

Appraisal Overvaluation: Evidence of Price Adjustment Bias in Sales Comparisons

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Syracuse Chicago Webinar on Property Taxation

Discussant: Troup Howard

A Selfish Discussion....

- Paper both well-polished & well-published
- So, instead of tactical suggestions:
 - Some thoughts about broad topic
 - Avenues for future research
 - Brief questions for follow-up work

....basically just a wish-list for other papers I'd like to read

“Problems” with Home Valuation

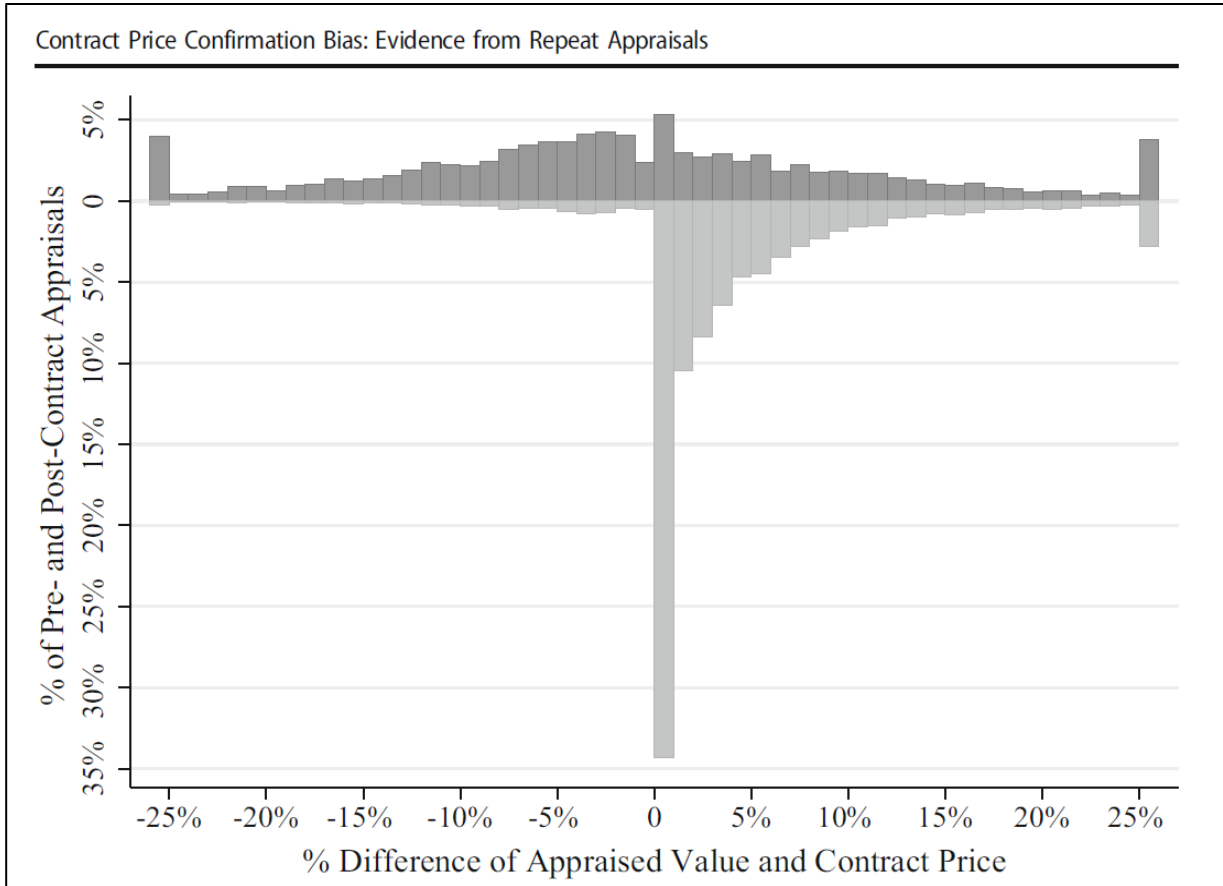


Figure from Ericksen, et al (2019)

Clear potential scope for agency bias:

- Banks prefer to lend
- Homeowners prefer to buy
- Contract prices are salient

Also a hard problem:

- Very high asset heterogeneity
- Thin markets; infrequent sales

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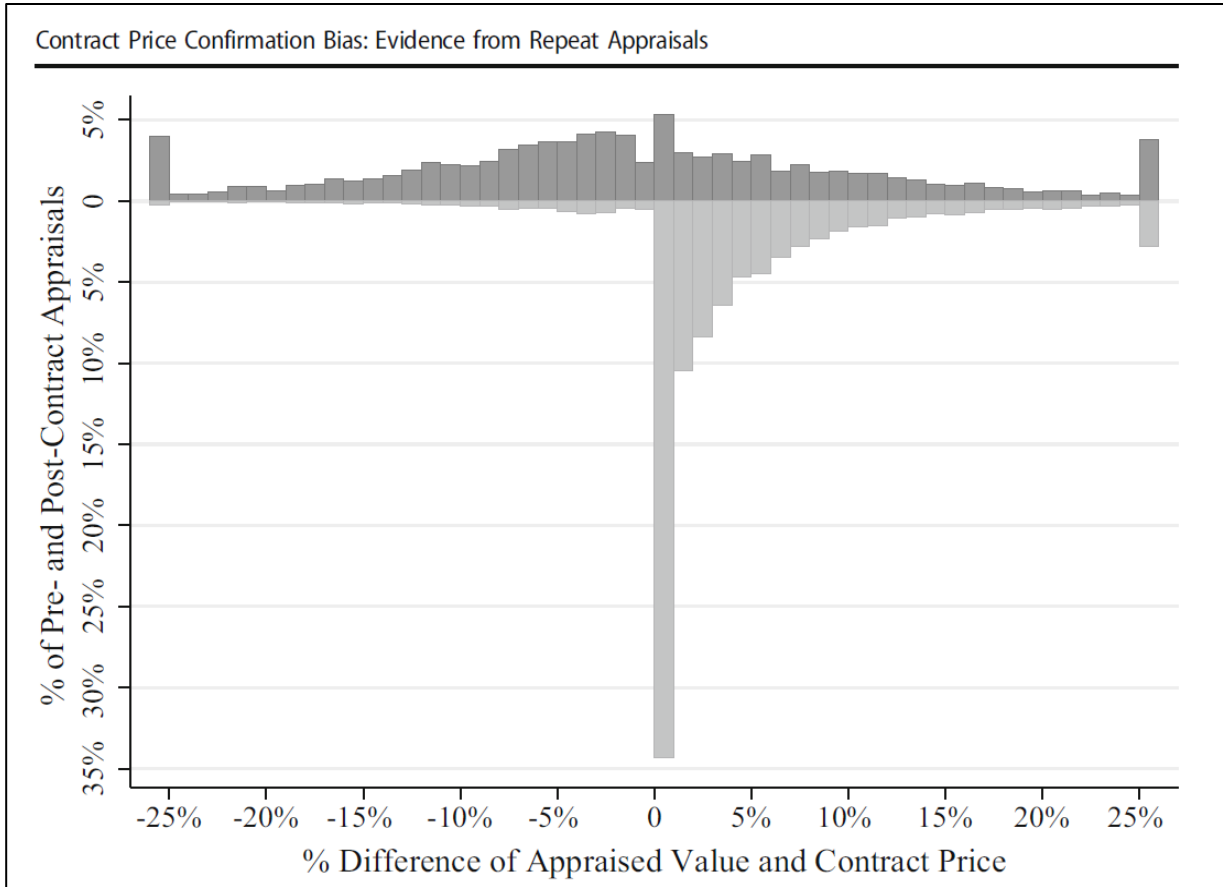


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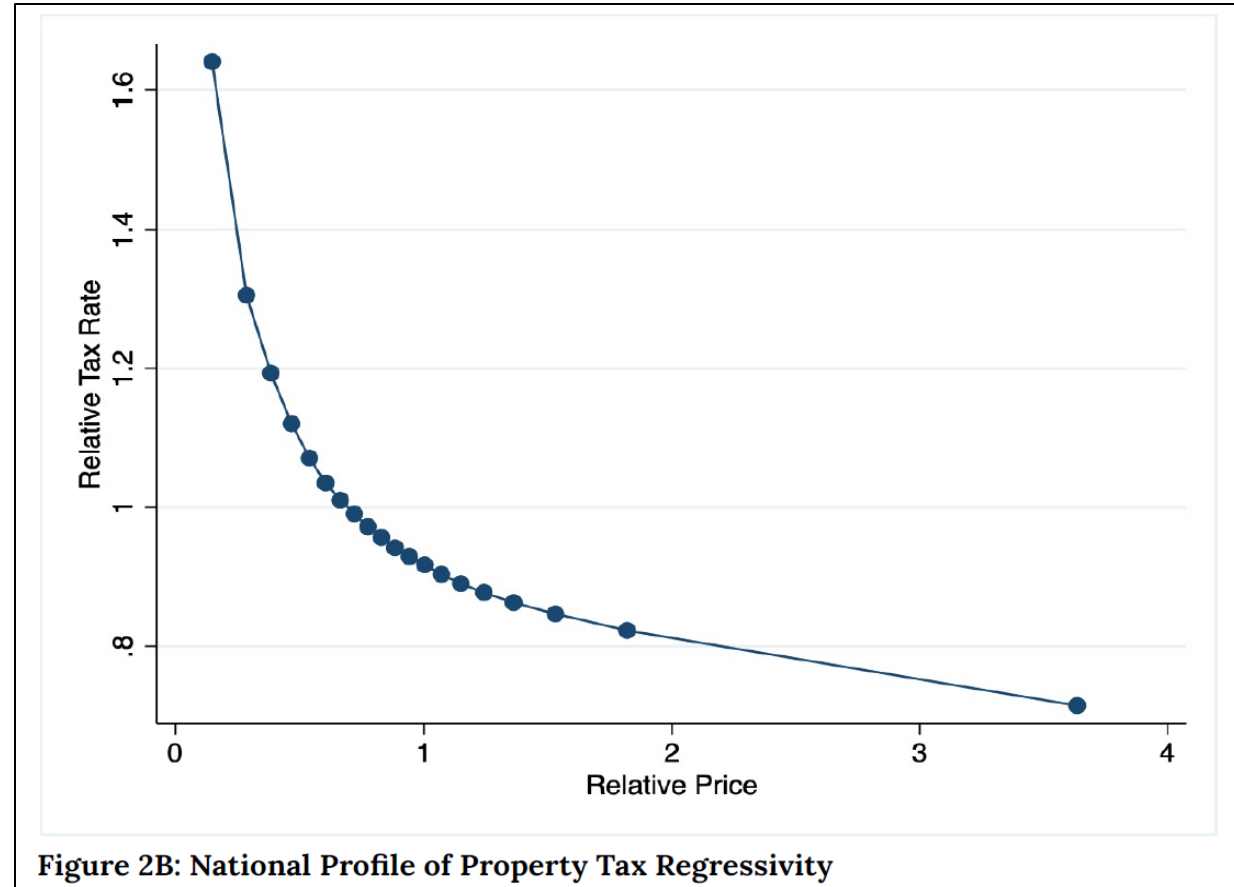


Figure 2B: National Profile of Property Tax Regressivity

Figure from Berry (2021)

Misvaluation in Appraisal Setting

Which price matters & why?

Latent value: V^* ?  Appraiser target *(economist benchmark?)*

Contract price? *(finance benchmark?)*

Foreclosure sale price conditional on individual shock?

Foreclosure price conditional on ↑↑ macro risk; ↑↑ value of bank capital, etc?

(How) Does Appraisal Bias Matter?

Answer varies by stakeholder?

Banking risk = $f(\text{appraisal bias; lending standards; down payments})$

- All appraisals biased upwards → in long run lenders adjust elsewhere...
- ...however large potential for short term frictions (*federal policy, internal standards, etc.*)
- Eriksen figure: with no info, about half of appraisals below contract price
- Is a single number the most useful metric for promoting banking stability?
- Risk in a model with endogenous lending standards & variable appraisal accuracy?

Individual equity in housing markets

- Does bias vary by home price, home location, home traits?
- May generate differential exposure to housing market risk; wedges in wealth building
- Is appraiser skill predictable?
- Would be extremely interesting to know more about these heterogeneities

Brief Question #1

Any reason to think some effects are mechanical?



Comp 1: 2BD
Observed Sale: 200k

Adjustment: 25%



Target: 3bd
Contract price: 300k

Bedroom cost: 50k



Comp 2: 4BD
Observed Sale: 400k

Adjustment: -12.5%

Brief Question #2

Do assessors beat Zillow?

$Value_{assessor} = f(\text{characteristics; comps; market insight; personal experience; gut instinct})$

$Value_{zillow} = sale_{t_0} * (HPI_{t_0 \rightarrow t}) = \text{function}(\text{data; giant machine learning model; PhD economists})$

Which one works “better”?

Is there an advantage to limiting the scope for error? Or to constraining error to be similar across properties?

(Obvious issues: availability of real-time HPIs; regions poorly covered by standard HPIs)

Very Brief Questions #4,5,6

Any reason that adjusting a higher-price comp downward “works better” than adjusting a lower-price comp upward?

- Could test in data
- Narrative evidence from appraisers?

Does comp-selection bias look different when homes prices have been increasing vs decreasing?

- Perhaps hard to answer in 2015-2016 sample; any regions declining in cross-section?

How representative is the purchase-money sample?

- Banking sector risk less important in this context?
- Are we concerned about uninformed buyers/sellers?
- How different is this sub-population?

Wrapping Up

Extremely interesting, well-executed paper

Highlights large valuation “errors” that influence risk and equity in centrally important market

I really enjoyed reading, and look forward to follow-on work!