

TESTING for HOUSING DISCRIMINATION: FINDINGS from a HUD STUDY of REAL ESTATE AGENTS

By Julia Reade, Federal Reserve Bank of Boston



Housing discrimination against blacks and Hispanics is declining but still remains a significant national problem. The U.S. Department of Housing and Urban Development (HUD) reached this conclusion using results of the national Housing Discrimination Study, conducted by the Urban Institute and released this past November.

The study focused on one of the earliest steps in the process of finding housing – working with a real estate agent. The researchers examined whether renters and homebuyers get different treatment from real estate agents and rental management companies depending on their race or ethnicity. The research did not assess credit issues, such as whether people of certain races and ethnicities are disproportionately denied mortgages, but did look at the extent to which agents provide assistance with financing. Describing the importance of this research, the authors wrote, “Housing discrimination raises the costs of the search for housing, creates barriers to homeownership and housing choice, and contributes to the perpetuation of racial and ethnic segregation.”

The study found that blacks and Hispanics faced discrimination whether they were renters or homebuyers. However, this study, conducted in 2000, found significant improvements over an earlier study conducted in 1989. Most of the gains occurred because bias against black and Hispanic *homebuyers* fell dramatically. Bias among *renters* did not show such improvement. Discrimination against black renters fell only moderately, while Hispanic renters saw no improvement.

Testing with Pairs

In both 1989 and 2000, the Housing Discrimination Study used “paired testing” to measure discrimination. Researchers bought the local newspapers in nearly two dozen metropolitan areas and selected a random set of advertised units for investigation. Then “testers” were sent to inquire at real estate offices about these properties. On paper, the two testers were identical – same family type, kind of job, education level, and financial standing. The only difference was that one tester was white while the other was black or Hispanic. (Throughout this article, “white” refers to a “non-Hispanic white.”)

Because researchers wanted to detect even indirect discrimination, they employed many measures of how each tester was treated. Despite the subtle issues addressed by the tests, most questions were easily answered. Simple questions like, “how many rental units did the agent indicate were available to you?” can illuminate patterns of discrimination if systematic differences occur by race and ethnicity. The questions addressed issues of availability, inspections (going to see a home or apartment), costs, encouragement, and, for homebuyers, geographic steering. The box on page 12 details the particular measures examined in the study.

In their visits to real estate offices, testers inquired about an advertised unit and then let the sales or rental agent guide the next steps in the interaction. If units were available,

Hispanic renters experienced more discrimination than blacks in measures of availability and inspections. Rental comparisons between Hispanics and whites showed some of the highest levels of bias in the whole study.

testers asked to see the units. Afterward, they recorded their experience on a survey form. (This setup helped prevent real estate agents from realizing they were being studied.) After all the tests were completed, researchers compared the information. For each measure, three outcomes were possible: the white tester was favored, the minority tester was favored, or both were treated equally.

It's All in Interpretation

Paired-test studies leave a lot of room for interpretation. For example, in comparing the number of units shown to Hispanic renters versus the

number shown to whites, the white tester received favorable treatment 21 percent of the time. However, the Hispanic tester received favorable treatment 14 percent of the time. There are a couple of ways to interpret these results.

One interpretation focuses on a single measure of preferential treatment: the fact that whites are

favored in 21 percent of cases. This reflects the highest level of favoritism towards whites that may have occurred. Another interpretation focuses on the net difference in favoritism between whites and Hispanics, which was 7 percentage points. This reflects the lowest level of favoritism towards whites that may have occurred.

So how much bias was there? The researchers stress that the underlying level is somewhere between 7 and 21 percent. Although this is a wide range, it indicates likelihood of some white-favored bias. The lower-bound estimate (7 percent) can be tested for statistical significance. If it is found to be significant, which it is in this case, we can expect white-favored bias exists.

**Discrimination among Renters
Black and White Renters**

Black and white renters in the study were treated differently. White applicants were more likely than blacks to find better availability of apartments (32 percent versus 28 percent), mainly because agents more often told whites the advertised unit was available and recommended more units to them. The disparity in treatment, a 4-percentage-point difference, was weakly significant. White applicants were also more likely (by 8 percentage points, 28 percent versus 19 percent, taking rounding into account) to have preferential inspection experience, again because they more frequently inspected the advertised unit and saw a higher number of comparable units.

These gaps were significantly less than those found in the 1989 study. The earlier gaps, 13 and 15 percentage points, fell to 4 and 8 point differences. Bias fell primarily because preferential treatment of whites declined.

Hispanic and White Renters

Hispanic renters experienced more discrimination than blacks in the same measures – availability and inspections. Rental comparisons between Hispanics and whites showed some of the highest levels of bias in the whole study. Whites were 12 percentage points more likely to

How Discrimination Was Measured

Many of the same measures were used to determine discrimination for renters and buyers. The categories in common include availability, inspections, cost, and encouragement. For buyers, steering was also studied.

Renters

Availability

- Advertised unit available?
- Similar units available?
- Number of units recommended?
- Overall availability

Inspections

- Advertised unit inspected?
- Similar units inspected?
- Number of units inspected?
- Overall inspection

Cost

- Rent for advertised unit?
- Rental incentives offered?
- Amount of security deposit?
- Application fee required?
- Overall cost

Encouragement

- Follow-up contact from agent?
- Asked to complete application?
- Arrangements for future?
- Told qualified to rent?
- Overall encouragement

Buyers

Availability

- Advertised unit available?
- Similar units available?
- Number of units recommended?
- Overall availability

Inspections

- Advertised unit inspected?
- Similar units inspected?
- Number of units inspected?
- Overall inspection

Cost/Financing

- Help with financing offered?
- Lenders recommended?
- Down payment discussed?
- Overall financing

Encouragement

- Follow-up contact from agent?
- Arrangements for future?
- Told qualified?
- Overall encouragement

Steering

- Homes recommended?
- Homes inspected?
- Editorializing?

Have Same Background, Looking for Home (fictional example)



Marital Status: Married
Family Size: Three
Occupation: Teacher
Joint Income: \$75,000
Credit Standing: Excellent



Marital Status: Married
Family Size: Three
Occupation: Accountant
Joint Income: \$75,000
Credit Standing: Excellent

find better availability (34 percent versus 22 percent) and 7 percentage points more likely to have better experience with inspections (24 percent versus 17 percent); both gaps were statistically significant and were little changed from 1989 because preference for both groups fell at about the same rate.

Discrimination among Buyers

Black and White Buyers

White preference was found more broadly in the case of buyers. In all but one of the areas measured, preferential treatment for white buyers was statistically significant. At 9 percentage points the largest gap (43 percent versus 34 percent), was for overall inspections. This gap was driven mainly by differences in the average number of units inspected. Weaker, but still statistically significant, bias was found for treatment related to financing assistance (such as when agents recommend lenders) and overall encouragement. The only area in which blacks and whites received comparable treat-

ment was availability. This gap was just 3 percentage points – down from 17 in 1989 and one of the greatest improvements since then.

Hispanic and White Buyers

Bias against Hispanic homebuyers was confined principally to one area: financing. (This pattern contrasted with that of black homebuyers, who experienced low to moderate levels of bias across most measures.) Whites were more likely to receive better financing assistance (39 percent versus 24 percent), leading Hispanics by 14 percentage points. This was the only major discriminatory gap to widen since 1989. All other gaps shrank by 11 to 15 points over the years since 1989, leaving them too small to be statistically significant.

Geographic Steering Exists, but at Low Levels

Geographic steering is another important but subtle form of disparate treatment. It occurs when a renter or buyer is given more information

about homes in neighborhoods whose occupants share the applicant's race or ethnicity. For example, a Hispanic homebuyer may be shown a higher number of homes in neighborhoods with more Hispanics than a white homebuyer would be shown. In this study, the researchers focused on geographic steering solely with respect to homebuyers.

Three types of agent behavior were considered indicators of steering: homes recommended, homes shown, and editorializing. Editorializing is agent commentary, both positive and negative, on home locations. Even little comments, such as “great schools” or “that restaurant can get noisy,” can influence homebuyers. After testers turned in their surveys, researchers noted the address of each recommended and shown home. Using data on each home's census tract, municipality, and school district, they could determine whether agents were more likely to recommend or show homes to blacks and Hispanics in areas with higher

Specific Metros Studied

Bias varied considerably across metropolitan areas according to the Housing Discrimination Study. Compared with the average level of discrimination nationwide, high levels of pro-white bias were found in some metros, while low levels were found in others. Still others had more of a mix. Comments below summarize the researchers' findings of discriminatory behavior in some of these areas. Unfortunately, insufficient data often kept researchers from being able to say that the differences they found were statistically significant.

Highest Pro-White Bias

Birmingham, Alabama

Of all the metros, bias against black homebuyers was highest in Birmingham. According to every availability measure, whites were favored with percentage point gaps ranging from 14 percent to 26 percent. Inspections were even more biased, with gaps over 22 percentage points. Whites inspected more homes than their black partners in 62 percent of tests, while blacks inspected more in only 18 percent of tests, leaving a wide 44 percentage point gap. Black renters in Birmingham also faced higher levels of unfavorable treatment. (Data were not collected in Birmingham for Hispanics.)

Austin, Texas

Bias against both black and Hispanic homebuyers was higher in Austin than nationally. Both groups were more likely to have unfavorable treatment regarding inspections. They also experienced disparities related to availability and financing. Bias against black and Hispanic renters was weaker.

Lowest Pro-White Bias

Denver, Colorado

Black and Hispanic renters in Denver were treated comparably to whites according to almost all measures. Actually, the only two manifestations of bias among renters showed that minorities received significantly *favorable* treatment. (Real estate agents were more likely to make future arrangements with black renters; Hispanic renters were less likely to be told an application fee was required.) Hispanic homebuyers were treated with little bias. Black homebuyers, however, faced bias at rates significantly higher than the national average, particularly regarding availability, inspection, and encouragement.

Chicago, Illinois

Tests in Chicago found that black and Hispanic renters received virtually the same treatment as white renters according to all but one measure (Hispanics were 15 percent less likely to be offered

rental incentives). Black homebuyers were also treated comparably to whites according to all but one measure (blacks were 16 percent less likely to be told they qualified for financing). Hispanic homebuyers, however, faced strong bias in all financing measures as well as most availability and inspection measures.

Detroit, Michigan

Few measures for either renters or homebuyers showed statistically significant net bias between whites and blacks, making overall bias lower than average. (Data were not collected in Detroit for Hispanics.)

Mixed Bias

Atlanta, Georgia

Atlanta's black renters faced bias at rates much higher than the national average, but the city's black buyers faced bias at rates much lower than nationally. White renters were far more likely to be quoted a lower rent for each unit (28 percent versus 6 percent) and also more likely to be offered rental incentives (16 percent versus 5 percent). Most other rental measures were weakly biased against blacks. For homebuyers, pro-black bias was strong according to many encouragement and finance measures. (Data were not collected in Atlanta for Hispanics.)

Los Angeles, California

Black and Hispanic renters were treated comparably to whites in all but one measure (blacks were recommended significantly fewer units). Black homebuyers faced bias in only two measures (whether agents discussed down payment requirements and whether agents told them they were qualified to rent), but the gaps were high, 19 percentage points and a remarkable 56 percentage points, respectively. Hispanic homebuyers were treated with pro-Hispanic bias in availability and inspection measures, but faced pro-white bias in financing.

concentrations of blacks and Hispanics, respectively. Did agents editorialize on neighborhoods, steering testers toward purchasing in areas where their race or ethnicity was common?

In black/white and Hispanic/white tests, whites were more likely than both blacks and Hispanics to be shown homes in census tracts with higher concentrations of whites. Whites were also more likely than blacks to be recommended such

work with real estate agents, researchers then tried to determine if certain characteristics of agents or firms were associated with a pro-white bias. The most consistent finding was that older agents were more likely to show bias against the two minority groups, particularly blacks. Also, both blacks and Hispanics had less favorable inspection experiences with female agents. Hispanic agents were more likely to give Hispanic testers favorable treatment, but also more likely to

The study also sought to determine if agents steered along class lines, directing minorities to areas of lower socioeconomic status.

homes. (These differences tended to be weakly significant, and no differences were found by municipality or school district.) Bias in editorializing was substantial; it was significant for blacks and weakly significant for Hispanics. Whites were 15 percentage points more likely than blacks and 6 percentage points more likely than Hispanics to hear more positive comments about homes in census tracts with higher concentrations of whites.

The study also sought to determine if agents steered along class lines, directing minorities to areas of lower socioeconomic status. To investigate this possibility, researchers used numerous measures of the socioeconomic status of a geographic area, such as the percent of owner-occupied homes, median home price, per capita income, and percent of households below the poverty threshold.

Evidence of class steering between blacks and whites existed only in editorializing, with no differences in recommendations or inspections. White testers were about 12 percentage points more likely to hear positive comments about areas where fewer were poor. There was no evidence of socioeconomic steering between Hispanics and whites.

Agents and Agencies

Having established that bias clearly exists when blacks and Hispanics

give black testers less favorable treatment. In addition, larger firms tended to exhibit higher levels of pro-white bias.

What about Testers' Other Characteristics?

The paired-test method is often criticized because it measures the effect of only one characteristic: in this case, race/ethnicity. There is no way to know the effects of other tester characteristics. Is discrimination worse for people with less education? For immigrants? The authors ran some other analyses to examine the role of these other characteristics. They mainly found that female minority testers tended to face lower levels of bias than male minority testers. The roles of other characteristics were unclear.

Future phases of the Housing Discrimination Study will attempt to unravel these questions. Instead of using paired testing, the researchers will send triads of people. This way, with either two whites and a minority or two minorities and a white, it will be easier to tease out the effect of race and ethnicity. Future reports will also show the level of housing discrimination faced by Asians, Native Americans, and persons with disabilities. ☞

Julia Reade is a community affairs analyst with the Federal Reserve Bank of Boston.