

# Bias In Appraisals

## A Real Estate CE Course by Melanie McLane

Recent news stories, lawsuits, etc.

- Fair Housing violations
- Most complaints are around race or ethnicity, as opposed to gender, handicap, etc.

Implicit Bias

News Stories vs Reporting

- Reporting to Appraiser Boards
- Reporting to Lender/AMC
- Having a review appraisal performed

Are all appraisers biased?

Communication problems

Words and phrases that should not be used

Citing an issue with no context

Describing a property or neighborhood incorrectly

Other factors (socio-economic)

Outsiders to the industry:

Question why appraisers use comparables in the same neighborhood as the subject

Some believe solutions include:

- Using comparables from all over a city
- Using AVMs only

Best defense:

Don't be biased! It's against USPAP

Don't accept an assignment where you might appear to be biased

Watch what you say, even in casual conversation

Think about whether the comments are required to communicate the appraisal

Were the comments in context?

Examples:

In each paragraph below, an appraiser has described a neighborhood in an inappropriate manner. Rewrite the paragraphs in an appropriate way. For factual data not available in the original paragraph, use poetic license.

- 1. Eastwood is a bedroom community, popular with commuters to Large City. For at least 4 decades, there has been a steady exodus of buyers coming from the city, seeking the lower crime rate, better school districts, and more homogeneous neighborhoods found in Eastwood. Property values have increased steadily over time. Eastwood remains a prestigious neighborhood, one which many buyers aspire to live in. Eastwood offers typical amenities preferred by middle to upper-middle class buyers, such as Starbucks and a mall with high-end stores. The presence of undesirable influences is almost non-existent. Eastwood has good proximity to the beltway leading to Large City, with most commutes taking less than one hour. Eastwood has a variety of religious institutions, including two Catholic Churches and even one Jewish synagogue. Eastwood also has a library, small museum, hospital, and a local YMCA.*
- 2. Sharpstown is an identified, older neighborhood in Large City, initially settled by Jewish and other immigrants from Eastern Europe, in the 1800's. At the turn of the 20<sup>th</sup> century, Irish immigrants supplanted those residents, who resettled in other areas. Post WWII, an influx of Black and Hispanic residents moved in. During that time, large older homes in the area were converted to apartments or boarding houses. The crime rate went through the roof in the 1980's to 1990's, decreasing prices. The lower prices began to attract buyers by around 2010, who despite the poor condition of many of the structures, and the crime rate, were attracted by how convenient this neighborhood is to many amenities in Large City. Gentrification began, with many long-time residents bought out, and some homes converted back from apartments to large single-family homes. Gentrification is not even in this neighborhood, and there is significant tension even today between long-time residents and the 'new people' who are viewed with suspicion. In terms of prices, the neighborhood is markedly uneven, with some restored properties selling in the half million range, yet old, run-down properties selling for \$200,000 or less.*
- 3. Hick Haven is a very small village, not near any significant population center. The nearest large city is Albany, about 1 hour away. Hick Haven is primarily a farming village, as most of the land surrounding it is farmland. The population of Hick Haven, at the last census, was 2,930 people, 99.9% of whom are white. The number one occupation in the village itself is 'retired', and the*

*second category is 'agricultural'. The village is very insular, and the occupants are suspicious of 'outsiders'. Hick Haven has few amenities, most notably, to balance each other out, a local bar and a local church, so as to serve sinners and saints alike. The housing stock in Hick Haven is of an approximate age of about 100, with many homes old-fashioned and not up to date inside. The residents of Hick Haven have to travel about 30 miles to get to a hospital, supermarket, doctors' offices, and most employment.*

4. *Boalsbubb is a bedroom community to Collegetown, where the largest university in the state is located. The price points are at the higher end of the range for the county. The demographics of Boalsbubb are that a very high percentage of residents have advanced degrees, in various fields of study. Many residents of Boalsbubb work in Collegetown, either at the university or in one of the related high-tech businesses located there. The population is diverse, as many of these professors come from all over the world. Per census data, the residents of Boalsbubb earn a much higher median income than the rest of the county, and indeed, of the state. There are commercial uses in the borough, most of which cater to the upscale, woke residents. For example, there are two Starbucks, but a Dunkin' Donuts is not to be found; there is a Whole Foods, but no Aldi. The local restaurants are high end and offer exotic foods favored by the population. The local school district has a high rating on a number of metrics: teacher to student ratio; test scores, diversity, percent of graduates who go on to college. The local school district also offers extracurricular activities favored by this class of people, such as a high school symphony, a debate club, and lacrosse teams. Boalsbubb is a highly desirable community.*