Appraisal bias challenges - by Steven Spangle

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Steven Spangle
Spangle Associates

There is a growing awareness of bias in the appraisal profession. President Biden has established a task force to address race-associated disparities in home appraisals. The commission will primarily focus on the issues of mandatory data reporting and automated valuation methods.

Mandatory data collection could involve entities such as Fannie Mae, Freddie Mac, and the Federal Deposit Insurance Commission, as well as others providing data, to form some type of transparent database that could show where bias is occurring. It is unclear at this time what specific data would be gathered and if lenders who hold loans in-house would be required to provide data. They have not yet indicated how this data will encourage appraisers to avoid appraisals based on bias.

Bias, either cognitive or unconscious, is difficult to stop. People with a conscious bias tend to surround themselves with people and reading that validates their bias. Those who are unconsciously biased don't recognize they have a problem. Both require an individual to change their thinking and possibly their friends. Others cannot make them change.

For an appraiser bias is a problem when it prohibits compliance with the Uniform Standards of Professional Appraisal Practice (USPAP). The Appraisal Foundation is addressing the issue as are a number of appraisal organizations. The 2022 version is USPAP is specific in addressing bias and what must be done to avoid it in an appraisal. The appraisal profession can work to make appraisers aware of bias and its impact.

The use of automated valuation methods rather than humans is seen as potentially removing human bias from appraisals. The present reasoning is that the models, while removing bias would also standardize the inputs that may go into a valuation, such as footage, room counts, and the number of bathrooms.

Establishing "standardized inputs" is the process of making things of the same type have the same basic features, in this case value. Adjustments for characteristic of a subject can lead to standardized adjustments but not necessarily to individual market values. Rather they achieve a "standardized value."

In many ways an automated valuation model is similar to matched pair analysis. They both are attempts to establish a relationship between to variables. For example, you want to know the impact of a swimming pool on value. Both, an appraiser and an automated valuation model compare the difference between a property without a swimming pool and one with a pool in order to establish the contribution of a pool. All pools are not the same size, quality, condition, or appeal.

The inspection of a property allows an appraiser to accurately identify issues such as size, condition, quality and appeal. After discussing comparables with a party to the transaction and viewing MLS photos an appraiser can make a quantifiable decision about comparable selection and adjustments.

A value is not simply about the physical characteristics of the improvements but also about the characteristics of the neighborhood and how they impact value. These characteristics require the human element. All areas in a neighborhood do not necessarily offer the same characteristic and appeal. Sound human judgement determines what sales are comparable or if they need to look outside the neighborhood.

Automated models can establish differences quickly and depending on the goal they can be reliable. However, they have limitations.

Automated models have a place but based on the data presently available a human producing a credible appraisal can be more reliable.

An appraisal is not a subjective opinion of value. A subjective opinion is based on assumptions, beliefs and opinions that are not verifiable by others and it is not based on standardized adjustments. This type of appraisal does not meet the minimum requirements of the Uniform Standards of Professional Appraisal Practice (USPAP).

An appraisal is an objective opinion of value. It is true, unbiased and balanced. The conclusions reached are provable and verifiable.

The National Association of Realtors is concerned that the public is reaching conclusions about the appraisal system based on media stories alone.

Regarding the potential of new software systems for appraisals, the Association states: "NAR believes a traditional, in-person appraisal continues to provide the most comprehensive and thorough opinion of value for a real estate transaction."

The human element in an appraisal can result in a more credible appraised value. However, automated appraisals are evolving and improving at a steady pace. The appraisal industry must work to convince the public that they are addressing bias. They encourage owners to file complaints if they believe bias has played a part in their appraisal. If everyone, appraisers and consumers actively address bias progress can be made.

Steven Spangle, SRA, MRA, is president of Spangle Associates, Auburn, Mass.