Appraising the False Narrative of "Appraisal Bias"

I've heard from many appraisers, particularly residential appraisers, that the Appraisal Institute should have done better at standing up for them by making the public aware of their skills and professional discipline. I agree. Sweeping, sensationalized claims of "bias" about our profession ignore appraisers' core skills, ethical standards and professional disciplines. The valuer is the only party to a real estate transaction without a financial interest in its outcome; moreover, the appraiser's duty is to uphold the public trust, by providing an unbiased, impartial opinion of value based on a rigorous process that is continually refined and improved by the profession. Appraisers are heavily regulated to ensure quality standards, held to a rigorous ethical professional code of conduct, and our SRA and MAI designations reflect the profession's highest standards. Why then has it been difficult for appraisers to respond effectively as a profession to unfair accusations of bias?

One reason is that claims of bias are antithetical to what appraisers do. (In case you're interested, philosophers and linguists call this a "failure of presupposition," and it is hard to address because it assumes something that is not actually the case.) As of now, the public is hearing from the media and politicians about a certain terrible kind of bias. What they need to know is that professional real estate appraisal has long been built on eliminating all kinds of irrational bias. Appraisers, ironically, have been ahead of the curve in working continuously to identify and eliminate every kind of bias from their professional analysis.

Thanks to Daniel Kahneman, who died recently at the age of 90, and his partner Amos Tversky, the scientific community has recognized for over half a century that there is a normal human tendency toward bias, which they termed "cognitive bias." Their research showed that cognitive bias is part of the way all our brains work normally. In fact, our survival depends upon it.

These Nobel Prize winners (followed by several more in the following decades) demonstrated that our rationality is a myth and bias is the norm; this has been a good thing for humans, evolutionarily speaking, because bias allows us to not have to think too much in cases where a quick judgment increases our odds of survival. Roughly defined as "any predictable error that inclines your judgment in a particular direction," bias is a natural feature of the way humans think.

It's easy to recognize some of our most common biases that reflect what is "normal." We are naturally more averse (two times more!) to negative consequences than we are attracted to positive consequences. This is called "loss aversion," which helps explain why we don't like to change, even when things are going poorly. Being twice as likely to avoid downside as to pursue upside helped kept us away from poison plants and cliff edges, but it also often keeps us from pursuing the best courses of action. There are many, many such examples of normal (not good, but normal and understandable) cognitive bias, including "anchoring bias," the tendency to rely too heavily on the first piece of information one receives, "availability heuristic," our tendency to overestimate the importance of information we remember easily, and "confirmation bias," the tendency to focus on information that confirms our pre-existing hypothesis.

Cognitive bias is powerful and can only be managed through the application of methodologies and procedures that require disciplined analysis of data and information (sound familiar, appraisers?). In fact, cognitive bias is why we depend on professionals trained to be unbiased specifically where our proneness to irrationality could create serious problems, such as science, finance, and economics. Appraisers' impartial analysis protects the public from our hard-wired, everyday biases that would undermine the healthy function of the real estate industry.

Appraisers are essential to a healthy economy because there are all kinds of opportunities for cognitive bias to infect real property valuation; real estate is a context ripe for "loss aversion," "anchoring bias," "availability bias," "conformity bias" or "conflict avoidance," to name a few. Appraisers are trained not to fall into these irrationality traps. Appraisers are continually trained to adjust their opinions of value based on data and professional discipline, precisely to avoid cognitive biases to which homeowners, loan officers, and all of us are susceptible. And in case you think machine learning and AI will save us, it is worth noting that AVMs and AI-generated results are not more rational; on the contrary, machines proliferate biases reliably, that is, unless there are educated appraisers who are regularly producing inputs to correct them.

In reality, appraisers have a great story to tell, but we have a long way to go to refocus the terribly flawed "appraiser bias" narrative onto facts and science.

> Identifying and studying cognitive biases, and the heuristics associated with decision making, mark some of the most important advances in social science, and they have taught us that it is hard to be fair and rational. Professions that depend on rational analysis must educate professionals well. We see this in the law, accounting, appraising, and other highly demanding, complex professions.
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> The kinds of biases to which humans are naturally prone, such as "loss aversion," are completely different from what has been referred to, and has entered the cultural lexicon, as "Appraisal Bias," which is, in its essence, a charge of racism. Racism is an abhorrent, learned, culturally reinforced, unjust behavior that reflects a persistent cognitive behavioral impairment (on the part of the racist). I have yet to meet an appraiser who is not appalled by racist behaviors, but I've met and heard from many who are deeply hurt that their profession, which they chose because they care very much about fairness, impartiality, and the importance of real property ownership, is now associated with racism in the minds of many.
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> Appraisers are trained and required by the force of federal and professional licensing standards, as well as professional ethics, to consider all data that is relevant to the appraisal at hand, and not to consider anything irrelevant, or what Kahneman calls "noise." While bias is a pattern of errors in a certain direction (or average errors), "noise" is the word for specific or variable errors that reflect taking something, anything, irrelevant into account; noise is not the world of biases but mistakes. In appraisals that are flawed, it is typically not patterns of error that are the problem, (biases), but rather "noise" (mistakes).
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> Appraisers are highly educated professionals, trained to avoid bias—predictable patterns of errors—as well as "noise," reflecting irrelevant factors. Our designated professionals are the most educated in the profession, and often called upon to review the work of others, and here's what they tell me they see. It is the mark of an outstanding appraiser to include everything relevant and nothing irrelevant; this is the heart of what a market analysis requires. This is important because the charge is that appraisals reflect patterns of terribly biased decisions, reflective of racism. Racism is a learned, persistent bias; it is not variable, so it shows up throughout behavior, and racism in appraisal would show up as a persistent

wrong and unjust weighting over multiple assignments that reflected the appraisers taking into account race as a factor relevant to a valuation assignment. But we do not see this. Even with the exceptional scrutiny on the professional appraiser, the facts have not borne out the existence of such a fixed pattern of social bias in appraisals. On the contrary, the facts show us that better and worse appraisals are characterized by how well factors relevant to the appraisal are taken into account—the strength of the market analysis, and the absence of "noise." Often these irrelevant factors are the result of the use of hasty methods such as template descriptions of market areas rather than careful individual treatment of every subject property. And this is why AMCs that offer jobs to the lowest bidder are such a problem, because shortcuts proliferate when fees are too low for the work required.

The fact that the public is now genuinely concerned about "Appraisal Bias" is deeply upsetting. Black Americans have been negatively impacted by racist public policies from redlining to "urban renewal," and they are now further harmed by the fear and stress they experience based on this unfair narrative. The fact that market values of residential properties have been impacted by racist lending policies of the past and urban land grabs by the government is not the fault of the appraiser, nor can the appraiser correct for these issues. The appraisal must reflect market value using the most impartial process available, a market analysis.

And just as a generation of appraisers are poised to retire and need and want the next generation of diverse professionals to step up to learn from them, this false narrative makes it harder to attract the very people most wanted as appraisers. What appraisers learn makes not only for a good career, but a potentially great path to wealth creation available for any person who is analytical and impartial and fair.

The appraisal professional has been an easy target and slow to respond effectively in part because it is a small, fragmented, profession of analysts (estimated at 75K and falling) without deep pockets for lobbying and with a commitment to their communities based on their role in maintaining the public trust in real property valuation. The Appraisal Institute must speak up for all appraisers. "Facts do not cease to exist because they are ignored." And with that nod to Aldous Huxley's Brave New World, its "newspeak," "taboo words," and "technological enforcement," let's talk about why there has been a myopic focus on banning certain words as a way to monitor appraisals for bias, when there is no evidence that pernicious biases exist.

Appraisal is fact-based work that is transparent and subject to intense review. Appraisers must show their work and they must keep their workfile for review by a second market lender or in case of a challenge or lawsuit. "Banned words" are being used as a standard of fairness in large part because they are easy for data mining "tools" to pick up. They are easily flagged, easily reduced, and "technologically enforceable" just like in Brave New World. This frightens appraisers and makes them seem and feel more like "box checkers," when they are highly skilled professionals.

Analyzing a market is the crucial skill appraisers need, not avoiding banned words. To develop the skills to be a professional appraiser takes time, commitment, a sharp mind and high ethical standards, and for professionals like that, it can be a rewarding career. Just like AMCs bidding out jobs without reference to quality, the increasing use of untrained data collectors, and major for-profit players putting short term gain in front of long-term economic health, politicians and regulators focusing on "banned words" and cynically representing that they reflect racist behaviors is damaging a professional practice committed to the public trust and restricting opportunities for the communities they claim to defend. We want all appraisers to use best practice, and dealing with this false narrative is a terrible distraction from developing best practice education for all appraisers, particularly education focused on ways that appraisers' irreplaceable human judgment and skills can be best augmented by the use of rapidly developing new technologies that can improve market analysis.

Applying this best-practice approach, appraisers protect the public from the dangers of property valuations disengaged from real estate market reality; appraisers protect banks, investors, and potential homeowners from bad decisions, and appraisers protect our economy from the devastating, collective impacts of those errors. Appraisers and regulators are foundational elements of systems designed to protect the consumer and our communities, and both are charged with the public trust. Unfortunately, regulators are subject to political pressure, banks want to get transactions done, and consumers are often deeply emotionally invested.

This is where appraisers stand, independent between others that have financial and emotional interests in getting transactions done or responding to the winds of politics. Independence is central to the purpose of the appraiser, as it is to the mission of the appraiser-centric Appraisal Institute.

Good appraisers bring a strong, independent mind and spirit to their jobs, continually working to maintain neutrality and objectivity. Efforts to eliminate cultural bias in favor of more neutral and objective language in real property appraisals are a good example of this mindset, and a worthwhile effort. We have all been shaped by a culture or cultures where we feel most at home and that tempts us into quick judgments and shorthand thinking and communications. It's the job of a good appraisal to not do any of that. A more factual description is better, and homeowners and others can better understand the analysis. At the same time, objectivity can deepen understanding and appreciation of different cultural perspectives, broadening business networks and opportunities. Efforts to improve professional appraisal by eliminating cultural bias can strengthen the profession—but are unfortunately sometimes confused with unfair claims of "appraiser bias" and thus perceived as a major issue for appraisers.

The more critical issue is the misuse of increasingly big and bad data, including conflating "cultural bias" with "appraisal bias," that is then read as racism. All roads in the "appraisal bias" narrative lead us to bad data. Just as it is ironic to unfairly accuse a profession demonstrably committed to eliminating the worst kind of bias, it is ironic to use deeply flawed data and analysis to support false claims of appraiser bias against some of our economy's most skilled analysts and users of data. Examining false claims of appraiser racism through the lens of well-structured data and the core tenets of sound research quickly highlights that the sensationalized "research" was based on flawed data that extended well beyond appraisals.

The Brookings study that supposedly confirmed "appraisal bias," i.e. racism, included assessment data along with appraisals, and an independent analysis of the data reflected that socio-economic differences better explained the data than race. (If you're interested, you can find the research on the Appraisal Institute website. The media fanned the political flames and the public became increasingly concerned. Worries that the race or perceived race of the homeowner influenced appraisals led to efforts to "protect the public" where strong protections were already in place. Real property, not people, is the subject of appraisals. Amid all the noise, the words "appraisal bias" became a catch-all for any and all issues with appraisals, even though, in the minds of the public, that meant racism—that isn't fair, and it isn't right.

What the research shows, more than anything, is that bad appraisals reflect the influence of big, bad data (data of the "well, these comps look really high, but if I just use them, my report won't be flagged," variety), and perhaps buckling to the pressure of banks and consumers. But we all know that the best appraisals should be independent of those influences. (If you're interested, see the research showing what kind of "bias" is most common in appraisals that are not good; it's on Fannie Mae's website.) Let's not call that "bias," let's just call it a rushed, bad appraisal. We're going to clean up our language to stop referring to this as "appraisal bias," because it's not, except technically. (We, as a professional ecosystem, have gone to great lengths to use a term that has a terrible connotation in the mind of the public for something that just means, "there are better and worse professionals.")

An appraisal that deserves the name reflects the professional disciplines that define the Appraisal Institute offers an independent opinion of value that is well-supported by the data and explained well. Such an appraisal can be reviewed by one of our many designated experts, and it stands on its own. The support is there for the opinion of value. That's the quality standard for the professional appraiser, an excellent appraisal, and that's what we want every appraisal to look like.

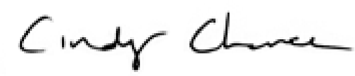
Increasingly reliant on "big data," financial institutions and regulators—who in decades past played key roles in the terrible history of racism and disinvestment—understand very well the critical role of appraisers, but have not stood up for our profession. Why not? I can only guess it is politics and short-term self-interest. A weak appraisal profession allows banks and regulators more control, and of course control and influence is what any particular party to a transaction is all about. It goes without saying, the appraisers are not only the independent party here, but they are also the "little person" here, standing up alone to the powerful and politically influential. And keep in mind, the "powerful and influential" in this case are often people and institutions with whom the appraiser will have to work again. No wonder many residential appraisers believe that banks are trying to get rid of the residential appraiser altogether. No more speed bumps to slow down or stop deals. No more ethics and independence. No more "the data didn't support the contract price" disappointments. Replacing the appraiser with automated valuation models and other technical solutions sacrifices accuracy for the sake of expediency and profit. If it conveniently fits a false political narrative, "Oh well, that's politics." Commoditizing the profession with a race to the bottom in terms of fees ensures more appraisals done too quickly to be good. This may be easier, but it is not better. Weakening appraisers is not in the long term interest of the public. And neither the banks nor the regulators want widespread loan defaults leading to another financial crisis.

Regulators, banks, and the public need to understand that undermining or replacing the appraiser is bad for people—a weakened appraisal profession promises devastating consequences for consumers and the economy. We must share with the public the real value of professional appraisers. We must highlight the risks to banks of reliance on big, increasingly bad, data. We must ensure that appraisers' judgements on data quality and analysis continue to inform risk analysis in real estate transactions.

Given the stresses of this moment (which include new AVMs, poorly applied data mining, fee compression, data collectors, and artificial intelligence), it's easy to understand why some appraisers believe their profession will soon cease to exist. This is a moment of change, but the end is not near. This is just the beginning. We stand with the appraiser and with other professional organizations that support the appraisers being the educated professionals the world needs them to be. In a data-driven world, people's wisdom and connection to other professionals will be more important than ever, as will appraisers' skill and experience at applying high quality data and analysis in the face of increasing noise and pressures. As the GSEs have been signaling, with the new UAD will come more reliance on analysis, not less. There may be fewer appraisers as data makes some simpler work less reliant on human judgments, but the work of the professional appraiser will be more important and more highly valued, not less, in ensuring the integrity of the whole system.

Thinking we see the end in sight is a funny kind of “epistemic arrogance.” It is a feature of humans to think that we know what is coming when we have only beliefs and fears—and this happens at moments in history when change is imminent. One thing we should always know is that we don’t know what will appear “obvious” to society in a few decades. In the words of Howard Marks, one of the best investors of our era (with a specialty in investing in distressed situations), “You can’t predict. You can prepare.” We need to be prepared for the opportunities presented by knowing good data from bad, and by lifting up the value of the appraiser, the real property valuation analyst, as one of the most crucial professions for our economy.

Please join us. Join our efforts to share who you are and what you do. We are stronger together and we must focus our relatively limited resources on the biggest challenges and opportunities.



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