Guide Note: 18: Personal Characteristics and Valuation Practice

Background

By definition, a Valuer must be unbiased. A Valuer’s opinions and conclusions must be prepared in an unbiased manner, and they must be credible, which means they must be supported with relevant data and analyses.

Valuers and Reviewers have a professional responsibility to ensure that appraisals are prepared fairly and without bias relating to personal characteristics. Personal characteristics are characteristics of an individual or group of individuals such as (but not limited to) race, color, religion, national origin, gender, sexual orientation, gender identity or expression, marital status, familial status, age, receipt of public assistance income, disability, or any protected characteristic under applicable law.

The characteristics of people – including but not limited to people who occupy a subject property, live in the area, or are in any way associated with a transaction – are, with limited exceptions, not relevant to the development of any value opinion. Relevant characteristics in the valuation of a property include its physical and economic characteristics, not the personal characteristics of those who are in any way connected to the property. Value is an economic concept. Value is created because there is effective demand, not because of the characteristics of people.

The Issue

Ethical Rule 1-5 of the Code of Professional Ethics states that it is unethical:

a) To base an analysis, opinion, or conclusion, either partially or completely, on a personal characteristic such as race, color, religion, national origin, gender, sexual orientation, gender identity or expression, marital status, familial status, age, receipt of public assistance income, disability, or any protected characteristic under applicable law, or a conclusion that homogeneity of such characteristics is necessary to maximize value.

b) To transmit a Report containing an analysis, opinion or conclusion based, either partially or completely, on a personal characteristic such as race, color, religion, national origin, gender, sexual orientation, gender identity or expression, marital status, familial status, age, receipt of public assistance income, disability, or any protected characteristic under applicable law, or a conclusion that homogeneity of such characteristics is necessary to maximize value.

Ethical Rules 1-5(a) and 1-5(b) do not apply when applicable law or regulation either requires or does not prohibit consideration of a personal characteristic, and consideration of that personal characteristic is relevant to the analysis, opinion, or conclusion.

1. How does one ensure that an analysis, opinion, or conclusion is not based on personal characteristics?

2. How does one ensure that a Report does not contain an analysis, opinion, or conclusion based on personal characteristics?
3. When might consideration of a personal characteristic be relevant and either required or not prohibited under applicable law or regulation?

**Basis for Proper Practice**

Portions of the Appraisal Institute Code of Professional Ethics that relate to this topic include the definitions of “Biased”, “Credible”, “Justified”, “Moral turpitude”, “Value”, “Valuer”; Ethical Rules 1-1, 1-3, 1-5, 3-1, 3-2, and 3-3.

Applicable sections of the Appraisal Institute Standards of Valuation Practice include definitions of “Biased”, “Credible”, “Value”, “Valuer”; Standards A-1, A-2(f), and A-4.

Applicable sections of the Uniform Standards of Professional Appraisal Practice include definitions of “Appraiser”, “Bias”, “Credible”, “Value”; the ETHICS RULE; and Standards Rules 1-1(a), 1-1(b), 1-1(c), 1-2(e), 1-3(a), 1-4(a), 2-1, 2-2(a)(iv), and 2-3(a).

**How does one ensure that an analysis, opinion, or conclusion is not based on personal characteristics?**

Appraisers must collect and analyze relevant data to develop their opinions and conclusions. Appraisers must avoid misinterpreting data, using data to develop conclusions that are not credible, and transmitting reports that are misleading. They must avoid conclusions about causality that are not grounded in fact.

Appraisers must also avoid preconceived notions about buyer preferences. For example, just because an area has a high percentage of properties with deferred maintenance does not mean there is low demand for properties in that area. Just because there are properties that are larger or in better condition does not mean there is no demand -- or less demand -- for properties that are smaller or in inferior condition.

In valuing property, appraisers must consider effective demand. Are there buyers or renters in the market who are willing and able to buy or rent the property? The personal characteristics of those buyers or renters, or of others associated with the property or transaction, are irrelevant.

**Example A**

An appraiser notes that properties in Neighborhood A sell for $100 per square foot, while similar properties in Neighborhood B sell for $110 per square foot. The appraiser concludes that Neighborhood B is superior because of the ethnicities of the people in the respective neighborhoods.

In addition to improperly basing an opinion on a personal characteristic, the appraiser's reasoning presents clear evidence of bias, which is ethically unacceptable. From a methodology standpoint, the appraisal is flawed because the appraiser has jumped to a conclusion about what causes the difference in value. The appraiser can show from the data that there is a difference in value that is attributed to location. But the appraiser does not know the reason location causes a difference. The reason the appraiser attributes to the difference is speculative and improper.
Example B
The appraiser notes the race of the current occupants of the subject property, which is a single-family residence. There are no recent sales in the subject’s neighborhood, but there are recent sales in nearby, similar neighborhoods. The appraiser intentionally selects as comparables only those sales for which the buyers were the same race as the occupants of the subject property, even though those properties are more distant than other similar properties that recently sold.

As with the previous example, this too presents clear evidence of bias, which is ethically unacceptable. It is inappropriate to select comparables based on race or any other personal characteristic.

Example C
The subject property has accessibility features for individuals with disabilities including a wheelchair ramp to the front door, extra wide doorways, and grab bars in the bathroom. How should an appraiser handle such an appraisal?

While an appraisal cannot be based on personal characteristics, it must consider the impact on value (if any) of physical characteristics. The appraiser cannot assume – jump to the conclusion – that the features either add or subtract from value. The analysis of market data is needed to evaluate the impact of these physical features on value.

Example D
An appraiser is asked by a lender to provide a market value upon completion of a proposed religious facility. The appraiser concludes that facility will be in high demand because there are numerous people in the area who are a part of that religious group, which the appraiser named in the report.

Naming the religious group in the report is not in itself problematic. What is problematic is the appraiser basing an opinion of value, either partially or completely, on a characteristic such as religion. Also, the appraiser’s logic is flawed. Market value presumes a sale. How much would the property, once the improvements are built, likely sell for in the open market? The number of people who are part of the religious group building the facility—which would be the seller— is irrelevant. The questions the appraiser needs to answer are, what is the demand for religious facilities? And if the improvements will be specialized for this religious group, could they be adapted for another?

Example E
An appraiser is asked to appraise a single-family property that has been used as a small group home for people with mental illness. The local zoning ordinances treat the home as a single-family residence. It is located in a residential area of large, older homes that have been converted for multi-family use. The subject improvements conform to the area and if sold, the property would be converted for multi-family use. Should the appraisal report mention that the property is currently occupied by people with mental illness?

No. The personal characteristics of the occupants are irrelevant.

How should the appraisal report describe the current use?

It should describe it as single-family residential.

Example F
An appraiser is performing an appraisal of a 10-unit office complex. One unit has been available for
lease for nearly a year. The leasing agent says the reason it has not leased is that the former tenant was a gender equality advocacy group. However, the appraiser notes that the office market has been very weak for the last year. Vacancies are up and rents have been declining. Should the appraisal report include the leasing agent’s comment?

No. The comment was inappropriate and based on flawed reasoning; that fact that the unit has not leased may well be because of the weak market. An appraiser should never repeat a false or misleading comment.

**Notoriety**

In rare cases, the fame or infamy of a person associated with a property can affect its value, and the appraiser must analyze that effect. This may seem like a deviation from the previously stated rule that personal characteristics are irrelevant to an appraisal. However, these are cases in which the individual’s actions created the fame or infamy, which are not inherently personal characteristics. The following examples show how such cases were correctly handled.

**Example G**
The subject property was previously owned by a famous celebrity whose death made international news. The property was placed on the market and sold for a price well above anything comparable, and there were multiple backup offers. While the improvements included some unusual features (a recording studio, movie theater) the appraiser concluded that its value was affected by the fame of its previous owner.

**Example H**
The subject property was an apartment building. One of the tenants was accused and subsequently tried, found guilty, and imprisoned for committing a notorious crime on the property. The incident was highly publicized. When the allegations first came to light, all of the remaining tenants vacated the property. Even though the demand for apartment units in the local market was strong, the landlord could not lease them. An appraiser was then asked to appraise the property. The appraiser concluded that the highest and best use was to demolish the improvements. The appraiser’s report discussed the crime and concluded that the property’s value was severely impacted by it.

**How does one ensure that a Report does not contain an analysis, opinion, or conclusion based on personal characteristics?**

In preparing or reviewing Reports, appraisers and reviewers must make sure that analyses, opinions, and conclusions expressed are not based on personal characteristics. In addition, it is important to make sure Reports do not include language that suggests they are based on personal characteristics, even though they are not.

**Example I**
A reviewer is reviewing an appraisal report involving a proposed retail property. The appraisal report includes charts with the following demographic information for the county: Population – total, male, female, by age; household income, household size, race, ethnicity. The total population and household income information is used in the appraisal process to establish economic demand for the retail space. The other demographic information is not analyzed or commented upon.

The reviewer would be correct in concluding that the demographic information other than total
population and household income is not relevant and should not be included in the appraisal report.

**Example J**
An appraisal report under review states that the area is “inhabited by drug addicts and homeless people.” In the reconciliation, that is the reason given for concluding to the low end of the indicated value range. But the reviewer notes that all of the comparable data is from the same location.

The reviewer would be correct in concluding that the statement is not relevant and should not be included in the appraisal report. Further, the reviewer might conclude that the value opinion is not supported at the low end of the range, since the comparable data already reflects the same locational influences.

**Example K**
An appraiser is asked to appraise a property that houses an ethnic restaurant. Can the appraisal report mention the name of the restaurant, which clearly proclaims the ethnicity of the cuisine served?

Yes.

**Example L**
The photographs in an appraisal report include the property owner’s family members, who are a certain ethnicity. Is this problematic?

While the appraiser may not have been biased in the development of the value opinion, the inclusion of people in the photos can suggest otherwise. The purpose of including photographs in an appraisal report is to convey to the user of the report the nature of the real estate. Appraisers should ask people to stay out the photographs, and avoid taking pictures that include displayed family pictures, if possible.

**Example M**
The photographs in an appraisal report include the property owner’s religious artifacts. Is this acceptable?

While the appraiser may not have been biased in the development of the value opinion, the inclusion of the artifacts in the photos can suggest otherwise. The purpose of including photographs in an appraisal report is to convey to the user of the report the nature of the real estate. Appraisers should avoid taking pictures that include such artifacts, if possible.

**Example N**
An appraisal report includes photographs of the interior, which is decorated in a style that suggests the occupant is of a certain national origin. Is this problematic?

All interiors represent some sort of style. As long as the appraisal report does not suggest that one style is more acceptable than another, and the appraisal report does not reflect any bias with regard to the national origin of the occupants, it is acceptable to include the photographs.

**Example O**
An appraisal report mentions that the appraiser observed numerous political signs in the area in support of one political party’s candidate. Is this problematic?
Yes. Such information is not relevant to the appraisal and should not be included in the appraisal report.

**Example P**
The appraisal report states that the many of the patrons of the subject property, which is a bar, are “members of the LGBTQ community.” Is this acceptable if it is factual?

No, it is not acceptable even if factual. The personal characteristics of the patrons are irrelevant. What is relevant is that the bar has patrons.

**When might consideration of a personal characteristic be relevant and either required or not prohibited under applicable law or regulation?**

In some cases, applicable law or regulation may either require or allow consideration of a certain personal characteristic, and consideration of that personal characteristic is necessary for credible assignment results.

**Example Q**
An appraiser is asked to prepare a feasibility analysis for a proposed subdivision that will be age-restricted (buyers must be 55 or older.) In this assignment, applicable law permits age-restricted communities. The appraiser’s conclusion about feasibility will need to consider age. Such a conclusion must be supported.

**Example R**
An appraiser is asked to prepare a study to help assist a company in deciding where to place billboards in a certain language. To complete this assignment, the appraiser will need to determine where people who speak that language live, work, and travel. Applicable law does not prohibit consideration of language spoken in this context. The appraiser's reasoning and conclusions must be supported.

**Example S**
A country’s law prohibits ownership of real property within 60 miles of the border by foreign nationals. In preparing an appraisal, the appraiser’s demand study will need to take this into account.

**Summary of Standard Practices**

- It is unethical to base an analysis, opinion, or conclusion on personal characteristics.
- In preparing and reviewing reports, appraisers and reviewers must make sure that the opinions and conclusions expressed are not based on personal characteristics.
- Physical and economic characteristics are relevant to the valuation of property, but personal characteristics are irrelevant.
- Appraisers must avoid preconceived notions about buyer preferences. In valuing a property, appraisers must consider effective demand. The personal characteristics of buyers or renters, or others associated with the property or transaction, are irrelevant.
• Notwithstanding the foregoing, in some cases, applicable law or regulation either requires or does not prohibit consideration of a personal characteristic, such as age. If that personal characteristic is relevant to the analysis, opinion or conclusion, the appraiser must consider it.