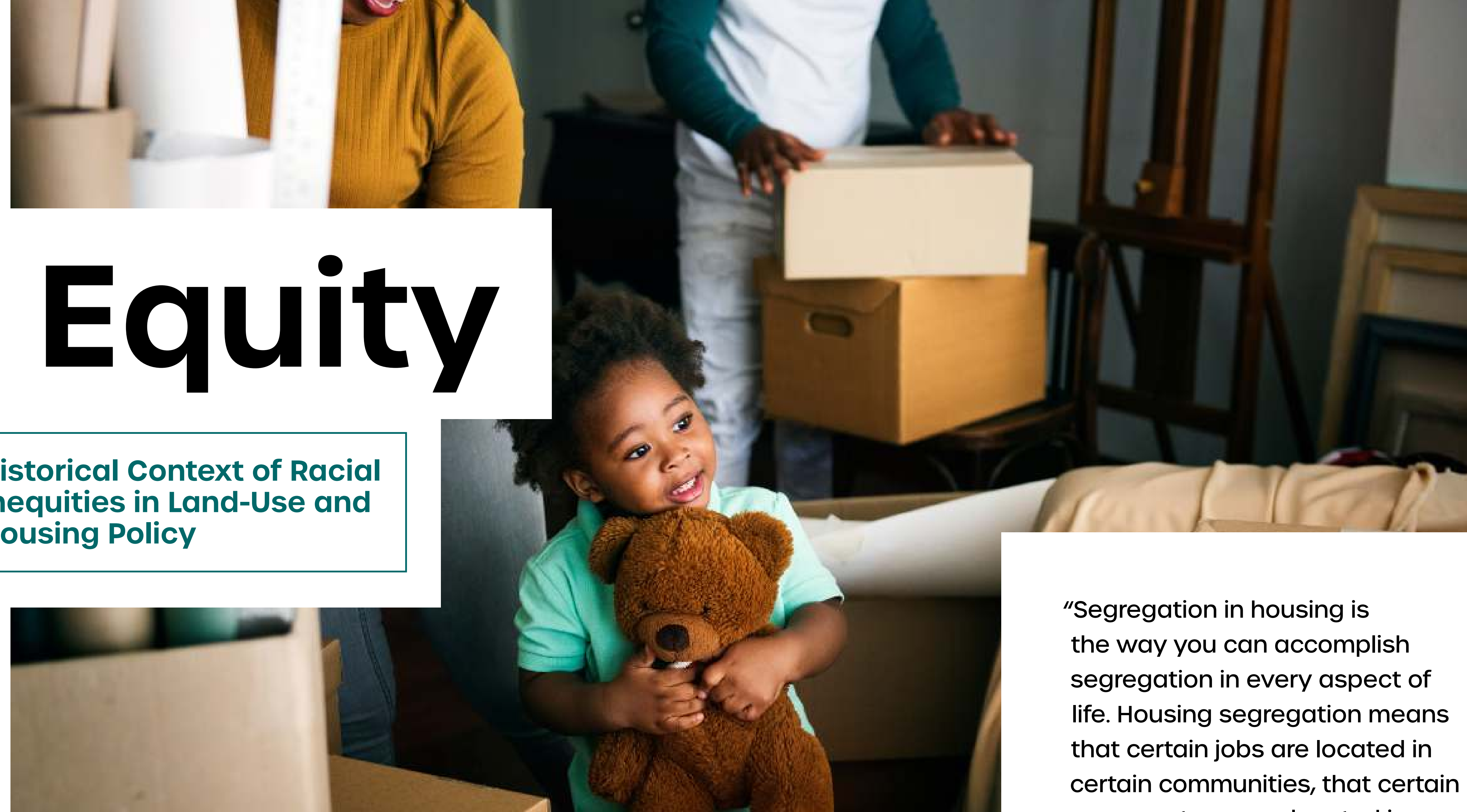
ADDRESSING

Racial Equity

Racial discrimination has been embedded in housing policy for over a century and is one of the main drivers of the nation's housing shortage. While current data show that disparities exist in access to housing and affordability, they do not explain the important history of inequity, the outcomes of which continue to impact communities of color.

To deepen our understanding, we conducted a historical analysis that focused on the policies, practices, and patterns that have actively created racial inequities in housing access. These policies and practices include discriminatory government grants and programs, widespread exclusionary zoning policies designed with racial segregation in mind, racially restrictive covenants written into home deeds from the 1910s to the 1940s, redlining practices limiting access to capital investments to prospective homeowners of color, and urban renewal projects that caused displacement and gentrification.

Historical Context of Racial Inequities in Land-Use and Housing Policy



Historical Context of Racial Inequities in Land-Use and Housing Policy

All states and cities across the United States have a complicated and shameful history of racial inequality in providing access to land and housing. Some policies were place-specific, while others were variations that were adopted from city to city such as too much single-family zoning, an exclusionary practice that continues. From white colonialism in the 1800s to today, communities of color have systematically faced not only individual discrimination, but also discriminatory laws and policies, displacement, and uneven access to opportunities in housing and land ownership. The U.S. government has consistently given early European settlers and eventually white citizens priority for land and housing access, even financially subsidizing them in their path to homeownership.

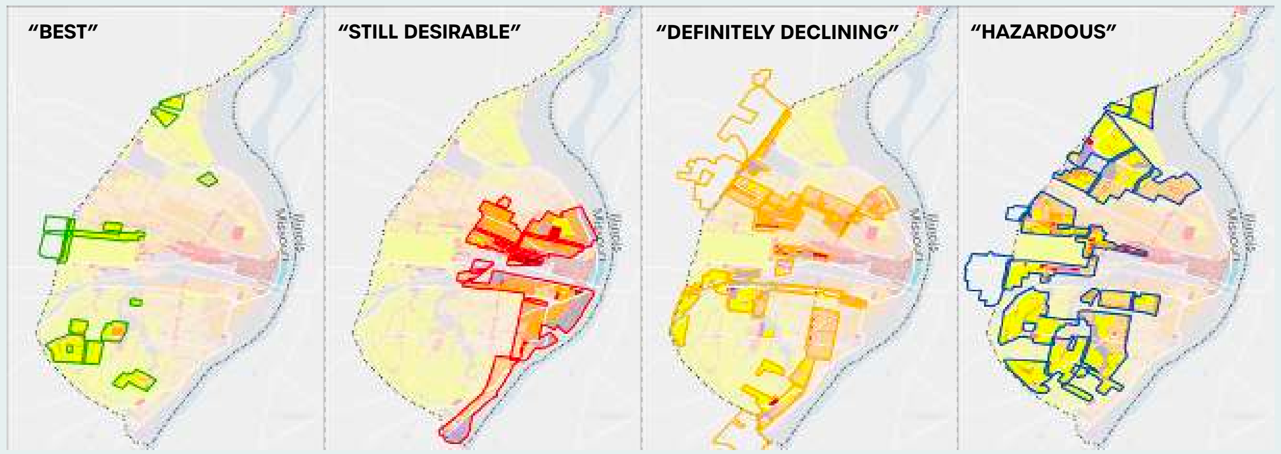
The various Land and Homestead Acts of the 1800s, which gave away hundreds of acres of free land to almost exclusively white families, brought millions of people to the American frontier, further displacing Indigenous communities already decimated by the 1830 Indian Removal Act. The enormous westward resettlement of European Americans laid a foundation for the next 100 years of local, state, and national policies and practices that channeled wealth and opportunities to white families at the expense of others. Government homeownership subsidies like the GI Bill, for example, aimed at helping returning World War II veterans get a college education and an affordable home mortgage, were awarded almost exclusively to returning white soldiers. While these white households experienced homeownership as a way to generate wealth for themselves and their families, Black households were excluded from these opportunities (Laws, 2020).

These policies, in addition to exclusionary zoning, racially restrictive covenants, redlining, and urban renewal, have created numerous obstacles that have systemically limited access to housing and homeownership for people of color.

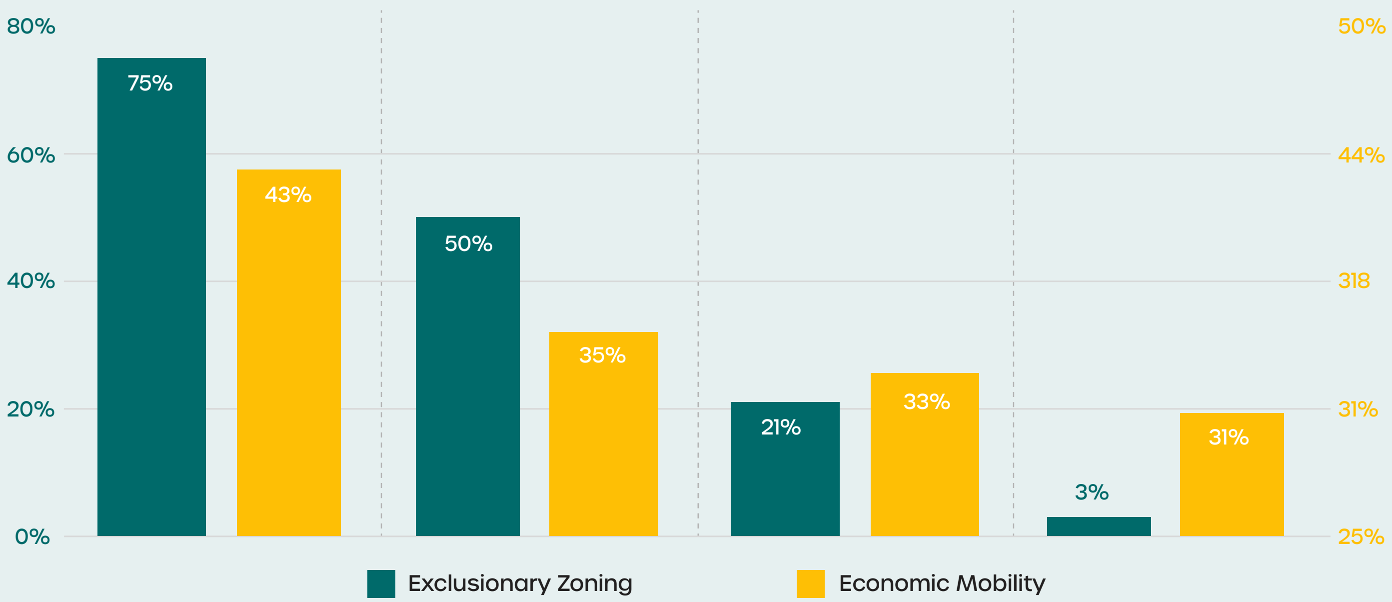
"Segregation in housing is the way you can accomplish segregation in every aspect of life. Housing segregation means that certain jobs are located in certain communities, that certain grocery stores are located in certain communities; it determines where parks are located, if streets are repaired, if toxic dump sites are built nearby. Segregation accomplishes so many other inequalities because you effectively contain a population to a geographic area and suddenly all the other civil rights law don't matter."

Nikole Hannah Jones
Interview with Vox Media (Illing, 2017)

Zoning Has Codified Segregation, Allowing White Neighborhoods to Hoard Opportunity at the Expense of Black and Brown People



Home Owners Loan Corporation (HOLC) Residential Security Maps for St. Louis, Missouri



More than 90 years on, redlining still determines where people of color are able to live within their own communities. In 1918, just one year after the federal government outlawed explicit racial discrimination in housing, St. Louis, Missouri created residential zoning in hopes of preserving the existing racial divide in the city. Zoning laws, while not explicitly discriminatory, enabled city officials to deem certain majority Black neighborhoods as "Declining" or "Hazardous." In turn, the Federal Housing Administration, provider of most mortgage loans at the time, refused to guarantee loans in areas that were redlined. This resulted in extremely low homeownership rates in neighborhoods of color, creating a stubborn generations-long barrier to wealth-building.

Exclusionary Zoning

While there are some valid justifications for zoning, such as separating industrial uses from residential neighborhoods, zoning laws have largely been explicitly used to discriminate against people of color and encourage or maintain racial and ethnic segregation (Hirt, 2015). Zoning laws that restrict the types of homes that can be built in certain areas, such as those that require minimum lot size and/or square footage, prohibit multifamily homes, and limit building height, can be implicitly or explicitly exclusionary by preventing multifamily units from being built (Rouse et al., 2021). Multifamily housing is generally more affordable and has historically housed more people of color. Initially, exclusionary zoning was used by city planners as a part of overt racial discrimination to ensure racial segregation. The 1917 case of *Buchanan v. Warley*, which went all the way to the U.S. Supreme Court, was the first in a series of cases and actions by the federal government that limited legal housing discrimination and culminated in the 1968 Fair Housing Act (Rigsby, 2016). Prior to this case, it was common for city zoning ordinances across the country to legally forbid people of color to occupy blocks with a majority of white residents.

Racially Restrictive Covenants

In addition to zoning, many cities in the United States used racially restrictive covenants to prohibit people of certain races or ethnic backgrounds from owning or occupying homes. These restrictions resulted in segregation and low homeownership rates for people of color, issues that persist. A growing body of research is documenting the existence and location of restrictive covenants in cities across the country.

Racially and ethnically restrictive covenants were bolstered in 1933 when the U.S. Congress approved the Home Owners Loan Corporation (HOLC) and again in 1934, when the National Housing Act created the U.S. Federal Housing Administration (FHA). These programs were designed to address housing affordability issues by creating loan products that allowed for 15- to 30-year pay-off terms, and by offering insurance on those loans to reduce monthly mortgage payments. While these programs made it possible for millions of Americans to buy their own homes, they were available almost exclusively to white households. Of the $120 billion that the federal government spent to back home loans between 1934 and 1962, more than 98% went to white households. Of the 350,000 homes built with federal financing in Northern California between 1946 and 1960, fewer than 100 went to Black households (Adelman, 2003).

Redlining

Part of the reason that non-white households were excluded from accessing federal financing for homeownership was due to the practice of redlining. Redlining was a neighborhood-level appraisal system where the government specified whether neighborhoods were "fit" for investment based on the income and race of the area residents. Black and racially or ethnically diverse areas were marked in red on physical maps as hazardous or declining and, therefore, undesirable for investment. White neighborhoods were marked in blue, indicating desirability for investment. Reasons were bold, simple, and discriminatory. For example, the Central District of Seattle—a historically Black neighborhood—was designated as hazardous because it was the "Negro area of Seattle" (Nelson et al., 2020).

The maps on the preceding page combine the HOLC redlined maps in St. Louis, Missouri with groundbreaking research from Opportunity Insights that demonstrates the economic mobility and future earnings potential embedded in different neighborhoods. The maps demonstrate the lasting negative impact of redlining. Neighborhoods that were redlined 50+ years ago have lower economic mobility and earnings potential for children from low-income households today than do surrounding neighborhoods, exacerbating the racial wealth gap.

Urban Renewal

From the 1950s through the 1970s, "urban renewal" was a common practice in the U.S. Urban renewal allowed local jurisdictions to use federal dollars to improve areas they had deemed "blighted." Due to redlining, there had been a major lack of investment in neighborhoods of color, which meant that redlined areas were more likely to be marked as blighted and slated for renewal. Urban renewal projects often hurt existing residents and business owners of color, who were forced to leave, or later displaced due to the gentrification that accompanied increased property values from the new investments (Mehdipanah et al., 2018).

By highlighting these historical, structural, and systemic drivers of inequitable outcomes, A Better Foundation is targeted to ensure that policymakers are equipped with the context necessary to adopt interventions that redress harm, promote equitable outcomes, and shrink the wealth and opportunity gap between white and non-white Americans. A Better Foundation focuses on dismantling exclusionary zoning and building gradual density in neighborhoods that have economic mobility, the presence of jobs, and suitable, walkable infrastructure. A Better Foundation opens up neighborhoods and creates more affordable housing opportunities for all residents.

Housing Underproduction: A Risk to Latino Homeownership and the U.S. Economy

Noerena Limón
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Housing Underproduction has exacerbated U.S. wealth disparities, creating a bifurcated economy: one for those who have reaped the benefits of home equity appreciation, and another for those whose dreams of homeownership have become increasingly out of reach. While Housing Underproduction has been widespread, no demographic has been more disproportionately affected by the low supply of housing than Latinos. Today, over 51 million Latinos live in a market experiencing Housing Underproduction, 92% of Latinos living in the Metropolitan Statistical Areas (MSAs) studied in this report (U.S. Census, CPS ASEC, 2021). This should sound the alarm to anyone who has any interest in long-term U.S. economic prosperity.

The future of America's economy is directly tied to the growing U.S. Latino population. According to the National Association of Hispanic Real Estate Professionals® (NAHREP®) State of Hispanic Homeownership Report, the Latino youth community and their role in America's demographic trajectory trigger a closer look at how Latinos overall are navigating the existing perils of the housing market (2022). With a median age of 30, Latinos are 14 years younger than the non-Hispanic white population and many are in their prime homebuying years. Nearly 2 in 3 Latinos today are aged 40 or younger (U.S. Census, CPS ASEC, 2021). Between 2010 and 2020, Latinos accounted for over half (51%) of the nation's population growth (U.S. Census, Decennial Census, 2021, pp. 94-171) and were responsible for the overwhelming majority (80.8%) of labor force growth (Bureau of Labor Statistics, 2021). Projections indicate that these trends will continue. The U.S. Department of Labor projects that Latinos will comprise 78% of net new workers between 2020 and 2030 (Dubina, 2021). Additionally, the Urban Institute predicts Latinos will account for more than half (53.1%) of new household formations between 2020 and 2040, while non-Hispanic white household formation will decline over the same timeframe. All these factors form the basis for the Urban Institute's projection that 70% of homeownership growth over the next 20 years will come from the Latino community (Goodman & Zhu, 2021).

While these projections offer a glimpse into the promise of the Latino community, they also underscore the risk associated with severe levels of Housing Underproduction. As of 2021, the annual national Latino homeownership rate is 48.4%, which continues to fall significantly below the overall U.S. homeownership rate of 65.5% (U.S. Census Bureau, Table 6, 2022). Housing market trends following the Great Recession offer a glimpse into the role Latinos have historically played in carrying the housing market, but also the shift that has occurred as a result of the housing shortage. In the ten years leading up to the COVID-19 pandemic, Latinos accounted for the majority of U.S. homeownership growth. However, the share of new homeowners attributed to Latinos decreased from its peak of 68% in 2015 to just 18.1% in 2021 (U.S. Census Bureau, Table 6, 2022). This pendulum shift occurred as the market saw historic dips in housing inventory and historic home price appreciation.

According to Freddie Mac, the U.S. is short 3.8 million homes relative to demand (2021). Housing Underproduction, particularly entry-level, owner-occupied housing, is the biggest barrier Latinos face in bridging the homeownership gap, despite Latinos being more mortgage-ready than ever. Freddie Mac defines "mortgage ready" as a group of potential future borrowers ages 45 and younger, who exhibit the following characteristics to qualify for a mortgage: Credit score equal to or greater than 661, a debt-to-income ratio equal to or less than 25%, no foreclosures or bankruptcies in the past 84 months, and no severe delinquencies in the past 12 months. There are currently 8.3 million Latinos who are mortgage-ready and have qualifying credit characteristics but are not currently mortgage holders—a number that has more than doubled since 2015.

Metro Name	Latino Population Share	Housing Underproduction as a Share of Total Housing Stock
Gainesville, GA	29%	11.6%
Oxnard-Thousand Oaks-Ventura, CA	43%	10.9%
Riverside-San Bernardino-Ontario, CA	52%	10.4%
Salem, OR	27%	10.3%
Laredo, TX	95%	9.9%
Merced, CA	61%	8.7%
Brownsville-Harlingen, TX	90%	8.6%
Los Angeles-Long Beach-Anaheim, CA	45%	8.4%
Bend, OR	8%	8.2%
Miami-Fort Lauderdale-Pompano Beach, FL	46%	8.1%

Rising price points have pushed homeownership out of reach for many first-time buyers across the country, particularly in Latino-dense markets. Housing prices have increased in every state across the country, but the states with the highest appreciation are those with high Latino populations. Arizona and Florida, home to a combined 12.7% of the U.S. Latino population, saw the highest home price appreciation in the country at 28.6% and 25.6%, respectively (Boesel, 2022). Affordability challenges for Latinos were most pronounced in metros with the largest discrepancy between median Latino household income and median-priced home. In the greater New York metro, a market that requires a six-figure income ($119,974) to afford to purchase a median-priced home, the median Latino household income is $49,900. Likewise, in Los Angeles, the household income required to afford a median-priced home ($144,330) is more than double the median Latino household income of $66,700 (HSH, 2022). Only 15.2% of Latino households in the Greater Los Angeles MSA have an income above $150,000 (U.S. Census Bureau, CPS ASEC).

The data featured throughout this report underscores an important reality: Latinos are concentrated in areas exhibiting the highest rates of underproduction.

Latinos Live in States with the Highest Rates of Underproduction

According to the Housing Underproduction analysis by Up for Growth, California, Texas, and Florida have the highest Housing Underproduction—more than 1.6 million units. These are also three of the most populous Latino states in the U.S., home to 32.7 million Latinos, more than half of the nation's Latino population.

California is the most populous Latino state in the nation and has also experienced some of the most acute housing shortages, resulting in the greatest decrease in Latino net migration in 2021, at a loss of 22,029 Latino households.

The Texas market has offered critical affordable homeownership opportunities during the past decade, making Texas an important state for future Latino homeownership growth. But the levels of underproduction in Texas pose a threat to future Latino homeownership growth because Latinos are moving to the state in search of those opportunities. Texas has seen the highest inbound migration of Latinos in the nation, adding 17,226 Latinos in 2021. In partnership with Freddie Mac, NAHREP® identified the top 25 opportunity markets for mortgage-ready Latinos ranked by share of those who can afford median-priced homes. Texas is home to the top four markets and makes up nearly one-third of the entire list.

Housing Underproduction: A Risk to Latino Homeownership (cont.)

Latinos Are Concentrated in Metropolitan Areas with the Highest Rates of Underproduction

A breakdown of underproduction by MSA indicates that nine of the top ten MSAs exhibiting the highest rate of underproduction have a Latino population above the national average, and seven out of ten have a Latino population above 40%.

> The Riverside-San Bernardino-Ontario, CA market, colloquially known as the Inland Empire, ranks third in the country for its share of Housing Underproduction. This is alarming since it is one of the most important markets for Latino homeownership in the nation. Between 2019 and 2021, the Inland Empire produced the most new Latino homeowners, adding a total of over 88,000 new Latino-owner households. Today, the Inland Empire has a Housing Underproduction share of 10.4%, more than triple what it was in 2012 and the third-highest share in the nation.

> Underproduction is occurring in the top 10 most populous Latino markets. Not only is there currently Housing Underproduction in all of the top 10 MSAs with the largest Latino populations in the country, but between 2012 and 2019, the crisis worsened in each of these markets. The most pronounced shift can be seen in the Phoenix-Mesa-Chandler, AZ market, which prior to 2012 was not experiencing Housing Underproduction, but now has a Housing Underproduction share of 5.8% relative to its current housing stock. Out of 140 MSAs that were found to be producing enough housing in 2019, only 16 of them, or 11%, had a Latino population at or above the national average.

Metro Name	Latino Population Share	Housing Underproduction as a Share of Total Housing Stock
Los Angeles-Long Beach-Anaheim, CA	45%	8.4%
New York-Newark-Jersey City, NY-NJ-PA	25%	4.5%
Miami-Fort Lauderdale-Pompano Beach, FL	46%	8.1%
Houston-The Woodlands-Sugar Land, TX	38%	2.8%
Riverside-San Bernardino-Ontario, CA	52%	10.4%
Dallas-Fort Worth-Arlington, TX	29%	3.0%
Chicago-Naperville-Elgin, IL-IN-WI	23%	3.4%
Phoenix-Mesa-Chandler, AZ	31%	5.8%
San Antonio-New Braunfels, TX	57%	7.8%
San Diego-Chula Vista-Carlsbad, CA	34%	5.6%

Conclusion

In the U.S., homeownership has historically been the most important tool for building wealth from one generation to the next. Housing Underproduction has become the biggest threat to Latino homeownership growth and in turn, Latino wealth creation. As of 2019, Latino homeowners have 28 times the wealth as Latino renters, underscoring the multiplier potential homeownership can provide in bridging the wealth gap. A failure to address the housing supply crisis could result in a steep decline in the overall homeownership rate and could have a devastating impact on the nation's GDP and economic well-being.

Noerena Limón

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Solve Underproduction First: Closing the White vs. Black Wealth Gap

Bryan Greene
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More than a half-century ago, President Lyndon Johnson signed into law the landmark federal Fair Housing Act. Today the gap between Black and white homeownership rates is even larger than it was in the year of the law's passage. While discrimination persists, it is not the principal culprit of the homeownership gap we witness today. Past discriminatory practices, which include decades of institutionalized housing and lending discrimination, are a greater factor. Indeed, the racial wealth gap resulting from these practices makes it harder for families of color to qualify for loans and raise the up-front costs of buying a home, whether a buyer experiences unlawful discrimination or not.

The greatest obstacle to closing the homeownership gap at this moment is the shortage of housing for purchase in this country. We can't get more people into the homes of their dreams if there are no homes for them to buy. This problem preempts all our other efforts to promote equal housing opportunity. While Housing Underproduction in this country has many causes, local zoning and land-use restrictions have, for decades, proved to be one of the greatest barriers to housing construction, affordable housing, and diverse communities.

Policymakers must continue to combat unlawful housing discrimination and its enduring impact on the economic prospects of people of color, but the housing shortage and the affordability crisis it has created threaten to exacerbate inequality further.

The current demand for the limited supply of homes for sale drives prices out of reach for many Americans, particularly for people of color. In February 2022, the National Association of REALTORS® (NAR) issued its "Double Trouble" report, which found that record-low inventory and record-high prices meant about half the homes on the market for sale would require a household income of $100,000 or more to purchase. This places those homes out of reach for a majority of Americans, with 65% of white people, 75% of Hispanic people, 80% of Black people, and 50% of Asian people earning insufficient income to buy these homes. Raising mortgage rates can halt the rise of home prices, but it will do nothing to increase housing supply. The nation has fallen millions of homes short of meeting housing needs. Based on this and other research, the deficit is so large it would take more than a decade to build our way out of, even with accelerated new construction.

Many have understandably prioritized efforts that will help homebuyers, especially first-generation homebuyers, purchase homes in the current market. Working on what is often called the "demand" side of the problem certainly has its merits. We need to be careful, however, that the immediate housing crisis not so cloud our sight that we stop working to repair the harm caused by racially restrictive covenants, redlining, unfairly devalued communities, and other officially sanctioned discrimination that both prevented many qualified people of color from buying homes and accumulating family wealth, and held down the property values of those who were able to purchase homes. This legacy has contributed in large part to the median Black family having one-eighth the net worth of the median white family.

Today, Black Americans are less than half as likely as white Americans to be able to count on the sale of an existing home, a family inheritance, or help from family for a down payment. They also tend to be more cost-burdened overall, with over half of Black Americans not only paying more than 30% of their income for housing, but also twice as likely as white Americans to have outstanding student loan debt, often significantly more of it. These legacies mean that many well-qualified Americans, particularly people of color, cannot access mortgage credit because of an antiquated system that does not provide a complete picture of a potential borrower's creditworthiness. Black Americans are more than twice as likely as white Americans to be rejected for a mortgage. A more comprehensive, more predictive view of credit performance can increase opportunities for homeownership among people of color.

Fortunately, there are several proposals circulating in Washington that could help. Down-payment grants and tax credits have the potential to help millions of households achieve homeownership, especially people of color, millennials, and middle-income families. NAR is on the steering committee of the Black Homeownership Collaborative, a group of industry and advocacy organizations advancing these recommendations to policymakers. Also, in May of 2022, NAR and the Urban Institute jointly hosted a forum at the National Press Club in Washington to advance the best ideas on how to make the housing finance system more equitable, recognizing that any significant growth in homeownership overall will have to come from increases in homeownership among people of color.

Efforts like expanding down-payment assistance will have little impact, however, if housing inventory remains near record lows. Such assistance becomes moot in

a bidding war where the final sale price exceeds the initial asking price by 30% (Orton, 2022). Clearly, the question of how to increase housing inventory must be addressed before all others. Increased housing production has been the focus of NAR's advocacy the past couple years, and these efforts are beginning to bear fruit.

During NAR's legislative meetings in May 2022, thousands of REALTORS® delivered to Congress comprehensive talking points around policies and actions to improve access to homeownership, especially for people of color, with an emphasis on efforts to increase housing inventory.

In April 2022, I joined Gene Sperling, American Rescue Plan Coordinator and Senior Advisor to President Biden, and Erika Poethig, Special Assistant to the President for Housing and Urban Policy, for an event with Third Way to discuss how to solve the housing crisis.

We discussed the need for a plan that includes zoning reforms, investment in new construction, expansion of financing, and tax incentives to spur investment in housing and convert unused commercial space to residential, all important steps in addressing not only housing supply, but housing equity as well.

We are pleased that in May 2022, the White House released a comprehensive Housing Supply Action Plan designed to ease the burden of housing costs by boosting the supply of housing in every community (White House Briefing Room, 2022). Most significantly, the Administration announced it would use its bully pulpit to provide incentives for communities to reform their zoning and land-use policies to make them more housing and development friendly.

For too long, land-use restrictions have driven up the cost of housing in many communities. NAR supports policies encouraging states and localities receiving federal dollars to explore high-density zoning and other land-use rules that open up opportunities to house more families. We also support the Administration's proposal of new grant programs for localities to enact pro-housing policies. We advocate for creative incentives in the tax code to promote zoning and land-use changes, such as tax credits or other support to localities that ease zoning rules that limit the supply of homes, like minimum lot sizes, parking requirements, and bans on multi-family housing.

While we've come a long way from the zoning ordinances of the early 1900s that explicitly mandated community segregation by race, we know that even in the 21st century, many "race-neutral" zoning and land-use restrictions have continued to have that effect. Myron Orfield at the University of Minnesota wrote, "[B]y [promoting] the development of housing that only the better-off can afford, these local policies effectively exclude the poor and people of color from the places that erect those policy fences" (Orfield & Mcardle, 2006). In 2010, Jonathan Rothwell and Douglas Massey found that suburbs that restricted density of residential construction between 1990 and 2000 produced more socioeconomic segregation in the metropolitan area than those with more permissive density zoning regimes. "This arrangement," they said, "perpetuates and exacerbates racial and class inequality in the United States" (2010).

In fact, the notion that suburban land-use restrictions would produce housing shortages in metropolitan areas and limit the housing prospects of people of color has been a feature of housing policy discussions for decades, all the way back to the time of the Fair Housing Act's passage in 1968 (Waters et al., 2022).

In *Affirmatively Furthering Fair Housing: The Rule is Back, but Can It Make a Difference?*, Alexander van Hoffman at Harvard's Joint Center for Policy Studies wrote:

> When Congress discussed the fair housing legislation, Senator William Proxmire (D-WI) and Edward Rutledge, executive director of the National Committee Against Discrimination in Housing, doubted that simply prohibiting discrimination would do the job. They pointed to suburban land-use restrictions, such as zoning ordinances and building codes, that prevented the development of small houses and multi-family apartment buildings, and thereby excluded low-income people, many of whom were Black. (2021)

Today, Proxmire's home state of Wisconsin has a Black homeownership rate of 25%, one of the lowest in the country. This is nearly 50 percentage points lower than the rate for white Wisconsinites (NAR Research Group, 2022). The Milwaukee metropolitan area, where the majority of Wisconsin Black Americans live, is the most segregated metropolitan area in the country (Frey, 2018).

For more than a half-century we've witnessed how land-use decisions can limit housing development, affordability, and equity. We cannot stand by and lament this lack of progress. Now, it is time to act.

Bryan Greene

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