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Monthly condensed analyses of crucial real estate and economic issues offered by UCLA Anderson Forecast and UCLA Ziman Center for Real Estate. In this March 2024 Letter, Paul M. Ong, Research Professor, UCLA Luskin School of Public Affairs, and Director, UCLA Center for Neighborhood Knowledge; Anne Yoon, Graduate Student Researcher, UCLA Center for Neighborhood Knowledge; and Chhandara Pech, Deputy Director, UCLA Center for Neighborhood Knowledge, preview research comparing red-lined neighborhoods with areas not coded by Home Owners' Loan Corporation.

For the complete report see, Redlining and Beyond: Development Within and Outside HOLC Spaces in Los Angeles County.

Redlining and Beyond
Redlining contributed to racial and economic segregation, and the legacy of discrimination persists in non-redlined places

By Paul M. Ong, Anne Yoon, and Chhandara Pech

It is well documented that redlining – the practice of codifying neighborhoods as risky for mortgage lending – is associated with the legacy of socioeconomic injustice in American cities. Redlining maps drawn by the federal government's Home Owners' Loan Corporation (HOLC) shaped today's spatial structures. However, many neighborhoods were never categorized by HOLC.

This study compares the development of these unranked places with those ranked by HOLC. Many parts of contemporary Los Angeles, especially the suburbs that developed after World War II, were never categorized. How do they compare with the harm produced by HOLC-graded spaces? The research draws on multiple data sources to compare outcomes along several dimensions. The analysis finds support for the "redlining-legacy hypothesis": that historical geographic disparities and hierarchical stratification persist over time in graded areas. At the same time,

the ungraded areas also became racially and economically segregated. The results indicate that there are fundamental societal factors and dynamics in addition to redlining that fragment the urban landscape along racial and economic lines.

> *"Racial and economic segregation exist in both HOLC-graded and ungraded areas. This indicates that persistent societal factors along with redlining geographically stratify the urban landscape."*

INSTITUTIONAL CONTEXT: PERPETUATION OF DISCRIMINATION

In 1933, Congress established a program to assist homeowners who had mortgages in default or foreclosure. The HOLC purchased and refinanced these mortgages from financial institutions and provided better terms to struggling homeowners. The HOLC introduced a new appraisal process that evaluated mortgage lending risk based on neighborhood-level characteristics, including economic class and employment status of residents, and the race/ethnicity of residents in the area. Together with input from thousands of local brokers and appraisers, the HOLC codified the new appraisal process into residential security maps for 239 cities between 1935 and 1940. Neighborhoods were graded on a scale from A for least risky/most stable to D for most risky/least stable. These grades coincided with a color code where red shading indicated the lowest D ranked neighborhoods. This became known as "redlining."

Studies have documented how places classified as the least creditworthy (colored red) are linked to contemporary disparities in higher interest rates, lower homeownership and wealth, housing segregation, more crime, greater climate-change and environmental risks, and poorer health. However, the many urban spaces never categorized by HOLC comprise a sizable share of the population in many cities and regions that experienced significant growth after the 1930s. Los Angeles County is a primary example of later growth. The region had only 1.2 million residents in 1930 but has 9.8 million today. The 1933 HOLC maps did not rank most of the San Fernando Valley and North County, a majority of the San Gabriel Valley and the South Bay, and even parts of the Westside. These areas became populated with the growth of defense contracting during World War II and continued to grow in subsequent decades as a part of suburbanization.

DATA AND METHODOLOGY

To analyze the trajectory of development in both HOLC-graded and ungraded places, this study utilizes data from several sources, including the digitized HOLC maps and go beyond them to the 1940 tract-level census data, and to the 2015–19 American Community Survey. Sources also include recent land-use information from the Southern California Association of Government and the LA County Assessor's parcel files. We construct several metrics to compare unranked and ranked places. Such a comparison should be interpreted carefully because unranked areas are more likely to be suburban and the ranked areas are more likely to be in the older urban core. Nonetheless, the comparison yields insights into the regional development process.

We use data on housing, race and ethnicity, and income class. We use race and ethnic categories as reported by the census, which are socially constructed. And we use two indicators for the economic status of a neighborhood: the relative number of persons with income below the federal poverty line and the distribution of persons into income categories constructed specifically for the income class.

Our basic methodology is similarly in-depth and layered. It compares the housing, demographic, socioeconomic, and housing patterns of the areas graded and not graded by HOLC, both at an aggregated and disaggregated level. Aggregated means examining the graded areas as a whole and the ungraded areas as a whole. Disaggregated involves examining outcomes for each of the four HOLC categories and for several subregions for the ungraded areas.

FINDINGS

The results support the hypothesis that redlining institutionalized lending patterns that directly limited homeownership and business development in predominantly non-White neighborhoods and reinforced residential segregation. Our study confirms an essential hypothesis: The grading of urban space by HOLC is not just a historical

phenomenon but instead a practice that has perpetuated discriminatory practices. And these practices continue to contribute to housing segregation, unequal opportunities for wealth-building, and racial injustices. Redlining represents marginalized places relative to privileged ones, and a stratified geographic system of economically, socially, politically, and environmentally constructed spaces.

The study also produces insights into how non-HOLC areas developed relative to HOLC areas.

1. The ungraded region fared better than the graded areas along some dimensions, but also fared similarly along other dimensions. Today, the non-HOLC segment of the region has a higher homeownership rate, a higher share of land zoned for non-residential uses, and lower residential density. However, both regions have roughly the same proportion of low-income people and roughly the same relative number of non-Hispanic whites.

2. Disaggregating the graded region by HOLC grades and ungraded region by COG-based (Council of Governments) subregions, we find spaces and places are differentiated both in terms of land use and housing. Density, homeownership, and land use vary noticeably among the non-HOLC subregions, and among HOLC subregions.

3. The analysis finds that there are spatial disparities in racial/ethnic and income class/poverty composition for the disaggregated ungraded subregions and the HOLC-graded areas. In other words, places and spaces become demographically segregated and economically stratified regardless of whether HOLC grading is present.

Figure: HOLC-Graded Areas, Los Angeles County
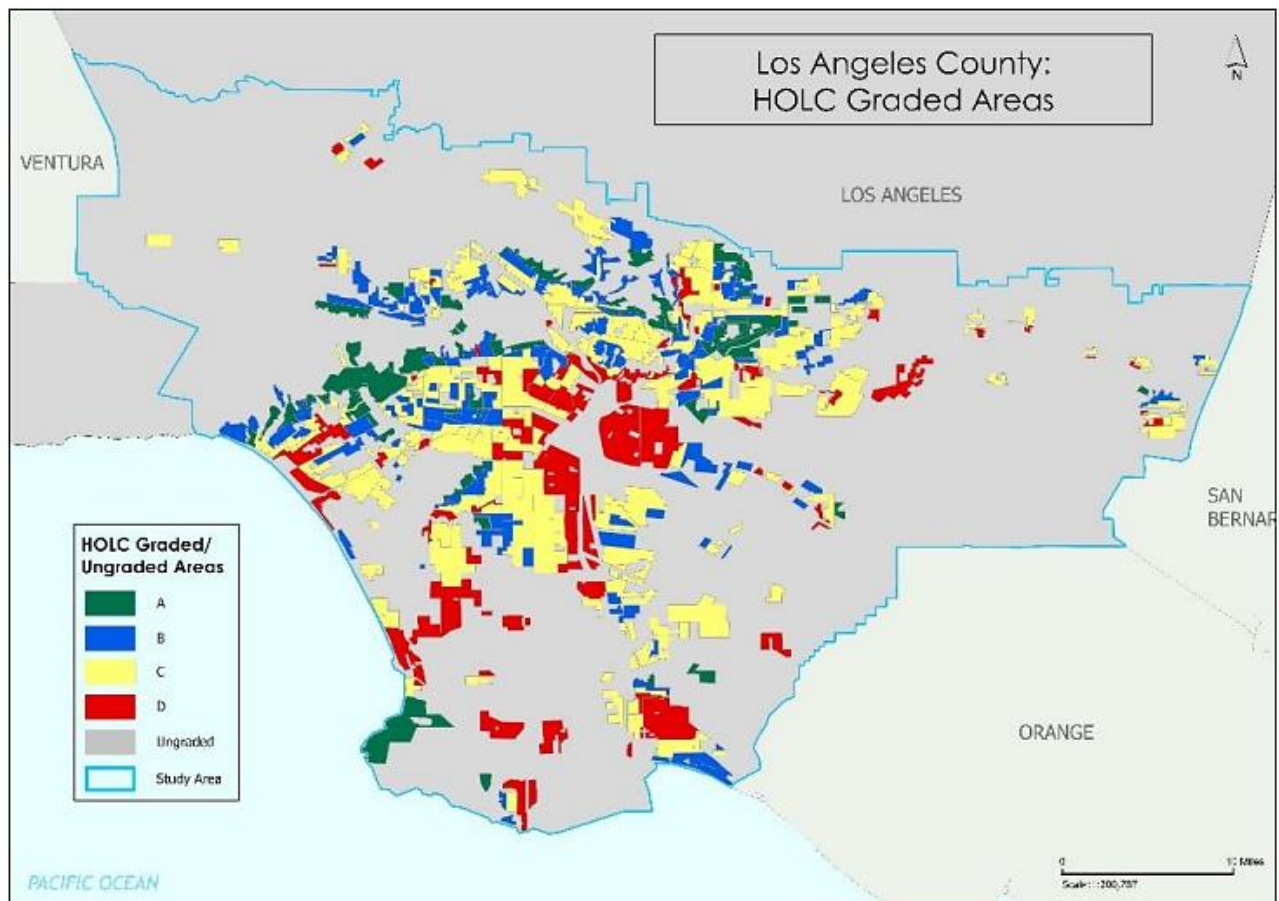
Sources: Map created by authors using GIS shapefile, "Mapping Inequality"; Investing in Place, and authors' reconstruction of map developed by Investing in Place, "Council of Governments (COGs) and Subregions in Los Angeles County."

CONCLUSION

The empirical findings provide insights into the nature and pattern of economically stratified and racialized spaces in regional development. There is support for the redlining legacy claim. There are, of course, some notable exceptions, such as the redlined areas along the coast in the South Bay. Over time, proximity to the beaches became desirable enough that these neighborhoods are now among the most desirable locations, with very expensive real estate. Nonetheless, historical HOLC grades are highly correlated with contemporary spatial racial/ethnic and economic disparities, consistent with the redlining-legacy thesis. Correlation, however, is not causality, and additional research is needed to separate the influence of HOLC grading from other factors, such as those influencing real estate market practices, housing and land markets, and government policies.

The development of the areas not graded by HOLC in the Los Angeles metropolis has also created unequal neighborhoods. Today, these places house the majority of the region's population. Compared with the HOLC-graded areas, the ungraded areas are distinctively different in land-use and housing patterns, due largely to suburban development. However, the population in the ungraded areas are, in many ways, as demographically and economically diverse as the population in the graded areas.

The results show that the ungraded places became racially and socioeconomically stratified even in the absence of redlining (HOLC grading). This indicates that there are fundamental societal processes that produce and reproduce spatialized inequality. Again, this is not to deny the redlining legacy. Instead, one plausible reinterpretation is that HOLC tends to perpetuate the pattern of inequality among older neighborhoods, thus significantly anchoring the geographic locations of marginalized and privileged communities and populations. As mentioned, there are some exceptions, which are worth examining in future research. The ungraded areas are also worth further study, which would provide insights into the societal factors and dynamics that generated differentiated unequal development.

FINAL NOTE: INFORMAL RACIAL DISCRIMINATION

There are several reasons for the economic and racial stratification in the ungraded areas. Housing markets are highly segmented along class lines, with some segments developed for the more affluent, other segments for middle-income households, and others for the poor. This segmentation is reinforced through zoning and other land-use regulations. While overt housing discrimination has been banned by the court, informal racial discrimination persists. Ethnic preferences, particularly among immigrants, also play a role, leading many to settle in enclaves for linguistic and cultural reasons. These underlying factors contribute to how urban space is organized, both within HOLC-graded and ungraded places.