

THE RACIAL THEORY OF VALUE: A FALSE IDEA THAT MADE THE MARKET

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FINDING

The appraisal profession's claim that Black residents lowered property values was empirically false, enforced through federal underwriting into a self-fulfilling prophecy, and survived as design-and-character vocabulary long after the racial premise was excised.

SUPPORTS IN THE ARTICLE

- *the racial theory of value that became redlining*
- *the FHA underwriting manual instructed appraisers on incompatible racial groups*

ABSTRACT

The appraisal profession's empirically false claim that the presence of Black residents lowered property values was contested in its own time. The field's standard textbooks codified race as a valuation factor on no price evidence. The author of the dominant text became the FHA's Director of Underwriting, and the agency's *Underwriting Manual* reproduced the logic as federal policy that steered insured mortgage credit toward restricted white neighborhoods. The capital starvation "redlining" produced caused the neighborhood decline the profession had attributed to race. Luigi Laurenti's *Property Values and Race* (1960) found that values held or rose when Black families arrived, refuting a premise that had governed federal underwriting for a quarter century. The manual's architectural-quality language ("freakish architectural designs," "class of occupancy") survived the excision of its racial premise and persists in neighborhood-character rhetoric.

For the role of the property-value rationale in covenant litigation, see [Racial Covenants and Shelley v. Kraemer](#).

SOURCES

Primary documents

- Frederick M. Babcock, [The Valuation of Real Estate](#) (New York: McGraw-Hill, 1932); and his earlier *The Appraisal of Real Estate* (New York: Macmillan, 1924), in Richard T. Ely's land-economics series. The era's standard residential-appraisal texts, which treated racial composition as a determinant of neighborhood value. Babcock became Director of Underwriting at the Federal Housing Administration.

- Federal Housing Administration, *Underwriting Manual* (1936; rev. 1938). Read for paragraph 934 on restrictive covenants (“more effective than a zoning ordinance”), paragraph 935 (“inharmonious racial groups”), paragraph 937 (“Quality of Neighboring Development”), and paragraph 980(3)(g) recommending occupancy “by the race for which they are intended.”
- Homer Hoyt, *One Hundred Years of Land Values in Chicago* (Chicago: University of Chicago Press, 1933). The appraisal economist’s ranking of races and nationalities by their supposed effect on land values.
- Stanley L. McMichael, *McMichael’s Appraising Manual* (New York: Prentice–Hall, 1931 and later editions). A field handbook that carried the racial ranking into appraisers’ working practice.
- National Association of Real Estate Boards, *Code of Ethics*, Article 34 (adopted 1924). The professional norm barring a Realtor from introducing into a neighborhood any race or nationality “whose presence will clearly be detrimental to property values.”

Scholarship

- Rea Zaimi, “Making Real Estate Markets: The Co–Production of Race and Property Value in Early 20th Century Appraisal Science,” *Antipode* 52, no. 5 (2020): 1539–59. On how appraisal science itself, before federal redlining, manufactured the racial value premise.
- Luigi Laurenti, *Property Values and Race: Studies in Seven Cities* (Berkeley: University of California Press, 1960). The period’s most careful empirical test of the appraisal claim, and its refutation.
- Robert C. Weaver, *The Negro Ghetto* (New York: Harcourt, Brace, 1948), on the self–fulfilling mechanism.
- David M. P. Freund, *Colored Property: State Policy and White Racial Politics in Suburban America* (Chicago: University of Chicago Press, 2007); Richard Rothstein, *The Color of Law* (New York: Liveright, 2017); N. D. B. Connolly, *A World More Concrete* (Chicago: University of Chicago Press, 2014); Kevin Fox Gotham, *Race, Real Estate, and Uneven Development* (Albany: SUNY Press, 2002). Histories of the segregative appraisal–and–mortgage system.
- Marc A. Weiss, “Richard T. Ely and the Contribution of Economic Research to National Housing Policy, 1920–1940,” *Urban Studies* 26, no. 1 (1989): 115–26. On the academic origins of appraisal economics.
- Robert K. Nelson et al., “Mapping Inequality: Redlining in New Deal America,” *American Panorama* (Digital Scholarship Lab, University of Richmond, 2016–); and Megan Evans, “The Spatial Logic of Racial Devaluation in the Home Owners’ Loan Corporation,” *Social Forces* (2026). The federal redlining record and its quantitative analysis.
- Aradhya Sood, William Speagle, and Kevin Ehrman–Solberg, “The Long Shadow of Housing Discrimination: Evidence from Racial Covenants” (working paper, rev. 2023), on the persistent present–day premium.

THE THEORY BEGAN AS A TEXTBOOK PROPOSITION

Frederick Babcock's *The Valuation of Real Estate* (1932), the period's standard residential appraisal text, taught that the racial composition of a neighborhood was a legitimate valuation factor. Babcock wrote that "most of the variations and differences between people are slight and value declines are, as a result, gradual. But there is one difference in people, namely race, which can result in a very rapid decline."¹ Babcock framed the presence of a different race as a cause of irreversible neighborhood decline, one an underwriter was obliged to penalize on appraiser opinion alone. The premise carried into federal policy.²

A CIRCULAR CONSENSUS, NEVER TESTED AGAINST PRICES

The American Institute of Real Estate Appraisers and the Society of Residential Appraisers cited each other; the FHA cited them; developers cited the FHA. At no point did anyone test the underlying question: whether prices in fact fell when Black residents entered. Homer Hoyt's *One Hundred Years of Land Values in Chicago* (1933) ranked races and nationalities by their supposed effect on land values, placing northern and western Europeans at the top and descending through southern and eastern Europeans to Black and Mexican residents at the bottom.³ The field handbooks appraisers carried, among them McMichael's *Appraising Manual*, reproduced the same hierarchy.⁴ None of it rested on price data. Consensus established the proposition, and the consensus was only the proposition restated.

BABCOCK CARRIED THE THEORY INTO FEDERAL POLICY

Babcock left the textbook trade to become Director of Underwriting at the newly created Federal Housing Administration. The agency's *Underwriting Manual* reproduced the appraisal logic as the standard for rating insured mortgages. The manual's paragraph 934 read, "Deed restrictions are apt to prove more effective than a zoning ordinance in providing protection from adverse influences."⁵ Paragraph 935 named those "adverse influences," listing among the things barriers should prevent "the infiltration of business and industrial uses, lower class occupancy, and inharmonious racial groups."⁶ And paragraph 980(3)(g) recommended that covenants include "Prohibition of the occupancy of properties except by the race for which they are intended."⁵ Federal policy recommended racially restrictive covenants as a condition of creditworthiness.

PARAGRAPH 937 BLURRED THE RACIAL AND THE ARCHITECTURAL

The 1938 manual's paragraph 937, "Quality of Neighboring Development," warned that "unsubstantial, flimsy construction is subject to rapid deterioration which hastens the lowering of class of occupancy. The same result may be expected for locations whose properties present freakish architectural designs." It cautioned against "old, obsolete dwellings" and against "overimprovement or underimprovement." The paragraph continued that "areas surrounding a

location are investigated to determine whether incompatible racial and social groups are present,” and that “if a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally contributes to instability and a decline in values.”⁷ “Class of occupancy” was the term of art for the racial-economic hierarchy; the paragraph fused architectural quality and racial-class stability into a single rating category. The aesthetic of a house and the identity of its occupants were, for underwriting purposes, the same risk.

EMPIRICS REFUTED THE THEORY

Luigi Laurenti’s *Property Values and Race* (1960), drawing on price data from the 1940s and 1950s across seven cities, found that the entry of Black residents into white neighborhoods did not depress property values; in many of his cases values held or rose modestly relative to comparable all-white tracts.⁸ Black scholars, including Charles S. Johnson and Herman Long at Fisk University in Nashville, had advanced the same position in the late 1940s.⁹

THE POLICY PRODUCED THE DECLINE IT CLAIMED TO PREDICT

The value decline the appraisal profession attributed to Black residents was real where it occurred. The policy caused it. By steering FHA-insured mortgage credit toward covenanted white neighborhoods and withholding it from open and integrated ones, the underwriting system starved the open neighborhoods of capital to maintain and improve housing. Those neighborhoods deteriorated. Their values fell. The theory had produced the outcome it claimed only to forecast: a false premise, enforced through the mortgage market, became a self-fulfilling prophecy.¹⁰¹¹ The same logic ran through the Home Owners’ Loan Corporation’s residential security maps, whose appraisers graded neighborhoods “hazardous” on the presence — or the anticipated arrival — of Black residents, a pattern visible across more than two hundred cities: Black presence raised the probability of a “hazardous” grade by roughly a quarter, independent of census measures of housing or income.¹²¹³ City studies from Kansas City to South Florida record the same pattern.¹⁴¹⁵ In the restricted neighborhoods, meanwhile, values increased through credit access, construction minimums, and the durable, appreciating housing stock those minimums produced.

THE VALUE GAP THE SYSTEM CREATED IS MEASURABLE TODAY

The modern econometric literature confirms that the value gap the exclusion regime created outlasted the laws that built it. Recent work using *Shelley v. Kraemer* as a natural experiment on Hennepin County deed records estimates that pre-1948 covenanted parcels carry a present-day price premium on the order of 4 to 15 percent over otherwise identical non-covenanted parcels — a premium that persists three-quarters of a century after the covenants became unenforceable.¹⁶

Amenity accumulation, housing-stock path-dependence, and sorted political influence all follow from the credit-and-construction advantage the FHA conferred.

THE VOCABULARY OUTLIVED THE THEORY

Since 1968 the category structure of paragraph 937 has held. A single phrase within it has changed. “Freakish architectural designs” survives almost verbatim as “out of scale,” “incompatible,” and “not in keeping with neighborhood character.” “Unsubstantial, flimsy construction” and “old, obsolete dwellings” survive as the demand that new construction “respect existing architectural quality.” Only the explicitly racial “class of occupancy” has been excised.

At the December 17, 2025 Metro Historic Zoning Commission hearing, a commissioner defended the Green Hills East overlay as encouraging “good design over bad design,” against “a lot of money being thrown at neighborhoods ... in ways that make people uncomfortable for ... legitimate reasons,” while public speakers returned repeatedly to “the tall skinnies,” to construction “out of scale and style,” and to houses “out of touch with the original aesthetic.”¹⁷ Replace “bad design” with “freakish architectural designs” and the sentence is in the 1938 manual. The theory remains operative regardless of racial intent.

NOTES

1. Frederick M. Babcock, *The Valuation of Real Estate* (New York: McGraw-Hill, 1932), 91, as reproduced in Rea Zaimi, “Making Real Estate Markets: The Co-Production of Race and Property Value in Early 20th Century Appraisal Science,” *Antipode* 52, no. 5 (2020): 1539–59 (the 1932 first edition being borrow-restricted; the passage is widely quoted). ↩
2. On the Institute for Research in Land Economics and its role in housing economics, Marc A. Weiss, “Richard T. Ely and the Contribution of Economic Research to National Housing Policy, 1920–1940,” *Urban Studies* 26, no. 1 (1989): 115–26. Ernest M. Fisher, author of *Principles of Real Estate Practice* (New York: Macmillan, 1923) in the same series, became the FHA’s chief economist. ↩
3. Homer Hoyt, *One Hundred Years of Land Values in Chicago: The Relationship of the Growth of Chicago to the Rise in Its Land Values, 1830–1933* (Chicago: University of Chicago Press, 1933), ranking racial and national groups by their supposed effect on land values. ↩
4. Stanley L. McMichael, *McMichael’s Appraising Manual* (New York: Prentice-Hall, 1931 and later editions), which ranked racial and national groups by desirability in residential neighborhoods. ↩
5. Federal Housing Administration, *Underwriting Manual* (Washington, DC, 1938), ¶1934 (“Restrictive Covenants”: deed restrictions “more effective than a zoning ordinance”) and ¶1980(3)(g) (recommending occupancy “by the race for which they are intended”). ↩ ↩
6. FHA, *Underwriting Manual* (1938), ¶1935 (“Natural Physical Protection”), listing among the influences barriers should prevent “the infiltration of business and industrial uses, lower class occupancy, and inharmonious racial groups.” ↩
7. FHA, *Underwriting Manual* (1938), ¶1937 (“Quality of Neighboring Development”), on “freakish architectural designs,” “unsubstantial, flimsy construction,” “class of occupancy,” and “incompatible racial and social groups.” ↩
8. Luigi Laurenti, *Property Values and Race: Studies in Seven Cities* (Berkeley: University of California Press, 1960). The magnitudes are as summarized in the subsequent literature. ↩
9. Robert C. Weaver, *The Negro Ghetto* (New York: Harcourt, Brace, 1948). ↩
10. David M. P. Freund, *Colored Property: State Policy and White Racial Politics in Suburban America* (Chicago: University of Chicago Press, 2007). ↩
11. Richard Rothstein, *The Color of Law: A Forgotten History of How Our Government Segregated America* (New York: Liveright, 2017). ↩
12. Robert K. Nelson et al., “Mapping Inequality: Redlining in New Deal America,” in *American Panorama*, ed. Robert K. Nelson and Edward L. Ayers (Digital Scholarship Lab, University of Richmond, 2016–), the digitized Home Owners’ Loan Corporation residential security maps and area-description sheets. ↩
13. Megan Evans, “The Spatial Logic of Racial Devaluation in the Home Owners’ Loan Corporation,” *Social Forces* (2026), finding that Black presence raised the probability of a “hazardous” grade by roughly a quarter, independent of census measures. ↩

14. Kevin Fox Gotham, *Race, Real Estate, and Uneven Development: The Kansas City Experience, 1900–2000* (Albany: SUNY Press, 2002). ↩
15. N. D. B. Connolly, *A World More Concrete: Real Estate and the Remaking of Jim Crow South Florida* (Chicago: University of Chicago Press, 2014). ↩
16. Aradhya Sood, William Speagle, and Kevin Ehrman-Solberg, “The Long Shadow of Housing Discrimination: Evidence from Racial Covenants” (working paper, rev. 2023), using *Shelley v. Kraemer* as a natural experiment on Hennepin County, Minnesota, deed records. ↩
17. Metropolitan Historic Zoning Commission, public hearing on the Green Hills East conservation overlay, December 17, 2025 (commissioner and public-comment remarks). ↩

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