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INVESTIGATING APPRAISAL DISCRIMINATION

By Richard Sander and Carol Brown

Over the past five years, the question of whether real estate appraisers systematically undervalue homes purchased or occupied by Black and Hispanic households has emerged as a significant civil rights issue. Major media have highlighted some instances where the same home received a dramatically higher appraisal when the appraiser believed the client was white rather than Black. Some social scientists have argued that appraisal discrimination is the root cause of the lower housing prices that prevail in many urban minority neighborhoods—and thus an important source of the racial "wealth gap." Candidate Biden expressed strong concern about the issue during the 2020 presidential campaign, and President Biden in 2021 created a special cabinet-level Task Force on Property Appraisal and Valuation Equity (PAVE) to investigate the issue and propose solutions.

Given the salience of this issue, the ABA's Section on Real Estate and Probate created its own investigative task force, which in turn asked us, as fair housing scholars, to aid its research. We identified over a dozen relevant studies, from advocacy groups, scholars, and government agencies, and interviewed many of the authors as well as experts in the appraisal industry, at the National Fair Housing Alliance, and at PAVE. Although the public positions taken by various parties are very different, when we examined the core research findings, some common themes and patterns emerged.

Appraisals are usually commissioned by banks as part of their underwriting process for home mortgage applications. Most mortgage applications arise as part of a home-purchase process, though mortgage refinancings are now common and a refinance process also usually involves an appraisal.

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Appraisers inspect a home, note its key features, and then identify comparable recent sales (comps) in the surrounding neighborhood. Home values are determined by largely subjective judgments that estimate what value for the subject property best aligns with the chosen comps. A home "underapppraises" if the appraiser's estimated value is lower than the buyer's purchase price. If the appraised value is significantly below the purchase price, the bank may reject the buyer's mortgage application or require the buyer to make a larger down payment on the property.

The research on appraisal discrimination consistently shows, across many different studies, that appraisals in which the lender's client is Black or Hispanic more commonly arrive at valuations that are either below the client's actual purchase price or below an algorithmically generated estimate of the market value. This is strong evidence that there is a problem, but the problem is much more nuanced than one might infer from either the media coverage or the advocacy surrounding the issue. For one thing, the average "underappraisal" amount for Black and Hispanic homebuyers is quite small—around two percent of the market value, on average. For another, the race of the appraiser does not seem to matter much: Black appraisers are as likely to slightly undervalue Black homes as are white appraisers. Mortgage applications by Black and Hispanic homebuyers are more likely to fail because of a low appraisal, but this is an important factor in only about one to two percent of mortgage applications.

It is quite possible that the problem of more frequent underappraisals in Black and Hispanic home purchases is not an appraisal problem at all. A team of economists led by Patrick Bayer at Duke University studied hundreds of thousands of cases where a particular home changed owners multiple times over a period of years. Patrick Bayer et al., *Racial and Ethnic Price Differentials in the Housing Market*, 102 J. Urb. Econ. 91 (2017). They found a persistent tendency for Black buyers to pay slightly more for a given home than a preceding or subsequent white buyer did (while controlling for other relevant factors). Many things could explain such a gap, from less experience among Black buyers in navigating the single-family home market, to white seller discrimination, to a greater reluctance among Black buyers in white neighborhoods to negotiate aggressively. Regardless of the cause, if Black buyers do slightly "overpay" for single-family homes, then the racial appraisal gap may simply be an accurate reflection of this phenomenon.

Racial differentials in appraisals also might be caused, at least in part, by the unreflective use of practices that work better in suburban settings than urban ones. For example, housing composition, density, and safety often vary more over short distances in urban (often minority) neighborhoods than in less-dense suburban neighborhoods. If appraisers in both settings use a one-half-mile radius as an acceptable area within which to select comps, this might produce more variability, and a downward bias, to appraisal results in urban settings compared to suburban ones. At least one study has found evidence of this sort of disparate impact from appraisal practices.

The upshot is that although there are clear race-related differences in appraisal outcomes, one should proceed with caution in reaching conclusions about what drives these differences. The rhetoric surrounding appraisal discrimination is generally not cautious—many journalists, advocates, and political figures have both exaggerated and oversimplified what turns out to be a fairly complex issue. PAVE, the presidential commission working on this issue, has indulged in some of this rhetoric, but its actual recommendations to date have been moderate and constructive. For example, it has suggested ways of improving the training that appraisers receive and is developing guidelines that encourage lenders to seek a second opinion when an appraisal comes in with certain signs of possible bias.

The RPTE task force is encouraging the ABA to cautiously support these efforts and in particular to encourage research that focuses not on whether

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race-related differences in appraisal outcomes exist (this is now well-established) but on how well alternative explanations can account for the differences. The policy response should be very different if the key underlying problem is overpayment by Black and Hispanic buyers or if it is flawed appraisal standards that produce skewed results in dense neighborhoods. It is important both to get to the bottom of what drives these differences and to support policies that are well calibrated to address demonstrated problems.

The "appraisal discrimination" debate also has had an important side benefit. It has brought welcome (if somewhat confused) attention to the large disparity between white and Black housing prices in many housing markets. In most of our largest metropolitan areas, single-family homes in predominantly white communities sell for much more than homes in predominantly Black communities, and the difference remains quite large (over 20 percent) even when we control for a host of factors, such as housing age, size, local school quality, local amenities, and crime. As we noted earlier, some prominent voices have argued that appraisal discrimination is behind the "home value gap," a notion that seems plausible until one looks more closely at the data. It turns out that most of the racial gap in home values originated in the 1970–90 period and was concentrated in certain types of metro areas. Before the passage of the Fair Housing Act in 1968, Black home prices were higher, not lower, than white home prices—sometimes much higher. To the extent appraisal discrimination exists, it was undoubtedly more common in the 1950s and 1960s than it is today.

With the growing presence and enforcement of fair housing laws in the 1970s and 1980s, many metropolitan areas achieved significant levels of housing integration. In nearly all of these areas, Black and white housing prices converged and homeowners of all races experienced similar levels of equity appreciation. (No one has yet studied whether appraisal disparities exist in these cities, but we suspect they do not.) Other metro areas—including most of our largest urban areas, such as Chicago, New York, and Philadelphia—continued to be highly segregated, but also experienced large-scale racial transition and resegregation across many neighborhoods. As whites withdrew from these neighborhoods, the increased stock of housing in newly Black neighborhoods outpaced demand. This process depressed the non-white housing markets in these metro areas, which not only hurt housing appreciation in minority neighborhoods, but also contributed to the widespread housing abandonment observed in many central cities in the 1970s and 1980s. *See* Richard H. Sander, Yana A. Kucheva & Jonathan M. Zasloff, *Moving Toward Integration: The Past and Future of Fair Housing*, ch. 9 (2018).

In other words, the problem of low housing values in Black and Hispanic neighborhoods probably has more to do with segregation than appraisal discrimination. For most of the past 50 years, fair housing strategies and advocacy have focused on housing discrimination, often assuming that housing integration would naturally follow once housing discrimination levels fell. Discrimination did indeed fall, but subsequent desegregation was the exception rather than the rule. Housing integration and workable strategies to achieve it deserve more attention than they have received. A wide range of research shows that lowering racial housing segregation also lowers mortality rates, unemployment, and crime, especially for Black households. Addressing housing segregation also may be the best cure for depressed minority housing values and a way of constructively bridging the racial wealth gap. ■