BLACK-WHITE HOUSING PRICE DIFFERENTIALS: RECENT TRENDS AND IMPLICATIONS

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Black-white housing price differentials consistent with racially discriminatory practices are rarely found by the studies that have used post-1970 data. Instead, those studies report price differentials consistent with the theory that whites buy segregation by bidding up the price of housing in certain neighborhoods. Unfortunately, the specifications used in most of these studies have been flawed. Here, a properly specified model is estimated using Annual Housing Survey data, augmented with objective measures of neighborhood conditions, from Grand Rapids, Michigan. The price differentials found support the trend found by the improperly specified models. Specifically, various owner bundles cost up to 16 percent more and various renter bundles cost up to 20 percent more in the predominantly white than in the predominantly black submarket. To the extent that residential integration remains one of society's goals, this trend calls for innovative policies that go beyond enforcement of existing Fair Housing laws.

Black-white housing price differentials result from racially discriminatory and/or segregation promoting practices. Researchers have historically sought to identify price differential patterns because certain patterns constitute indirect evidence of racially discriminatory practices outlawed by Title VIII (Fair Housing) of the 1968 Civil Rights Act. More recently, fair housing audits have been used to directly test for illegal discriminatory practices by housing agents. But, fair housing audits do not test the theory that whites buy segregation by bidding up the price of housing in certain neighborhoods nor do they reveal if the cumulative effect of the observed discriminatory practices results in a housing price premium in black neighborhoods or for blacks wherever located. Price differential studies using appropriate methodology can provide answers to these questions. In contrast to housing price differential studies using earlier data, those using post-1970 data rarely find price differentials consistent with illegal, racially discriminatory practices. But, studies using post-
1970 data frequently find price differentials consistent with the theory that whites buy segregation by bidding up the price of housing in certain neighborhoods. Unfortunately, most of the studies using post-1970 data have specification problems that make clear interpretation of their results impossible. This article tests for price differentials by employing an improved methodology that subdivides the housing market into black and white submarkets, compares the prices of identical housing bundles in the submarkets, and tests for price discrimination in each of the submarkets.

If, in fact, a trend has developed where whites buy segregation by bidding up the price of housing it would be of interest because of its implications for the effectiveness of the Fair Housing Act and for residential integration. Despite evidence that urban blacks prefer and could benefit from residential integration, they are dispersing very slowly from predominantly black central city neighborhoods. Various studies have demonstrated that residential segregation is greater than can be explained by racial differences in income. If segregation is today being perpetuated by a practice that is legal, stricter enforcement of fair housing legislation will be insufficient to achieve integration.

The first section of this article presents the theoretical explanations for black-white housing price differentials. The second section reviews methodologies and places the findings of several well-known studies in historical perspective. The third section provides an additional check on the trends by testing for price differentials in Grand Rapids, Michigan using 1976 Annual Housing Survey (AHS) data, augmented with objective measures of neighborhood conditions. The last section summarizes findings and offers a policy strategy.

THEORIES OF BLACK-WHITE HOUSING PRICE DIFFERENTIALS

Three theories exist to explain why identical housing units may be priced differently for whites and blacks. Price discrimination, the first theory, occurs when housing suppliers charge a higher price to blacks than they do to whites for identical units in the same neighborhood. Two situations would lead to this result. First, if a housing supplier has monopoly control and blacks have a less elastic demand for housing than whites then a profit-maximizing strategy would be to charge a higher price to black buyers. Alternatively, prejudice may lead housing suppliers to demand a premium for doing business with blacks. Since mo-