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“Has there even been an unbiased appraisal?” - by Sean Sargeant

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Like many of you, I attended (virtually) the American Society of Appraisers' seminar on Unconscious Bias for the Appraisal Profession in January 2021. Gary Smith and Janet Crenshaw Smith put together an insightful 90-minute session on the role of unconscious bias in our lives and provided tools to understand its role in our actions. Near the end of the presentation, they offered up a rhetorical question, “Has there even been an unbiased appraisal?” I find this question intellectually stimulating.

We know that an appraisal is a supported opinion of value, reconciled through analysis of the market of buyers and sellers of similar property with comparable utility, desirability, and scarcity. Our role as appraisers is not to make a market, it is to reflect a market. As a result, this question requires us to ask, “Is the market of buyers and sellers biased?” Clearly the answer is yes. How many times have you asked a buyer, “Why this property?” and the answer was “I liked it.” Infrequently we get a dispassionate discussion of equity capitalization rates, vacancy trends, or management expenses that lead the buyer to this specific property. More typically, behind “I liked it,” we find a bias. It may be for low-risk income, such as a GSA-backed lease, or for complex and interesting projects, such as high-risk mixed-use redevelopment of a brownfield. Investors in these two vastly different property types are motivated by personal bias, conscious or unconscious, based upon their economic needs, ego, risk tolerance, and past experience. Each is likely to value the opposite project in a quite different way and unlikely to shop the two investments against each other. As a result, when we analyze a market for a certain property type, say retail strips secured by “credit” tenants, we are wading into a pool of buyers and sellers who hold an availability bias; that is a bias to evaluate a new opportunity, the purchase of their next retail strip, based on their immediate past purchases of retail strips. The market for a specific property type may be made up of individuals who exhibit diversity of race, age, sexual orientation, religion, politics, language, and education, but it is absolutely biased, consciously or unconsciously to prefer this investment over others. The competition between these biased investors defines the market that we analyze in every appraisal

assignment. Therefore, it is clear that the market for each property type is by its very nature biased.

This question also requires us to ask ourselves are we, the analyst, biased? An appraisal is not simply the data, graphs, and discussion we place into a report. An appraisal includes so much more; our experiences with the same type of property, our past history with similar investors, our discussions with buyers and sellers as we pass briefly in the grocery aisle, our knowledge of offers made on properties no longer marketed, our awareness of past economic cycles, our experiences with the assigned review appraiser, and of course our biases. Thankfully, incidents of conscious prejudice are rare in our profession. However, we all have conscious and unconscious biases. I have a confirmation bias; it's the engineer in me. I use extensive regression analysis on comparable sales and when I get a 'flyer' I want to find the reason it does not fit the overall pattern. Often, after I have exhausted all avenues, there are no reasons for the data point to not fall in line with the others; it's simply the variation in the market. In these cases, I have to fight my inclination to adjust it to fit the pattern. I often exclude data that cause more questions than they answer. However, when faced with a flyer I find it is always best to describe the work that went into verification, analyze it and let the result carry an appropriate weight in the reconciliation. Thankfully, this is a conscious bias; I can work to not let it affect my analysis or conclusion. However, we all hold unconscious biases. We remain unaware of the impact these have on our work because they are illusive until we force ourselves to think about them; awareness is the key. Part of practicing as a responsible appraiser is actively reflecting on and understanding our decisions. It is our responsibility to understand our biases and mitigate their effects on our analyses through self-awareness, by obtaining feedback from peers, and by not shaming others when a bias is acknowledged.

So, the answer to our rhetorical question, "Has there even been an unbiased appraisal?" is a resounding, no. The actions of buyers and sellers in the market are inherently biased. Appraisers are individuals that carry both conscious and unconscious bias. Holding a bias is not a problem, allowing it to affect our conclusion is.

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