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APPRAISAL TODAY

The Future of Appraisal Regulation
The Current Regulatory System Is Broken

Comments By James Park, Former Executive Director of the Appraisal Subcommittee

UPDATE: August 14, 2025: On August 8, the board of directors for the Appraisal Subcommittee unanimously approved Frederick Griefer as new acting executive director, effective Aug. 10.

He's the third person to hold the position in a month. The director of the Santa Ana Homeownership Center, a California office with more than 100 staff, including appraisers, credit underwriters and quality assurance professionals.

Editor's comments: *Topics in this article can be a little difficult to follow as they tend to "jump around..*

But, it is very worthwhile reading. I learned a lot. For example, I did not know that FRTs (Feberally Related Transactions) don't apply to many residential mortgage loans now because fewer appraisals are needed.

Since the bisnow.com articles on appraisal regulatory problems have been published (see the two articles in this newsletter), more people are becoming aware of these serious issues.

In this article you can read what Jim Park says. He is the former executive director of the Appraisal Subcommittee who retired late last year. He is a definite "insider" who was also an appraiser. He is no longer there and can now share his own opinions.

Regulators discussed in this article, abbreviations and what they do

Appraisal Subcommittee - ASC, Subcommittee, Board (members of subcommittee)

The Appraisal Subcommittee (ASC) is a U.S. federal body that oversees the real estate appraisal regulatory framework for federally related transactions. It monitors state appraiser regulatory programs and maintains national registries of appraisers and AMCs.

The ASC also monitors the activities of The Appraisal Foundation, a private, nonprofit organization that sets standards for the appraisal profession.

The Appraisal Foundation - TAF, Foundation

TAF makes updates to USPAP, Appraisal Standards and Qualifications Standards. TAF is a congressionally authorized body, overseen by the Appraisal Subcommittee.

In This Issue

State Appraiser Agencies/Regulatory Boards

License and certify real estate appraisers, supervise their activities, and discipline those not complying with state law or USPAP. Each US state or territory has such an agency as required by Federal law.

The agencies within each U.S. state and territory are responsible for licensing, certifying, and overseeing real estate appraisers.

They ensure appraisers meet minimumqualifications, adhere to professional standards like the Uniform Standards of Professional Appraisal Practice (USPAP), and comply with state and federal regulations.

The Appraisal Subcommittee (ASC) oversees state appraisal regulators.

Federal Deposit Insurance Corporation (FDIC)

Along with other federal regulators, the FDIC ensures federally insured depository institutions comply with Title XI. Its regulations specify transactions requiring appraisals and mandate USPAP compliance.

Office of the Comptroller of the Currency (OCC)

Responsible for ensuring federally insured depository institutions comply with appraisal regulations, specifically national banks and federal savings associations.

About Jim Park

I'm the former executive director of the Appraisal Subcommittee. I'm the president and CEO of the Collateral Risk Network now (CRN).

I retired from the Appraisal Subcommittee at the end of last year (2024) after almost 16 years with the Appraisal Subcommittee. Prior to that. I held positions as a chief appraiser with a Wall Street firm.

I also worked on the staff of the Appraisal Foundation back from 2000 to the end of 2003. I was the first appraiser to work at the Foundation. I was also on their Board of Trustees (Board), but the majority of my career, at least recently, has been with the Appraisal Subcommittee.

What Jim Park says about today's situation

Appraisal Subcommittee

I've never worked with some of the things that that I'm hearing about that are now taking place. They are really concerning to me because some of my personal relationships. But they ought to be concerning to everybody.

And then of course the Subcommittee provides federal oversight. The federal oversight creates a certain cohesion and support for the appraisal regulatory system. And I guess this is an advantage.

They are currently sitting on about $30 million that apparently they haven't figured out what to do with. I hope they can put that money to work as soon as possible. Challenges to interagency structures are inefficient and very difficult to manage. So some of these things are a yin and a yang to what's positive and negative.

By having seven agencies on a Board like this you have the advantages of all those perspectives, but it creates a highly inefficient and difficult management problem for managing the Board.

People may not realize just how much authority the Board has over the staff. And in the past the Board would allow staff to do the work fairly independently, with lots of reporting to the Board and oversight from the Board.

But that's changed in the last few years where you have a lot more hands-on management from the Board. Frankly that leads to having politics involved more and more in some of the decisions in the management of the Subcommittee.

With the lack of enforcement in rulemaking authority the Subcommittee only has a handful of areas where they have rulemaking authority. That creates some challenges:

The lack of enforcement authority over The Appraisal Foundation and the limited authority over the states is another issue..

Some would say that that's really good. I understand that limited government, limited federal oversight or input can be a good thing. However, it also creates challenges when the whole system was set up for that oversight to really take place and be effective.

The small staff

You have a staff of 9 to 15 people dealing with seven behemoth regulatory agencies. The Federal Reserve and FDIC and OC.

With HUD, for example, there are a lot of mouths to feed, in terms of addressing their various questions and concerns. I've been on calls and briefings where there are more attorneys from one agency on the briefing call than the total number of staff at Subcommittee.

More and more it's been subject to political influence. That really started with the first Trump administration.

North Dakota temporary waiver ineffective

Some of you will remember the temporary waiver that the Subcommittee issued for North Dakota. That took probably close to two years of our time. It was not a small undertaking and it was in the name of deregulation.

The problem is it was just completely ineffective. And my guess is not a single loan was ever completed in the state of North Dakota using that waiver authority.

Part of the problem was even though you had the waiver in place, you still had to find somebody to perform an appraisal. So, it was a waiver of licensing requirements, not a waiver of appraisal requirements.

You still had to find somebody to do an appraisal and comply with USPAP. They just didn't have to be an appraiser. I'm not too sure there are many of those folks out there.

The funding surplus is a challenge.

Certainly with the executive orders that do not allow agencies to replace or add staff the funding surplus has really become a challenge for them as well.

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The Appraisal Foundation

It was started by the most prominent trade groups in the in the profession in 1987. They were smart. They knew, or they surmised, that legislation was coming on the heels of the Savings and Loan crisis. So the profession got together and created The Appraisal Foundation and wrote the initial version of the Uniform Standards of Professional Appraisal Practice or USPAP.

In 1989 they proved to be correct. Congress saw that the Foundation had already written the first set of standards. Congress tends to do this: They took the easy way out and said, "We'll just anoint the Foundation with the authority to "establish the standards."

The appraiser qualifications came along shortly thereafter.

State Appraisal Regulatory Programs

The advantages: This is the way it's typically done in terms of regulation. The states have a lot of experience in occupational regulation.

The State Appraisal Lcensing Boards don't, in many cases, interact with a lot of these other agencies. I would hope that changes in the future because they can certainly learn a lot.

The State Appraisal Boards, as most of you probably know, are very small. They have a lot of resource challenges both human resource challenges and financial resource challenges.

One of those challenges is keeping up with the changes that are coming from the Appraisal Standards Board and the Appraisal Qualifications Board.

Having local expertise, particularly in the enforcement arena, is crucial. But when you have complaints against appraisers, having people on the Board who are in the market is an issue. It can be one person's opinion who happens to be a Board member or an investigator. This can be their opinion versus the opinion of the appraiser.

Title 11 and State Boards

Title 11 is an unfunded federal mandate. Dodd-Frank attempted to address some of that by requiring the Subcommittee to give grants to the states. Recently some of those grants appear to have been curtailed.

I hope they'll get going again with providing that grant funding because it can really be very helpful to the states.

What is Title 11?

Title XI refers to the Real Estate Appraisal Reform Amendments within the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

It primarily addresses the need for qualified and independent real estate appraisals in federally related transactions, ensuring they are performed according to uniform standards and by licensed or certified appraisers.

Key components were the Appraisal Subcommittee (ASC), USPAP, and Appraiser Certification and Licensing by the states.

The Appraisal Foundation was not in FIRREA. It is a non-profit organization authorized by Congress to establish standards and qualifications for the appraisal profession in the United States.

The Appraisal Foundation (TAF) is overseen by the Appraisal Subcommittee (ASC) of the Federal Financial Institutions Examination Council (FFIEC).

The ASC monitors and reviews TAF's work, ensuring states implement minimum qualifications for appraisers and that appraisers adhere to professional standards.

AMC oversight and State Boards

State Boards now have the additional regulatory burden of AMC oversight. It's a very different enforcement problem between oversight and enforcement of individual appraisers in corporations. In some cases multi-billion dollar corporations, who have lots of attorneys.

When the state is confronted with an AMC issue, I think it can have an impact on how they carry out their enforcement.

The other problem is the way the rule was written after Dodd-Frank was passed. This creates a very confusing enforcement authority for the states to use in terms of enforcing the Dodd-Frank requirements in the subsequent rule.

Rules that were written by the agencies for oversight of AMCs use of USPAP and qualification revisions are challenges for the Boards.

The staffing changes in the states.

What I don't know is if this has continued. But certainly over the last few years up until the time that I retired from the Subcommittee, we were seeing a lot of challenges on the heels of COVID in the states.

There were a lot of changes in personnel in particular, and a lot of changes in the way hings are done.

Subcommittee problems in the news

With all the recent news about the Appraisal Subcommittee, I expect most of you have seen these articles in BIZNOW. It's really distressing to see what has taken place over the last several months at the Subcommittee and now you've got the media in involved.

The Senate got involved as well. Two members of the Senate Banking Committee, Senator Cortez Masto and Senator Rounds, have weighed in. The term they have used is chaos at the Appraisal Subcommittee.

The Subcommittee is an agency and the organization that is the glue for the entire regulatory system.

If the Subcommittee is dysfunctional or non-existent, I don't know how the rest of the regulatory system functions without that oversight. The ability for the rest of the system to remain glued together just is not going to continue.

For example if the Subcommittee either effectively or literally is no longer there when the Appraisal Foundation makes changes in USPAP or the qualification criteria, this essentially becomes a voluntary change for the states.

Surely some states will go along with it, but what if there's nobody coming behind to say "hey if you don't do this and you don't do it the right way, we're going to write you up in our compliance review".

The Subcommittee has the non-recognition hammer as well. (You cannot do mortgage appraisals in your state.) Without that, you're going to see, maybe slow, or maybe a very quick, degradation in the uniformity that we have in place right now.

What you can do

If are concerned about this, I would highly encourage, you to contact your senator and/or your congressman and make sure that they are aware of the problems and ask them to look into it.

There needs to be transparency and there needs to be a bright light shown on what's going on right now.

BIZNOW has been doing the reporting on the Subcommittee. They also did some reporting on problems at the Appraisal Foundation a few years ago "Deep cracks in in the industry's foundation". So there's a lot that we need to work together to improve.

Conclusions

My conclusion (Jim Park) is that the current regulatory system is no longer effective. That's not pointing any fingers at any individuals in any of these agencies, the Foundation or the states.

What has happened over the last 35 years is that Congress, in my view, has not tended the garden. If you don't tend your garden and pull the weeds, the weeds are going to overcome what you really want to grow. Whether they're flowers or vegetables or whatever you intend to grow, you've got to take care of it.

There have been so many changes over the last 35 years in just the mortgage lending business and the commercial lending business. Title 11 has not kept up with it.

It's overly complex. There is no real need for appraisers to be more highly regulated than attorneys or accountants or financial services providers. That is what we have right now. This leads to an inefficient and unsustainable system.

I see there are variations in how you want to look at this, but from my point of view there are really three large or general changes that need to be looked at.

One is enhancing the existing system. Moving to more of a state controlled system, or halfway in between reducing the federal role.

So let's talk about enhancing the existing system. One way is to broaden the ASC membership, which is part of the banking bill that just came out. It would add the Veterans Department of Veterans Affairs as well as USDA rural housing development to the Appraisal Subcommittee members which I think would be an excellent change.

What is an FRT?

When someone is buying, selling, or refinancing a property, and the transaction involves a financial institution that is regulated by the government. It is considered a Federally Related Transaction (FRT).

Many fewer Federal Related Transactions since Title 11 passed

When Title 11 was passed, 95 plus percent of the mortgage lending transactions, residential in particular, fit underneath the definition of an FRT. Today FRTs are estimated down to 5 to 10%.

Over the last 35 years through the establishment of ever increasing thresholds and exemptions, has reduced the number of loans that are subject to Title 11 and to FIRREA.

The Appraisal Subcommittee and The Appraisal Foundation are affected because that's the root of their authority as well.

A letter was written right after the Federal Reserve established a $100,000 threshold around 1990. This was before the exemptions. I believe the letter was written by 12 congressmen including the father of Title 11, Douglas Bernard, Congressman Bernard.

The letter said basically to the chair of the Federal Reserve "what are you doing"?

We never intended for this many transactions not to fall under the auspices of regulation and not be considered FRTs. We have, I believe, 14 exemptions including Fannie Mae and Freddie Mac. Any loan that qualifies to be sold to Fannie or Freddie is exempt from the definition of an FRT. Loans insured by FHA and guaranteed by VA are non-FRTs.

What can be done

Today the states have adopted all of these requirements. So the hook really is with the states in terms of requiring appraisals in these different areas.

You could redefine that so that we actually know what the playing field is in terms of when appraisals are required at the federal government level.

You could streamline state and federal regulations to reduce redundancy. Provide the Appraisal Subcommittee with added regulatory authority and legal authority for adequate oversight over the Appraisal Foundation and the state programs.
Without that proper oversight the work of the Foundation can be questionable.

I'm not saying that they've done anything. But, any organization needs to have some level of oversight, particularly when you're in the public sector like this.

This tends to lead to problems in how the changes and the decisions that are being made are viewed.

Establish a clear source of revenue for The Appraisal Foundation. Federal resources for the states could come from the Appraisal Subcommittee and in the grant authority.

I've always been convinced that what Congress intended is for the Appraisal Foundation to be largely funded by the Appraisal Subcommittee and years ago it was.

In 2020 the Foundation started not accepting federal grants anymore. Now they have started requesting federal grants again. I just don't know that they'll ever approach the size of the grants that they used to or really fit the need the revenue needs that the Foundation currently has.

How to reduce the federal role

There are other examples out there such as FINRA. The Financial Industry Regulatory Authority is a private American corporation that acts as a self-regulatory organization (SRO) that regulates member brokerage firms and exchange markets.

You also have the Public Company Accounting Oversight Board PCAOB, referred to as peekaboo.

Those are good models where an SRO was established to oversee accounting and investment and industries.
(SRO stands for Self-Regulatory Organization. An SRO is a non-governmental organization that has the authority to create and enforce industry-specific rules and standards. Essentially, it's an organization within an industry that polices itself, ensuring its members adhere to certain ethical and professional guidelines.)

PCAOB came along after Arthur Anderson (major account firm) had their problems back in the late 90s. Now the PCAOB has been under duress. There is an attempt and may still be an ongoing attempt to get rid of the PCAOB.

What I don't know is if there is any kind of a looking glass into what the future is for the Appraisal Subcommittee, but I think it's something to watch for.

You could continue with a similar program that we have now, except possibly establish a new SRO that would take over the role of both the Appraisal Foundation and the Appraisal Subcommittee and leave the states where they are.

What about deregulation?

For example, turning over complete control to the states. That's another option. I expect that's an option some, if not a lot, of appraisers may really like.

If there was no longer a federal requirement to regulate appraisers, I feel pretty certain there'd be some states that would regulate appraisers and there'd be some states that would not. That is an option to eliminate the federal oversight and allow states todecide whether they want to want to and how to regulate appraisers.

I think this would be more aligned with how countries around the world outside the United States regulate their valuers or appraisers.

But, I think with the industry users of appraisal services there would be a real backlash. The beauty of the uniformity that we have with USPAP and the qualifications would slowly or very quickly erode. This would make obtaining appraisals and judging the reliability and credibility of those appraisals much more difficult.

The current regulatory system is broken

In conclusion, the regulatory system that was envisioned by Congress has a lot of positive aspects. However it's broken. We revisit the definition of an FRT because it's the basis for the whole regulatory system, then figure out what's next.

I've hit on several of these. You know we're subject now to a highly regulated overly complex and opaque system.

The system is hampered by misaligned incentives, a lack of accountability and unnecessary bureaucracy. Legislation has to date has been reactive, not proactive.

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Two New Proposed Senate Banking Bills

NOTE: The original two bills included a section on a Public Appraisal Database.
This has been removed on both bills after appraiser concerns, per Scott Dibiasio, Appraisal Institute, Director Government Affairs.
Maybe some sort of study on plus and minuses will be done.

Next month's newsletter will include details of both bills that affect appraisers.

To read the bills and read the bills and see thir status, Go to congress.gov and type in the name of the bill.

S.2322 Senate Appraisal Modernization Bill,
Sponsor: Raphael Warnock,
Introduced 07/17/2025
Committees: Senate - Banking, Housing, and Urban Affairs
Short, estimated 8-10 pages long.

S.2651, Road to Housing Act.
Sponsor: Scott, Tim [Sen.-R-SC]
Introduced 08/01/2025)
Committees: Senate - Banking, Housing, and Urban Affairs
Long, over 300 pages with two appraiser sections:
Section 403 Appraisal Modernization Act and Section 705, Appraisal Industry Improvement Act

Jim Park comments on Road to Housing Bill

The banking bill came out of the Senate Banking Committee on August 1, 2025. It's the first bill of its kind. It's a big housing bill, as you're probably aware, with some appraisal components. In my view, some good, some bad.

This banking bill is more forward looking, although it doesn't address any of the real problems I've just discussed with the system that I've just described. But it would add some improvement.

I think it's the first bill to pass out of the Senate Banking Committee in 10 years or more. So, it's kind of a monumental change. It passed out of the banking committee with a vote of 24 to nothing. It's a bipartisan bill.

That tells me it's very likely to make its way out of the Senate probably before the end of this year and then it'll go to the House. And once it goes to the House, who knows?

Many thanks to George Dell for setting up this event.

The total time was 1.5 hours. In this article I include only Jim Park's comments on the current situation.

George has this event's video, plus more videos, on his youtube channel: youtube.com/@georgedellsvaluemetrics9355
Or, go to youtube and search for George Dell, appraisal and scroll down to the future of Appraisal Regulation.

Appraisal Regulator 'Chaos' Risks Undermining Real Estate Markets

UPDATE: August 14, 2025: On August 8, the board of directors for the Appraisal Subcommittee unanimously approved Frederick Griefer as new acting executive director, effective Aug. 10.

July 25, 2025

Source: bisnow.com
Editor’s comments: *I registered (free) and downloaded several articles. Free access lasts for about 2-3 weeks.*

Search for Appraisal and printout the articles you want.

You will get emails requesting to update to paid subscriptions.

Biznow writes mostly about commercial real estate but includes appraisal topics as that affects commercial real estate lending.

Excerpts:

Disarray at the small federal agency charged with overseeing the appraisal industry is raising alarm among lawmakers about the effectiveness of a critical safeguard of the infrastructure of the nation's real estate market.

The Appraisal Subcommittee has been without a permanent director for more than six months, has seen its staff dwindle by 30% and has clawed back grant funding meant to grow a profession undergoing a demographic crisis.

Those issues have caught the attention of two senators, who recently sent a letter to the chair of the Federal Financial Institutions Examination Council - which oversees the ASC - expressing concerns about the appraisal industry's top monitor.

The letter was signed by Sen. Catherine Cortez Masto, a Democrat from Nevada, and Sen. Mike Rounds, a Republican from South Dakota. They cited previous reporting by Bisnow on the ASC's staffing cuts and failure to hold required public meetings and litigation alleging fraud in the state appraisal certification process.

The senators asked FFIEC (Federal Financial Institutions Examination Council) Chair Michelle Bowman, who is also vice chair of the Federal Reserve Board, to exercise the council's oversight authority over the ASC and determine why the subcommittee has no permanent chair or director and whether it had made changes to its supervision process.

In a Jan. 17 blog post, Consumer Financial Protection Bureau Deputy Director Zixta Martinez, who was chair of the ASC board at the time, boasted about the increase in grant distributions, further highlighting "unique" state regulatory programs created to train new appraisers.

Three days later, the second Trump administration began with the president signing executive orders ending diversity, equity and inclusion programs.

On Jan. 30, the ASC notified several states that activities related to the grant priority of "reducing barriers to entry into the real estate appraiser profession to assure the availability of State certified and licensed appraisers for the performance of appraisals in federally related transactions" would no longer be funded, according to a letter sent to the Texas Appraiser Licensing & Certification Board and obtained by Bisnow.

Cortez Masto and Rounds' questioning of the ASC coincides with controversy in other branches of the U.S.' convoluted appraisal regulatory tree, which has resulted in lost trust from not just the general public, but also from professionals in the industry.

The Power To Define Appraisal Rules For U.S. Real Estate Belongs To TAF (The Appraisal Foundation). It's Desperate Not To Lose It

Source: bisnow.com

July 15, 2025

Editor's Note: *You can read all the appraisal articles on biznow.com for free by registering on bisnow.com . Below are excerpts. Bisnow writes mostly about commercial real estate issue.*

Since I attended my first ASB meeting, I had the issue discussed below on TAF transparency, and later the financial issues.

Tucked away in a nondescript office building in downtown Washington, D.C., is a 13-person nonprofit that writes the rules for how trillions of dollars of residential and commercial real estate is valued in America.

The Appraisal Foundation (TAF), the governing body for appraisers across the U.S., has overseen the way property values are determined for more than 30 years. But in recent years it has come under heightened scrutiny about its influence and effectiveness, both from within the ranks of the appraisal industry and among the federal officials who monitor it.

Since 2020, TAF has been the subject of a federal fair housing probe, doubled its financial assets and sought to exert more control over - and extract more revenue from - appraisal certification materials, a Bisnow investigation found.

Just last week, the foundation reached a settlement to end a federal investigation into its alleged failure to prevent racial discrimination in the housing industry. Its longtime president stepped down earlier this year, but public pressure to reform the industry over which TAF looms hasn't abated.

For the past four years, TAF has been rejecting the millions in federal grant money it received for the first three decades of its existence. According to documents obtained by Bisnow and sources with knowledge of TAF's internal discussions, it decided to turn away available funding to avoid risking the copyright of its cash cow, the Uniform Standards of Professional Appraisal Practice, and related training materials.

TAF has also barred federal staff from its meetings, Bisnow has learned, in part because it didn't want those meetings to be subject to federal disclosure laws.

TAF has also barred federal staff from its meetings, Bisnow has learned, in part because it didn't want those meetings to be subject to federal disclosure laws.

Considering the Definition of Market Value When Using Deterministic vs. Probabilistic Aspects of Residential Real Estate Appraisal

By Tim Andersen, MAI

Editor's comments: *I have always thought that often a Value Range is better than a "Point" value. I also know that sometimes the point value is uncertain due to lack of data, good information on the subject, etc. I write in the appraisal that the value is less certain due to xxxxx. But, I never had a more acccurate probability. Many thanks to Tim for writing about this issue including lack of appraiser education on probability.*

I had never heard of many of Tim's ideas in this article. For example: "a call to action for the real estate appraisal qualifying-education establishment to begin teaching the theory and praxis behind probability. This would result in an opinion of market value that was not inherently misleading."

References are at the end of this article.

Summary

Real estate appraisal praxis today overwhelmingly adheres to a deterministic analytical framework. This demands a single-point opinion of value rather than acknowledging the probabilistic, i.e., uncertain nature of real estate markets.

Editor's ***Note:*** *"Praxis" refers to the process of putting ideas, theories, or skills into practice, often involving a cycle of action, reflection, and refinement.*

This practice, while traditional and regulatorily entrenched, fundamentally misrepresents the nature of market value and hinders the evolution of valuation science to that of a profession.

This essay explores the contrast between deterministic and probabilistic approaches in valuation, cites academic and institutional authorities.

It demonstrates how a more probabilistic orientation toward a definition of market value would benefit the field of real estate appraisal in terms of credibility, accuracy, and transparency.

Then, it concludes with a call to action for the real estate appraisal qualifying-education establishment to begin teaching the theory and praxis behind probability. This would result in an opinion of market value that was not inherently misleading.

Rather, that foundation would be on the principles of scientific analysis and critical thinking. Simply, we do not teach these precepts now.

Introduction

Despite the dynamic nature of market forces, traditional appraisal techniques rely on fixed adjustments and point estimates. In other words, their result is producing a single-point value estimate rather than a more market-supported value range.

The definition of market value acknowledges variability in buyer and seller behavior, economic conditions, and data limitations, indicating that appraisals should involve a dollar value range conclusions, rather than pin-point dollar number outcomes.

The insistence above on the lack of connection between the formal definition of market value and what the appraiser attempts to reproduce from the analyses of the real estate purchase and sale experience.

In addition, this article advocates for a more sophisticated appraisal model that incorporates both deterministic structures and probabilistic realities, suggesting the use of value ranges, confidence ratings and statistical enhancements.

Understanding the Definition of Market Value in This Context

The practice of residential real estate appraisal exists at the intersection of structured methodology (determinism) and market uncertainty (probability).

This means that when we go into a neighborhood to produce an appraisal, we already know (or should know!) what historic sales prices, etc. have been (determinism). However, even with a purchase and sale agreement, we do not have a clue about the subject property's value until we have executed the appropriate analytical methodologies to tease from the market its indication of that house's most probable [sales] price (which is the definition of market value).

At its core, the real estate appraisal process involves a balancing act between deterministic modeling and probabilistic reasoning.

This tension is visible when one considers the definition of market value, particularly as codified in regulatory and lending contexts such as those of Fannie Mae. It is clearly probabilistic:

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale..."

This definition, by invoking the term "most probable price," explicitly identifies market value as a probabilistic concept. A probabilistic concept is one that is dynamic; one that is not fixed from occurrence to occurrence; one that is dependent on outside forces, thus subject to the workings of random chance.

For example: a house's value may change over a period as short as three (-3-) months if first mortgage interest rates increase to 20% from their current rate.

Other than being three months older, the house has not changed. Rather, external market forces changed (what was the probability of a change, and what was the probability of changes to that specific set of circumstances?), thereby affecting value.

(Appraisers call this an external obsolescence factor, since the change in value was due to the change in interest rates [an external factor], not a change in the house itself).

These Are the Reasons Why a House's Sales Price is a Probability:

Market value is a function of separate and separable market factors, not all of which come into play with every appraisal assignment. They do not even merit the same weight from one appraisal assignment to the next in the any given value conclusion.

This is why they are dynamic: they are capable of, and subject to, constant change, many of which are outside of the property itself.

Therefore, we ask the question: "What is the probability market conditions will change over the passage of time, under what conditions will they change, and what will those dynamic forces have to do with market value after the changes are complete?"

Nevertheless, the analytical methods the real estate education establishment traditionally teaches remain deterministic, relying on fixed adjustments, point estimates, and linear assumptions.

Think about the concept of a point estimate and how there is no market orientation to it. Typically, the house is offered for sale at $X, then it sells for price $Z. If that is not a range, from a listing price to the sales price, rather than a point estimate, what is it? And out of that range, what was the probability the buyer and seller would arrive at that particular price, rather than another one from that range? Therefore, to conclude a single-point value flies in the face of the logic of a dynamic, ever-changing market.

The Deterministic Framework in Appraisal Practice

The Sales Comparison Approach

Currently, appraisal methodology of the Sales Comparison Approach has its roots in deterministic assumptions. Our educational establishment also teaches it this way.

In the Sales Comparison Approach, the appraiser determines which sales are comparable and then, from this corps of comparables, the appraiser again determines which of them to use in the appraisal as analogues by which to form a value conclusion.

In this protocol, there are no probability analyses to conclude which sales are truly comparable and which are merely sales within the same general geographic area. The appraiser's gut (or the quantity of the appraisal fee/turn-around time) determines which sales are comparables, not the science of probability (which should be the ultimate metric).

To conclude which sales those appraisers will use as comparables, appraisers apply an amorphous model based on "…my 30-years' experience…"; a template a fellow appraiser bestowed 10-years ago at retirement; or some other arbitrary index with no basis in probability analysis.

The Cost Approach

Since the components of the Cost approach are dependent on pricing authorities which may re-evaluate building costs as little as once per year, this approach, too, is deterministic.

This, too, can be reduced to math,
Vm = {(Vsv) + [(?Cis) - (Dai)]} ± ?
where the property's market value (Vm) equals the value of the vacant site at its H&BU, plus the total costs new of all the improvements to the site (?Cis), minus depreciation accrued to the improvements (Dai), plus-or-minus a fudge factor (?) depending on whether the market is hot or cold [note, in balanced markets, this fudge factor may be zero (-0-)].

While this formula is merely the standard cost approach protocols reduced to a little algebra, it is entirely deterministic.

Market value (Vm) is a function of cost new (which a costing authority determines, not "the market") less accrued depreciation (which the appraiser determines by comparing costs new with actual contributory value of any set of improvements). Again, no probability there.

The Income Approach

There is a deterministic model here, too:
Vo = Rgm * Mgr
where the overall value of the property is equal to the gross monthly rent a particular property can generate, multiplied by the gross rent multiplier the appraiser deduces from market data and then applies to the subject.

This may be an adequate purchase price/sales price model. However, it fails miserably to predict and account for changes in income do to changes in occupancy, has no reserves for the replacements of short-lived items, and fails to account for any income cash-on-hand-and-in-banks may generate during holding periods of excess cash.

In other words, the Income Approach, at this level of sophistication, is poor at what it is supposed to do, which is convert income into value. A further discussion of this, however, is outside of the scope of this essay.

The Masking of Uncertainty

By presenting value conclusions without reference to uncertainty or confidence intervals, appraisal reports may create a false sense of precision.

This is not just a semantic problem; it also has practical implications for lending risk, investment decision-making, and market transparency.

Nick French (2004) critiques this tendency toward determinism:
"The apparent precision of single-point valuations may provide a false sense of certainty to users of valuations." (French, 2004, p. 421).

French argues for expressing valuations with accompanying measures of uncertainty. For example, a property might have a most probable value of $475,000 with a 90% confidence interval between $450,000 and $500,000.

Presenting value in this way aligns appraisal with practices in economics, finance, and data science, where probabilistic modeling and critical thinking are the norm.

Determinism in Appraisal Training and Standards

Appraisal education reinforces this deterministic stance yet does not support why.

The Appraisal Institute and other credentialing bodies, as well as The Appraisal Foundation and the GSEs, emphasize adjusted comparable sales, cost tables, and capitalization rates, GRMs, and so forth, but rarely engage with concepts such as Monte Carlo simulations, confidence intervals, or Bayesian inference, all of which are much more probabilistically oriented.

Diaz and Wolverton (1998) point out: "Appraisal education remains focused on deterministic comparables-based valuation, with insufficient emphasis on uncertainty or probabilistic thinking." (p. 355 - italics added).

This andragogical bias means that appraisers are rarely trained to quantify or even communicate uncertainty, despite its centrality to the very definition of market value.

Editor's note: *Andragogy, often referred to as the art and science of helping adults learn, is a theory of adult learning that contrasts with pedagogy, the teaching of children. It emphasizes self-direction, experience-based learning, and a problem-centered approach, where adults are seen as autonomous learners with unique needs and motivations.*

This is open to debate, but it is unclear whether boots-on-the-ground appraisers appreciate how and why their deterministic training constrains them.

Indeed, a deterministic approach to appraisal andragogy limits an appraiser's independence, impartiality, and objectivity. How? By limiting the appraiser's ability to reflect in their value opinions that market forces are dynamic. For this, we turn to the musings of Thomas Bayes.

How is it Even Possible to Measure Probability?

This is Bayes' basic theorem of probability (1763):

Where:

" P(A|B) is the posterior probability of event A occurring given that B is true. This is the answer we are seeking."

" P(B|A) is the likelihood (the probability) of observing A given that B is true."

" P(A) is the prior probability (i.e., your initial belief about A) before seeing the data."

" P(B) is the marginal likelihood (the total probability) of observing B under all possible conditions."

In English, this formula states that the probability of A, given that B is true, is equal to the probability of B, given that A is true, times the probability of A (with no givens) all divided by the probability of B (with no givens).

Because the above calculates probability, the answer this formula produces, while mathematically accurate, is never more than a (tight) estimate since real estate markets, just as with life, are dynamic, thus random chance can always show its face. In other words, today nobody has a clue what will happen tomorrow. And what happens tomorrow is equally random (equally as probabilistic).

Emerging Probabilistic Models: A Glimpse into the Future

Automated Valuation Models (AVMs) offer a stark contrast to traditional deterministic appraisal practice. These models often generate not just a point estimate, but a confidence interval or standard error, acknowledging the inherent uncertainty of valuation. Bogin and Shui (2020), in their Federal Housing Finance Agency working paper, note:

"AVMs offer a probabilistic estimate of value, typically reporting not just a point estimate, but a confidence score or prediction interval." (p. 8).

Note, via this probabilistic definition, an AVM produces what the GSEs actively seek: an estimate of the most probable price. Therefore, via appraisal's traditional deterministic rubric, our traditional analytical protocols cannot produce probabilistic results.

To define market value probabilistically, yet to use deterministic protocols to reach that end is inherently misleading. Therefore, every GSE appraisal report an appraiser sends out is inherently misleading, a serious violation of USPAP's Standard 2.

AVMs are not without their own issues (e.g., lack of transparency, data quality concerns), but their probabilistic orientation better reflects the

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Editorial and Subscription Offices
1826 Clement Ave., Suite 203
Alameda, CA 94501

Phone: 510-865-8041

Email: info@appraisaltoday.com
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way markets operate and cope with exogenous forces.

Traditional appraisers could adopt similar methods-or at least acknowledge their validity-to enhance the credibility of what they do and why they do it, as well as to vitalize analytical rigor.

A Call for a Probabilistic Turn in Appraisal Practice. "It Ain't Broke Bad, so Don't Fix It Too Much"

To discard traditional appraisal methods is not the solution to the problem. Rather, that solution is to supplement them with probabilistic tools. Market value is not a deterministic outcome; it is the result of many interacting variables, each with its own uncertainty. D'Amato (2022) states:

"Market participants rarely know what the 'true' market value is. They work with expectations, ranges, and risk assessments." (p. 22).

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