



Racial Equity in the Bay Area:

How closing racial gaps can result in broad economic gain for the region

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Contents

Key Findings4

Defining the Problem4

Making the Case for Closing Racial Gaps as an
Economic Priority4

Quantifying the Opportunity in the Bay Area5

Steps on the Path Towards Racial Equity5

SECTION 1

Introduction7

Key Terms7

Frame of Research7

Policy Considerations8

SECTION 2

Race and Segregation in the Bay Area and California10

Current Demographic and Socioeconomic
Conditions10

SECTION 3

Wages and Employment14

Educational Attainment and Access
to Opportunity15

Employment Opportunities18

What would it look like if we closed racial gaps in
income in the Bay Area among people with the
same age and educational attainment20

Did the pandemic worsen the racial wage gap?21

What would it look like if we closed racial
pay gaps between people with the same
occupation?.....23

Limitations24

SECTION 4

Homeownership Gap27

What would it look like if we closed racial gaps in
mortgage lending in the Bay Area?30

SECTION 5

Topics for Future Research34

Education34

Health and Healthcare34

Criminal Justice35

SECTION 6

Methodological Appendix36

Wages36

Wages by Occupation37

Mortgage Lending39

Homeownership41

Key Findings

In the last decade, racial equity has sprung to the forefront of the national dialogue. Spurred by protests calling for racial justice – most notably through the Black Lives Matter movement – many government entities around the country are now ensuring that policymaking occurs through a racial equity lens and more employers are focused on diversity, equity, and inclusion as part of their missions.

However, the tone of the diversity, equity, and inclusion conversation in America has recently shifted – particularly in universities and corporations – with the pros and cons of such programs now the subject of intense debate. Solving for racial inequity is too often viewed from a zero-sum perspective, where one group must lose for another to be lifted up. This research will instead employ a regional benefit perspective, and ask what can we gain by achieving racial equity.

This report, a first of its kind for the nine-county Bay Area, addresses how racial inequity hinders the long-term economic opportunities for the region and quantifies what the region stands to gain by putting equitable policies at the forefront of its agenda.

Defining the Problem:

- The nine-county Bay Area region became majority people of color at the turn of the century, 45 years before the nation is projected to become majority people of color. However, Hispanic/Latinx Bay Area residents experience poverty (12% living below poverty line) at double the rate of White residents (6%), and Black residents experience poverty at triple the rate (18%).
- The per capita median income for White Bay Area residents is nearly 2x higher than median incomes for Hispanic/Latinx, Indigenous, and Black residents.
- 65% of all White residents of the Bay Area hold a bachelor's degree or above. That same level of educational attainment is achieved by 20% of Hispanic/Latinx residents and 32% of Black residents.

- In the Bay Area, 65% of White households and 62% of Asian or Pacific Islander households own their homes. Conversely, 35% of Black households and 42% of Hispanic/Latinx households own their homes.
- Black and Hispanic/Latinx borrowers received only 13% of all home loans that originated in the Bay Area in 2021-2022. And despite comprising 27% of the adult population, Black and Hispanic/Latinx households accounted for 14% of all mortgage applicants in 2021-2022.
- Black, Hispanic/Latinx, and Indigenous households are twice as likely to be denied for a loan when compared to White borrowers. Even after controlling for creditworthiness metrics, borrowers of color are still denied at a higher rate.

Making the Case for Closing Racial Gaps as an Economic Priority:

- On a national level, numerous studies have attempted to quantify the economic impact of racial equity: one study found that U.S. GDP would gain \$2.1 trillion annually by closing racial gaps in income;¹ another found that racial gaps in income, homeownership, education, and entrepreneurship have cost the U.S. economy \$16 trillion over the past 20 years.²
- It has also been widely documented that racial equity and diversity is good for business: greater diversity is associated with increased sales revenue, more customers, greater market share, and greater relative profits.³ Organizations in the top quartile of diversity metrics are also 33% more likely to outperform their peers in terms of profitability.⁴
- The current lack of investment in Black and Hispanic/Latinx communities through business, consumer, and mortgage lending potentially results in billions of dollars in untapped potential to grow the Bay Area as a region inclusive to all.⁵

Quantifying the Opportunity in the Bay Area:

- **Closing racial gaps in wages—if workers of the same age and educational attainment had equal earnings—could add \$55 billion in wages to the regional economy, an approximately 12% increase in wages across the region.** This number represents a top bound for long-term economic opportunity in the region if access to jobs were to be equal across racial groups. Attaining these economic benefits would also require additional high-paying jobs to be added to the economy to match this gap.
- **After adjusting for inflation, the racial wage gap in the Bay Area grew by \$3.4 billion during the COVID-19 pandemic, driven mostly by Hispanic/Latinx wages that have not kept up with their White counterparts.** Most racial groups saw decreases in the racial wage gap from 2019 to 2021, while Hispanic/Latinx workers, who bore the brunt of pandemic-related inequality, saw a widening of the wage gap.
- **On a per worker basis, the average person of color in the Bay Area would earn nearly \$23,000 more per year if they earned the same as their White counterparts in similar age and educational attainment brackets.** This increase in income could afford people of color a year of childcare expenses or a year of transportation expenses.
- **If applicants of color were approved at the same rate as White applicants in the same age bracket and income group, the number of approved mortgages to borrowers of color would increase by 330 annually in the Bay Area.** Denial rates are higher for borrowers of color, but that has long been explained by lower credit-worthiness. When adjusting for credit-worthiness metrics, denial rates for borrowers of color are still higher.

Steps on the Path Toward Racial Equity

To truly bridge the deeply entrenched divides and to unlock the economic opportunity of achieving racial equity will require new policies, new investments, and new strategies. Most importantly, it requires racial equity to become the primary criteria in decisions made by both business and government.

Key public sector policy considerations include:

1. Employer Pay Transparency and Pay Audits

There is a growing movement toward pay transparency policies. In California, recently passed Senate Bill 1162 requires pay scales to be listed in job postings and requires private employers with over 100 employees to disclose median and average wages by race, ethnicity, and sex within job categories. Outside of policy mandates, many companies have made voluntary efforts to create greater understanding of any wage gaps through wage audits.

2. Improved Access to Mortgages

Several programs have been implemented around the region that provide down payment assistance to first-time homebuyers. At the state level, multiple California lawmakers have proposed a bond issuance of \$25 billion to fund silent, no-interest second mortgages for homebuyers that would be repaid when the home is sold. At the regional level, similar programs could be created through the Bay Area Housing Finance Authority to support first-time homebuyers. Greater access to capital may allow for more mortgage applications from households of color, but it does not address bias in lending practices. Policies that boost credit scores – requiring credit agencies to factor in rental payments in credit scoring, for example – and seek to eliminate biases in mortgage application review must accompany policies that provide capital to potential homeowners.

3. Encouraging Wealth-Building Activities

In addition to disparities in housing and income, there are also racial differences in access to factors that affect wealth-building, such as education and entrepreneurship. Many geographies have created programs that provide small business supports in underinvested communities, while others have formed funds that provide capital to real estate development firms owned by people of color. A long-term strategy might include wealth-building accounts at birth, often referred to as baby bonds, which have been implemented in various forms in Connecticut, New York City, and Oakland. A regional approach to baby bonds could take best practices from these programs and scale a solution to the generational racial wealth divide.

Key private sector considerations include:

1. Connect to Diverse Talent Pipelines and Support Equity in Education

In the Bay Area, several efforts are underway at individual companies to connect to more diverse talent pipelines, both today and in the long term. First, apprenticeship programs in technology and professional occupations are gaining popularity as they remove an educational barrier to entry that is present for many high-paying office jobs. Second, employers are working to ensure that community college curricula are aligned

with the skill needs of the region's employers. Lastly, multiple Bay Area companies provide philanthropic support to direct-service K-12 education organizations embedded in the community, schools with programs that support students in a path to college, and organizations that advocate for statewide education finance reforms.

2. Formalize Equity Benchmarking across the Private Sector

An understanding of how a company ranks against peers on equity metrics can drive better performance and outcomes related to equity. Given the Bay Area's large number of major employers, a racial equity index that provides employers with an equity score on metrics such as hiring, promotions, corporate philanthropy, workplace inclusion, and supply chain sourcing could spur more equitable corporate practices in the region.

3. Equity-Focused Community Investment Fund

With so many different businesses engaged in an array of diversity, equity, and inclusion activities, creating better coordination within the private sector itself has become necessary to bring solutions to scale. A centralized fund or community development public-private partnership could solve this issue and bring additional businesses and investment to equity initiatives.





1

Introduction

The Bay Area is extremely diverse, uniquely home to nearly equal shares of White, Asian/Pacific Islander, and Hispanic/Latinx people. However, diversity does not always equal inclusion, and people of color continue to face systemic barriers to good jobs and adequate housing. Centuries of exploitative and exclusionary policies toward people of color have produced racial disparities in educational attainment, income, and homeownership, leading to fewer opportunities to gain critical skills and relationships early in life, limited access to high-paying jobs as adults, and fewer resources and opportunities to build wealth.

While many studies have been done at the national level or by individual states looking at the racial wealth gap, this regional look at racial equity takes a more targeted approach to identifying racial disparities and the steps that can be taken to close them. The goal of this research is to broaden the Bay Area dialogue on racial equity, frame it as a regional opportunity, and identify action steps toward advancing racial equity in the region.

Key Terms

Racism, equity, and racial justice are complex concepts with varying meanings depending on context. The following clarifies key terms that will be used throughout this report:

1. Interpersonal versus institutional racism –

Interpersonal racism is when an individual acts upon their prejudices or unconscious bias, while institutional racism is racial inequity within institutions and systems of power, taking the form of discriminatory policies and practices and inequitable opportunities and outcomes. This study is primarily focused on the effects and outcomes of institutional racism.⁶

2. Equity versus equality – Equality and equity are often incorrectly used as interchangeable terms: while equality is defined as the state of being equal, equity is being fair and impartial. While equality is concerned with implementing the same strategy regardless of other factors, equity targets disadvantaged groups in a way that will address their specific needs.

3. Racial equity versus racial justice – Racial equity is the process for moving toward the vision of racial justice. Racial equity seeks measurable milestones and outcomes that can be achieved on the road to racial justice. Racial equity is necessary, but not sufficient, for racial justice.⁷

Frame of Research

Racial gaps in income, jobs, and homeownership are often the direct result of public policy. There are many factors driving these gaps, but many can be attributed to a history of codified segregation in housing, schools, and the labor market. For centuries, legal mechanisms

were used to endorse racial discrimination and oppression, which has had grave consequences on people of color and their access to opportunity through homeownership, quality education, and high-earning jobs.⁸

Closing those gaps is dependent on broadening access to opportunity. California is one of the most segregated states in terms of its public schools: the typical Hispanic/Latinx student attends a school with only 15% White classmates, and more than half of the state's Black students are concentrated in just 25 of the state's 1,000 school districts.⁹ Eliminating systemic disadvantages for people of color before they enter the workforce is critical to address racial gaps in income and to achieve a stronger and more resilient economy.

Beyond long-term solutions, there are some opportunities to close gaps in outcomes. Studies have found that Black and Hispanic/Latinx workers who complete undergraduate or graduate degrees still earn less than non-Hispanic White workers with the same, or often less, educational credentials. Even when they hold management positions, Black men are paid less than their White counterparts, with the racial wage gap widening as Black men move up the corporate ladder.¹⁰

This study quantifies two key areas of the racial wealth gap in the Bay Area as outlined below. While there are other important issues not covered in this study, these two areas were chosen to take a first look at the disparities most directly connected to earning potential and wealth building. They both also benefit from robustly available data at regional scale.

1. Wages and Employment — The pay gap is arguably the most investigated and scrutinized disparity when it comes to racial inequity. The average person of color in the Bay Area earns \$23,000 less than the average White person. Across every educational attainment level, unemployment rates are significantly higher for the Black population than any other racial or ethnic group. Higher rates of concentrated poverty and lower rates of educational attainment have led to fewer available jobs for people of color, particularly those in the Black community.

Even after controlling for metrics like educational attainment, age group, earning bracket, and

occupation, significant pay gaps remain. The chapter dedicated to wages and employment examines disparities in employment, labor force participation, and wages, revealing how much more people of color would collectively earn after closing racial gaps in income.¹¹

2. Homeownership — Homeownership is one of the main sources of generational family wealth, and families of color face greater obstacles to achieving homeownership than White households. In the Bay Area, 35 percent of Black households and 39 percent of Hispanic/Latinx households own their homes, compared to 62 percent of White households—numbers that are attributable to a long-lasting legacy of exclusion and inequity in the homebuying process and the region's income gaps.

When layering on increasing demand for homes in the Bay Area and inadequate growth in supply, households of color have been most impacted by the region's affordability crisis. The chapter on homeownership examines how many current renters of color could become homeowners if they experienced the same homeownership and mortgage approval rates as their White counterparts.

Policy Considerations

To unlock the economic potential of achieving racial equity, the Bay Area's policymakers, businesses, non-profit institutions, community groups, and other critical stakeholders must become not only a voice for change, but the actors of change. To truly bridge the deeply entrenched divides will require new policies, new investments, and new strategies. Most importantly, it requires racial equity to rise to the forefront of decisions made by business and government. Racial equity will not be achieved by a single policy or investment; it instead is a goal that requires numerous steps to break down biases—both conscious and unconscious—and to fundamentally restructure how economic decisions are made.

Policy considerations are highlighted throughout the report, focusing on distinct areas of improvement that can begin to move the region toward greater equity in both long-term opportunity for future generations and immediate outcomes for Bay Area households of

color. These considerations are divided into two types—**public policy levers** and **private sector actions**. These sections were chosen to reflect the main audiences for this report, and they are not meant to provide an

exhaustive list of all possible avenues to racial equity. Instead, these considerations highlight some policies and practices that are already being discussed and/or implemented in California or other geographies.

SPOTLIGHT

The Need for Both Public and Private Racial Equity Solutions

Policymaking with a racial equity lens is happening at governmental levels across the region. Cities have implemented offices of racial equity to transform government systems, economic recovery strategies are being crafted with racial equity at the forefront, multiple Bay Area government agencies are part of the Government Alliance on Race and Equity, and the region's long-range plan was crafted to provide a more equitable future for Bay Area residents.

Within California, numerous legislative proposals are being debated that would create equitable change. Additionally, recent legislation has formed a reparations task force, the first of its kind in the nation. However, many of the policies being contemplated in California do not explicitly target populations by race and ethnicity, as the use of public funding has limitations in its applicability to specific groups. Instead, these policies would provide stepping stones toward equity if their implementation is focused on inclusion and bridging racial divides.

Private sector investments can be more effective in targeting interventions and programs to communities of color. Whereas the public sector is limited in how it can direct government funding, philanthropic donations and private sector initiatives can be applied with more flexibility. Given that there is no regional government for the nine-county Bay Area, the private sector can also more easily act on a regional scale.

The private sector also often holds the keys to opportunity—employers provide jobs, financial institutions provide loans for home purchases or entrepreneurship, and local companies make place-based and service-based investments in the community. Numerous companies have publicly made commitments to equity in both their internal practices and external interactions with suppliers, customers, and the community. As more focus on diversity, equity, and inclusion occurs within businesses and large employers, new strategies will need to be deployed to ensure private sector programs are not creating new racial gaps.



2

Race and Segregation in the Bay Area and California

The United States has a dark and complex history with race. For centuries dating back to the era of slavery, the country has exploited marginalized communities and reinforced economic disparities. It has been over 50 years since the Fair Housing Act prohibited racial discrimination in housing, and over 60 years since the Supreme Court's *Brown v. Board of Education* decision prohibited racial segregation in schools. Despite these milestones and other strides that followed, racial segregation in our nation remains ubiquitous. Explicit racial discrimination in housing, schools, and the labor market was, in large part, borne out of laws, regulations and government practices that targeted people of color, leading to cycles of poverty, debt, and community disinvestment still witnessed today.

In California, the state's growth has been shaped by racial divides. During the Gold Rush from 1848 to 1855, thousands of indigenous people were killed at the hands of state and federal officials through state sanctioned violence.¹² Japanese internment camps forcibly removed over 120,000 people of Japanese descent, including US citizens, to one of 10 camps across the country, including California's Manzanar War Relocation Center.¹³ Today, an estimated 1.75 million undocumented immigrants contribute to California's workforce often without adequate pay, healthcare, or representation. In the Bay Area, undocumented

immigrants comprise around 5 percent of the regional population.¹⁴

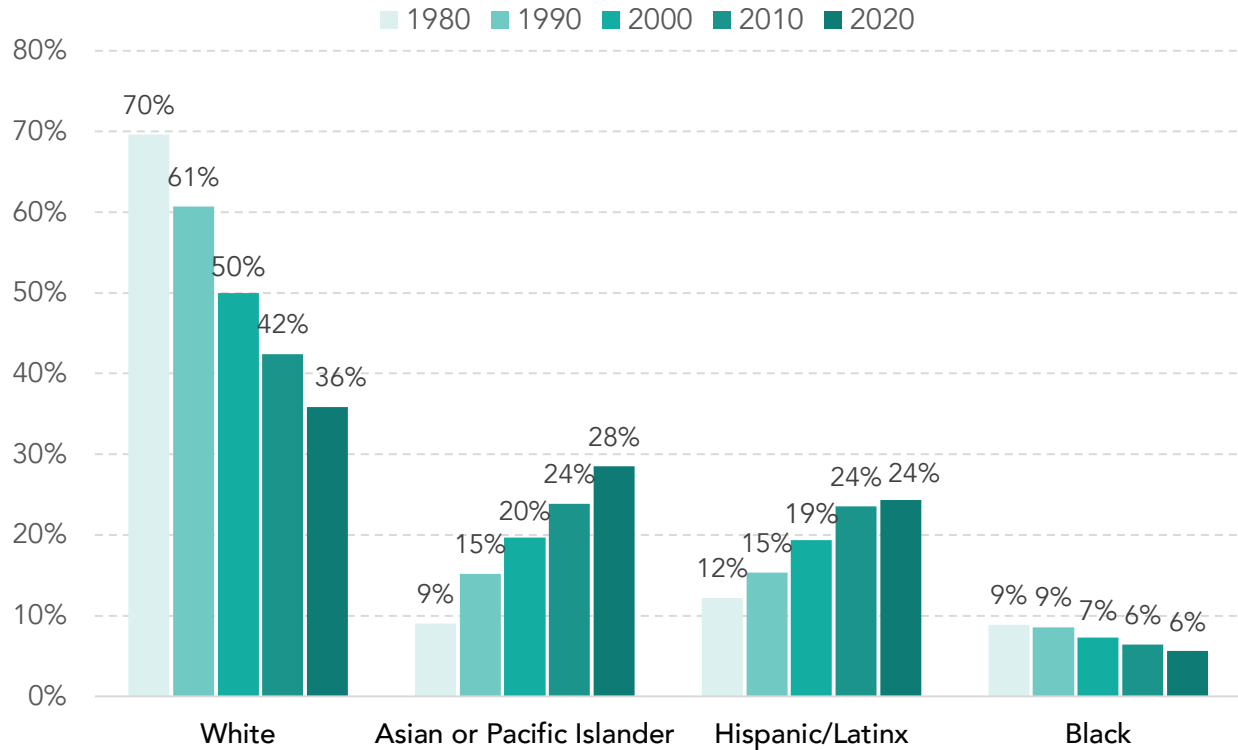
Current Demographic and Socioeconomic Conditions

From 1980 to 2020, the Bay Area's White population has been steadily declining, while the Hispanic/Latinx and Asian/Pacific Islander populations have accounted for the majority of the region's modest population growth. While smaller than other major racial/ethnic groups, the Black population has also declined, losing over 80,000 people since 1990. The Black exodus from the region—from San Francisco in particular—can be attributed to the increasingly high cost of living, policies like urban renewal that tore down much of the housing where many Black people lived, or high crime rates concentrated in Black neighborhoods.¹⁵

Compared to other metropolitan areas, the Bay Area is extremely diverse. People of color in the Bay Area comprise 64 percent of the regional population, 7 percentage points higher than the New York metropolitan area, and 14 percentage points higher than the Chicago metropolitan area. Yet, as this study will explore, diversity does not always equal inclusion on an interpersonal or institutional level.

Figure 1. The region became majority people of color at the turn of the century, 45 years before the nation is projected to become majority people of color

Bay Area Racial Composition, 1980-2020



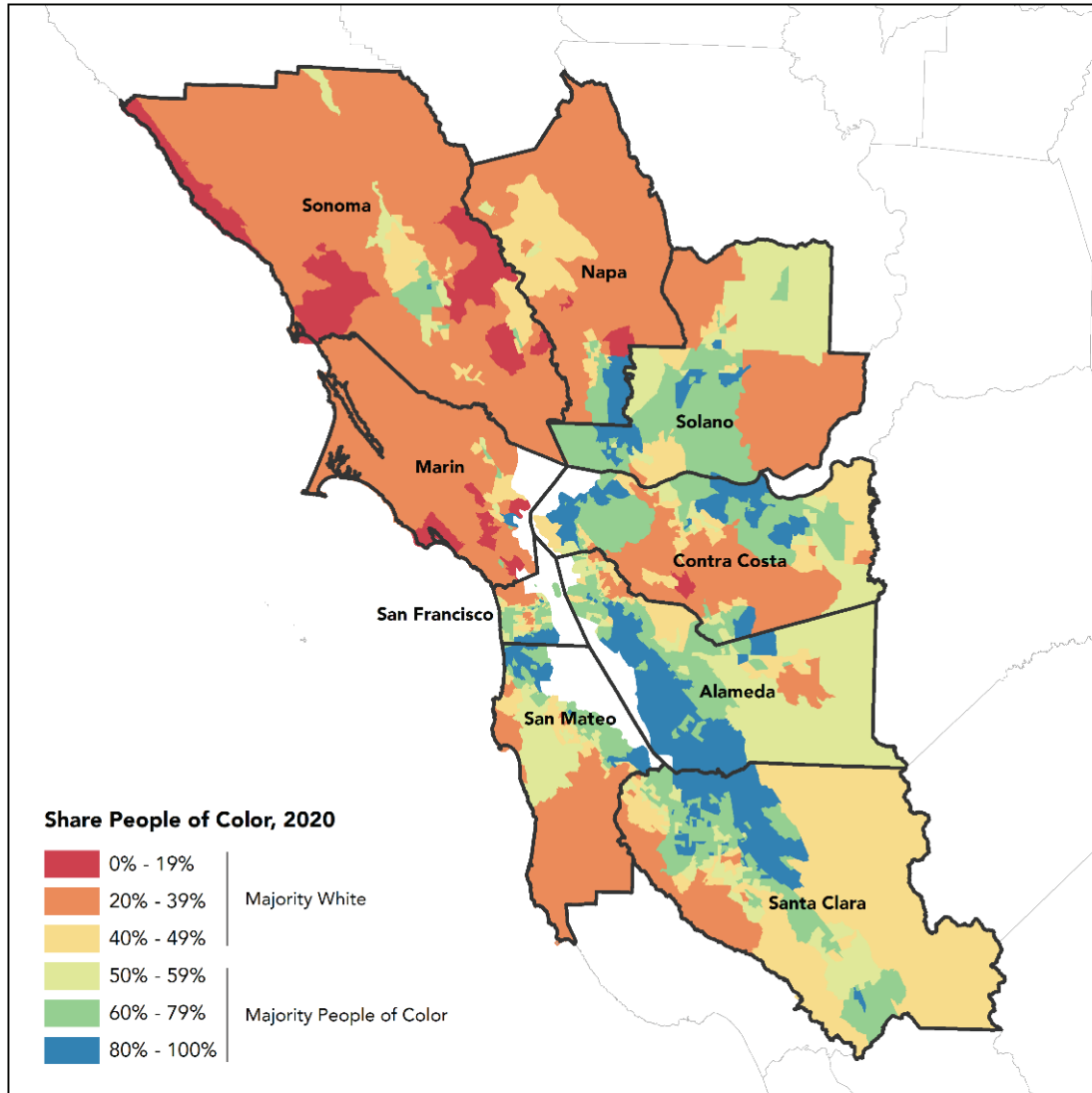
Source: U.S. Census Bureau: 1980, 1990, 2000, 2010 and 2020 Decennial Censuses. **Note:** All races exclude Hispanic/Latinx ethnicity to prevent double counting. Percentages may not add to 100% - some other race was excluded from this chart due to small population sizes, and two or more races was excluded because it was not added as a category until 2000. American Indian/Alaska Native are included as part of the Asian or Pacific Islander group due to data collection in 1980 that aggregated these groups. **Analysis:** Bay Area Council Economic Institute

Like many large metropolitan areas, the Bay Area's population of color is highly concentrated in a handful of neighborhoods, despite the fact that people of color comprise over 60 percent of the population. Over half of the region's population of color, particularly Black and

Hispanic/Latinx residents, live in the counties of Alameda or Santa Clara. The White population is far more dispersed, with no single county accounting for more than 20 percent of the region's White population overall.

Figure 2. Over half of the region's population of color is concentrated in Alameda and Santa Clara County

Share People of Color by Census Tract, 2020



Source: U.S. Census Bureau, 2020 Decennial Census. **Note:** People of color are defined as any person identifying as non-white, including those identifying as Hispanic or Latinx of any race. **Analysis:** Bay Area Council Economic Institute.

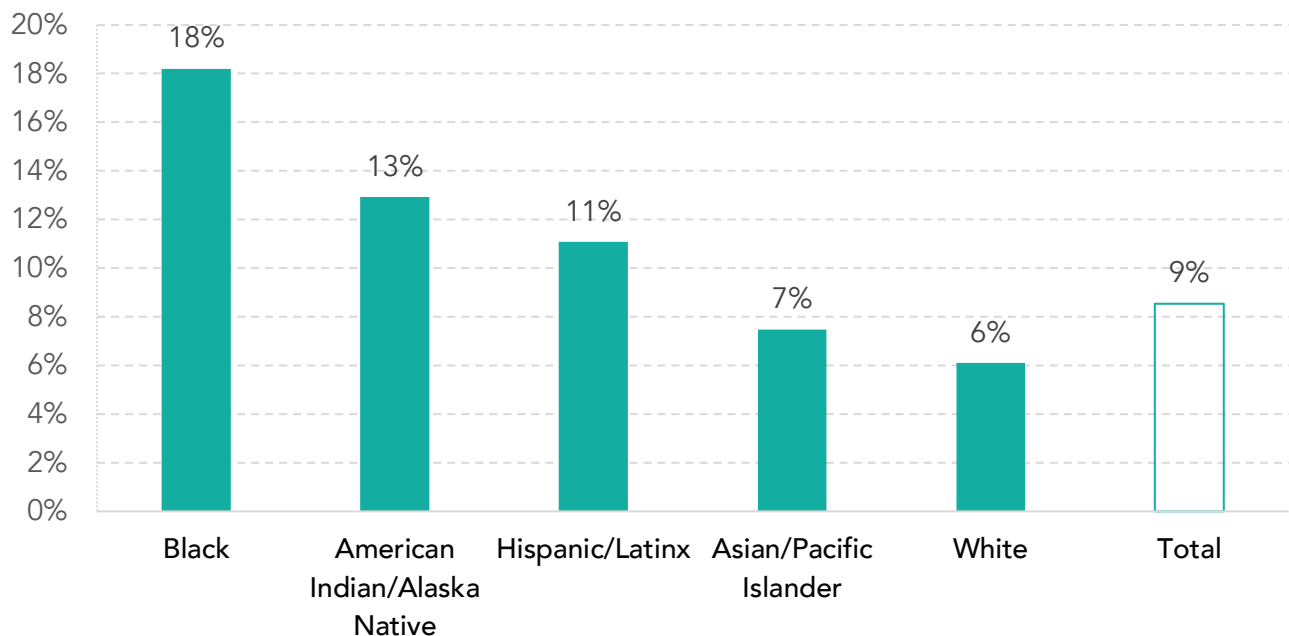
Across the region, 9 percent of people were living below the poverty line in 2021.¹⁶ This rate is 3 percentage points lower than California overall, and one of the lowest among major metro areas in the state. However, poverty rates vary widely across race and place: Black, American Indian, and Hispanic/Latinx residents experience poverty at double the rate of White residents. Moreover, 2.3 percent of the region's population lives in areas of concentrated poverty (34 total neighborhoods), defined as neighborhoods with a poverty rate of 30 percent or higher.¹⁷ As people of color were systematically shut out from schools, the labor force, and the homebuying process, they were forced to concentrate in fewer neighborhoods with poorer access to services, employment, and educational

opportunities. On average, residents in areas of concentrated poverty are 80 percent people of color, and not a single high-poverty area is majority White.

On average, areas of concentrated poverty in the Bay Area are 80 percent people of color, and not a single high-poverty area is majority White.

Figure 3. Hispanic/Latinx residents experience poverty at double the rate of White residents, and Black residents experience poverty at triple the rate

Percent below poverty line by race/ethnicity in the Bay Area, 2021



Source: ACS 2021 1-Year Estimates. **Note:** All races exclude Hispanic/Latinx ethnicity to prevent double counting.

Analysis: Bay Area Council Economic Institute

3

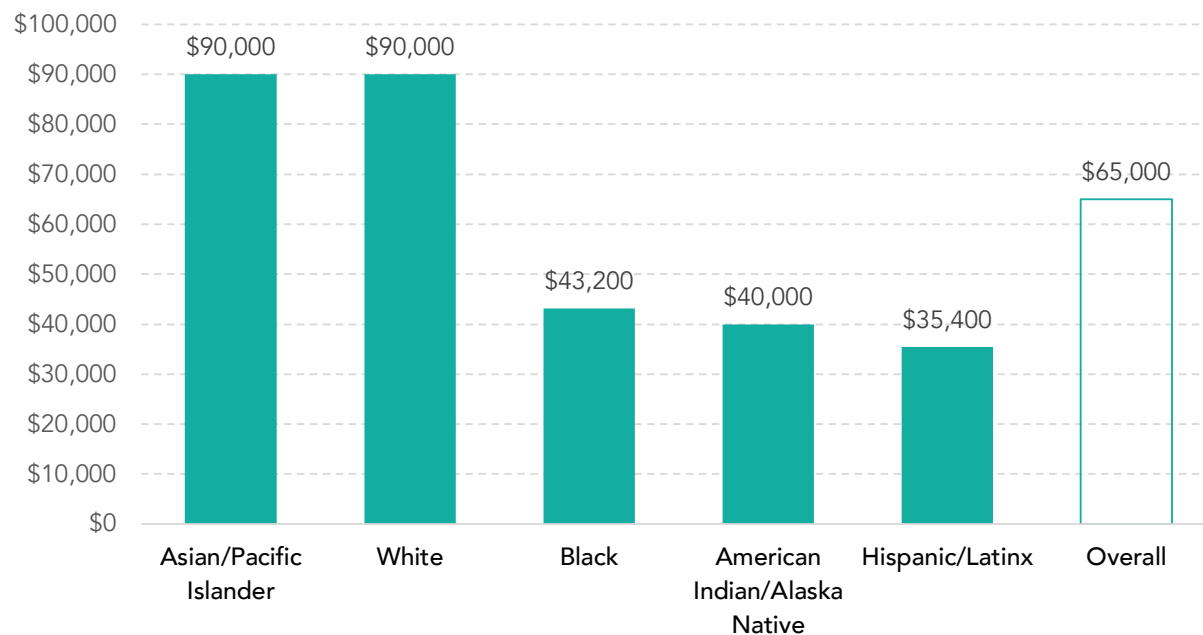
Wages and Employment

People of color became the majority in the Bay Area around 2000, nearly 45 years before the nation as a whole is projected to become majority people of color.¹⁸ While communities of color continue to drive the region's population growth, the White population continues to shrink, losing nearly 300,000 people every

decade since 1990.¹⁹ These population trends point to a regional economy where people of color should represent the majority of jobs and wages; yet, the region's White population collectively takes home over 50 percent of the Bay Area's annual wages.

Figure 4. The per capita median income for White and Asian/PI Bay Area residents is over 2x higher than median incomes for Hispanic/Latinx, Indigenous, and Black residents

Per Capita Median Income by Race and Ethnicity in the Bay Area, 2021



Source: ACS 2021 1-Year Estimates. **Note:** All races exclude Hispanic/Latinx ethnicity to prevent double counting.

Analysis: Bay Area Council Economic Institute

Achieving racial pay equity is not only a moral objective, but also an economic one. Numerous studies have attempted to quantify the economic impact of racial equity on a national scale: one study found that U.S. GDP would gain \$2.1 trillion annually by closing racial gaps in income.²⁰ Another found that closing the wealth gap between Black and White Americans would add \$1 trillion to the economy by 2028.²¹ This chapter examines how racial inequity hinders economic success in the region, and what the region can gain by closing the racial wage gap.

Asian or Pacific Islanders have higher median incomes than other populations of color, given their high share of occupations in technology, finance, and other high-paying office jobs, yet there are stark disparities when broken down by ancestry: Indians in the Bay Area make

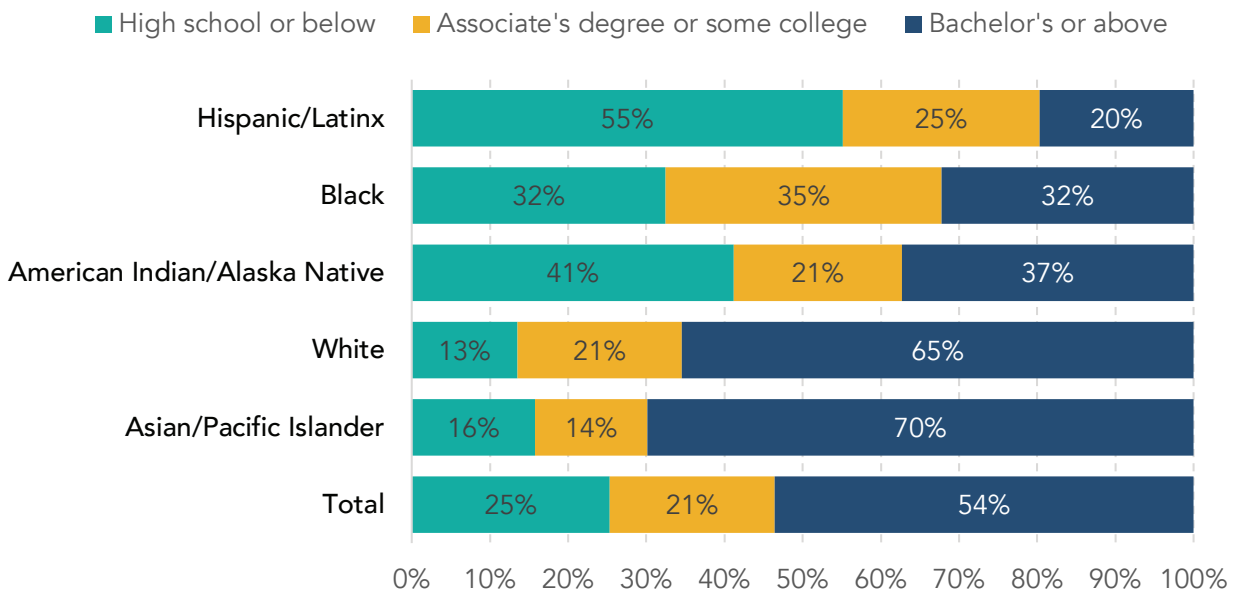
over three times more than the three largest Southeast Asian groups (Laotian, Vietnamese, and Cambodian).

Educational Attainment and Access to Opportunity

With people of color projected to represent the majority of the U.S. working age population by 2040,²² investing in the future of workers across the racial and ethnic spectrum can ensure the productivity of the future workforce. Despite a significant increase in educational attainment among people of color over the past few decades, White and Asian people are still over twice as likely to hold a college degree than Hispanic/Latinx or Black people (**Figure 5**).

Figure 5. White or Asian residents are over twice as likely to hold a bachelor's degree or higher than Hispanic/Latinx and Black residents in the Bay Area

Educational attainment by race/ethnicity in the Bay Area, 2021



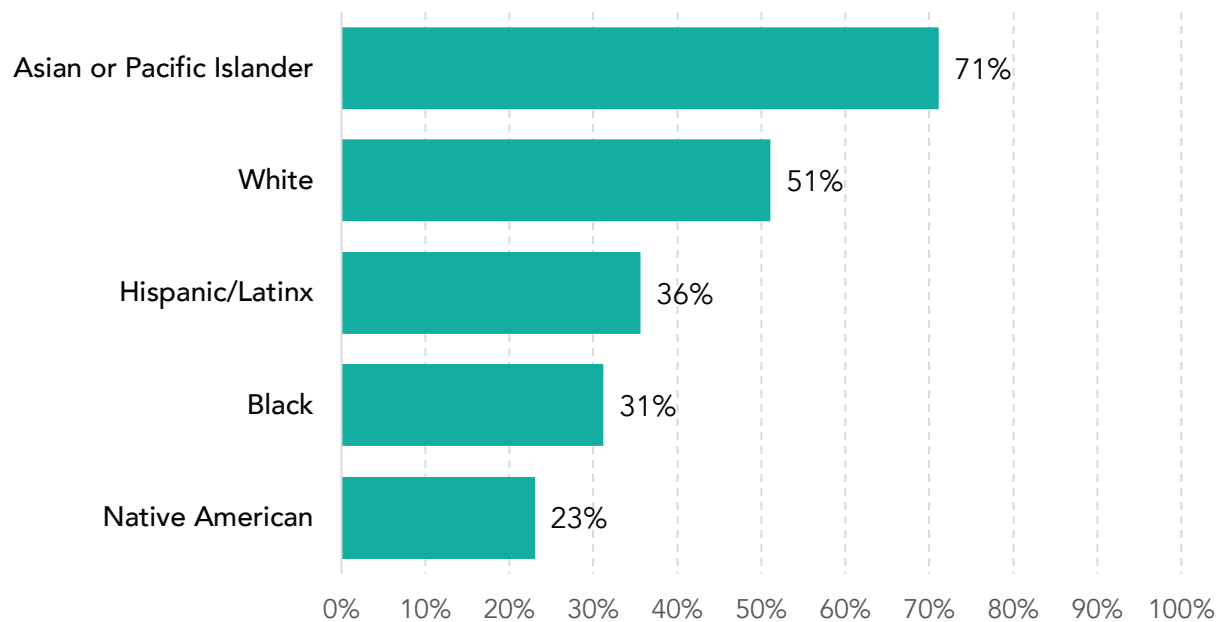
Source: American Community Survey 1-year estimates 2021. **Analysis:** Bay Area Council Economic Institute

Disparities in educational attainment play a large role in overall pay gaps, as do higher rates of incarceration and a greater likelihood of living in a neighborhood of concentrated poverty. Higher rates of concentrated poverty and low rates of educational attainment lead to fewer available jobs for people of color and fewer opportunities to gain job skills early in life.²³ Students in

schools in high poverty areas (who are largely students of color) are also less likely to have access to advanced college-prep courses, internships, mentoring, and SAT and ACT test preparation courses, all of which lead to lower college readiness among Hispanic/Latinx, Black, and Indigenous students (**Figure 6**).²⁴

Figure 6. Students identifying as Asian or Pacific Islander are twice as likely to meet college readiness requirements than Hispanic/Latinx, Black students, and 20% more likely than White students

Share of high school graduates meeting UC/CSU a-g course requirements by race/ethnicity in the Bay Area, 2022



Source: California Department of Education, College/Career Measures Report & Data. **Analysis:** Bay Area Council Economic Institute

SPOTLIGHT

Private Sector Consideration: Build Diverse Talent Pipelines

Talent is one of the key ingredients to the Bay Area's economic success; but finding the talent to match employer needs is often cited as a factor that constrains companies' abilities to grow in the region. As such, building out more diverse pipelines not only creates a more equitable economy, but it can also allow employers to access talent more easily.

In the Bay Area, several efforts are underway at individual companies to connect to more diverse talent pipelines. First, apprenticeship programs in technology and professional occupations are gaining popularity as they remove an educational barrier to entry that is present for many office jobs. By sourcing apprenticeship candidates strategically and training them internally, many companies have found that they are able to build more diverse teams, which have been shown to be more productive than homogenous teams. Working directly with community groups to find candidates is one way that apprenticeships can be more effective in driving equity when compared with traditional candidate sourcing methods.

Many Bay Area companies also engage with educational providers. These relationships include direct recruiting contact with universities and career exploration programming with local K-12 districts. Private sector connections into the region's

community colleges offer a relatively untapped source of talent. For jobs that do not require a four-year degree, employers can find a diverse array of talented individuals in community college pipelines. However, better connections need to be made to ensure that community college curricula are aligned with the skill needs of the region's employers. To this end, the employer community should seek to create additional forums with educational providers and more formalized partnerships in community college curriculum development.

Another way the private sector is bridging educational gaps is through philanthropic investments in K-12 education providers and service organizations. Multiple Bay Area companies have provided philanthropic support to direct-service organizations with strong connections to the community, school systems with programs that support students in a path to college, and organizations that advocate for programs and systems with statewide impact, such as increasing education funding, higher education grants to cover living expenses, access to college-preparatory coursework, and advising for low-income students. Other businesses have chosen to focus on teacher training as a way to make the region's schools more equitable.

Employment Opportunities

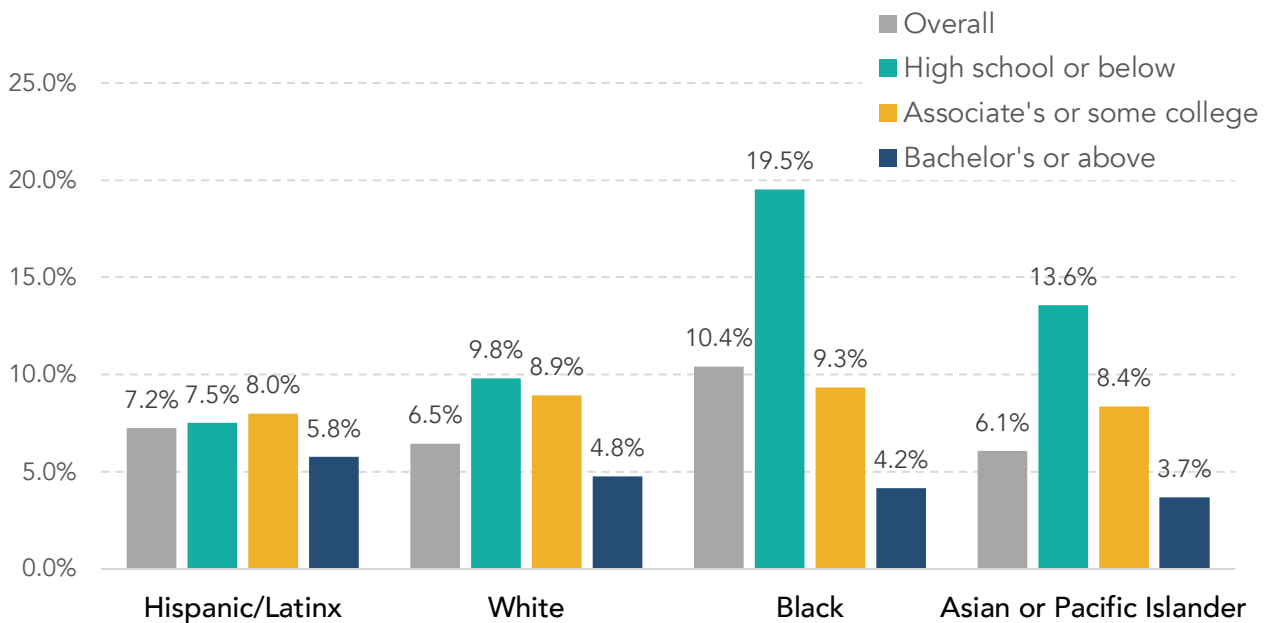
Unemployment rates are significantly higher for the Bay Area's Black population than other racial or ethnic groups. In 2021, the Black unemployment rate was 4 percentage points higher than the White unemployment rate. This disparity is especially pronounced among those in the lowest educational attainment brackets. In addition to a history of segregation and discrimination, the overrepresentation of Black men in the prison system is partially to blame for high Black unemployment rates, as formerly incarcerated individuals experience difficulties in gaining employment.²⁵ High Black unemployment rates may

also be partially due to how data on employment are collected. When someone stops looking for work, they are no longer considered unemployed, but rather "not in the labor force." Black Americans tend to stick to their job search for longer than White Americans, which can inflate their unemployment rate.²⁶

As of December 2023, many low-paying industries in the Bay Area region still have not recovered to pre-pandemic employment levels. This is especially true in the Leisure and Hospitality industry and Retail Trade, which have a higher share of people of color than white collar industries like Finance and Insurance or Professional Services.

Figure 7. Unemployment rates are significantly higher for the Black population, particularly for those with a high school education or less

Unemployment rate by race/ethnicity and educational attainment in the Bay Area, 2021



Source: American Community Survey 1-year estimates 2021. **Analysis:** Bay Area Council Economic Institute

SPOTLIGHT

Public Policy Consideration: Encouraging Wealth-Building Activities

There are structural reasons for wide educational gaps that stem from segregation in school systems, discrimination in housing, and inequities in education finance. These educational gaps perpetuate gaps in wealth creation potential by race. Lower levels of wealth in Black and Hispanic/Latinx households also inhibit business creation, which in turn limits an avenue for increasing wealth for people of color. Addressing the upfront cost of attaining an education or starting a small business is one of many steps in advancing equity in wealth-building activities.

At the higher education level, nearly half of all California community college students have their tuition covered by grants; however, the cost of books, food, supplies, and housing can reach over \$2,000 per month. Multiple pieces of state legislation in California have attempted to address these non-tuition costs through need-based grants.

There are numerous public-private partnerships across the country that are focused on access to capital for businesses, real estate development training for people of color, and small business assistance. For example, the housing authorities of both New York City and Boston have made concerted efforts to award more housing renovation and construction contracts to Black-owned developers. In the Bay Area, San Francisco

announced the African American Small Business Revolving Loan Fund in June 2020 to support Black-owned and Black-serving businesses at the height of the pandemic. In San Jose, the city partnered with the Latino Business Foundation of Silicon Valley in 2022 to open a Small Business Resource Center in East San Jose that primarily serves Hispanic/Latinx entrepreneurs.

Other geographies have taken a longer-term approach by implementing wealth-building accounts at birth, often referred to as baby bonds. In Connecticut—the first state to pass baby bond legislation in 2021—children whose births are covered under the state’s Medicaid program will receive \$3,200, which will be invested by the state treasurer’s office. When that child is between the ages of 18 and 30, those funds can be used to purchase a home, attend college, or start a business in Connecticut. In New York City, every kindergartener will receive \$100 to open a 529 college savings account as part of the city’s baby bond program. And in Oakland, the Brilliant Baby Program is a multi-agency collaborative that provides \$500 in a 529 account for qualifying Oakland babies, as well as dedicated financial coaching for parents. A regional approach to baby bonds could take best practices from these programs and bring them to scale to address the generational racial wealth divide.

What would it look like if we closed racial gaps in income in the Bay Area among people with the same age and educational attainment?

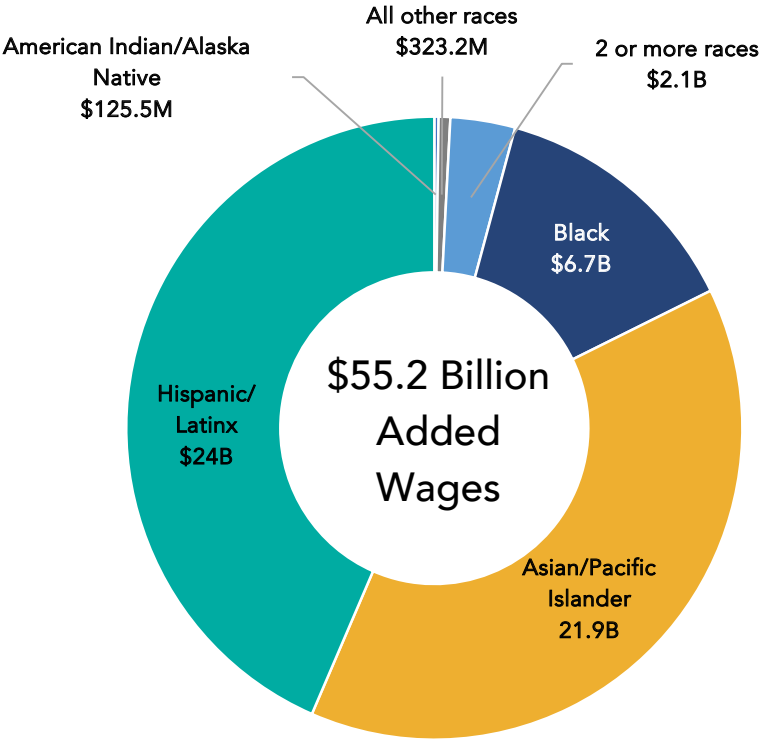
Closing racial gaps in income could add nearly \$55 billion in annual wages to the nine-county regional economy. This figure is estimated by calculating pay gaps between workers of color and their White counterparts, controlling for age and educational attainment. For example, the average annual income among Hispanic/Latinx workers who are 21-30 years old, have a bachelor’s degree, and are in the second lowest

income quartile is \$38,361, over \$12,000 lower than White people in the same age, educational, and earning bracket. There are 12,367 Hispanic/Latinx people with those characteristics in the Bay Area, meaning wage parity among this group and their White counterparts would result in an increase of \$153 million in collective wages circulating in the economy if the gap was fully closed.

This methodology draws on other studies that have evaluated the economic opportunity of closing racial income gaps nationally. Because it is not a zero-sum approach that levels all incomes within a similar age and educational attainment group at a median regardless of race (i.e., some incomes move down while others move up), it would require new, higher-paying jobs to be created within the region.

Figure 8. Closing racial gaps in income could add over \$55 billion in annual wages to the Bay Area economy

Total Economic Impact of Racial Pay Equity by Race and Ethnicity, based on 2021 wages, inflation adjusted to 2023



Source: American Community Survey 1-year estimates 2021. **Analysis:** Bay Area Council Economic Institute

If people of color were paid as much as their White counterparts, an additional \$55 billion in wages could be added to the Bay Area economy.

Figure 8 breaks down the total economic impact of achieving pay equity by race and ethnicity. Asian or Pacific Islander and Hispanic/Latinx workers have the most to gain by the sheer size of their population and workforce: they comprise over 80 percent of the region's population of color, and after closing racial gaps in income, could collectively earn over 80 percent (or \$46 billion) of the region's added wages.

These impacts stem from racial inequities in the region's schools and workforce that have barred people of color from achieving the same credentials and earning potential as White workers, leading to higher shares of people of color in lower-wage service sector jobs. In the Bay Area, people of color are also overrepresented in low resource neighborhoods that tend to hinder upward economic mobility.²⁷

On a per worker basis, employees of color in the Bay Area could earn nearly \$23,000 more per year on average, which would have a profound effect on the quality of life for communities of color and the economy at large. This increase would be even higher for Black and Hispanic/Latinx workers, who have more to gain due to disparities in opportunity, education, and housing that have resulted in wider pay gaps. On average, this increase in income could afford people of color one or multiple of the following living expenses:²⁹

- **A year of childcare** (\$16,000 for one child, or a partial year of childcare for adults with 2-3 children)
- **A year of transportation expenses** (\$5,300, or \$9,000 to \$14,000 for adults with 1-3 children)
- **A year of groceries based on the USDA's low-cost food plan** (\$4,600 or \$7,000 to \$14,000 for adults with 1-3 children)

- **A year of medical expenses** (\$3,100, or approximately \$9,400 for adults with children)

Did the pandemic worsen the racial wage gap?

As reported and studied by many, the pandemic disproportionately affected communities of color, amplifying pre-existing inequalities in unprecedented ways. The abrupt shift to remote work, while a privilege for some, revealed a stark digital divide that has long kept many workers of color at a disadvantage. After adjusting wages for inflation, the racial wage gap actually narrowed for some racial groups. Black and Asian/Pacific Islanders saw small decreases in overall wage gaps, meaning that from 2019 to 2021, their wages more closely aligned with their White counterparts.

From 2019 to 2021, the racial wage gap narrowed for Black and Asian workers, but worsened for Hispanic/Latinx workers, who bore the brunt of pandemic-related inequity.

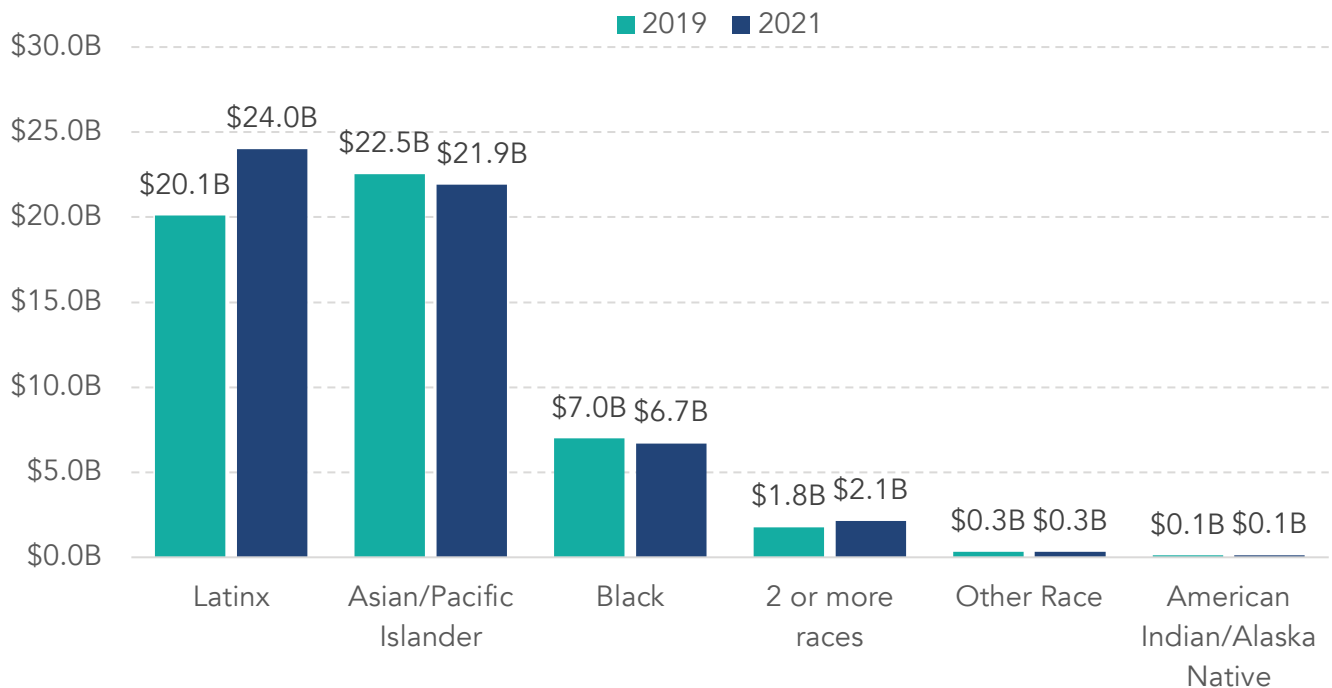
For Hispanic/Latinx workers, the inverse occurred, as the wage gap grew from \$20 billion in 2019 to \$24 billion in 2021, or \$4,000 more per worker. For much of 2020 and 2021, Hispanic/Latinx workers and families bore the brunt of the pandemic's negative health outcomes: they were 1.7 times more likely to be infected by the virus than White people, 4.1 times more likely to be hospitalized for it, and 2.8 times more likely to die from COVID-19.³⁰ They were disproportionately on the frontline, and many worked through the pandemic. Unemployment rates among Hispanic/Latinx workers, as seen in **Figure 7**, were much lower than Black unemployment rates in 2021. Hispanic/Latinx workers are also more likely to be foreign-born and young, and those without a college degree are often more willing to take low-paying jobs than native born Americans.

Per capita, the Black wage gap is still the highest: each Black worker could earn \$30,000 more per year if they earned the same as their White counterparts. However, the gap between Hispanic/Latinx per capita wages and White wages grew more than any other racial or ethnic group, which led to an overall wage gap increase of \$1,300 per capita for all workers of color.

The pandemic served as a reminder of the urgent need for comprehensive policies that address inequities among the region's lowest wage workers. The pandemic disproportionately put many more Hispanic/Latinx workers out of work, particularly those in foreign-born families who did not qualify for stimulus checks or other government aid.

Figure 9. After adjusting for inflation, the racial wage gap in the Bay Area grew by \$3.4 billion, driven mostly by Hispanic/Latinx wages that have not kept up with their White counterparts

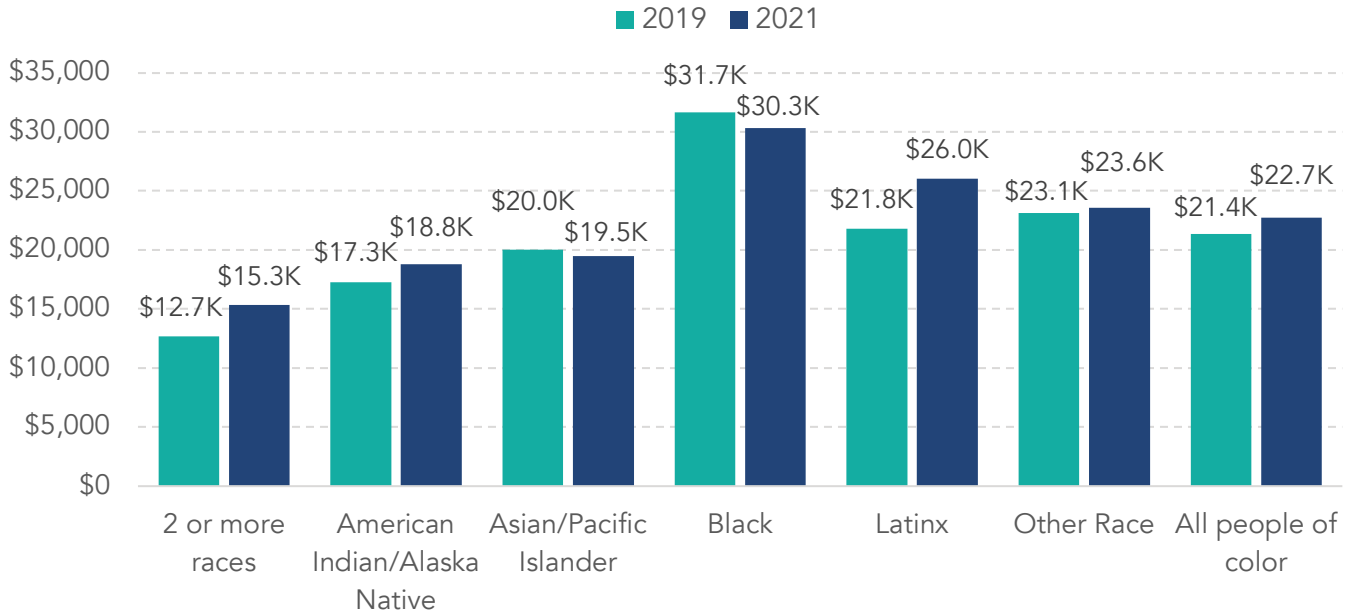
Total Economic Impact of Racial Pay Equity by Race and Ethnicity, based on 2019 and 2021 individual incomes, adjusted for inflation (2023)



Source: American Community Survey 1-year estimates, 2019-2021. BLS CPI-U. **Analysis:** Bay Area Council Economic Institute

Figure 10. Hispanic/Latinx workers saw the widest increase in per capita wage gap

Total Economic Impact of Racial Pay Equity by Race and Ethnicity, based on 2019 and 2021 individual incomes, adjusted for inflation (2023)



Source: American Community Survey 1-year estimates, 2019-2021. BLS CPI-U. **Analysis:** Bay Area Council Economic Institute

What would it look like if we closed racial pay gaps between people with the same occupation?

It is not enough to focus solely on increasing opportunity in communities of color. Studies have found that Black and Hispanic/Latinx workers who complete undergraduate or graduate degrees still earn less than non-Hispanic White workers with the same, or often less, educational credentials.³¹ Therefore, it is important to examine existing pay gaps between people of color and White workers within identical occupations.³²

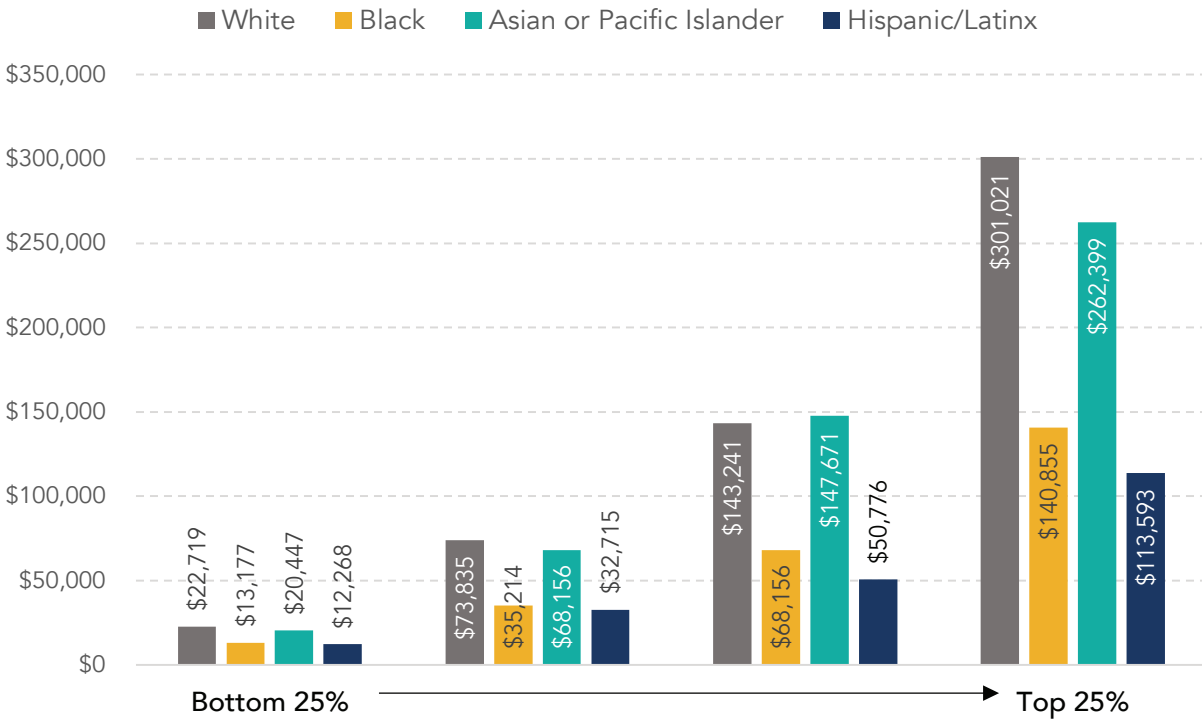
The following analysis attempts to quantify what wages could look like if the region were able to close racial gaps in income for workers with the same job. For

instance, the lowest earning (bottom 25%) Hispanic/Latinx accountants earn, on average, \$5,700 less than the lowest earning White accountants. There are nearly 1,500 Hispanic/Latinx accountants in this category, which would amount to a total increase of \$8.5 million in new wages. These wages should be viewed as part of the overall \$55 billion opportunity identified earlier.³³

To illustrate existing disparities in the region, **Figure 11** on the next page shows the median earnings for key racial and ethnic groups across earning quartiles for the 50 largest occupations in the Bay Area. Wage disparities exist across the earning quartiles, but they are most stark for the top 25% of earners in each racial group; White and Asian workers earn over double that of Black or Hispanic/Latinx workers in the highest income group. Hispanic/Latinx workers also earn the lowest wages across every earning quartile. The following analysis accounts for differences within occupational groupings.

Figure 11. Median earnings in the 50 largest occupations show significant differences by racial group across the income spectrum. For the top 25% of earners, White and Asian incomes move well above earners of color

Median Income by Earning Quartile and Race/Ethnicity in the Bay Area, 2021 (adjusted for inflation to 2023 dollars)



Source: American Community Survey 1-year estimates 2021, Bureau of Labor Statistics CPI-U

Analysis: Bay Area Council Economic Institute

Limitations

This approach illustrates the variations in incomes within occupations by race. It is limited, however, in that it does not take into account age, experience, or educational attainment. Inclusion of those variables would have made sample sizes too small to analyze at a regional level. The analysis presented here uses income quartiles for each race/ethnicity group within an occupation and compares the median income within the quartile. For example, we calculate the median wage for the highest-earning 25% of White security guards and compare that wage to the highest-earning 25% of security guards in other race/ethnicity groups.

That process is used across all four income quartiles and aggregated to find a total wage gap within each occupation. This methodology again assumes that new economic opportunities must be created, as wages are equalized to the top level within each quartile.

This approach, like others that attempt to measure racism and discrimination,³⁴ does not allow us to make conclusions about causality given constraints in existing economic and demographic data. It instead allows us to identify existing gaps and patterns that have hindered equity advancement across the income spectrum and geographic region.

Table 1 breaks down the impact of closing racial gaps in income for the 20 largest occupations in the region. At \$13.5 billion, software developers of color comprise the largest share of the region's economic impact. There are nearly 210,000 software developers in the Bay Area, making them the region's most common occupation. However, when analyzing impact on a per worker basis, software developers still rank first out of 20 occupations, earning \$64,908 more per person on average if wages were equal across racial groups within earning quartile. This indicates that in addition to the sheer number of

people in the technology sector, there are large racial wage gaps within this occupation, particularly for workers on the higher end of the earning spectrum. One study on the state of salaries in the technology sector found that the wage gap experienced by Black tech workers is widening. From 2018 to 2019 across the country, average salary offers increased for Asian workers but decreased across all other races. The wage gap between Black and White tech workers widened by \$5,000.³⁵

Table 1. Closing racial gaps in income for software developers would add \$13.5 billion annually to the regional economy. Workers of color in software, real estate, and accounting occupations would gain the most by closing the wage gap

Total Economic Impact of Closing Racial Wage Gaps for 20 Largest Occupations in the Region, Absolute and Per Worker, based on 2021 data, inflation adjusted to 2023 dollars

Occupation	Total impact	Rank	Total impact (per worker)	Rank
Software Developers	\$13.5B	1	\$64,908	1
Other Managers	\$2.1B	2	\$13,357	17
Accountants and Auditors	\$1.9B	3	\$35,862	3
Financial Managers	\$1.4B	4	\$32,669	4
Other Engineers	\$1.4B	5	\$24,835	8
Real Estate Brokers & Sales Agents	\$1.3B	6	\$49,183	2
Supervisors of Retail Sales Workers	\$1.1B	7	\$19,771	12
Chief Executives & Legislators	\$1.1B	8	\$21,060	10
Cashiers	\$1.0B	9	\$15,118	15
Cooks	\$1.0B	10	\$23,813	9
Lawyers	\$1.0B	11	\$20,601	11
Registered Nurses	\$854.9M	12	\$11,625	18
Physicians	\$833.3M	13	\$30,189	6
Construction Laborers	\$822.6M	14	\$16,420	14
Customer Service Representatives	\$805.1M	15	\$14,841	16
Retail Salespersons	\$641.3M	16	\$10,111	20
Management Analysts	\$605.1M	17	\$17,196	13
Driver/Sales Workers & Truck Drivers	\$577.5M	18	\$10,206	19
Food Service Managers	\$548.0M	19	\$28,952	7
Property Managers	\$514.4M	20	\$6,383	20

Source: American Community Survey 1-year estimates 2019. Occupations are based on the Standard Occupational Classification (SOC) System as defined by the Bureau of Labor Statistics. **Analysis:** Bay Area Council Economic Institute

SPOTLIGHTS

Public Policy Consideration: Employer Pay Transparency and Pay Audits

The wage disparities across race identified in this report can only be rectified if they are known by an employer. There is a growing movement toward pay transparency policies, including recently passed legislation in Colorado and a planned policy in New York City. In these examples, employers are required to include salary ranges on job postings. Both policies were created to boost gender equity, though pay transparency can also have racial equity benefits.

In California, Senate Bill 1162, which was signed by the governor in September 2022, similarly requires pay scales to be listed in job postings and requires private employers with over 100 employees to disclose median and average wages by race,

ethnicity, and sex within job categories. While this policy's economic impacts should be analyzed over time – for example, some employers have refused to allow remote workers to live in Colorado – having greater transparency in wages is a necessary step toward achieving equity.

Outside of policy mandates, many companies have made voluntary efforts to create greater understanding of wage gaps through wage audits. By taking a companywide view of wages by position and promotion practices, companies that have committed to diversity, equity, and inclusion can make the internal changes necessary to promote a culture of equal pay for equal work.

Private Sector Consideration: Formalize Equity Benchmarking

A major part of activating the private sector to close equity gaps requires greater benchmarking and tracking within employers themselves. This is particularly true within large companies that have broad equity initiatives across multiple departments. An understanding of how a company ranks against peers on equity metrics can drive better performance and outcomes related to equity.

In the Minneapolis-St. Paul region, a nonprofit called the Center for Economic Inclusion produced a racial equity dividends index in partnership with many of the region's largest employers. The index provides large employers with an equity score on 37 different metrics, including equity in hiring, promotions, corporate philanthropy, workplace inclusion, supply chain sourcing, among others. Businesses that participate receive a score and a list of opportunities

for better performance. Participating companies can benchmark themselves against peers by size and industry and use the information to improve their own equity initiatives. The nonprofit can also use the collected data to better understand regional gaps in equity and to make recommendations for policies, partnerships, and investments that can close those gaps.

Given the Bay Area's large number of major employers, an index like this could begin to spur even more equitable corporate practices in the region. While understanding the problem itself is only a first step, companies that participate in such a process create a ready-made forum for best practice sharing and better engagement with their own employees and communities of color.



4

Homeownership Gap

Homeownership is one of the main sources of generational family wealth, and families of color face greater obstacles to achieving homeownership than White households. On a national level, only 43 percent of Black households and 48 percent of Hispanic/Latinx households own homes. For White households, this rate jumps to 74 percent. Despite efforts to increase homeownership rates across all groups, the national rate of 65 percent has barely budged since the 1960s, while rates in other developed countries have increased substantially.^{36,37}

The racial discrepancy in homeownership, in large part, is related to the historic practices of redlining, blockbusting, and racial covenants,³⁸ all of which allowed financial institutions to deny loans to people of color for decades, regardless of income, available assets, or debt obligations. These practices simultaneously allowed White families to build wealth and equity in the suburbs, bolstered by the subsidies from the Federal Housing Administration (FHA) that encouraged the development of White-only suburban housing projects and prohibited future resales to Black families.³⁹ Even as discriminatory housing practices were banned through the Fair Housing Act of 1968, legal forms of housing discrimination were sanctioned in federal, state, and local laws, leaving a long-lasting legacy of inequity in the homebuying process.⁴⁰

In the Bay Area, where strict zoning, high demand, and insufficient supply have led to one of the most unaffordable markets in the country, homeownership

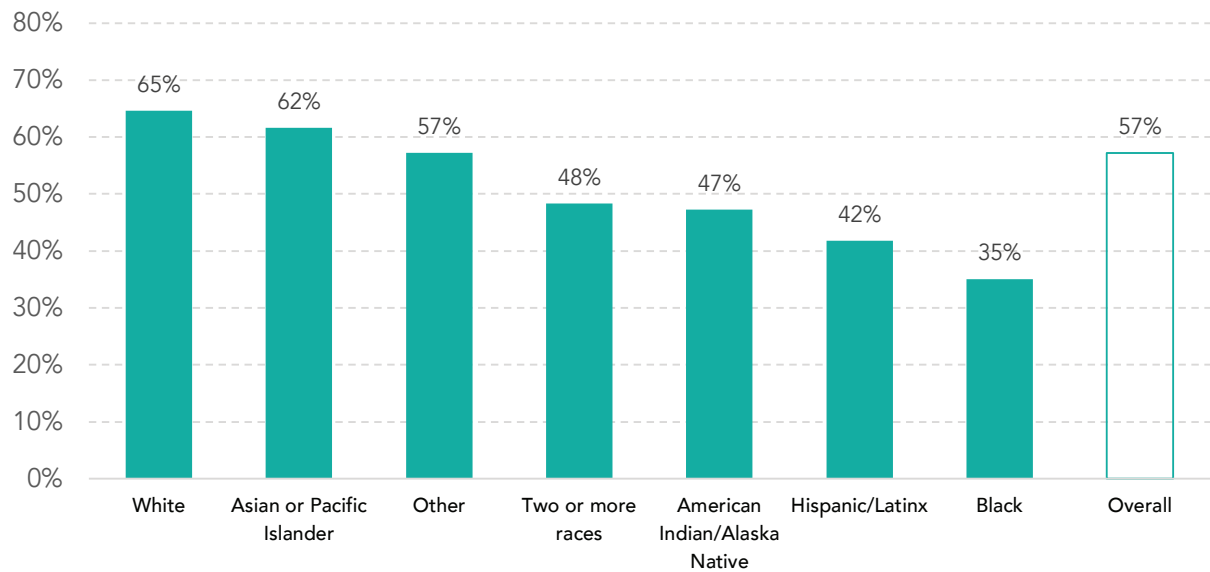
rates are even lower than they are nationwide: 35 percent of Black households and 42 percent of Hispanic/Latinx households own their homes, compared to 65 percent of White households. **(Figure 12)**

These gaps also vary widely across geography – in Marin, Santa Clara, Contra Costa, Sonoma, Alameda, and San Mateo counties, discrepancies between Black and White homeownership rates are greater than the region's overall 27 percentage point gap. In San Francisco, the high cost of real estate and more pronounced rental market have led to lower rates of homeownership regardless of race.

From 1990 to 2021, homeownership rates for White, Asian or Pacific Islander, and Indigenous households grew marginally, while rates from Black and Hispanic/Latinx households fell, leading to stagnancy in the region's overall homeownership rate. **(Figure 13)** Homeownership rates briefly increased in the early 2000s due to a proliferation of risky subprime loans, but this increase was unsustainable and short-lived, and in 2008 had a devastating impact on families when the mortgage bubble burst. Since then, rising costs, stagnant wages, and increasing income inequality have continued to disproportionately burden renters. Homeownership provides a vehicle for financial stability and personal saving and wealth building, and renters are typically more cost-burdened than homeowners, meaning they are more likely to spend 30 percent or more of their income on housing.

Figure 12. White households are nearly twice as likely to own their own homes than Black households in the Bay Area

Homeownership Rates by Race/Ethnicity in the Bay Area, 2021

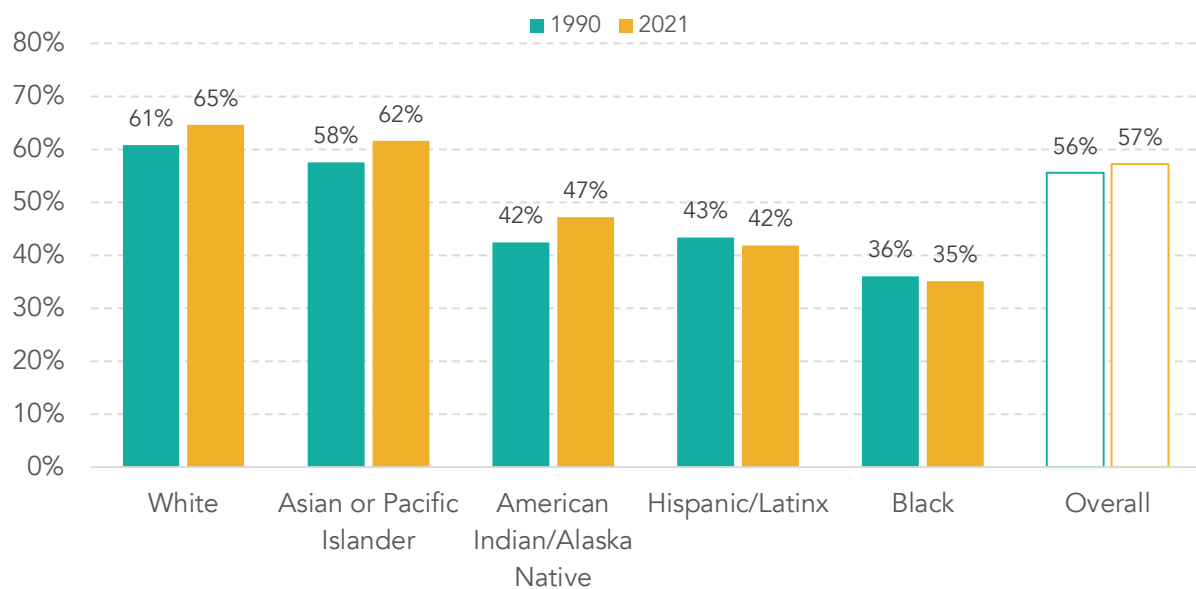


Source: ACS 2021 1-Year Estimates. **Note:** All races exclude Hispanic/Latinx ethnicity to prevent double counting.

Analysis: Bay Area Council Economic Institute

Figure 13. Homeownership rates have remained relatively stagnant since 1990

Homeownership Rates by Race/Ethnicity in the Bay Area, 1990-2021



Source: U.S. Census Bureau 1990 Decennial Census, ACS 2021 1-Year Estimates. **Analysis:** Bay Area Council Economic Institute

Despite an overall homeownership rate of 62 percent for Asians and Pacific Islanders in the Bay Area, there are stark disparities when broken down by ancestry. Taiwanese and Chinese residents are far more likely to own their homes than Southeast Asians (Thai, Cambodian, Laotian) or Pacific Islanders (Fijian, Tongan, Samoan, Guamanian). Some Asian ethnic groups came to and continue to enter the United States by bringing capital investment or by filling highly skilled occupations, like many of the Indians and Chinese immigrants in the region. In comparison, political refugees from Southeast Asia have come with few economic resources to escape war and political persecution with lower educational attainment or skills.⁴¹ While it is not possible to track documentation status or reasons for immigration, these differences play a large role in housing disparities by ancestry. See **Appendix Figure B** for a full breakdown by ancestry.

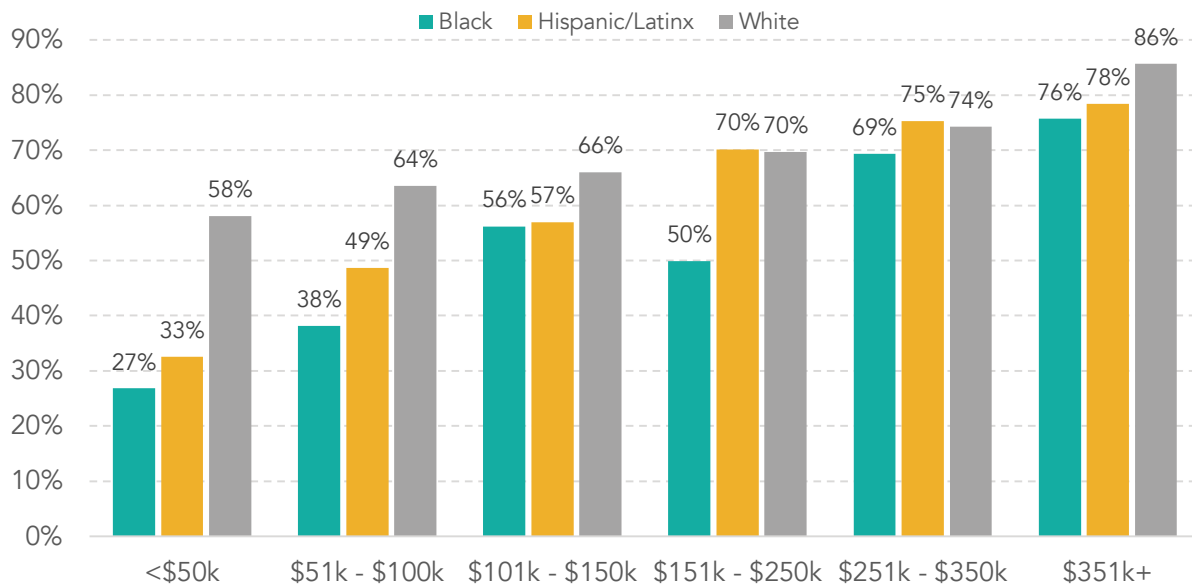
There are also significant differences in homeownership rates among residents identifying as Hispanic or

Latinx. While they do not comprise a large share of the Hispanic/Latinx population, Argentines and Chileans boast homeownership rates close to 70 percent, while the vast majority of Central Americans fall well below the 39 percent average for Hispanic/Latinx residents overall. With a homeownership rate of 40 percent, Mexicans drive the overall 39 percent average, as they constitute 50 percent of all Hispanic/Latinx homeowners in the Bay Area.

By income level, the gap between Black and Hispanic/Latinx and White homeownership is much wider for households earning \$100,000 or less: a 26% gap for Hispanic/Latinx households, and a 31% gap for Black households. This directly speaks to differences in generational wealth and parental support when applying for a mortgage. White parents are more likely to provide down payment support, or even serve as a co-applicant when seeking preapproval.⁴²

Figure 14. For lower income households, the gap between Black and Hispanic/Latinx and White homeownership is much wider

Homeownership Rates by Race/Ethnicity in the Bay Area, 1990-2021



Source: ACS 2021 1-Year Estimates. **Note:** All races exclude Hispanic/Latinx ethnicity to prevent double counting.

Analysis: Bay Area Council Economic Institute

What would it look like if we closed racial gaps in mortgage lending in the Bay Area?

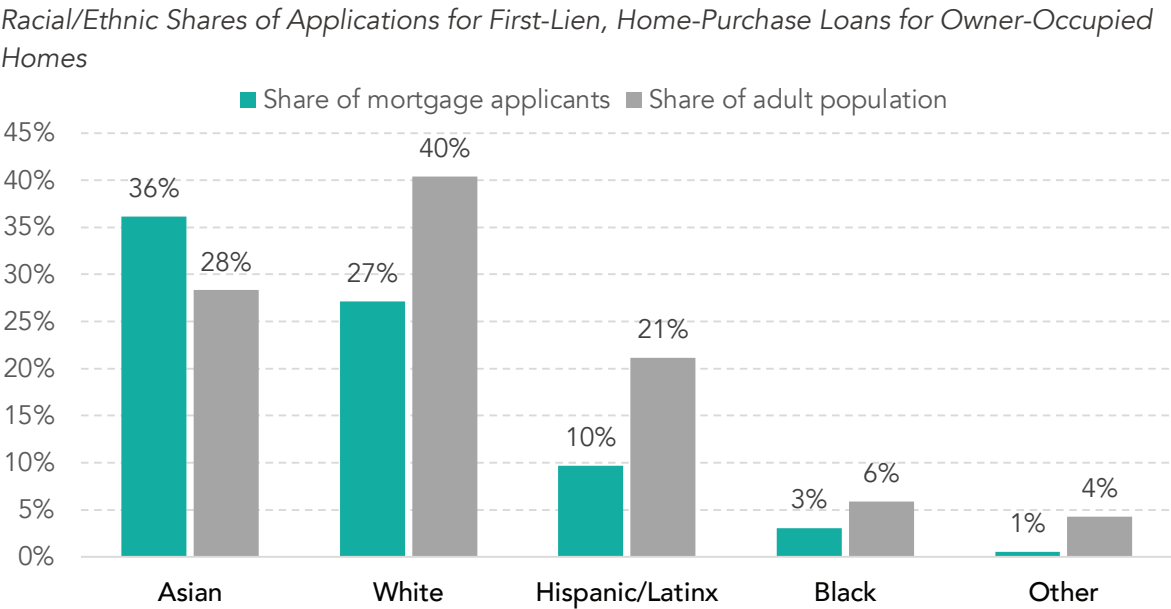
One of the main obstacles driving racial disparities in homeownership is unequal access to mortgage lending, which is a product of institutional racism that has perpetuated gaps in wealth and racial bias within the lending process itself. Achieving equity in mortgage lending does not start with the mortgage origination process, it starts earlier with the knowledge and ability to apply for a mortgage in the first place. Of the 159,880 mortgage applications in the Bay Area in 2021 and 2022, less than 15 percent came from Hispanic/Latinx, Black, or American Indian applicants, despite comprising 27% of the population over the age of 18.⁴³

Black, Hispanic/Latinx, and Indigenous borrowers are nearly twice as likely to be denied for a loan when

compared to White borrowers. The mortgage industry has long explained these denial gaps due to differences in income, wealth, and debt. Yet an analysis of these exact metrics finds that Bay Area borrowers of color with the same levels of debt, income, loan-to-value ratios and other creditworthiness metrics are still denied at higher rates than their White counterparts.

Even after controlling for creditworthy metrics such as debt, income, and loan-to-value ratio, borrowers of color in the Bay Area are still denied at a higher rate than White borrowers.

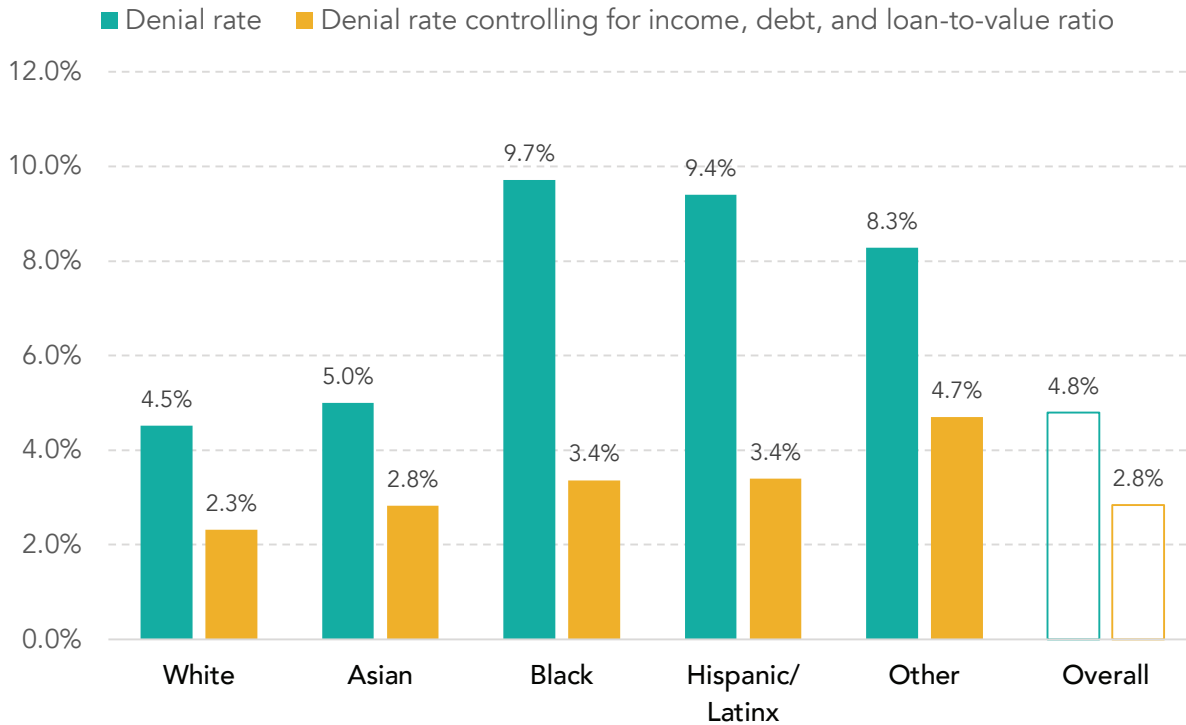
Figure 15. From 2021-2022, Hispanic/Latinx, Black, and American Indian applicants constituted 14 percent of overall mortgage applicants in the Bay Area, despite comprising 27% of the 18+ population.



Source: CFPB Home Mortgage Disclosure Act, 2021-2022 LAR. **Note:** All races exclude Hispanic/Latinx ethnicity to prevent double counting. *Other* includes American Indian/Alaska Native, and those identifying as 2 or more races. Green bars do not add to 100% because 23% of applicants had no identifying racial information. **Analysis:** Bay Area Council Economic Institute

Figure 16. Even after controlling for creditworthy metrics such as debt, income, and loan-to-value ratio, borrowers of color are still denied at a higher rate than White borrowers

Denial Rates by Race and Ethnicity in the Bay Area, 2021-2022. Applications for First-Lien, Home-Purchase Loans for Owner-Occupied Homes



Source: CFPB Home Mortgage Disclosure Act, 2021-2022 LAR. **Note:** "Other" includes Native Hawaiian/Other Pacific Islander and American Indian/Alaska Native. 18% of denials had no race information for the borrower and were excluded from analysis. Credit worthiness controls are defined as applicants with: income \geq MSA Median, debt-to-income ratio $\leq 43\%$, and loan-to-value ratio $\leq 80\%$. **Analysis:** Bay Area Council Economic Institute

In a similar analysis for subgroups of Asian or Pacific Islander borrowers, this analysis again finds stark disparities after controlling for debt, income, and loan-to-value ratios. Vietnamese, Pacific Islander, and Filipino borrowers experience the highest denial rates in the Bay Area and are the only subgroups to be denied at a higher rate than Asian applicants overall.

If applicants of color were approved at the same rate as White applicants in the same age bracket and income group, the number of approved mortgages to borrowers of color could increase by 330 annually in the region.

While an increase in approved mortgages would improve homeownership rates for people of color, it is widely documented that Black and Hispanic/Latinx borrowers who successfully make it through the mortgage approval process are frequently charged more for mortgage loans than similarly situated White borrowers.⁴⁴ Policies catered toward increasing access to mortgages and other loan products should also consider the quality of the loan product, particularly for creditworthy applicants.

Fully achieving equity in the homebuying process hinges on closing gaps in application and approval rates for creditworthy households of color, but also increasing access and educational opportunities for first-time homebuyers of color. Public and private programs sanctioned by local, regional, and state governments as well as lending institutions (e.g., banks, licensed mortgage lenders) are critical for ensuring traditionally

underserved communities of color a seat at the table in the homebuying process. Even at the top of the region's housing production cycle, total new permits in California are less than half of what they were in the late 20th century. To keep up with demand and increase the region's supply of housing, zoning, hard costs, and unnecessary discretionary review processes must be addressed and reimagined as well.

SPOTLIGHT

Public Policy Consideration: Improve Access to Mortgages

A wide range of research has found that homeownership is one of the keys to wealth creation – signaling that the homeownership disparities uncovered in the Bay Area create significant wealth gaps in the region. While the homeownership gap is partly a historical product of redlining and mortgage lending practices, that gap is exacerbated by the current high cost to enter the market. Research has shown that households of color generally have lower incomes than White households, have fewer savings, and are less likely to benefit from inherited wealth, all of which make White households more likely to afford a down payment when compared to households of color.

A number of programs have been implemented around the region that provide down payment assistance to first-time homebuyers, including in Fremont, Oakland, San Francisco, and San Jose. At the state level, multiple California lawmakers have proposed a bond issuance of \$25 billion to fund silent, no-interest second mortgages for homebuyers that would be repaid when the home is sold. At the regional level, similar programs could be created through the Bay Area Housing Finance Authority

to support first-time homebuyers. However, bids that rely on assistance to reach minimum down payment levels will likely fall short of bids that can provide larger down payments or finance a purchase with cash. Because of this, policies focused on greater housing production, ensuring fair access to mortgages for households of color, and removing racial bias in lending processes are likely to be more effective in reducing homeownership disparities.

One piece of stalled legislation in California, Senate Bill 1176, would expand upon the federal Community Reinvestment Act, which creates a framework for evaluating financial institution's lending and investment activities in low- and moderate-income communities. Senate Bill 1176, while not advanced in the previous legislative session, would explicitly consider race and ethnicity in the performance evaluation for financial institutions. A number of banks have also made commitments to racial equity in their own banking policies, including setting aside billions of dollars for down payment and closing cost assistance, refinancing education for Black and Hispanic/Latinx households, and financing the creation and preservation of affordable units.

SPOTLIGHT

Private Sector Consideration: Equity-Focused Community Investment Fund

With so many different businesses engaged in an array of diversity, equity, and inclusion activities, creating better coordination within the private sector itself has become necessary to bring solutions to scale. A centralized fund or community development public-private partnership could solve this issue and bring additional businesses and investment to equity initiatives. This idea has taken shape in other cities through Community Development Financial Institutions that forge deep partnerships with the private sector and allow the community to take part in development discussions.

In the Bay Area, a fund or community development entity could be created at regional scale. This entity could serve multiple purposes. In its simplest form, it could be a venue for large employers and other philanthropic entities to share best practices, to coordinate on giving to achieve greater impact, and to vet non-profit grant recipients. A similar structure exists in Detroit, where philanthropic entities have

come together to seed investments in real estate development firms owned by people of color. In a more complex form, a regional entity could serve as an investment vehicle – similar to how a Community Development Financial Institution operates, but at greater scale – that utilizes philanthropic donations and tax credits to make real estate, small business, school, and homeownership investments in communities with a high concentration of households of color.

A centralized, equity-focused entity can also offer the benefit of coordinating private sector volunteer and pro bono efforts, such as college student mentoring and small business coaching. This entity could also manage the table where community stakeholders, government leaders, business interests, and service providers build consensus on equity strategies that could be scaled across the entire region.



5

Topics for Future Research

While this study focuses on two major issues with substantial gaps in opportunity and outcome by race, there are several important topics not covered in this study. Racial disparities do not exist in a vacuum, and while these issues often intersect and inform one another, this study is meant to take a first look at the disparities most directly connected to earning potential and wealth building. Possible topics for future research include inequities in public education systems, health outcomes and access to healthcare, and criminal justice.

Education

It is nearly impossible to address the wage gap without also addressing gaps in education such as disparities in graduation rates, public school funding, and per pupil expenditures. While this study employs educational attainment as a control for analyzing disparities in wages, employment, and homeownership, a study more targeted at educational disparities in the Bay Area is needed to fully quantify racial equity in our education system.

A recent study by the Center on Education and the Workforce at Georgetown University found that the U.S. economy misses out on \$956 billion per year, along with other non-monetary benefits, because of racial gaps in educational attainment. Quantifying the racial education gap in the Bay Area would be an important first step in fully understanding the causes – and solutions – to current racial pay gaps.

Health and Healthcare

Where we live determines our access to high-quality housing, education, employment, fresh food, and green space. These conditions, also known as the social determinants of health ultimately inform our quality-of-life outcomes, including chronic health conditions, mental health issues, and higher mortality rates. Black people have higher rates of diabetes, hypertension, and heart disease than other groups, and Black children have a 500% higher death rate from asthma compared with White children.⁴⁵ These outcomes are not borne out of genetics, but rather decades of systemic racism and generational poverty.

Improving these social determinants of health would not only have an enormous effect on the health and well-being of people of color, it would also reduce the economic burden of high medical care expenditures due to racial health inequity. One 2011 study estimated that eliminating health disparities for people of color nationwide would have reduced direct medical care expenditures by about \$230 billion and indirect costs associated with illness and premature death by more than \$1 trillion for the years 2003 to 2006. Studying these effects using up-to-date data on the nine-county Bay Area would offer a first look at what we stand to gain by eliminating racial health disparities.

Criminal Justice

With the largest prison system in the country, California has the second highest average cost per inmate out of any state (at \$64,000) and the highest total prison expenditures of any state in the nation.⁴⁶ Nationally, a Black person is five times more likely to be stopped without just cause than a White person.⁴⁷ Future research should consider the economic and social effects of these statistics. It is estimated that formerly imprisoned people experience a 52 percent reduction in annual earnings compared to their peers, people with a felony conviction who are not sentenced to prison experience a 22 percent reduction, and people with a misdemeanor experience a 16 percent reduction.⁴⁸ Quantifying the loss in earnings for those convicted of misdemeanors and felonies in the region based on regional incarceration and probation rates would add nuance to this research.

As the first study on closing racial gaps in income, employment, and homeownership in the Bay Area, the goal of this research is to spur conversations and change within both the private sector and government and identify action steps toward advancing racial equity in the region. While it is important to analyze disparities on the regional level, the Bay Area is not monolithic, and future studies should consider how county or neighborhood-level needs may be different from the region as a whole.

Lastly, while this study largely employs data from 2021, it would be important for future research to consider the effects of COVID-19 on communities of color post-pandemic. This study makes clear that as we build back our economy, we cannot return to “normal” because normal is a region with immense racial disparities. Crises offer an important moment of change, and it is time to create a new type of Bay Area normal with equity and racial justice at the forefront.

Methodological Appendix

Wages

Data were drawn from the U.S. Census Bureau’s American Community Survey (2021 1-Year Estimates) IPUMS microdata for the nine-county Bay Area. To quantify the increase in wages for people of color under a hypothetical scenario in which racial pay gaps are eliminated, we applied a methodology similar to that used by Sarah Treuhaft, Justin Scoggins, and Jennifer Tran in PolicyLink’s The Equity Solution: Racial Inclusion Is Key to Growing a Strong New Economy. We first organized individuals aged 16-70 into eight mutually exclusive racial/ethnic groups: White, Black, Asian or Pacific Islander, American Indian or Alaska Native, 2 or more races, Other, and Hispanic/Latinx (with all races excluding Hispanic/Latinx individuals to prevent double

counting). Then, for each race/ethnicity, educational attainment, and age group pairing, we found the average income by quartile, and projected the increase in income that would occur if they earned as much as their non-Hispanic White counterparts.

Groups were excluded with <199 people (33 groups total, mostly in the American Indian and other race groups). The total impact number is the sum of the calculations made across the groups. Populations with higher wages than their non-Hispanic White counterparts were also excluded (about 13% of the sample population).

The following observations were included in each variable:

Race/ethnicity groups	Educational attainment groups	Age groups
American Indian/Alaska Native	Some High School or less than high school	16-20
Asian or Pacific Islander	High School Diploma, GED or alternative credential	21-30
Black	Some college	31-40
Other Race	Associate's Degree	41-50
Two or More Races	Bachelor's Degree	51-60
White	Master's Degree or higher	61-70
Hispanic/Latinx (of any race)		

Note: All races exclude Hispanic/Latinx ethnicity to prevent double counting. Those aged <16 and >70 were excluded. Those with negative or zero income were excluded.

Wages by Occupation

Data were drawn from the U.S. Census Bureau's American Community Survey (2021 1-Year Estimates) IPUMS microdata for the nine-county Bay Area. For each race/ethnicity and occupation, we found the average income by quartile, and projected the increase in income that would occur if they earned as much as their non-Hispanic White counterparts.

Occupations were chosen based on the Bay Area's industry distribution in 2019 (outlined in the table below). The top occupations (based on employment) were chosen for each industry. Industries such as Professional and Business Services, Education and Health Services, and Trade, Transportation and Utilities

were assigned a larger number of occupations given their high overall share of Bay Area employment. Groups were excluded that were not less than or equal to number of observations plus one needed to generate earning quartiles (81 groups total, largely occurring in the American Indian, 2 or more races, and other race groups given their size).

Occupations lists on the following page were included. Some occupations (Software Developers, Other Managers, Personal Care Aides, Cashiers) were duplicative across industries, which reduced the total number of analyzed occupations to 44. After initial selection, occupations were analyzed regardless of industry.

Employment by Industry in the Bay Area, 2019

Industry	Employment	Share (%)
Professional and Business Services	823,096	20.7%
Education and Health Services	811,627	20.4%
Trade, Transportation, and Utilities	643,405	16.2%
Manufacturing	393,969	9.9%
Food and Accommodation	366,231	9.2%
Construction	238,676	6.0%
Financial Activities	204,838	5.1%
Other	170,125	4.3%
Information	157,841	4.0%
Government	142,746	3.6%
Farm	27,933	0.7%
Total	3,980,487	

Occupations	Industry
Software Developers	Professional and Business Services; Manufacturing; Information
Other Managers	Professional and Business Services; Information
Lawyers, and judges, magistrates, and other judicial workers	Professional and Business Services
Accountants and Auditors	Professional and Business Services
Management Analysts	Professional and Business Services
Landscaping And Groundskeeping Workers	Professional and Business Services
Security Guards and Gaming Surveillance Officers	Professional and Business Services
Janitors and Building Cleaners	Professional and Business Services
Chief Executives and Legislators	Professional and Business Services
Sales Representatives of Services, Except Advertising, Insurance, Financial Services & Travel	Professional and Business Services
Registered Nurses	Education and Health Services
Elementary and Middle School Teachers	Education and Health Services
Postsecondary Teachers	Education and Health Services
Personal Care Aides	Education and Health Services; Government
Physicians	Education and Health Services
Teaching Assistants	Education and Health Services
Education And Childcare Administrators	Education and Health Services
Secondary School Teachers	Education and Health Services
Nursing Assistants	Education and Health Services
Preschool and Kindergarten Teachers	Education and Health Services
Retail Salespersons	Trade, Transportation, and Utilities
First-Line Supervisors of Retail Sales Workers	Trade, Transportation, and Utilities
Cashiers	Trade, Transportation, and Utilities; Food and Accommodation
Driver/Sales Workers and Truck Drivers	Trade, Transportation, and Utilities
Laborers and Freight, Stock, and Material Movers, Hand	Trade, Transportation, and Utilities
Customer Service Representatives	Trade, Transportation, and Utilities
Stockers And Order Fillers	Trade, Transportation, and Utilities
Taxi Drivers	Trade, Transportation, and Utilities
Other Engineers	Manufacturing
Other Assemblers and Fabricators	Manufacturing
Electrical and Electronics Engineers	Manufacturing
Waiters and Waitresses	Food and Accommodation
Cooks	Food and Accommodation
Food Service Managers	Food and Accommodation
Food Preparation Workers	Food and Accommodation
Construction Laborers	Construction
Carpenters	Construction

Mortgage Lending

Data were drawn from the Consumer Financial Protection Bureau (CFPB) Home Mortgage Disclosure Act (HMDA) for the nine-county Bay Area from 2021-2022. For each race/ethnicity, we found the denial rate, and projected the increase in approved mortgages that would occur if people of color were denied at the same rate as their non-Hispanic White counterparts. Applications were only analyzed for first-lien mortgages, for home purchase (versus home improvement or refinancing). Applications for investment properties or vacation homes were also excluded. Differences were controlled for an applicant's debt-to-income ratio, loan-to-value ratio, and income level:

Debt-to-income ratio (DTI) = (Monthly debt payments ÷ Gross monthly income) × 100. Debt payments include auto loans, student loans, credit card payments, and child support and alimony. Generally, 43% is the highest DTI ratio a borrower can have to get a qualified mortgage (category of loan that less risky and more stable).

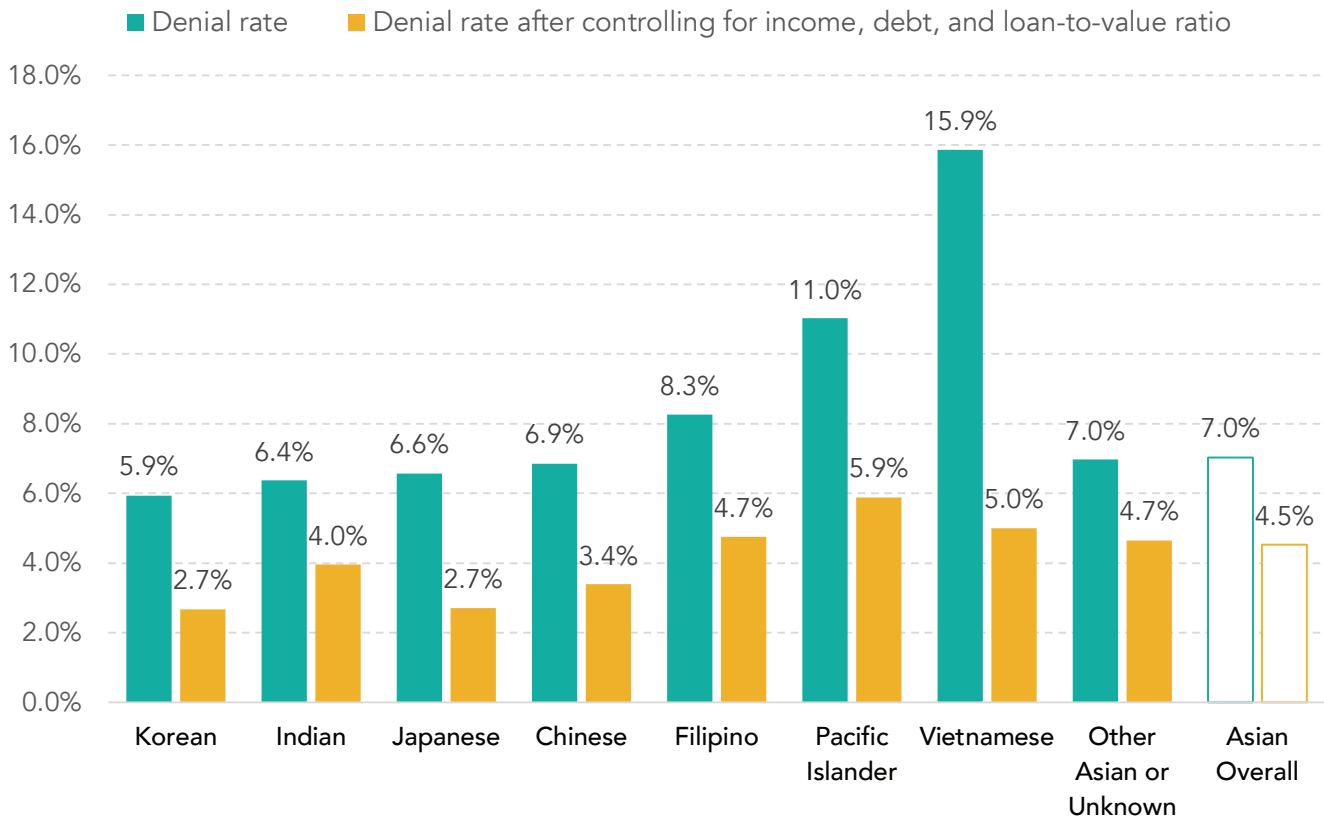
Loan-to-value ratio (LTV) = (Amount owed on the loan ÷ Appraised value of asset) × 100. LTVR is the portion of the property's appraised value that isn't covered by a down payment (e.g., 20% down = LTVR of 80%). Most lenders offer mortgage applicants the lowest possible interest rate when the loan-to-value ratio is at or below 80%.

Each applicant is classified under one of the following **income groups**:

- Low Income = borrowers earning <50% of the Metropolitan Statistical Area (MSA) Median Family Income (MFI) excluding 0 or negative income
- Moderate Income = borrowers earning 50% to 80% of MFI
- Middle Income = borrowers earning 80% to 120% of MFI
- Upper Income = borrowers earning >120% of MFI

Appendix Figure A: By Asian Subgroup, Vietnamese and Native Hawaiian/Pacific Islander borrowers experience the highest rates of denial, even after controlling for creditworthiness

Denial Rates by AAPI subgroup in the Bay Area, 2018-2020. Applications for First-Lien, Home-Purchase Loans for Owner-Occupied Homes



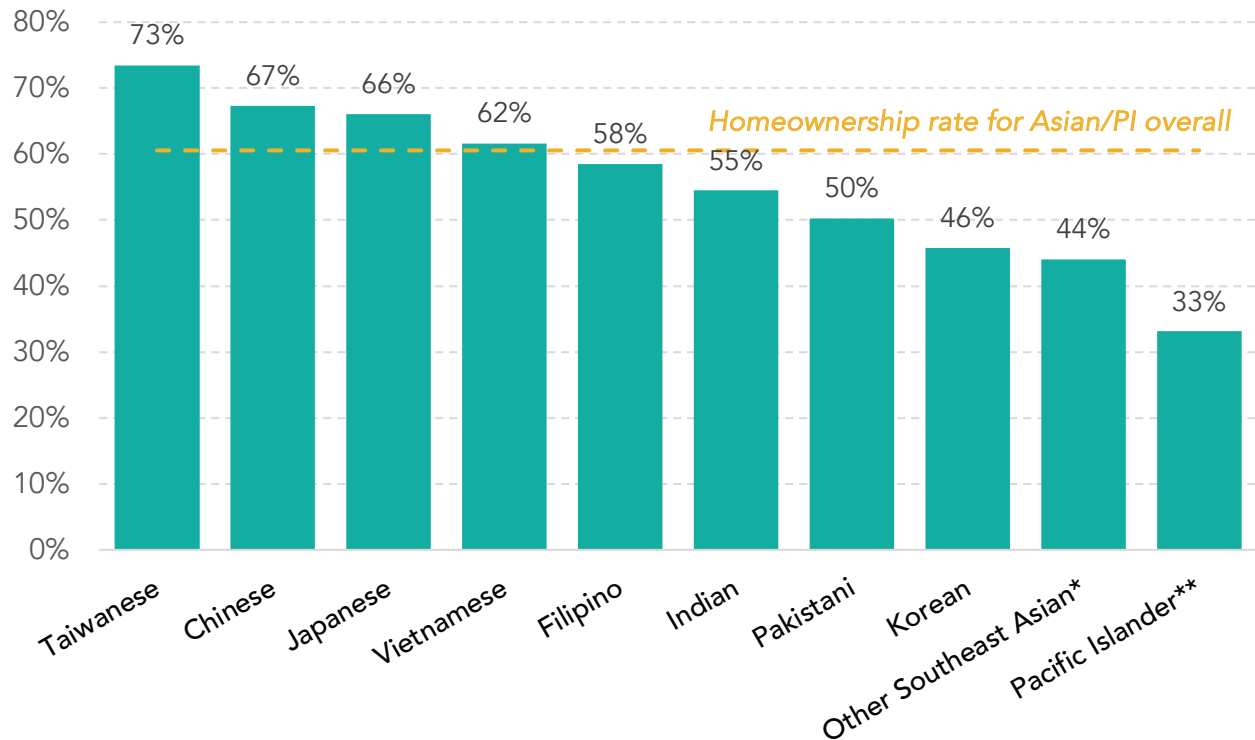
Source: CFPB Home Mortgage Disclosure Act, 2018-2020 LAR. **Note:** Other Asian includes borrowers coded as "Asian" with no subgroup, as well as borrowers coded with subgroup "Other Asian." Pacific Islander includes Native Hawaiian, Guamanian, Chamorro, and Samoan borrowers. Credit worthiness controls are defined as applicants with: income \geq MSA Median, debt-to-income ratio \leq 43%, and loan-to-value ratio \leq 80%. **Analysis:** Bay Area Council Economic Institute

Homeownership

Data were drawn from the U.S. Census Bureau's American Community Survey (2021 1-Year Estimates) IPUMS microdata for the nine-county Bay Area.

Appendix Figure B. There are significant disparities among Asian or Pacific Islander homeowners by self-report ancestry

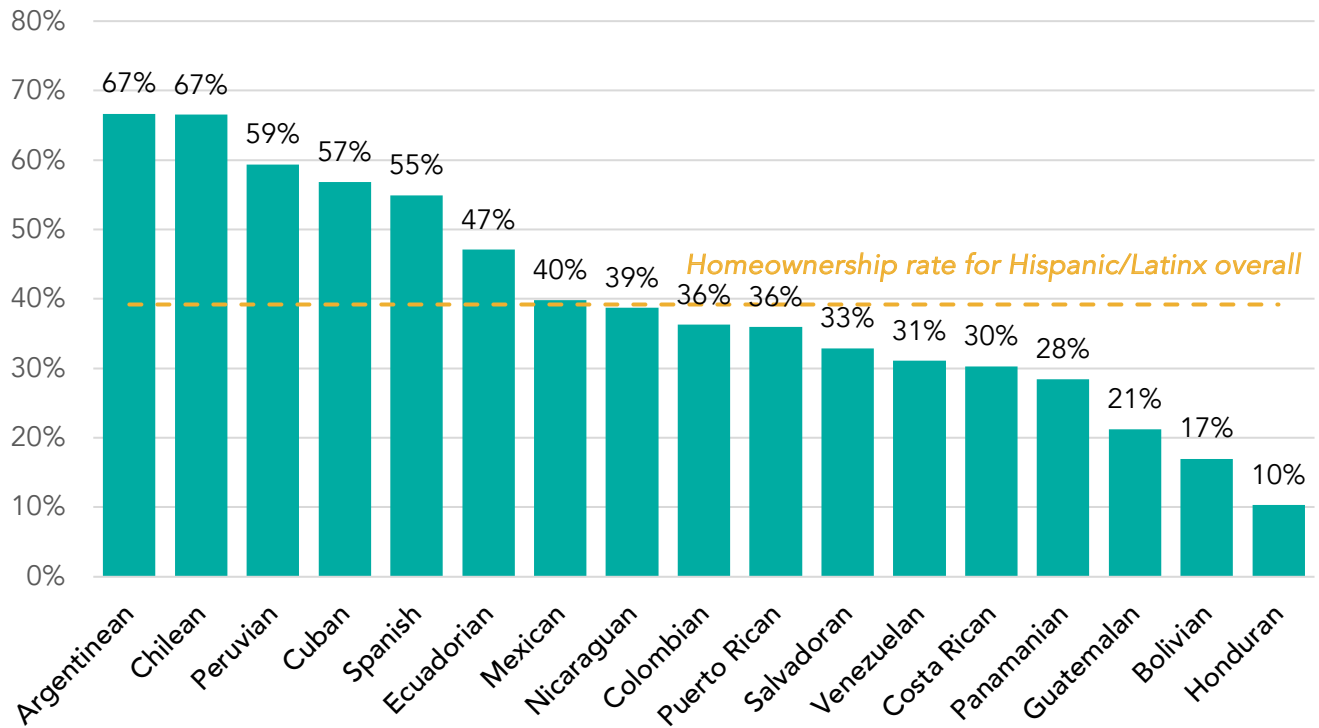
Homeownership Rates by Ancestry for largest Asian/PI Groups, 2019



Source: ACS 2019 1-Year Estimates. **Notes:** Race does not include those identifying as Hispanic/Latinx. Groupings are based on self-reported ancestry. *Other Southeast Asian includes Thai, Cambodian, and Laotian. **Pacific Islander includes Fijian, Tongan, Samoan, and Guamanian. **Analysis:** Bay Area Council Economic Institute

Appendix Figure C. Homeownership rates for the vast majority of Central Americans falls well below the rate for Hispanic/Latinx homeownership overall

Homeownership Rates by Ancestry for largest Hispanic/Latinx Groups, 2019



Source: ACS 2019 1-Year Estimates. **Notes:** Groupings are based on self-reported ancestry. Mexican also includes those identifying as Mexican American or Chicano/a. **Analysis:** Bay Area Council Economic Institute

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