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The toll of racism in Chicago's real estate market

How contract selling—a 'color tax'—devastated Black homeowners.

WHET MOSER

This Chicago Tribune photo used in the movie shows a crowd confronting police over evictions.

Bruce Orenstein

The legacy of racism in Chicago's real estate market has been told extensively in recent years. But what was its toll? In 2019, a consortium of researchers from Duke University, the University of Illinois at Chicago, and Loyola University Chicago put a number to it: \$3 billion to \$4 billion was extracted from Black communities in the city in the 1950s and 1960s through the practice of contract selling, a rent-to-own model that Black families were forced into by public policy and private markets. Between 75 percent and 95 percent of all homes sold to Black buyers during those decades were on contract.

Unable to get mortgages, prevented from moving into white neighborhoods by violent resistance, contract buyers typically paid 84 percent markups on the houses they could buy, at several points more in interest. On average, Black families paid \$587 more per month as a result—what the report calls a "color tax."

That meant less money in retirement accounts, less money for education, and less money to maintain those houses. Those who couldn't keep up with the additional expense could be evicted easily with no equity from their investment.

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We spoke with Bruce Orenstein, the study's project director, about the effects of redlining and contract buying on families, neighborhoods and cities. Orenstein, artist in residence at the Samuel DuBois Cook Center on Social Equity at Duke University, is producing a documentary series, "Shame of Chicago: The Segregation of an American City."

CRAIN'S: How does redlining force Black families into contract selling?

ORENSTEIN: In the 1950s and '60s, you've got this post-WWII economic boom, and owning a home became the centerpiece of the American Dream. But the real estate industry, whose policy was federal policy, had determined that certain neighborhoods were not worthy of investment. In those neighborhoods, Black families were unable to take advantage of federally backed loans that allowed white people to enter the middle class. They're working at the post office. They're working in the education system, working in government. They're doctors, lawyers. An educated, Black middle class is burgeoning during these years. But they can't get loans from banks because of the determination of these redlining policies.

Why not move into non-redlined neighborhoods?

It was reinforced by violence. Bombings that took place as Black families tried to move into white neighborhoods, year after year after year. The segregation was enforced by policies, but also people's attitudes. Underlying it all was the threat of violence.

What does this do to the market?

If Black families wanted a home, they would have to turn to contracts. The contract seller would scare a white family out of a neighborhood, and they would make some money off of the white family because they were able to buy low, and they were able to turn around and sell their house for 80 percent or 90 percent or more.

Black families were willing to pay that because there wasn't any alternative for owning a home. So they paid this extra kind of color tax. It was a forced market in which people selling the contracts were able to charge those exorbitant rates.

What's the problem with contract selling?

In a contract, you don't get any equity. You pay it off at the end of the contract, or halfway through. And you have none of the safeguards that people who had mortgages have. Oftentimes, if they missed a payment or two, it's an easy process for a predatory contract seller to get them evicted. It only cost like $4.50 to go to court and file an eviction contract. Whereas if someone had a mortgage, there would be a whole process to protect the homeowner.

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What does that do to a neighborhood?

Contracts bled families of their disposable income so that they had little money to invest otherwise. And they had a hard time getting repairs, because they were always having to meet this monthly contract bill. This was pretty old housing stock to begin with that needed repair in the first place.

And on top of that, in order to get more income, they would often divide up their house into other units and rent out rooms. So the neighborhood became way overpopulated.

At the same time, you have redlining, which meant that the banks were not investing in the businesses and the community. You couldn't get a loan even if you had the money. Let's say you're a contract owner. You couldn't go to a bank and get a loan to improve your property, because your community was redlined. So the disinvestment that took place on top of the fact that so many families were struggling.

What does that look like to an individual family?

My parents grew up in Lawndale and eventually purchased a home in Skokie in 1962, just a couple years' difference between when Clyde Ross (a subject of the documentary) purchased his home in Lawndale. My father and mother paid $27,000 for a brand new three-bedroom, two-bath house in Skokie. Clyde Ross paid $27,000 for his greystone in Lawndale.

My parents paid less on their mortgage than Clyde Ross paid on his contract, even though Clyde Ross made more money than my father made. My father drove a cab and later on had a small delivery service, which was him in his station wagon. Clyde Ross put more money down on his house in Lawndale than my father had to put down on his house in Skokie, and had a higher interest rate. In the 1980s, my mother sold our house for over $300,000. Today, Clyde's house still isn't worth $200,000.

Chicago has gotten a lot of focus for its history of redlining and contract selling. Were things worse here?

I don't think that's true at all. I think it happened all over the country. Because the redlining maps, and the policies, and the practices in the banking and real estate industry were similar—in Milwaukee, Detroit, Cleveland, Baltimore, all over urban centers. We're the only ones to do a study that measures it, but we've had inquiries from other cities on how to go about doing that kind of research.
