How Devaluation Impacts Black Business Development

Andre Perry, Senior Fellow
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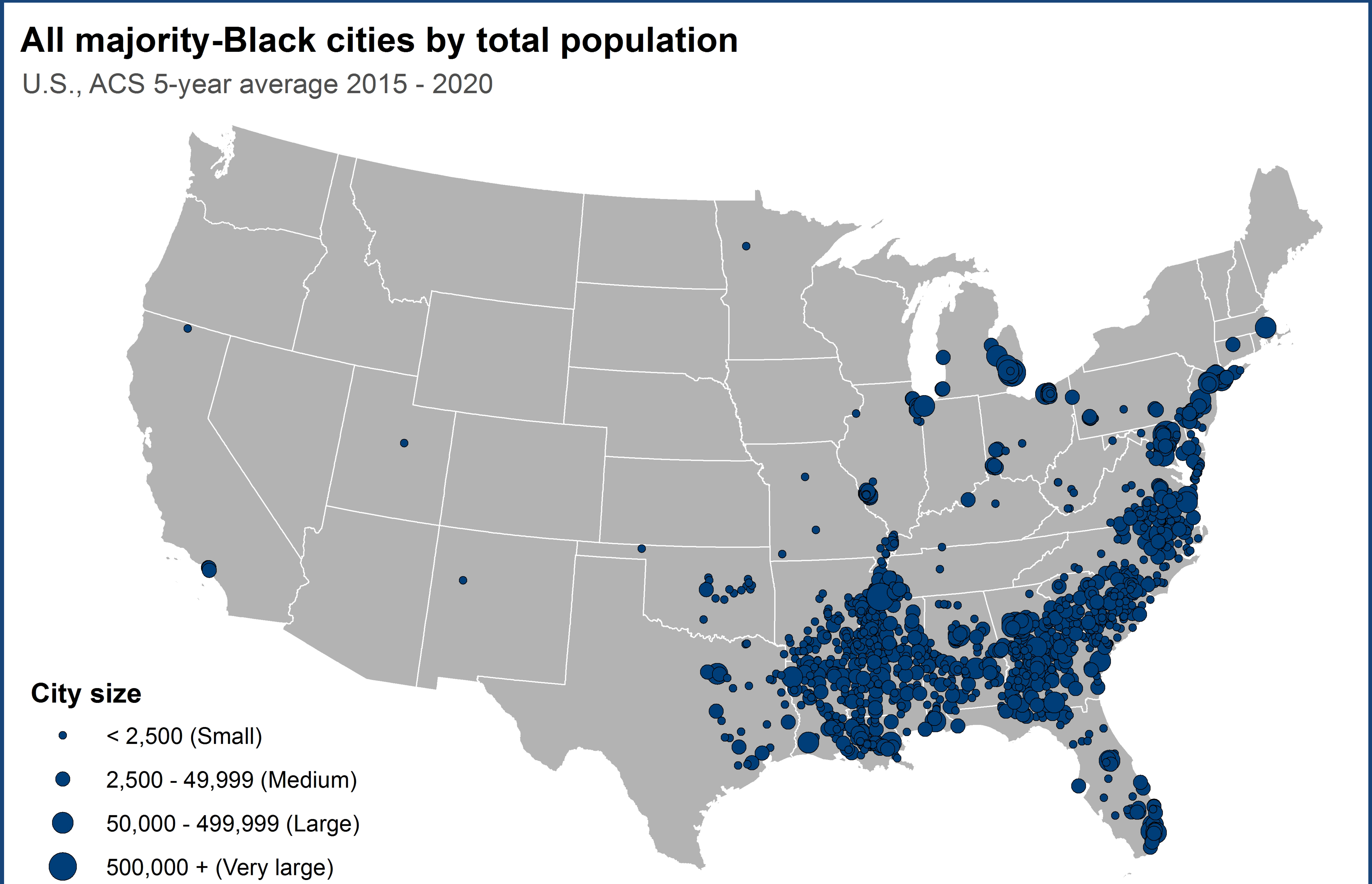
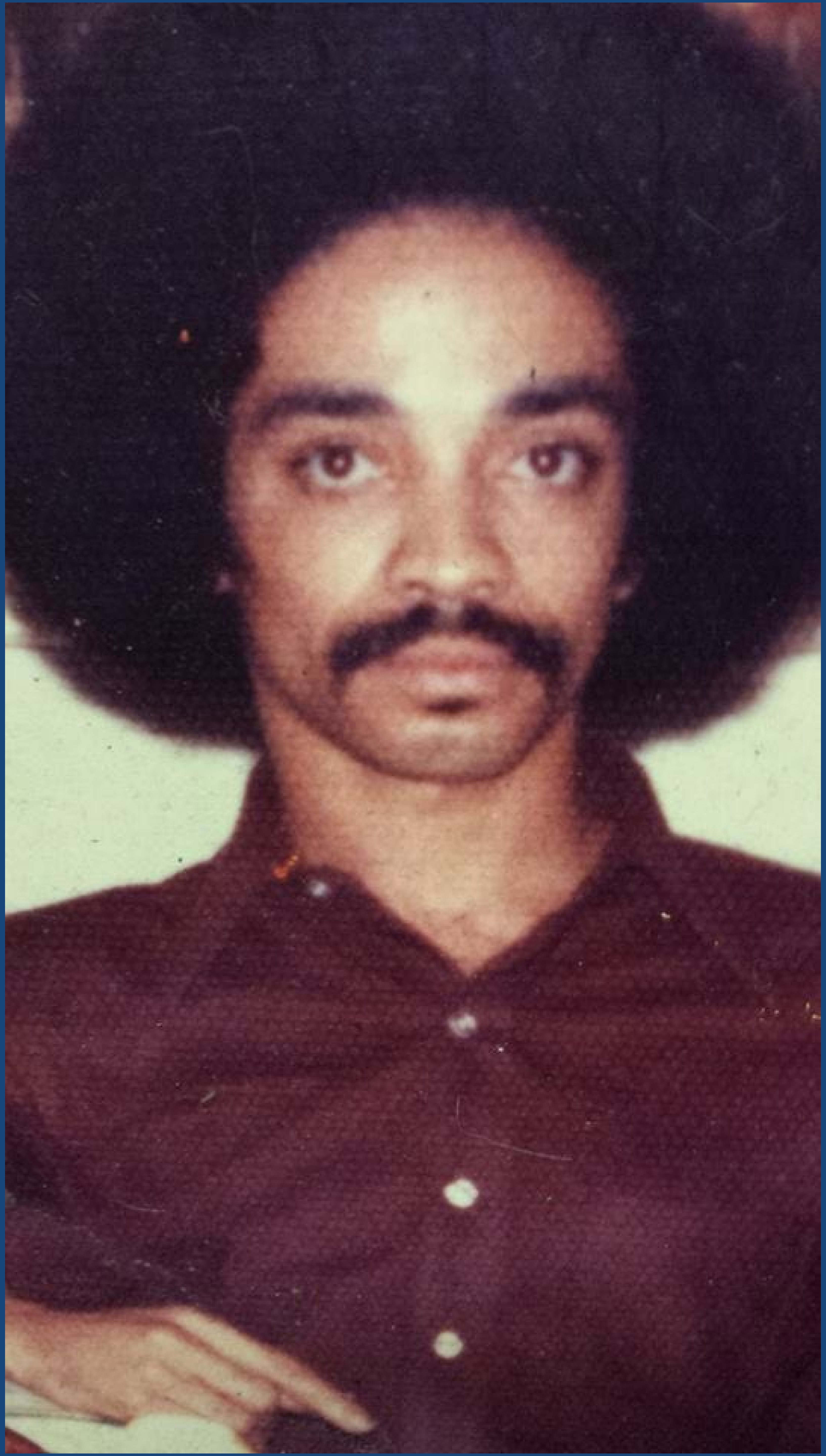
BROOKINGS

Black cities

Largely located in the Deep South

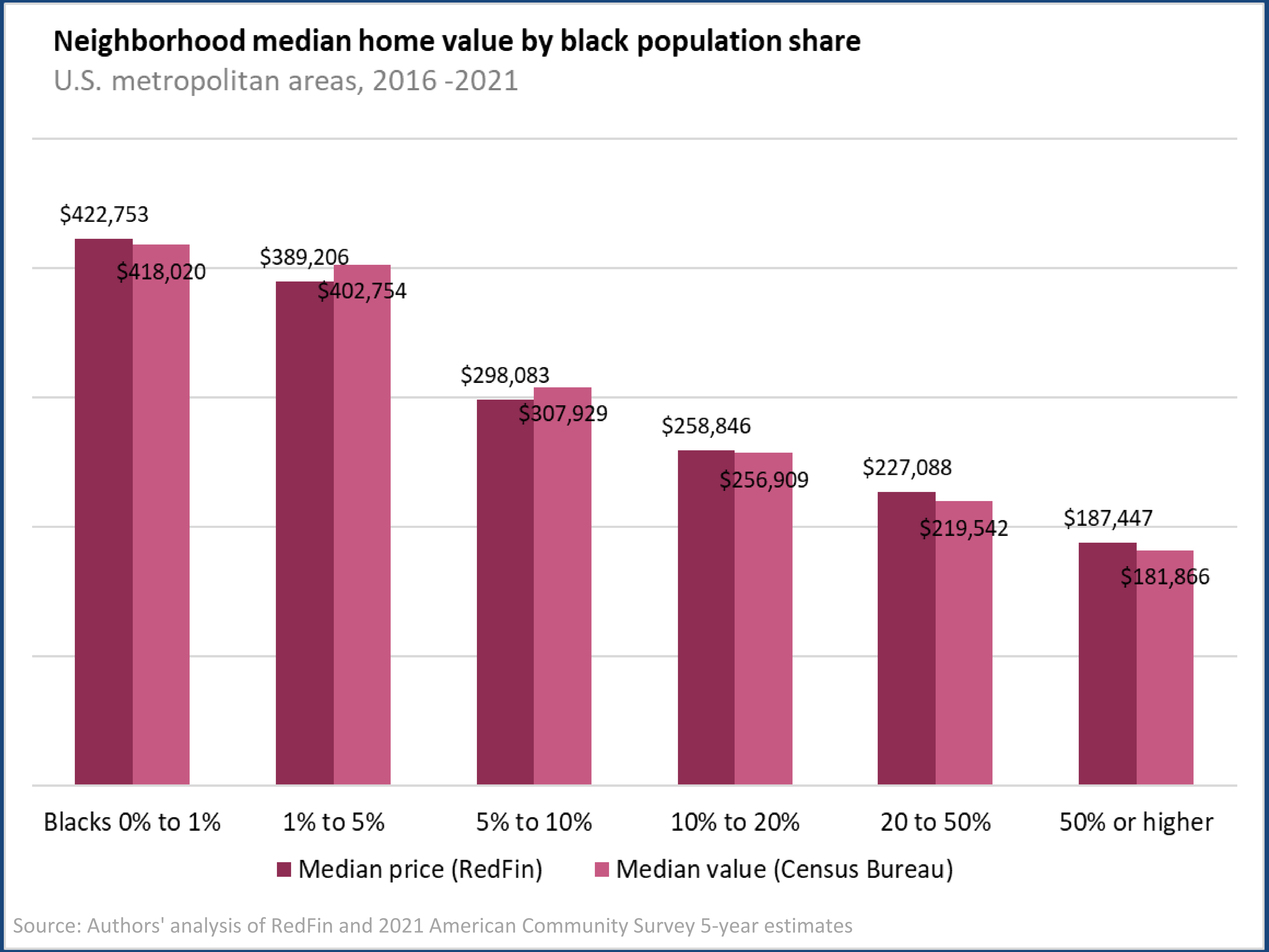
and along the East Coast






Neighborhood Devaluation
Redlining
Restrictive covenants
WE WANT WHITE TENANTS IN OUR WHITE COMMUNITY
Highway construction through Black neighborhoods
Predatory lending
$
Urban renewal
CITY OF BOSTON

Homes in Black neighborhoods are worth less, on average, than homes in <1% black neighborhoods



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Can we explain this difference in value?

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$

Absolute price difference

Can we explain this difference in value?

Absolute price difference

Structural characteristics

Can we explain this difference in value?

Absolute price difference

Structural characteristics

Neighborhood amenities

Devaluation

-$45,000 | **↓23%**

on average, compared to homes in neighborhoods which are <1% black

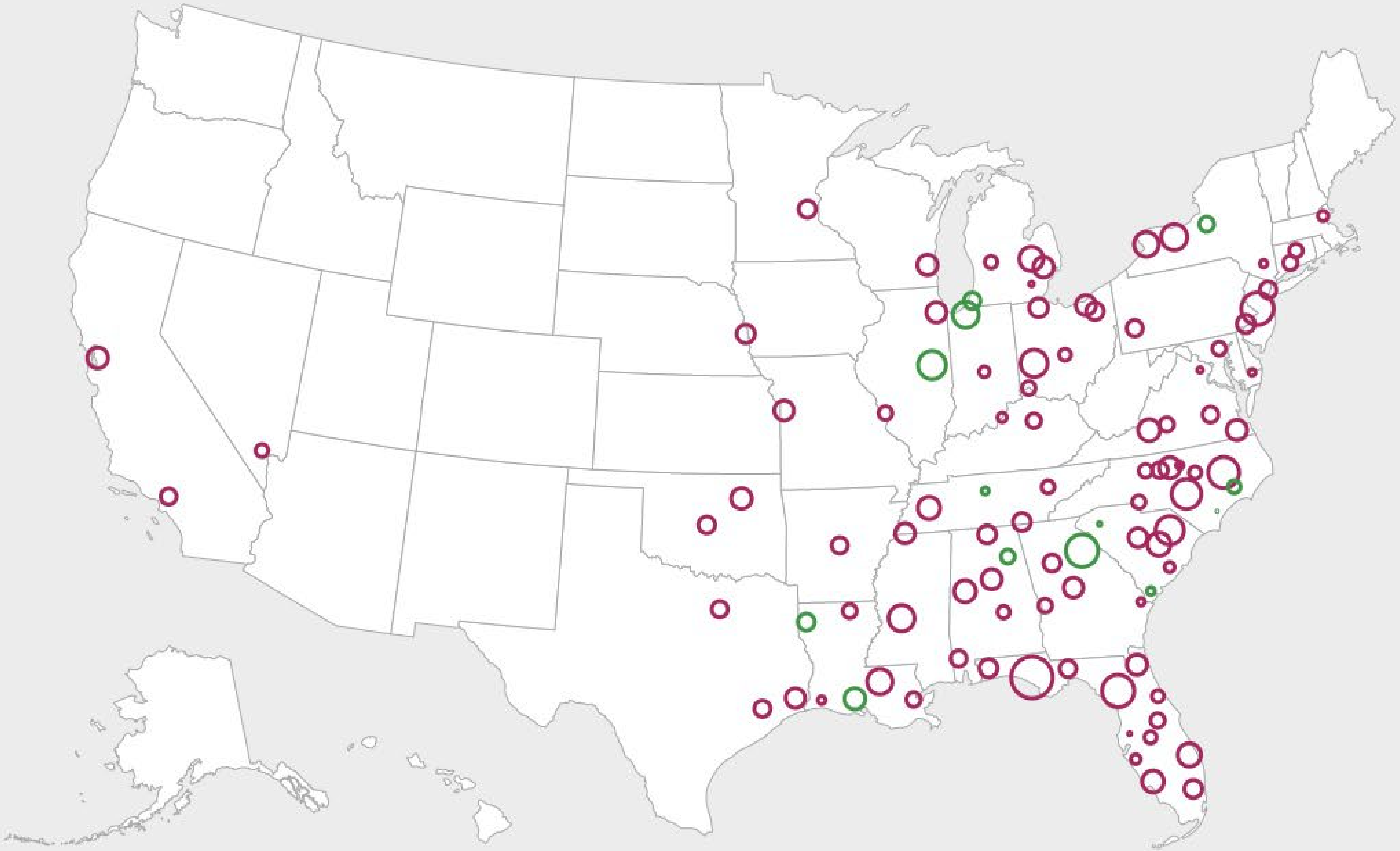
Devaluation

$162 billion

in cumulative losses

Devaluation varies by metro

102 metropolitan areas with at least one majority Black neighborhood



Comparing home values in majority Black neighborhoods with those where less than 1% of residents are Black

Devaluation: Comparable homes in majority Black neighborhoods are worth **less ↘**

Greater devaluation

Appreciation: Comparable homes in majority Black neighborhoods are worth **more ↗**

Greater appreciation

Devaluation and appreciation are represented by percent difference between comparable homes. Hover over metro areas for detail on the magnitude of devaluation.

We restrict this analysis to the 102 metropolitan areas with at least one majority Black neighborhood. We also give extra weight in the analysis to metro areas with larger Black populations to reduce the influence of measurement error; as such, the estimates should be thought of as characterizing the experience of the average Black person living in different types of metropolitan areas.

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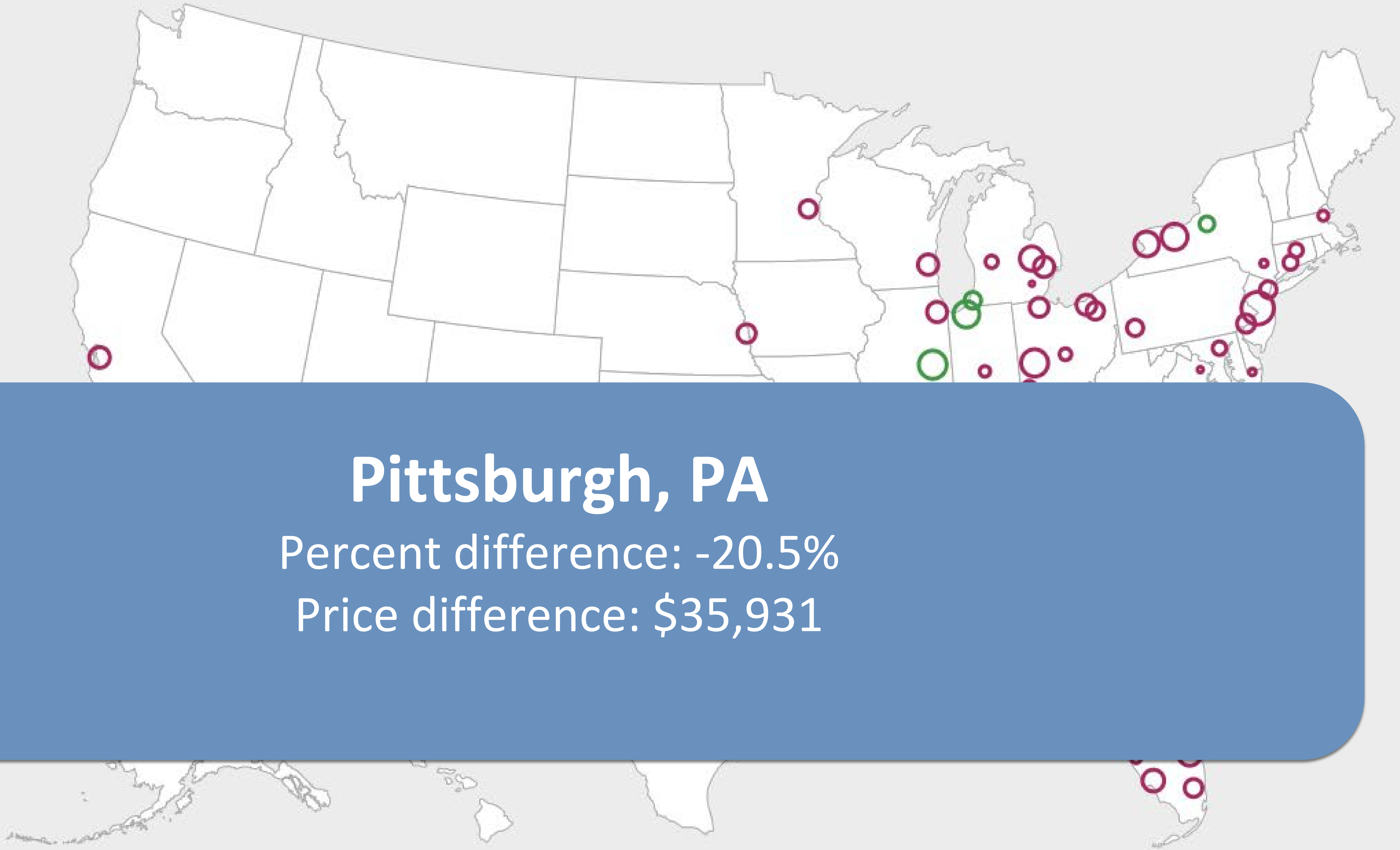

Pittsburgh, PA

Percent difference: -20.5%

Price difference: $35,931

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Double the annual economic burden of the opioid crisis

Source: Centers for Disease Control and Prevention (2013)

There is nothing wrong with Black people that ending racism can't solve.

Business Devaluation

The State of Black Businesses

- Black people comprise 14.2% of the U.S. population, but Black businesses are only 2.4% of the nation's 5.7 million employer businesses

  Source: Census Bureau Annual Business Survey

- Only 1% of Black business owners were able to obtain loans in their founding yea compared with 7% of white entrepreneurs.

  Source: Stanford Institute for Economic Policy Research

- Black entrepreneurs are denied bank loans more than twice as often as their whit peers — 53% to 25%.

  Source: Federal Reserve

- People of color pay higher interest rates on average than their white peers — 7.8% to 6.4%.

  Source: Census Bureau 2018 Annual Business Survey

How do we measure business devaluation?

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$

Business revenue

via Dun & Bradstreet data
for establishments

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$

Business revenue

via Dun & Bradstreet data
for establishments

Business quality

via yelp

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Business revenue

via Dun & Bradstreet data for establishments

Business quality

via yelp

Neighborhood conditions/wealth

via US Census Bureau

Findings

Black, Brown and Asian-owned businesses are **rated just as highly** or higher than White-owned businesses on Yelp, on average

Source: Analysis of Dun & Bradstreet and Yelp data

Findings

But, businesses **in Black neighborhoods** receive **50 - 100 fewer** reviews and are rated **0.2 stars lower** on average

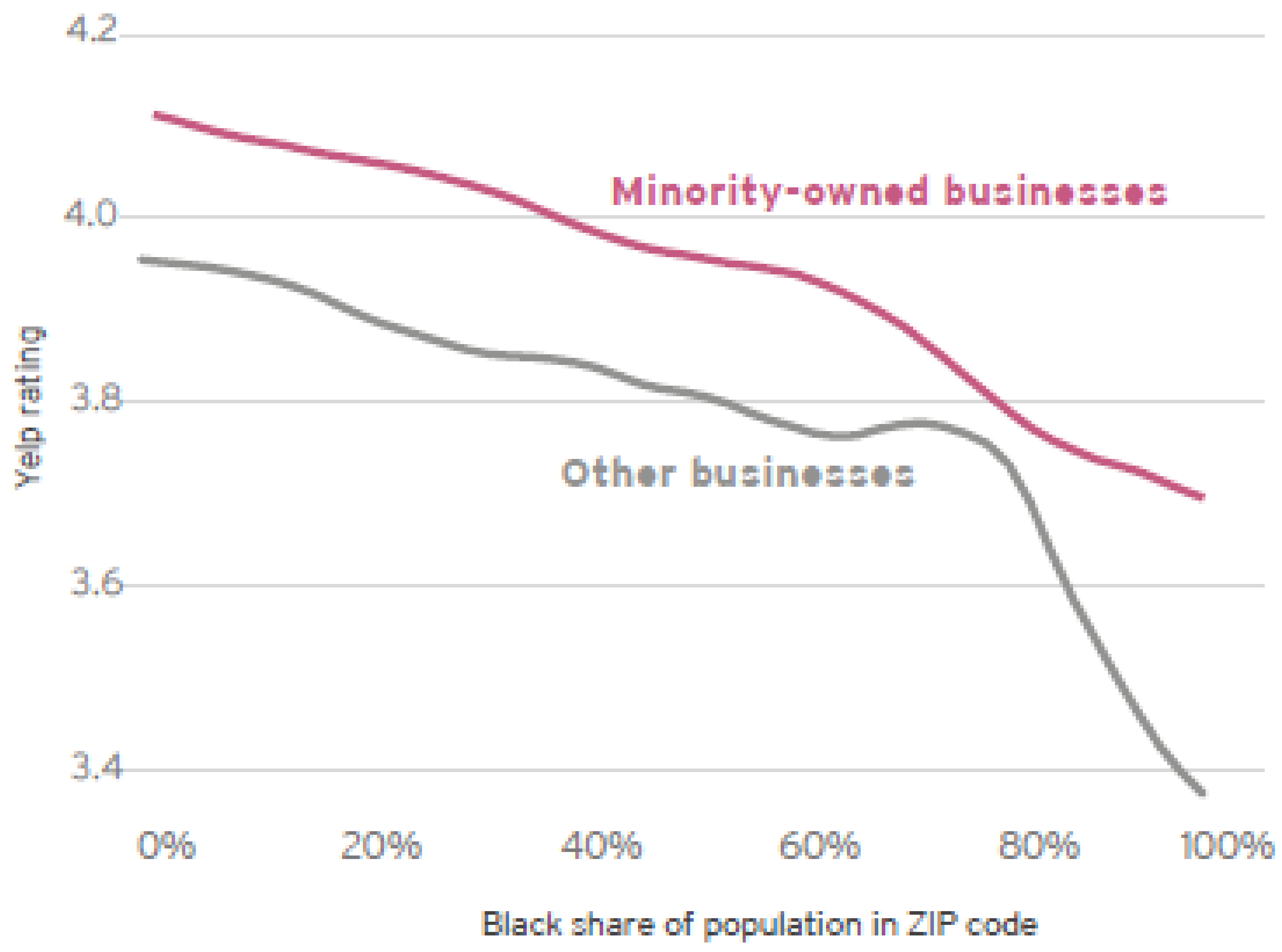
Source: Analysis of Yelp and American Community Survey data

Findings

FIGURE 4

Yelp ratings decrease as Black share of population increases

Yelp sample of businesses in ZIP codes across 86 metro areas, 2016 - 2019



Source: Author analysis of merged data from Yelp and National Establishment Time Series Database (NETS) and 2017 American Community Survey estimates.

Findings

What is the cost?

- Low estimate: **$1.3B** in annual revenue lost
- High estimate: **$3.9B** in annual revenue lost

Source: Analysis of Dun & Bradstreet and Yelp data

“Our ice is just as cold.”

- Black elders

In Pittsburgh, Black businesses are underrepresented

Black-owned employer businesses by sector

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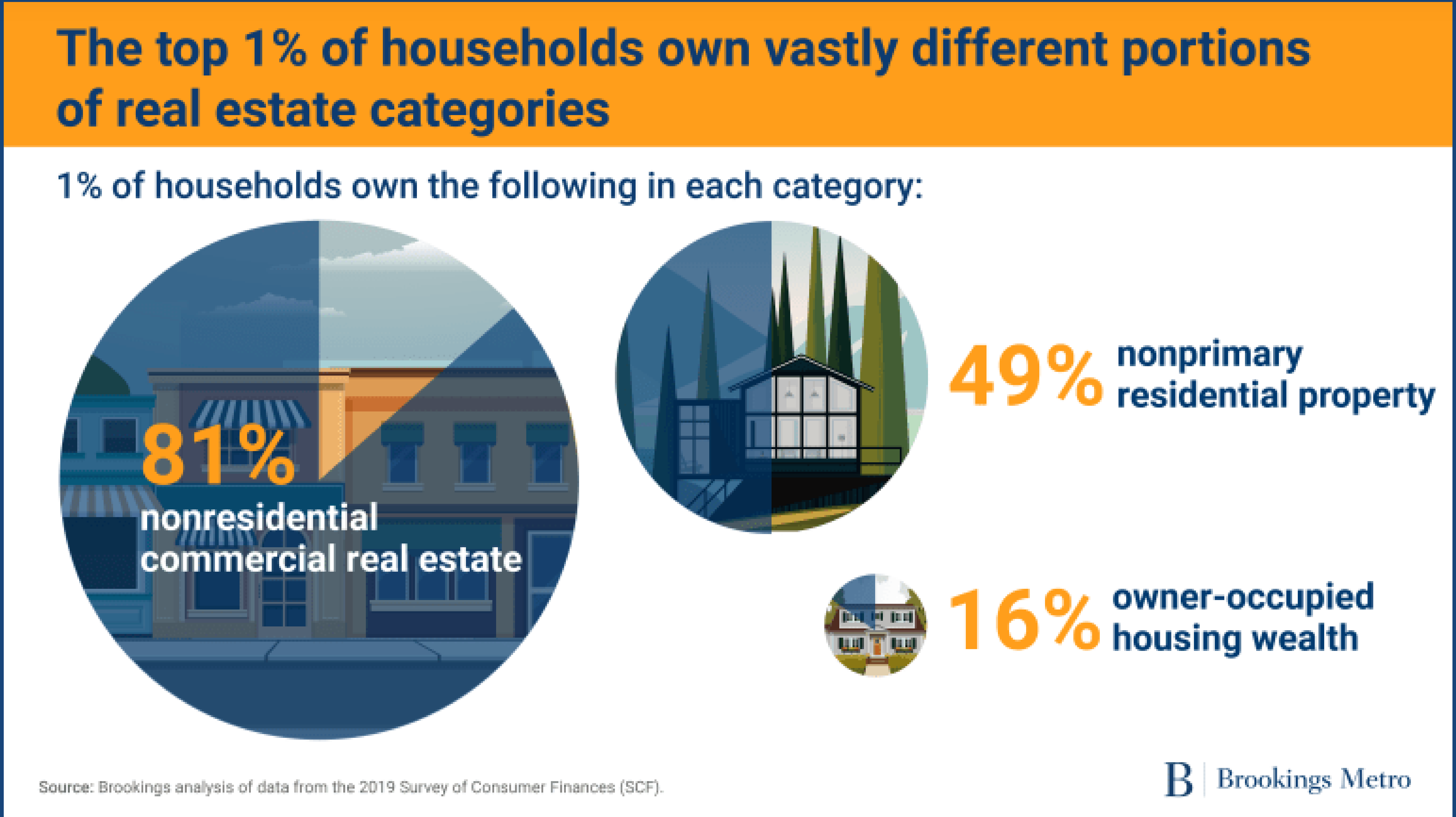
Source: American Business Survey, 2017

Commercial Real Estate

THE DEVALUATION OF ASSETS IN BLACK NEIGHBORHOODS: THE CASE OF COMMERCIAL PROPERTY

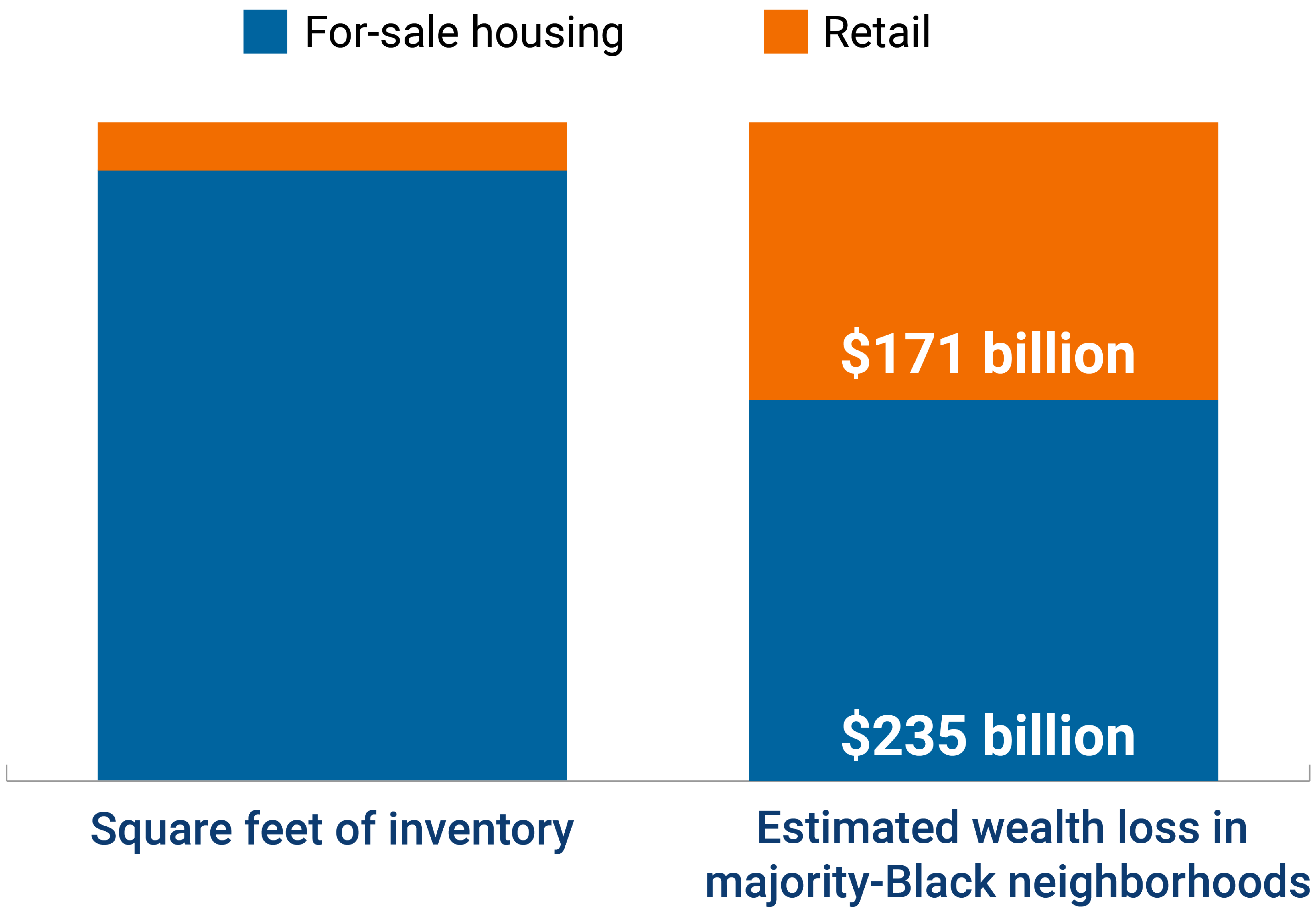
Jonathan Rothwell, Tracy Hadden Loh, and Andre Perry

CRE ownership is highly concentrated



Devaluation harms Black neighborhoods

The residential real estate market is 10x the size of commercial real estate nationwide



CRE makes up almost one-half of devaluation losses in Black neighborhoods

Brookings Metro

Source: Brookings analysis of Bureau of Economic Analysis Added by Industry, 2021 and other data

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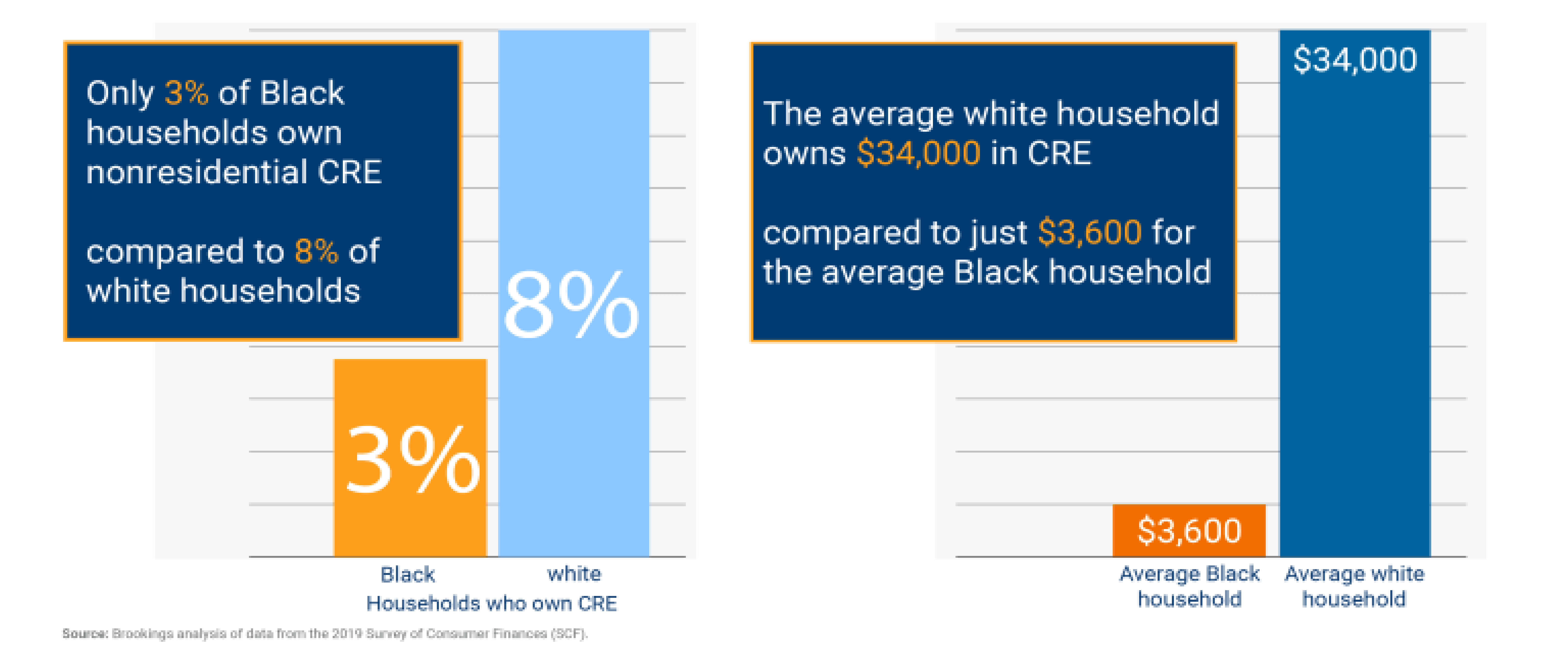
There are stark racial disparities in CRE ownership



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How Racial Bias in Appraisals Affect Devaluation

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- Bad appraisals account for upwards of 20% of the value gap.

How to counter devaluation

Invest in PEOPLE

- Direct capital toward Black, Indigenous, Brown and Asian-owned firms (DBEs) and homeowners (Cut the Check)
- Remove unnecessary bureaucratic barriers to entry for entrepreneurship and homeownership

Invest in PLACES

- Make targeted infrastructure investments in Black neighborhoods
- Partner with businesses and developers to incentivize renovation and provide commercial spaces

Divest from RACISM

- Remove policies that extract wealth from Black communities
- Just as we score policies' budget impact, we should score for racial equity as well
- Install anti-racist polices that encourage inclusion