

DISCRIMINATION

IN METROPOLITAN HOUSING MARKETS Phase 3

Prepared for:
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FOREWORD

Ending illegal housing discrimination is one of the highest priorities I have as Secretary of Housing and Urban Development. That is why I am pleased to release the third in a series of reports on the level of housing discrimination in the United States: *Discrimination in Metropolitan Housing Markets: Phase 3 – Native Americans*. This multi-stage study was designed to determine the extent of housing discrimination based on race or color that Americans may face today. By any measure, it is the most ambitious analysis of housing discrimination ever produced. The first two phases of this study reported on the level of discrimination faced by African Americans, Hispanics, and Asians and Pacific Islanders.

This report, the result of comprehensive testing and sophisticated analysis, provides estimate of discrimination encountered by Native Americans searching for housing to rent in Montana and Minnesota, and rent or purchase in New Mexico. The results are based on a sample of 397 paired tests conducted in 2002 in the eight metropolitan areas of the three states.

The research found that the level of discrimination faced by Native Americans in the rental markets of the three states is *greater than* the national levels of housing discrimination experienced by African American, Hispanic, and Asian and Pacific Islander renters. Discrimination is most observable on measures of availability. That is, white testers were significantly more often told an advertised unit was available, told about similar units, and told about more units than similarly qualified Native American testers inquiring about the same advertised unit.

As the Department works to eliminate housing discrimination, this report offers invaluable assistance by documenting where and how discriminatory practices take place. HUD continues to expand efforts to learn more about discrimination, and will continue this report series with one more report: discrimination against persons with disabilities.

The findings will enable HUD to devote more attention, including enforcement that penalizes illegal discrimination, to communities with significant Native American populations. Housing discrimination isn't just unfair, it's against the law.

Mel Martinez
Secretary

EXECUTIVE SUMMARY

This report presents results from the third phase of the latest national Housing Discrimination Study (HDS2000), sponsored by the Department of Housing and Urban Development (HUD) and conducted by the Urban Institute. It is one of five related reports that will ultimately be produced from this major research effort:

- *Discrimination in Metropolitan Housing Markets: Phase I*
- *Discrimination in Metropolitan Housing Markets: Phase I — Supplement*
- *Discrimination in Metropolitan Housing Markets: Phase II — Asians and Pacific Islanders*
- *Discrimination in Metropolitan Housing Markets: Phase III — Native Americans*
- *Discrimination in Metropolitan Housing Markets: Phase IV — Persons with Disabilities*

All of these reports present findings based upon rigorous paired tests, in which two individuals—one minority and the other white—pose as otherwise identical homeseekers and visit real estate or rental agents to inquire about the availability of advertised housing units. This methodology provides direct evidence of differences in the treatment minorities and whites experience when they search for housing.

Background on HDS2000

Paired testing originated as a tool for fair housing enforcement, detecting and documenting individual instances of discrimination. Since the late 1970s, this methodology has also been used to rigorously measure the prevalence of discrimination across the housing market as a whole. When a large number of consistent and comparable tests are conducted for a representative sample of real estate and rental agents, the results control for differences between white and minority homeseekers, and directly measure patterns of adverse treatment based on a homeseeker's race or ethnicity.

HDS2000 is the third national paired-testing study sponsored by HUD to measure patterns of racial and ethnic discrimination in urban housing markets. Its predecessors, the 1977 Housing Market Practices Study (HMPS) and the 1989 Housing Discrimination Study (HDS) found significant levels of racial and ethnic discrimination in both rental and sales markets of urban areas nationwide. Enforcement tests conducted over the intervening decade have also uncovered countless instances of illegal discrimination against minority homeseekers. Housing discrimination raises the costs of housing search, creates barriers to homeownership and housing choice, and contributes to the perpetuation of racial and ethnic segregation.

HDS2000 will ultimately involve four phases of paired testing. HUD's goals for the study include rigorous measures of change in adverse treatment against blacks and Hispanics nationwide, site-specific estimates of adverse treatment for major metropolitan areas and selected states, and new measures of adverse treatment against Asians and Pacific Islanders, American Indians, and persons with disabilities. Phase I provided national estimates of adverse treatment against blacks and Hispanics and reported on changes in the incidence of differential treatment since 1989. Phase II focused on two major new goals. It produced the first national estimates of discrimination against Asians and Pacific Islanders, and an initial set of state estimates of discrimination against blacks and Hispanics that include small and medium-sized metropolitan areas as well as larger areas. Phase III extends the paired testing methodology to provide the first rigorous estimates of the incidence and forms of discrimination American Indians face when they search for housing in metropolitan areas.

The HDS2000 Methodology

This study builds upon the basic testing protocols that have been implemented in previous national studies and in Phases I and II of HDS2000. Random samples of advertised housing units were drawn from multiple advertising sources in each site on a weekly basis, and testers visited the sampled offices to inquire about the availability of these advertised units. Both minority and white partners were assigned income, assets, and debt levels to make them equally qualified to buy or rent the advertised housing unit. Test partners were also assigned comparable family circumstances, job characteristics, education levels, and housing preferences. They visited sales or rental agents and systematically recorded the information and assistance they received about the advertised unit and/or other similar units, including location, quality and condition, rent or sales price, and other terms and conditions. Test partners did not compare their experiences with one another or record any conclusions about differences in treatment; each simply reported the details of the treatment he or she experienced as an individual homeseeker.¹

The results presented here measure the incidence of discrimination in metropolitan housing markets of three states where substantial numbers of American Indians live in metropolitan areas—Minnesota, Montana, and New Mexico. Because the American Indian population is relatively small and highly concentrated in only a few states, state estimates of discrimination are more useful for policy purposes than a single set of national estimates.

¹ This phase of HDS2000 is designed to measure the extent to which minority homeseekers experience adverse treatment when they look for housing in the states of Minnesota, Montana, and New Mexico. The tests conducted for this study were not designed to assemble evidence of discrimination in individual cases. The question of when differential treatment warrants prosecution and the related question of whether sufficient evidence is available to prevail in court can only be resolved on a case-by-case basis, which might also consider other indicators of treatment than those reported here.

Indian tribes are tremendously diverse, with different languages, cultural traditions, and physical attributes. In the metropolitan areas where HDS testing was conducted, the predominant tribes include Navajo and Pueblo (in New Mexico), Crow, Blackfeet, and Sioux (in Montana), and Chippewa and Sioux (in Minnesota). Testers were recruited to represent the predominant tribes in their states, and included members of all these tribes.² Although rental testing was conducted in all three states, sales testing was conducted only in New Mexico.

Summary of Findings

In the metropolitan housing markets of Minnesota, Montana, and New Mexico, American Indian renters face significant levels of discrimination, primarily due to denial of information about the availability of housing units.

The example on this page is consistent with the pattern that whites are more often told about available housing than are equally qualified American Indians.

Generally, the discrimination encountered is not outright "door slamming," but a pattern of treatment that favors whites and ultimately limits the housing choices and increases the cost of housing search for American Indians. Discrimination against American Indian renters ranges from 25.7 percent in New Mexico to 33.3 percent in Minnesota, averaging 28.5 percent across all three states. These levels of discrimination are high compared to national estimates for African Americans, Hispanics, and

Asians and Pacific Islanders. In all three states, American Indian renters were significantly more likely to be denied information about available housing units than comparable whites. Other forms of adverse treatment were generally not statistically significant.

American Indian homebuyers in New Mexico experience significant levels of geographic steering—with more whites shown homes in neighborhoods that were more predominantly white. However, other forms of adverse treatment were not statistically significant. The overall incidence of discrimination is 16.9 percent. These results should be viewed as preliminary; it

A 43-year old white female tester inquired about a 2-bedroom unit advertised for rent at \$590 in Billings, MT. The agent informed the tester that the unit was available, gave the tester an application form, a brochure, and a business card. The agent then took the tester to inspect two model units that were similar to the advertised unit.

A 37-year old Native American woman, with equivalent economic characteristics to the white tester, inquired about the same 2-bedroom unit the next day. The agent responded that she was too busy to talk, gave the tester an application form, brochure, and business card, and told her to come back on Monday if she wanted to see an apartment. The agent did not indicate whether or not the advertised apartment was still available.

² Most of the American Indian testers who participated in this study spent some part of their lives on Tribal Lands, or have friends and relatives there and maintain a connection to tribal institutions and activities.

would be a mistake to draw conclusions about the overall experience of American Indian homebuyers based upon evidence from a single state.

These findings clearly indicate that discrimination is a serious problem for American Indians searching for housing in metropolitan rental markets, and that rigorous paired testing can and should be expanded for both research and enforcement purposes. However, few local fair housing organizations have strong ties to American Indian communities or experience working with American Indians as testers or test coordinators. Therefore, the recruitment and retention of American Indians as testers present significant challenges. Future testing efforts should consider pairing experienced testing organizations with organizations that have strong ties to American Indian communities, building the capacity of American Indians to coordinate and conduct rigorous paired testing.

Measurement Issues

A paired test can result in any one of three basic outcomes for any measure of treatment: 1) the white tester is favored over the minority; 2) the minority tester is favored over the white; or 3) both testers receive the same treatment (which may be either favorable or unfavorable). The simplest measure of adverse treatment is the share of all tests in which the white tester is favored over the minority. Because there are also tests in which minority testers receive better treatment than their white partners, we report both the incidence of white-favored treatment and the incidence of minority-favored treatment.

Gross and Net Measures. Although these simple *gross measures* of white-favored and minority-favored treatment are straightforward and easily understandable, they almost certainly overstate the frequency of systematic discrimination.³ Specifically, differential treatment may occur during a test not only because of differences in race or ethnicity, but also because of random differences in the circumstances of their visits to the real estate agency. For example, in the time between two testers' visits, an apartment might have been rented, or the agent may have been distracted by personal matters and forgotten about an available unit. Gross measures of white-favored and minority-favored treatment include both random and systematic elements, and therefore provide *upper-bound estimates* of systematic discrimination.⁴

³ We use the term "systematic discrimination" to mean differences in treatment that are attributable to a customer's race or ethnicity, rather than to any other differences in tester characteristics or test circumstances. This term is not the same as "intentional" discrimination, nor is it intended to mean that these differences would necessarily be ruled as violations of federal fair housing law.

⁴ Note that it is conceivable that random factors might *reduce* the observed incidence of white-favored or minority-favored treatment, so that the gross-incidence measure is technically not an absolute upper-bound for systematic discrimination.

One strategy for estimating systematic discrimination, that is, to remove the cases where non-discriminatory random events are responsible for differences in treatment, is to subtract the incidence of minority-favored treatment from the incidence of white-favored treatment to produce a *net measure*. This approach essentially assumes that all cases of minority-favored treatment are attributable to random factors—that systematic discrimination never favors minorities—and that random white-favored treatment occurs just as frequently as random minority-favored treatment. Based on these assumptions, the net measure subtracts differences due to random factors from the total incidence of white-favored treatment. However, it seems possible that sometimes minorities may be systematically favored on the basis of their race or ethnicity. If so, the net measure subtracts not only random differences but some systematic differences, and may therefore understate the frequency of systematic discrimination.⁵

It is possible to adapt the basic paired testing methodology to directly observe how often random differences in treatment occur. Specifically, in two metropolitan areas, Phase II of HDS2000 conducted three-part tests. In these tests, a white tester was followed by two minorities or a minority tester was followed by two whites, all following the same protocols. Comparing the treatment of the two same-race testers provides a direct estimate of random (non race-based) differential treatment. This exploratory triad testing effort suggests that most, if not all, minority-favored treatment is random; it provides no convincing evidence that minority-favored treatment systematically exceeds differences in the treatment of same-race testers. However, because these results are based on a relatively small number of tests in only two metropolitan areas, they should be viewed as preliminary and require further confirmation.

The body of this report presents both gross and net measures, because in combination, they indicate not only how often whites are favored over comparable minority homeseekers, but the extent to which white-favored treatment systematically exceeds minority-favored treatment. These two measures provide upper- and lower-bound estimates of systematic discrimination against minority homeseekers.

Summary Measures. A visit with a rental or sales agent is a complex transaction and may include many forms of favorable or unfavorable treatment. This report presents results for a series of fourteen individual rental treatment indicators and fifteen sales treatment indicators, but also combines these individual indicators to create *composite measures* for categories of treatment (such as housing availability or housing costs) as well as for the transaction as a whole. For rental tests, treatment measures include the availability of advertised and similar

⁵ Even when no statistical pattern of race-based differential treatment is observed, individual cases of discrimination may occur. Specifically, even if the net measure is not significantly different zero, there may in fact be instances of race-based discrimination, although the overall pattern does not systematically favor one group over the other.

units, opportunities to inspect units, housing costs, and the encouragement and assistance from rental agents. For sales tests, measures include the availability of advertised and similar homes, opportunities to inspect homes, the neighborhood characteristics of recommended and inspected homes, assistance with mortgage financing, and encouragement and assistance from the sales agent.

Two types of composite measures have been constructed. *Consistency measures* reflect the extent to which the different forms of treatment that occur in a visit consistently favor one tester over the other. Specifically, tests are classified as white-favored if the white tester received favorable treatment on one or more individual items, while his or her partner received *no* favorable treatment. Tests were classified as “neutral” if one tester was favored on some individual treatment items and his or her partner was favored on even one item. Consistency measures were used in 1989 to summarize testing results across individual treatment indicators. In HDS2000, however, we also developed *hierarchical measures* by considering the relative importance of individual treatment measures to determine whether one tester was favored over the other. For each category of treatment measures and for the full set of measures, a hierarchy of importance was established *independently* of the testing results to provide an objective set of decision rules for comparing treatment across indicators.⁶

The body of this report presents both consistency measures and hierarchical measures. These alternative measures (including both lower-bound and upper-bound estimates of systematic discrimination) generally tell a consistent story about the existence of discrimination at the state level.

Strengths and Limitations of This Research

Paired testing is a powerful tool for directly observing differences in the treatment that minority and white homeseekers experience when they inquire about the availability of advertised housing units. Despite the strengths of this methodology, HDS2000, like previous paired testing studies, is limited in its coverage of metropolitan housing markets and the experience of minority homeseekers. The sample of real estate and rental agents to be tested was drawn from publicly available advertisements, and the economic characteristics of tester teams were matched to the characteristics of the advertised units. However, not all housing units for sale or rent are advertised, not all real estate and rental agents use advertising to attract customers, and not all homeseekers rely upon published advertisements in their housing search. Therefore, results presented here do not necessarily reflect the experience of the

⁶ Again, it is important to emphasize the difference between methods used for the statistical analysis of paired testing results and methods used to assemble or assess evidence of unlawful conduct in an individual case. No pre-determined set of decision criteria can substitute for case-by-case judgements about test results.

typical American Indian homeseeker, but rather of homeseekers qualified to rent or buy the average housing unit advertised in a readily available information source.

Moreover, the results presented here do not encompass all phases of the housing market transaction. HDS2000, like most paired testing studies, focuses on the initial encounter between a homeseeker and a rental or sales agent. Additional incidents of adverse treatment may occur later in the housing transaction, when a renter submits an application or negotiates lease terms, or when a homebuyer makes an offer on a particular unit or applies for mortgage financing. In spite of these important limitations, Phase III of HDS2000 provides compelling evidence that American Indians face high levels of discrimination in metropolitan housing markets, particularly when they search for rental housing.