

RACIST REAL ESTATE APPRAISING?

RACIST REAL ESTATE APPRAISING?

Walter E. Block*

Abstract

Real estate appraisers valued a residential home at a higher rate when they were led to believe that it was owned by a white family than when they thought it was owned by black folks. There are several hypotheses put forth to explain this divergence. One of them is sheer unadulterated racism. Another is that blacks are more greatly statistically associated with crime than are whites; and that real estate values are negatively correlated with crime. The present paper makes the case for the latter interpretation.

Keywords: Real estate; racism; appraisement

JEL Codes: K25; L85; R30; J15; K14

Receipt date: August 30, 2024.

Acceptance date: January 10, 2025.

* Walter E. Block holds a Ph.D. in economics (Columbia University). He currently is the Harold E. Wirth Eminent Scholar Endowed Chair in Economics at Loyola University New Orleans, Senior Fellow of the Mises Institute, and regular columnist for lewrockwell.com. E-mail: wblock@loyno.edu

*¿Racismo en la tasación de bienes raíces?***Resumen**

Los tasadores inmobiliarios valoraron un inmueble residencial a un índice más alto cuando se les hizo creer que pertenecía a una familia blanca que cuando creían que pertenecía a personas negras. Existen varias hipótesis para explicar esta divergencia. Una de ellas es el racismo puro y duro. Otra es que las personas negras tienen una mayor asociación estadística con la delincuencia que las personas blancas, y que el valor de los bienes raíces está correlacionado negativamente con la delincuencia. El presente trabajo defiende esta última interpretación.

Palabras clave: Bienes raíces; racismo; tasación

Clasificación JEL: K25; L85; R30; J15; K14

Fecha de recepción: 30 de agosto de 2024.

Fecha de aceptación: 10 de enero de 2025.

RACIST REAL ESTATE APPRAISING?

Tenisha Tate-Austin and Paul Austin are black owners of a home in Marin County, California. They wanted to refinance their home and hired an appraiser to estimate its value. The conclusion of the latter: \$995,000.¹

This couple thought they were being low-balled on racist grounds. So, they removed all evidence that this was a home owned by African Americans, such as their pictures, art from that continent. They asked a white friend of theirs to pose as the owner of this abode; he substituted his own family pictures, etc., for theirs. A second appraiser valued this supposed “white” home at \$1,482,500, almost a half million dollars more.

Whereupon these real estate owners followed the American tradition and sued. They recently settled their lawsuit with Miller & Perotti Real Estate Appraisals, as well as AMC Links, a contracting party. They won an undisclosed amount of money as well as the satisfaction of compelling the defendants to attend sensitivity training that includes the history of segregation and racial discrimination in real estate and to watch a documentary, “Our America: Lowballed,”² which features the Austins’ story.

What are rational people to make of this legal episode? One point is that appraisal is not an exact science. One expects that if a dozen, or, better yet, a hundred real estate estimators were let loose on this house, not a one of them would have come up with the exact same dollar figure as any other of them, no matter who they thought it was owned by. Quite probably, none of them would have come within even \$100, maybe not even \$1000 of each other. Thus, it is rather harsh to sue anyone for a disparity of evaluations.³

Consider an analogy, Jeremy Lin is an Asian professional basketball player. Professional, highly paid and highly skilled appraisers of basketball talent evaluated him in such a manner that he was not drafted by any team. Evidently, they did not think much of a graduate of Harvard University in this regard. Nevertheless, he somehow snuck into the National Basketball Association, but sat on the bench for several teams; he was only allowed onto the court during “garbage time.” Then, don’t ask, he was traded to the New York Knicks, and due to injuries of his several of his teammates, was allowed to play. Miracle of miracles, he averaged 22.5 points and 8.7 assists. Ok, ok, he was never in the category of a Michael Jordan or a LeBron James, but this is pretty good, no, excellent, for a very marginal undrafted player. It was so unexpected that this accomplishment came to be known as Linsanity.⁴ Was it anti-Chinese racism that allowed his talents to be so seriously undervalued by so many, for so long? Not a bit of it. The NBA is one of the least racist organizations on the entire planet. There, ability is all, pigment counts for zilch.

¹ Hernandez, 2023.

²https://www.google.com/search?q=%E2%80%99Our+America%3A+Lowballed%2C%E2%80%9D&rlz=1C1CHBD_enUS796US796&oq=%E2%80%99Our+America%3A+Lowballed%2C%E2%80%9D+&gs_lcrp=EgZjaHJvbWUyBggAEEUYOdIBCTI5MDlqMGoxNagCALACAA&sourceid=chrome&ie=UTF-8

³ For the claim that appraisement is not an exact science see Follert, et al; Herbener and Rapp, 2016; Salerno, 1995; Yeager, 1995

⁴ On Linsanity:

https://www.google.com/search?q=linsanity&rlz=1C1ONGR_enUS1060US1060&oq=Linsanity&gs_lcrp=EgZjaHJvbWUyBggAEEUYOdIBCTI5MDlqMGoxNagCALACAA&sourceid=chrome&ie=UTF-8

Misappraisals are the warp and woof of the economy. People zig when they should zag everywhere: in the stock market, in the bond market, in international trade, and, also, in real estate, as in this case now under consideration. Nor are appraisal errors limited to the marketplace. Half of all marriages end in divorce. Sometimes, rarely, happily, doctors kill patients. Deserving lawyers are not made partners; highly competent professors are not offered tenure. People are promoted, or fired, undeservedly.

Let us return to the imaginary case of 100 evaluators. Posit that they all, on average, rate the same identical house when owned by white family, one half million more than that very domicile when owned by a black family. Why would we expect them to do so? Is it improper, unfair, racism against the latter? Not a bit of it. It would rather stem from the fact that blacks have a higher crime rate than whites, and this renders their property of less value than them. Appraisers would be prejudging this case on the basis of their knowledge of the demand for real estate. Crime lowers real estate values, period. Crime is associated with this community. QED.

Allow me to put this matter in other words. Two houses are physically identical to each other. They have the same everything in them; the same layout, the same paint colors internal and external; the same plumbing, heaters, air-conditioners, roofing, siding, everything. They were built on the same exact day. One of them is located in a high crime black neighborhood, the other in a low crime white neighborhood. The latter sells for twice the price of the former. Why? That is due to the fact that the demand for the latter is much higher than the former. Buyers are willing to pay more to live in a low crime area.

Now change the example. It is the same house. There is only one house. However, when it is first evaluated, there are pictures of the family on the wall. They are all African Americans. The value of the house is rated at \$100,000. Then, the pictures are changed, it is, remember, still the same house; the pictures are now of a white family. Nothing else has changed. And the assessors now rate the house as worth \$200,000. Why would this have occurred? Let us assume that the very same assessors do the evaluating, only we have hypnotized them into forgetting that they have once before placed a value of \$100,000 on this house, when they thought it was owned by a black family.

What is going on here? It is the same phenomenon as in the previous case. The evaluators know that the crime rate on the part of one of these racial groups is higher than that of the other and based their ratings accordingly.⁵

Walter Williams tells the following story⁶: He would give you \$500 if on your first try on campus, you can find one student 5'7" tall who can solve a quadratic equation, and another who can dunk a basketball. You can't talk to them; you can only select them on the basis of their outward appearance. Do you choose a black kid for the math question and an Asian with thick eyeglasses

⁵ For evidence supporting the claim that blacks have a higher crime rate than whites see: https://www.google.com/search?q=Do+blacks+have+a+higher+crime+rate+than+whites%3F&rlz=1C1ONGR_enUS1060US1060&oq=Do+blacks+have+a+higher+crime+rate+than+whites%3F&gs_lcrp=EgZjaHJvbWUyBggAEEUYOdIBDTYzNjExNTE1ajBqMTWoAgCwAgA&sourceid=chrome&ie=UTF-8; on the economics of crime see See also Becker, 1995; Ehrlich, 1979, 1982; Ehrlich and Posner, 1974

⁶ Personal correspondence with the present author.

RACIST REAL ESTATE APPRAISING?

for the dunk, or the other way around? Obviously, the latter, based on nothing but common sense and empirical experience.⁷

No, the lawsuit of the California couple should have been thrown out of court as frivolous. The assessors, in our hypothetical example, would have been making their estimate on the basis of undeniable facts. An appraisal is merely an opinion, an evaluation. “That dress is you.” “That dress is lovely.” “That dress is horrid.” These are all mere estimations, beliefs, judgements. Since when can you be successfully sued for offering a mere assessment? That day has arrived, it would now appear.

References

Becker, G. (1957). *The Economics of Discrimination*. The University of Chicago Press.

_____. (1995). The economics of crime. *Cross Sections (Federal Reserve Bank of Richmond)*, 12, 8-15.

Block, W. (1992). Discrimination: An Interdisciplinary Analysis. *The Journal of Business Ethics*, 11, 241-254.

_____. (1994). Sex Education. In: M. Spengler (Ed.), New York: Cliches of Politics (pp. 240-242). Foundation for Economic Education.

_____. (1998). Compromising the Uncompromisable: Discrimination. *American Journal of Economics and Sociology*, 57(2), 223-237.

_____. (2010). *The Case for Discrimination*. The Mises Institute.

_____. (2013). New Mexico Photographer Discriminates Against Lesbians: Liberals Zero, Conservatives One, Libertarians Full Marks. Available at: http://www.lewrockwell.com/?post_type=article&p=453653&preview=true

Block, W., & Williams, W. (1981). Male-Female Earnings Differentials: A Critical Reappraisal. *The Journal of Labor Research*, 2(2), 385-388.

Ehrlich, I. (1979). The Economic Approach to Crime: A Preliminary Assessment. In: S. Messinger, and E. Bittner (Eds.), Beverly Hills: Criminology, Review Yearbook Vol. 1. Sage.

_____. (1982). The Market for Offenses and the Public Enforcement of Laws: An Equilibrium Analysis. *British Journal of Social Psychology*, 21, 107-120.

⁷ On the economics of race, prejudice and discrimination which underlies the thesis of the present paper, see Becker, 1957; Block, 1992, 1994, 1998, 2010, 2013; Block and Williams, 1981; Epstein, 1992; Herrnstein and Murray, 1994; Levin, 1982, 1984, 1987a, 1997b; Mattei, 2004; Rockwell, 2003, 2014; Rothbard, 1978; Sowell, 1975, 1981, 1982, 1983, 1994, 2015; Whitehead, Block and Hardin, 1999; Whitehead and Block, 2003; Williams, 1982a, 1982b, 2003.

Ehrlich, I., & Posner, R. (1974). An Economic Analysis of Legal Rulemaking. *Journal of Legal Studies*, 3(1), January, 257-280.

Epstein, R. (1992). *Forbidden Grounds: The Case Against Employment Discrimination Laws*. Harvard University Press.

Follert, F., Herbener, J., Olbrich, M., & Rapp, D. (2019). Agree or Disagree? On the Role of Negotiations for the Valuation of Business Enterprises. *The Quarterly Journal of Austrian Economics*, 21(4), 315-338.

Herbener, J., & Rapp, D. (2016). Toward a Subjective Approach to Investment Appraisal in Light of Austrian Value Theory. *The Quarterly Journal of Austrian Economics*, 19(1), 3-28.

Hernandez, S. (2023). A Black couple settles lawsuit over a home valuation that rose when a white friend posed as the owner. Available at: <https://www.latimes.com/california/story/2023-03-09/black-couple-settles-lawsuit-over-home-valuation>

Herrnstein, R., & Murray, C. (1994). *The Bell Curve: Intelligence and Class Structure in American Life*. The Free Press

Levin, M. (1982). Is Racial Discrimination Special? *Policy Review*, 22, 85-95.

_____. (1984). Comparable Worth: The Feminist Road to Socialism. Available at: <https://www.commentary.org/articles/michael-levin/comparable-worth-the-feminist-road-to-socialism/>

_____. (1987a). *Feminism and Freedom*. Transaction Books.

_____. (1997). *Why Race Matters*. Praeger.

Mattei, E. (2004). Employment at Will. Available at: <http://www.mises.org/story/1502>

Rockwell, L. (2003). Discrimination and Freedom. *The Free Market*, 21(4).

_____. (2014). What Exactly Is 'Racism'? Available at: <http://www.lewrockwell.com/2014/07/lew-rockwell/what-exactly-is-racism/>

Rothbard, M. (1978). *For a New Liberty*. Macmillan

Salerno, J. (1995). A Final Word: Calculation, Knowledge and Appraisalment. *Review of Austrian Economics*, 9(1), 141-142.

Sowell, T. (1975). *Race and Economics*. Longman.

_____. (1981). *Ethnic America*. Basic Books.

RACIST REAL ESTATE APPRAISING?

_____. (1982). Weber and Bakke and the presuppositions of 'Affirmative Action'. In: W. Block & M. Walker (Eds.), Vancouver: Discrimination, Affirmative Action and Equal Opportunity. The Fraser Institute.

_____. (1983). *The Economics and Politics of Race: An International Perspective*. Morrow.

_____. (1994). *Race and Culture: A World View*. Basic Books.

_____. (2015). On 'rich bastards.' Available at:
http://www.economicpolicyjournal.com/2015/01/on-rich-bastards.html?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+economicpolicyjournal%2FKpwH+%28EconomicPolicyJournal.com%29

Whitehead, R., & Block, W. (2002). Sexual Harassment in the Workplace: A Property Rights Perspective. *University of Utah Journal of Law and Family Studies*, 4, 226-263.

Whitehead, R., Block, W., & Hardin, L. (1999). Gender Equity in Athletics: Should We Adopt a Non-Discriminatory Model? *The University of Toledo Law Review*, 30(2), 223-249.

Yeager, L. (1995). Rejoinder: Salerno on Calculation, Knowledge, and Appraisement. *Review of Austrian Economics*, 9(1), 137-141.