



Avoiding Valuation Bias and Inequity

By Ray Carroll, MAI, SRA, CFM

Lately I'm seeing more articles written about the growing sensitivity to inequity built into our civic systems and our social fabric. There's nothing new about this discussion, and a growing awareness of subtle, systemic bias is a good sign.

In October 2020, the Appraisal Institute, the American Society of Appraisers, the American Society of Farm Managers and Rural Appraisers, and the Massachusetts Board of Real Estate Appraisers joined forces to support development of training to address unconscious bias in valuation. That training is now available to appraisers nationwide.

The [February 2021 News & Views](#) published by ASFPM reported that "FEMA's national advisory council acknowledged that government disaster aid does not target those in greatest need of help and in fact exacerbates inequity by enriching affluent areas and shortchanging low-income and minority communities."

What can a floodplain administrator do to reduce inequity and valuation bias as related to disaster preparedness, disaster relief, and everyday floodplain management? And what does this have to do with estimating "market value" used to make substantial improvement and substantial damage determinations (sometimes call the "NFIP market value")?

- Recognize that some of the people most at risk from flooding are tenants living in non-conforming, entry-level housing. When that kind of housing is being repaired or renovated, local officials must insist on building permits and code compliance, even if it means that sub-standard housing must be demolished and rebuilt. Improving the quality and safety of non-conforming homes will make it easier and cheaper for families to recover after flood events. It may also save lives during major disasters.
- Demonstrate leadership by encouraging elected officials to create programs to demolish or relocate homes out of dangerous floodways, even if it means a

Definitions

Valuation: In Merriam-Webster online, the first definition for valuation is "the act or process of valuing; specifically: appraisal of property."

Bias: The Uniform Standards of Professional Appraisal Practice (USPAP) defines bias as "a preference or inclination that precludes an appraiser's impartiality, independence, or objectivity in an assignment."

commitment to public acquisition. There are plenty of good public uses appropriate to floodways, but housing is not one of them.

- Look at the pattern of improvement and repair permit activity in your community. If you have property owners in entry-level neighborhoods that aren't taking advantage of Actual Cash Value method to determine the NFIP market value, some valuation bias is probably at play. In most cases, using ACV results in a building value that is higher than the value determined by the adjusted assessment method (see the major drawbacks of adjusted assessment method discussed in the [September 2020 Insider](#), Floodplain Manager's Notebook/Market Value Supplement).
- Examine your handout materials, presentations, and your community website to see if you're communicating in layman's terms to all audiences. When you describe your community's responsibility to enforce SI/SD requirements, be sure to offer easy-to-understand guidance and recommend the using ACV to develop market values. Floodplain administrators are so familiar with the jargon of what they do, they sometimes forget it can sound like gibberish. (Appraisers can be guilty of the same thing!) Poor communication undermines trust.

What about the possibility of valuation bias creeping into the appraisal reports submitted for SI/SD purposes? I'm talking about all forms of bias, including overstating and understating values. The examples of bias used in appraiser training usually outline situations where an appraiser colludes with a borrower to defraud the lender by overstating value, or where the appraiser colludes with a lender to discriminate against a neighborhood where the lender doesn't want to make loans.

Conventional market value appraisals always depend on conclusions drawn from analysis of neighborhood economic and demographic characteristics. Those conclusions influence the selection of comparable sales, the development of adjustments, the calculation of depreciation, and the appraisal results. Appraisal methods that require economic/demographic analysis are open to biased conclusions, whether deliberate or unconscious.

Here's the problem. It looks like more than 90 percent of the independent appraisals received by floodplain administrators are traditional market value estimates based on sale comparables that are selected and adjusted after analysis of neighborhood economics and demographics. That kind of appraisal is open to bias and can also lead into the problems associated with use and occupancy that I wrote about in the [November 2020 Insider](#), Floodplain Manager's Notebook/Market Value Supplement.

To reduce the possibility of valuation bias in the appraisal reports, why not craft your floodplain management ordinance to remove the traditional market value appraisals altogether, in favor of Actual Cash Value? This can be achieved by defining Market Value to mean Actual Cash Value (ACV) determined by a qualified independent appraiser or to the results of the Adjusted Assessment Method. FEMA's SI/SD Desk Reference (P-758) describes ACV as the cost to replace a building on the same parcel with a new building of like-kind and quality, minus depreciation due to age, use, and neglect.

The argument has already been made that ACV is superior to other appraisal methods. Patricia Staebler, SRA, wrote about this in the Fall 2017 *The Appraisal Journal* article, "The 50% Rule FEMA Appraisal," and co-authored the [May 2019 Insider](#) Floodplain Manager's Notebook column on this topic.

This much is true of ACV:

- ACV is conceptually simple and easy to understand.
- ACV appraisal reports are the easiest to read and review.
- ACV works for all buildings, while other methods don't.
- ACV completely avoids forbidden value associated with use and occupancy.
- ACV usually results in a better outcome for building owners.
- And, importantly, using specialized valuation tools already available, ACV appraisal reports offer little opportunity for valuation bias.

In the next Market Value Supplement, I'll share more about some of the tools available to appraisers who make ACV valuations.

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