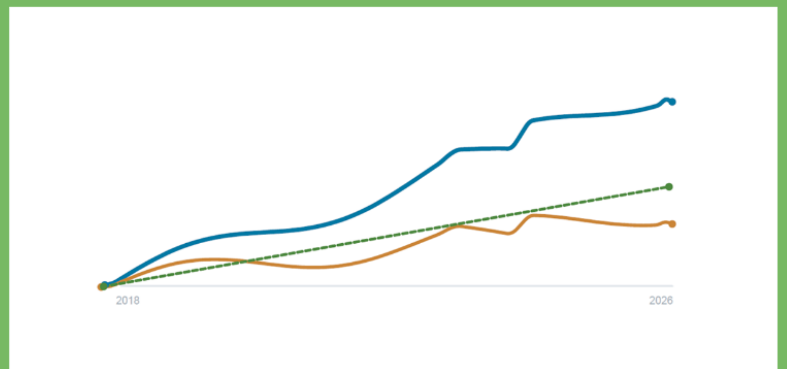


The Cost of Regulatory Drift

Why Inflation Demands
a New CRE Appraisal Exemption

July 2026



KEY TAKEAWAYS

- **The current \$500,000 CRE appraisal exemption has lost much of its practical reach.**
Since the threshold was last updated in 2018, inflation has steadily narrowed the exemption's intended usefulness for small-balance CRE lending.
- **Both CRE price growth and inflation support a higher threshold.**
Small-cap commercial property values have moved well beyond the 2018 baseline, while inflation alone would require a materially higher cap simply to preserve the original framework.
- **A \$750,000 threshold offers a practical, balanced update.**
Boxwood recommends raising the CRE appraisal exemption to \$750,000, a level that remains below recent market peaks while reducing unnecessary appraisal costs, delays, and regulatory friction for small-balance borrowers and lenders

INTRODUCTION

The Appraisal Modernization Act of 2026 signals significant changes in the real property valuation ecosystem. The legislation prioritizes operational simplification and speed, factors that will impact the use of various alternative valuations supporting both commercial and residential lending. A primary focal point within the commercial real estate arena will be the appraisal exemption provision last updated in the 2018 version of the Interagency Appraisal and Evaluation Guidelines (IAEG).

At that time, the revised appraisal exemption permitted financial institutions to expand the use of commercial evaluations in lieu of Title XI Appraisals on transactions under \$500,000. The Federal banking agencies' rationale for the monetary increase was largely twofold: first, that the higher dollar cap for small-balance CRE loans would not pose a threat to the safety and soundness of financial institutions; and second, that the higher ceiling for evaluations would facilitate cost and time savings for borrowers and institutions because evaluations are less expensive and faster to perform than USPAP appraisals.

As a result, a large majority of commercial banks have embraced the use of evaluations at the higher \$500,000 cap over the past eight years. This briefing provides an economic justification for a new, upward adjustment in the appraisal exemption amount, aligning with the conservative logic described in the final rule regarding real estate appraisals published in the Federal Register (Vol. 83, No. 68, April 9, 2018). In that rule, the federal agencies rejected setting thresholds near the peak of a volatile price index to protect the financial health of financial institutions, leaning instead toward values that track long-term stable trends or cyclical troughs.

Our analysis, however, departs from the agencies' historical framework in one crucial way: we explicitly account for how inflation erodes the real-dollar scope of the exemption over time. While federal banking regulators traditionally mandate rules and maintain ledgers strictly in nominal terms, ignoring price inflation over extended cycles creates unintended "regulatory drift". By evaluating the threshold through an inflation-adjusted lens, we demonstrate that leaving nominal caps frozen for long periods systematically narrows the exemption's reach – and ultimately undermines the rule's original intent to alleviate regulatory friction for small-balance commercial lending.

DATA METHODOLOGY

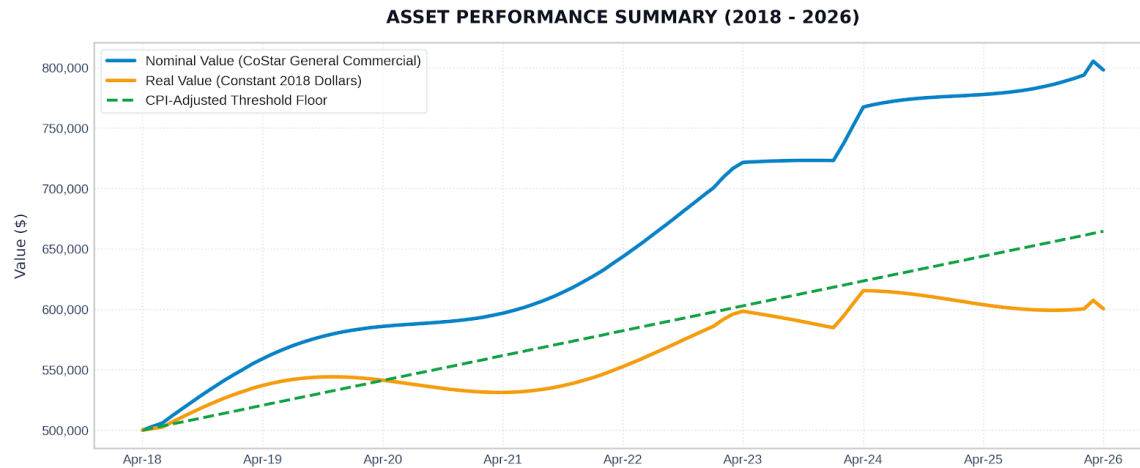
In their 2018 analysis of the appraisal threshold – when the pre-existing cap stood at \$250,000 – the federal agencies utilized the Commercial Real Estate Index, which is based on CoStar’s Repeat-Sales Index (CCRSI) data for national sales transactions across all price ranges. For this study, we narrowed the scope of the index. Specifically, we employ CoStar’s equal-weighted U.S. General Commercial market segment.

By eliminating the upward bias of high-value, institutional transactions and focusing strictly on the lower, non-institutional market, this tier more closely corresponds with the collateral values typical of small-balance loans – the primary target of the appraisal exemption. Our dataset spans from April 2018 (when the \$500,000 threshold took effect) through April 2026 and is paired with the Bureau of Labor Statistics Consumer Price Index (CPI-U). Merging these two data series allows us to analyze how a property valued at the 2018 threshold baseline has theoretically evolved over the last eight years, accounting for both its nominal price appreciation and its inflation-adjusted real value.

ANALYSIS & VALUATION TRAJECTORY

The analysis tracks the trajectory of the CoStar data, using the April 2018 index value (208) as the baseline for comparison through April 2026 (index value, 332). As shown in the accompanying graph and table, a summary of the findings includes:

- **Nominal Property Value (blue line):** This line represents the face-value, actual increase in the theoretical property’s price, driven strictly by CoStar’s equal-weighted, U.S. General Commercial Index. A property originally valued at \$500,000 in April 2018 is calculated to have grown to a nominal market value of \$798,077 by April 2026.
- **CPI-Adjusted Threshold (green line):** This line accounts for the erosion of purchasing power over time. It demonstrates that due to a 33% hike in consumer prices, an appraisal threshold today would need to reach \$664,589 just to maintain the baseline status quo established by the 2018 monetary cap.
- **Real Property Value (orange line):** On paper, the asset’s nominal value rose nearly 60% over eight years. However, general price inflation reduced that growth to a 20% increase in real terms, or \$600,429 in constant dollars.



ASSET PERFORMANCE SUMMARY (APRIL 2018 VS. APRIL 2026)

NOMINAL MARKET VALUE

\$798,077

+59.6% Total Change

Actual face-value property pricing driven strictly by small-cap market asset growth.

CPI-ADJUSTED FLOOR

\$664,589

+32.9% Total Change

Threshold target required to purely preserve 2018 framework scale against inflation.

REAL VALUE (2018 \$)

\$600,429

+20.1% Total Change

Constant dollar valuation reflecting a 20% real structural wealth growth footprint.

Milestone Period	CoStar Index Value	Nominal Property Value (\$)	CPI-Adjusted Floor (\$)	Real Property Value (2018 \$)
April 2018 (Baseline)	208	\$500,000	\$500,000	\$500,000
2022-2023 (Cyclical Floor)	300	\$721,154	\$598,200	\$602,800
March 2026 (Market Peak)	335	\$805,288	\$661,400	\$608,700
April 2026 (Current Review)	332	\$798,077	\$664,589	\$600,429

In addition, embedded in the trajectory of CoStar's price index data over this timeframe are distinct cyclical high and low points. The index reached its absolute peak at 335 in March 2026, yielding a nominal market value of \$805,288 for the baseline asset. Conversely, following a market run-up in mid-2022, the price index cooled slightly

and found a strong cyclical floor at a level of 300 during 2022-2023. This translated to a nominal baseline value of \$721,154.

This cyclical peak and trough can reasonably bracket a potential increase in the appraisal threshold. This approach balances real economic appreciation against the regulatory need to stay safely below volatile market peaks – aptly supporting the historical intent of the federal banking agencies.

RECOMMENDATION FOR A NEW THRESHOLD LIMIT

By adopting the conservative approach historically favored by federal banking agencies – balancing market peaks against cyclical troughs – a modernized threshold could logically be established in the low-to-mid-\$700,000s. A rationale for this updated level rests on three primary factors:

- **Rejecting the \$800,000 Peak:** With recent nominal index values hovering near \$800,000, setting the regulatory boundary at this level would place it squarely at a historical high point. Should the CRE market experience a downshift, a threshold set at the absolute peak introduces unnecessary valuation risk.
- **Anchoring to the Cyclical Floor:** A baseline threshold of \$725,000, for example, lines up almost perfectly with the well-tested market support floor of \$721,154 (index level, 300) established during the 2022-2023 consolidation phase. This satisfies the regulatory preference for anchoring rules to a stable, historical baseline trough rather than a volatile peak.
- **Accounting for Price Inflation:** A \$725,000 figure sits more than \$60,000 above the strict CPI-adjusted purchasing power floor of \$664,589. Consequently, it successfully updates the rule for the contemporary macroeconomic environment while safely capturing a portion of the real structural wealth gains produced by these property assets.

***Final Recommendation:** We recommend a threshold mark of \$750,000. This amount remains safely below the market peak while providing a clean, round benchmark for financial institutions to seamlessly integrate into their internal appraisal and evaluation policies.*

CONCLUSION

Because the \$500,000 threshold has remained fixed since 2018, general inflation has severely eroded its true regulatory footprint. A \$500,000 cap today commands the same real purchasing power as roughly \$376,000 did when the rule was enacted. Leaving this cap unchanged is counterproductive; it systematically exposes a massive volume of low-risk, small-tier commercial and multifamily properties to unintended regulatory burdens – injecting unnecessary lending friction via costly formal appraisals and extensive closing delays.

To correct this regulatory drift, policymakers should raise the appraisal exemption threshold to a practical, round benchmark of \$750,000. This milestone sits safely below current market peaks to protect institutional safety and

soundness, yet it effectively overcomes years of inflationary erosion. Implementing this modernized threshold will ultimately provide immediate cost relief to borrowers, invigorate small-balance lending, and support the small-business economy writ large.

Randy Fuchs
CEO
randy.fuchs@boxwoodmeans.com

Disclosure: *As a leading provider of commercial evaluations supporting 200 institutional and non-institutional lenders nationwide, Boxwood stands to benefit from an increased appraisal threshold. However, this analysis is strictly objective, data-driven, and economically grounded. Our goal is to identify a balanced threshold that protects financial institutions from increased valuation risk while reducing regulatory friction and out-of-pocket costs for small business operators and private investors.*