

# Blockbusting: Brokers and the dynamics of segregation <sup>☆</sup>

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## Abstract

The paper presents a dynamic model of neighborhood segregation where fee motivated real estate brokers match sellers optimally either to minority or to white buyers. In an initially all-white neighborhood, real estate brokers thus either keep the neighborhood in a steady-state white equilibrium or trigger racial transition by matching sellers to minority buyers, a process called blockbusting. Racial transition leads to a higher rate of property turnover in the neighborhood once the fraction of minorities has reached a tipping point—but racial transition also leads to lower prices, and this is the trade-off faced by a broker. The model shows that with multiple brokers, blockbusting profit per broker is lower as brokers free ride on each other's groundbreaking efforts. The model predicts that racial transition will happen in the neighborhood when (i) the number of brokers is limited, (ii) racial preferences lie in an intermediate range, (iii) the arrival rate of offers is intermediate. Otherwise, real estate brokers steer white households toward white buyers.

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Typically the practice, known as blockbusting, involves an agent claiming that property values will drop because members of minority groups are moving into the neighborhood. The agent tries to persuade the homeowner to let him sell the house before the values drop, and the agent then gains a commission.

[U.S. is Investigating Charges of Blockbusting, New York Times, October 1995.]

## 1. Introduction

Despite increasing levels of ethnic and racial diversity, racial segregation is a defining feature of American cities. According to the 2010 Census, the average urban,<sup>2</sup> African American household lives in a neighborhood that is only 35% white (Logan and Stults [27]).<sup>3</sup> Empirical evidence suggests that racial segregation has adverse welfare consequences (Cutler and Glaeser [16], Alesina and Ferrara [3], Card and Rothstein [15], Boustan and Margo [13]). It is interesting that, while overall racial segregation across neighborhoods remains high, the racial composition of some neighborhoods changes dramatically over short periods of time.

Social interaction models explain the mechanisms of neighborhood *tipping* (Schelling [33]), whereby the entry of a small number of minority residents in a neighborhood is followed by large outflows of white households, departures that are often referred to as *white flight* (Grubb [22], Boustan [11,12]). Card, Mas and Rothstein [14] present U.S. evidence of neighborhood tipping in recent decades, where the fraction of minority residents that triggers large departures of white households ranges from 5% to 20%.<sup>4</sup>

Historical evidence (Helper [23], Orser [31], Gotham [21]) as well as law articles (Glassberg [20], Mehlhorn [29]) suggests that brokers play a decisive role in neighborhood tipping. The U.S.-based National Association of Real Estate Boards found the issue sufficiently concerning that, until 1956, Article 34 of Part III of its Code of Ethics specified that “a realtor should never be instrumental in introducing into a neighborhood a character of property or occupancy, members of any race or nationality, or any individuals whose presence would clearly be detrimental to property values in that neighborhood.”<sup>5</sup> A series of congressional hearings during development of the 1968 Civil Rights Act considered the role of real estate brokers in neighborhood change. These hearings led to section 804[e] of Title VIII of that legislation,<sup>6</sup> which prohibits *blockbusting*<sup>7</sup>:

[e] For profit, to induce or attempt to induce any person to sell or rent any dwelling by representations regarding the entry or prospective entry into the neighborhood of a person or persons of a particular race, color . . .

<sup>2</sup> We consider a household to be *urban* when it resides in a metropolitan statistical area (MSA).

<sup>3</sup> Bayer, McMillan and Rueben [4] suggest that segregation by socioeconomic characteristics does not fully explain racial segregation.

<sup>4</sup> Swedish evidence of neighborhood tipping in response to immigrant inflows is described by Aldén, Hammarstedt and Neuman [1]. The U.S. evidence on tipping is disputed by Easterly [18].

<sup>5</sup> “Race or nationality” was removed in 1956, but the rest of the article remains in the Code of Ethics.

<sup>6</sup> Title VIII of the 1968 Civil Rights Act is also called the 1968 Fair Housing Act.

<sup>7</sup> Newspapers also reported a large number of alleged cases of blockbusting. At the time this article was written, the New York Times had published 844 real estate articles on blockbusting, e.g. “New Neighbors Pushing at the Edge; Brooklyn Hasidim Seek to Expand Into a Black and Hispanic Area,” New York Times, July 19, 1999; “Town Tries to Keep Its Balance in Wake of White Flight,” March 11, 1996.

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