



How reliable are automated real estate valuations?

November 19, 2007 - Owners Developers & Managers

Good appraisals are the backbone of the real estate industry. As more and more activities are becoming automated, some are advocating automated valuation models, or AVMs, as a way to save money on appraisals and expedite the transaction process.

Recent events have made good appraisals even more important. This year there have been big problems with subprime loans, problems that have often been linked to inaccurate appraisals resulting from using AVMs.

With so many of these automated tools available, it's important to ask how reliable automated appraisals really are.

First, it is important to remember that AVMs can never give you the high-quality assessment and service that a human being with years of experience can bring you. Getting an accurate appraisal from a reputable professional the first time will save you the trouble of having to make a mad dash to a property later only to discover what's really there.

Second, appraisal tools that sound too good to be true usually are. Many tools promise to tell you how much a property is worth based solely on its address. But oftentimes these companies will try to solicit more business by returning only a broad range of values and promising more specific information only after becoming a client. Also, some websites ask for a lot of personal information, which they later sell to brokers or lenders looking for business.

Finally, the accuracy of automated valuation models is still undetermined. AVMs are statistics-based programs and rely on data that is often incomplete, inconsistent, or outdated. A computer tool using data from three years ago has no way to measure the property's actual physical condition or unique properties, such as its location in a desirable school district.

Fannie Mae, one of the nation's largest housing lenders, advises that AVMs can be a meaningful tool but "generally have not evolved sufficiently to fully replace traditional appraisals and human judgment."

There are other ways AVMs fall short of a live, in-person appraisal. Here are five simple things an AVM can't tell you:

1. Whether the house is there at all. A computer can't drive by an address to see that a house indeed has four walls and a roof.
2. Whether the property has unique features that add to or detract from its value. For example, a sewage treatment plant next door, a beautiful tree-line street, a noisy highway just over the backyard fence.
3. How long ago the property was assessed. Many AVMs rely on public assessments, which are often old.
4. Exactly what is "comparable." An AVM compares your property to recent transactions in your area regardless of whether the property was sold under duress, or is in another school district.

Moreover, an AVM does not take into account a home's condition, style, or renovations.

5. Whether the market is rising or falling. If recent sales transactions were at the peak of the local housing market, the computer will think the trend is still going up when in fact it's going down.

The disaster wrought by Hurricane Katrina provides a useful case history. In the rush to provide relief, officials sanctioned the use of automated appraisals in the rebuilding effort. But it was soon learned that AVMs had made a lot of mistakes in generating home appraisals. They often failed to reflect a home's accurate square footage and did a poor job providing true values for homes that didn't fit the average in their neighborhoods.

There were also complaints that AVM appraisals low-balled pre-storm property values, data which is critical in determining the size of federal grant awards and insurance payouts.

In the end, officials brought in state-certified appraisal professionals to re-assess the properties rather than rely on spotty AVM work.

Officials in New Orleans learned their lesson, but some of us in the Northeast have not - that nothing beats an experienced, well-trained appraiser on the scene.

Sam Heskell is the founder and executive vice president of HMS Associates, Brooklyn, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540