values.*" Weaver proposed four factors (in addition to prejudice) that might be relevant in an attempt to explain this observed variation: (1) non-white income distributions; (2) general business conditions; (3) long-run trend of values in the areas before entry; and (4) how non-white occupancy actually occurs.

Weaver's basic generalization has been confirmed by subsequent investigators. Abrams,⁴ for example, concluded that "There are no fixed rules as to when minority neighbors raise or lower values; examples may be cited both ways and much study is still needed." More recently, after a large-scale empirical study, Laurenti⁵ reported that ". . . no single or uniform pattern of non-white influence on property prices could be detected." Laurenti went on to specify a list of factors that he suspected were involved in determining housing prices under racial transition.

The major variables interacting in these local situations appear to be: (1) strength of whites' desire to move out; (2) strength of non-whites' desire to move in; (3) willingness of whites to purchase property in racially mixed neighborhoods; (4) housing choices open to whites; (5) housing choices open to non-whites; (6) absolute and relative purchasing power of non-whites; (7) absolute and relative levels of house prices; (8) state of general business conditions; (9) long-run trend of values in areas involved; (10) time.⁶

Thus, recent research has shown that a decline in price level is not a necessary consequence of racial transition. Other factors must be taken into account in any attempt to explain the observation that prices show

no uniform response to Negro entry into what were previously all-white neighborhoods.

PROBLEM

Laurenti's work⁷ provides a starting point. It suggests some hypotheses about the effects of factors other than racial transition on housing price levels. All of the items on his list can be classified either as manifestations of prejudice or as properties of the housing market. It seems entirely reasonable to assume that factors of both of these types are involved. As Laurenti has suggested, however, the problem is to determine how these factors interact to influence market prices. It is this problem that is the object of concern here.

Previous attempts to solve this problem have utilized either of two basic approaches: (1) they have described the history of racial transition in a single area, or (2) they have compared several areas over relatively short periods of time. An attempt to unravel the joint effects of several variables on the process of racial transition, however, requires that a study be both longitudinal and comparative. Comparable data on several communities must be collected over an extended period of time, but in order to collect such data tremendous resources are usually required. Still, we believe that this type of research should be undertaken, and in this report we will show the results of one such study. In some special kinds of cities, as we shall see, cost need not be a prohibitive consideration.

RESEARCH STRATEGY

The research design was—by current standards—rather simple. It called for the judicious selection and comparative study of urban neighborhoods. We were looking for neighborhoods that were almost identical in nearly every respect. Differences were permissible only in those factors that were assumed to have an impact on the prices at which houses would be sold during a racial transition period. In other words, we were seeking neighborhoods that could be expected to reveal certain clear-cut *types* of transition processes. Our method, therefore, is a simple extension of the "case study" approach.

Two types of variables were considered in selecting neighborhoods for study. Following Laurenti's analysis, we assumed that the price of houses in neighborhoods undergoing racial transition should result from the joint effects of variation in prejudice levels and variation in charac-

ANOTHER KIND OF CITY

teristics of the housing market. The market characteristics included were the purchasing power of applicants for housing and the number of prospective purchasers. These have an obvious intuitive appeal. It is evident that a white neighborhood will remain segregated either if Negroes cannot afford to buy houses in that neighborhood or there are no Negro applications for housing in the neighborhood. Moreover, these two variables—the number of buyers and sellers and their economic power to take part in the exchange process—seem to be the main features of *any* market. In summary, study neighborhoods were selected in terms of their differences in prejudice, the number of Negroes seeking housing, and their purchasing power.

Four neighborhoods were selected with great care. They were similar in nearly every important detail. All were relatively new subdivisions made up of single-family dwellings selling in the \$12,000-to-\$15,000 price range. They were similar in size (roughly 250 houses each), and all were strictly sales markets—rentals were not generally available. Moreover, at the start of our study period, all were occupied exclusively by white owners, but all were experiencing some pressure for Negro entry. In each case, observations were made over an extended period of time, and during the course of the observation period each of these neighborhoods experienced Negro entry. Observation was continued long enough in each case to establish the trend of its racial composition and price.

RESULTS

The first neighborhood studied was located in a metropolitan area with a small Negro population. There was, therefore, a small but steady stream of Negroes seeking housing. The purchasing power of these Negro applicants was markedly inferior to that of white housing applicants. In general, prejudice levels in the study neighborhood were high.

In this neighborhood, the entrance of Negroes was slow and difficult. In large measure the problem was an economic one: Negroes simply could not afford to pay the prevailing prices. This economic factor reflects prejudice in this region. In the first place, Negroes in this city were subject to discrimination in both jobs and salaries. Their income, therefore, tended to be lower than that of whites. Second, Negroes had difficulty in obtaining credit to purchase homes in a "white" neighborhood. Most Negro buyers, therefore, were simply priced out of the study neighborhood.

Those Negroes who could afford to buy houses in the study neighborhood were frequently shunted aside by realtors. In most cases, realtors simply refused to show available houses to Negro applicants. Negroes seeking housing were often led to believe that few, if any, houses were available in the study neighborhood. Comparable white applicants were, however, readily shown as many available houses as they were willing to look at.

White homeowners also constituted an additional obstacle for Negro purchasers. Our records show that Negro buyers were frequently unable to buy simply because the white owner refused to sell to Negroes. This experience was repeated many times. In this neighborhood, moreover, white hostility was so great that on two occasions Negroes who had purchased houses sold them almost immediately and moved out. However, the third Negro family was able to withstand this community pressure. For several months the family members served as lonely pioneers in an otherwise all-white neighborhood. Then a second Negro family moved in, and a third family followed shortly thereafter. At this point, the pattern of rigid resistance seemed to break. Five more Negro families entered the neighborhood during a brief period. Then realtors exhibited a change in policy. Instead of resisting Negro entry, they seemed perfectly willing to show available houses to Negro applicants.

The pattern exhibited in this neighborhood seems to be the classical one of an invasion-succession. Initially, white homeowners exhibited great (and successful) resistance to the entry of Negroes. Ultimately, however, this pattern was broken. By the time three Negro families had entered the neighborhood, resistance disappeared, and Negroes were freely admitted. In effect, the whites "gave up" the neighborhood to Negroes.

Before Negro entry, housing prices in this neighborhood rose gradually (along with a general regional increase in prices). The number of houses on the market at any time was small (about 2 per cent) and fairly steady. Once a few Negro families entered, however, a rise in vacancies to about 15 to 20 per cent was observed. White owners rushed to put their houses on the market, prospective white purchasers sought housing elsewhere, and the neighborhood was turned over to the Negro purchasers. But, for the most part, the potential Negro buyers were economically disadvantaged and relatively few in number. Prices began to fall, therefore, until they came into the range of the purchasing power of the Negro buyers. The net result was a marked

ANOTHER KIND OF CITY

decline in property values from about \$15,000 to \$10,000 in this neighborhood.

The second neighborhood studied was very much like the first. At the outset, it was inhabited exclusively by whites. The Negro applicants were poor. White prejudice levels were rather high. However, in this instance, the number of Negro applicants was much larger than in the preceding case. Negroes were in the majority in the community at large.

The pattern of white resistance previously described was repeated in this neighborhood. Realtors and owners refused to take part in sales to Negroes. Lending institutions were reluctant to extend credit to Negro purchasers who wanted to buy. Moreover, the first Negro pioneers were subjected to harassment and—as in the first case—several Negro families had to move out. But once a few Negroes became firmly established, the white-flight phenomenon was again observed, and again new white families were unwilling to take their place.

In almost every way the results of Negro entry into this second neighborhood paralleled the results in the first. The neighborhood progressively became a new Negro ghetto. In this case, however, after taking an initial decline, prices climbed back to their original level and stayed there. Thus, this seems to be the kind of situation described by Myrdal.⁸

The return of the price level to its original value in this instance seemed to be the result of the relatively large number of Negro buyers. Very simply, there were enough Negro applicants to restore demand to its previous level. The purchasing power of Negroes was, on the average, less than that of whites. But the population of Negro housing applicants was large enough to include a sufficient number of prosperous buyers to maintain price levels. In the long run, then, the new Negro market was able to generate about as much demand as had the previous all-white market. After the initial transition, therefore, prices returned to their original levels and stayed there.

Residential prejudice levels in the third test neighborhood were as high as in the first two cases. Here again the Negro population was large, but in this case ethnic employment barriers were weak and Negroes enjoyed about the same purchasing power as whites.

Even with economic equality, the previously described constellation of white resistance to Negro entry was observed. Here, however, resistance collapsed earlier. Their relatively advantageous economic status seemed to allow Negroes to compete more effectively in the housing

market. Again, the first entry of Negroes caused a flurry of panic sales that led to a brief dip in prices. But as the neighborhood became increasingly populated by Negroes, prices rose until they greatly exceeded their original levels—the average price increased from \$15,000 to about \$20,000. The end result was another Negro ghetto, but this time it was characterized by unusually high house prices.

This over-all increase in house prices probably resulted from the fact that Negro buyers had a purchasing power equal to that of whites and at the same time were more numerous than whites. The increase, therefore, seems to reflect the effect of an increase in economic demand.

In all of the cases reported so far, high prejudice levels among whites resulted in initial resistance by whites and eventual replacement of white purchasers by Negro purchasers. A white market was, in effect, transformed into a Negro market. The ultimate price level seems simply to be a function of the strength of Negro demand. Where Negroes are few in number and poor, demand is weak and—as one might expect—prices fall. But when Negroes are more numerous or are better off financially, the consequent increased demand may result in house prices that equal or even exceed original levels.

In the fourth and last test neighborhood, white prejudice levels were extremely low. Although there were many Negroes in the area, most whites were insensitive to racial differences. Moreover, the economic status of Negroes in the area was similar to that of whites, and banks and realtors did not seem to discriminate in their business activities. Consequently, the entry of Negroes into this neighborhood was quick, simple, and uneventful.

Throughout the period of observation, this neighborhood displayed a balanced and integrated character. The neighborhood continued to be attractive to both Negro and white buyers. In this case, therefore, relatively low prejudice levels seem to have permitted the establishment of a stable interracial neighborhood. Occasional incidents did occur, but as a whole the transition from white to mixed occupancy was smooth.

In this fourth neighborhood, no dip in prices occurred at any time. Instead, prices climbed from the beginning of Negro entry until they finally seemed to stabilize at a level several thousand dollars above their original levels (nearly \$25,000). In this last case, it seems, prices are again a function of demand. But here Negro demand did not *replace* earlier white demand. Instead, Negro and white demand schedules were coupled, and the result was a marked increase in total demand and consequent rise in price levels.

ANOTHER KIND OF CITY

The picture revealed by a comparison of these four neighborhoods confirms Laurenti's observation on the variable effects of Negro entry on house prices. In our view, however, this variability is not surprising. The price at which housing stabilizes turns out, in every case, to be a simple function of supply and demand. With constant supply, neighborhoods where demand is high generate high prices; neighborhoods where demand is low generate low prices.

Ethnic factors are relevant only insofar as they affect supply and demand. Negro entry, *as such*, has *no* effect on price levels, but to the extent that prejudice influences market decisions, Negro entry conditions supply and demand and thus influence prices. It is evident that if Negroes cannot examine or buy houses with the same capability as white buyers, that this is—other things being equal—tantamount to a depression in demand. (Of course, from the perspective of the Negro applicant, this appears as an arbitrary constraint on supply.) Similarly, an equivalent depression in demand occurs whenever ethnic residential prejudice induces prospective white buyers to refuse to buy in a mixed neighborhood. Finally, prejudice may increase supply by encouraging white owners to sell their houses and move out of a neighborhood once it has become mixed.

In general, then, high prejudice levels lead to reduced house prices. This is true when prices under conditions of high prejudice are compared with prices in the situation where prejudice is low. In practice, the entry of Negroes into even a highly prejudiced neighborhood merely substitutes Negro demand schedules for white demand schedules. If Negro demand is greater, prices will rise; if it is smaller, they will fall.

A moderate prejudice distribution will tend to exclude some whites from competition for housing in a mixed neighborhood. The point of price stabilization in this case will depend upon the remaining demand—of Negroes and unprejudiced whites—after the prejudiced whites are excluded. In terms of the total economy, then, any residential prejudice is costly because it restrains trade and the potential expansion of the housing industry.

DISCUSSION OF RESULTS

A step has been made in this chapter to clarify the joint effects of economic and psychological factors in determining house prices in neighborhoods undergoing ethnic transition. Detailed observations were

made in four neighborhoods over an extended time period. The results of these comparative observations suggested the way in which these general economic and psychological factors may interrelate to affect house prices.

It should be clear at this point, however, that the neighborhoods we studied were neighborhoods of a special sort. They were nearly identical in most respects; they differed only in terms of experimentally relevant factors. Thus, they dramatize the effects of several factors on the prices of houses in the ethnic transition process. It is often difficult to find neighborhoods exhibiting such stable regularities and such clear and consistent differences in any ordinary city.

The city we studied, however, was no ordinary city. It was, in fact, quite extraordinary in that it was a simulated city. A computer was programmed to "act" like a city undergoing racial transition and the behavior of the computer analogue was studied.

This same procedure is used by engineers to study the aerodynamic properties of a model of a proposed new aircraft in a wind tunnel. The properties of a whole range of basic wing designs can be studied without ever building an actual flying airplane. To the degree that the model faithfully reproduces the design characteristics of the proposed airplane, tests on the model are useful in predicting the aerodynamic properties of an actual airplane. In the present case, to the extent that we are successful in programming a computer to "act" like a city, we can learn about urban neighborhoods by observing and recording its activities.

The results reported here were obtained in the process of developing a larger computer model of housing segregation. A computer program was developed and a large number of runs were made. The details of the model and the over-all results of the simulation will be reported elsewhere.⁹ Here we shall simply summarize the general characteristics of the simulation.

Almost any simulation defines a set of objects and a series of attributes or characteristics of each. Then a process is initiated that results in the modification of these attributes as events take place. In the present instance, our objects are houses and households. The attributes of houses are location and occupancy; those of households are ethnicity, purchasing power, economic acquisitiveness, and housing status. A string of events in this model begins when each occupied house in our hypothetical neighborhood is given an opportunity to be vacated. This

ANOTHER KIND OF CITY

reflects the normal turnover of occupancy observed in all neighborhoods. Then each vacated house is priced by means of a mechanism that depends upon the "current market." Those families that are seeking housing are then exposed to the market of vacant houses. Their success in making a transaction depends—if they are white—upon their purchasing power and the price of the house, and upon the number and distance of Negro neighbors as conditioned by their own prejudice level.

If the family seeking housing is Negro, however, the family head may have difficulty in obtaining a loan, in seeing a vacant house, in closing a sale, and even in remaining in the house once it is occupied. All of these events depend upon the prejudice levels of whites in the neighborhood and upon economic factors. Then, depending upon these same factors, whites may leave the neighborhood because of the presence of Negroes, and those whites who are seeking housing may decide to look elsewhere. Finally, the prices of those houses that remain unsold are adjusted, and the whole chain of events is repeated.

A computer program was constructed that embodied these objects and events. Runs were made, and the effects of changes in prejudice levels, proportions of Negroes seeking housing, and relative economic conditions were observed. Data on vacancies, sales prices, proportion of Negro occupancy, and segregation within the neighborhood were recorded. In some cases, detailed observations of each transaction were made. In general, the results observed in this hypothetical world were not unreasonable in the light of the literature on racial transition in actual cities.

Clearly, this computer simulation does not "prove" anything. It is, however, a powerful technique for solving theoretical problems in complex social situations. In order to write a computer program, it is necessary to specify our variables and relations precisely. The computer tolerates absolutely no ambiguity. It often happens, therefore, that an expression that seems to be well defined—one that could pass in descriptive sociology—turns out to be fuzzy. In the process of writing computer programs all this hidden ambiguity is forcibly revealed.

A corollary of this result is the fact that the organization of axioms into simulation programs tends also to reveal areas where data are missing. The development of a simulation program involves the specification of numerical values for all relevant variables. In many cases, it turns out that existing data are insufficient for this task. Thus, in writing a pro-

gram, the attention of the investigator is focused on areas of incomplete empirical information.

In short, computer simulation affords a powerful and convenient tool for organizing knowledge. Factual data suggest that under certain conditions important relations hold among a set of variables. A computer is programmed to reflect these constant conditions or parameters as well as the relevant variables and relations. This program governs the behavior of the computer and initiates a process in which the values taken by the variables may change. These changes are observed and, when possible, compared with changes observed in a natural setting. The set of governing variables and relations may be revised until any desired degree of correspondence is established. In this fashion, simulation may be used to build theory, and theory built in this manner has some hope of tolerating enough complexity to be useful in the solution of practical problems. In the present instance, computer simulation has helped to untangle a set of interrelated variables and thus to point the way toward solution of a significant problem of our society.

Notes

1. Stanley L. McMichael and Robert F. Bingham, *City Growth and Values* (Cleveland, Ohio: The Stanley McMichael Publishing Organization, 1923), p. 159, cited in Charles Abrams, *Forbidden Neighbors* (New York: Harper and Brothers, 1955).
2. Gunnar Myrdal, *An American Dilemma* (New York: Harper and Brothers, 1944).
3. Robert C. Weaver, *The Negro Ghetto* (New York: Harcourt, Brace, 1948).
4. Abrams, *op. cit.*
5. Luigi Laurenti, *Property Values and Race: Studies in Seven Cities* (Berkeley: University of California Press, 1959).
6. *Ibid.*, pp. 47-48.
7. *Ibid.*
8. Myrdal, *op. cit.*
9. Linton C. Freeman and Morris H. Sunshine, *Residential Segregation Patterns* (forthcoming).