

Can AVM Technology be used to Your Advantage?

By Brooks Ballentine & Joan Trice

Mention the term "AVM" at your next all-appraiser social gathering and you are likely to elicit more passionate responses than with all other appraisal related issues combined. Fueling many of these opinions is the belief that appraisers and AVMs are mutually exclusive, with the latter operating only at the expense of the former. Given that both appraisers and AVMs are here to stay, it is advantageous for appraisers to learn as much as possible about the technology. To that end, this article will demonstrate that AVMs can be useful tools in the daily practice of real estate appraisal, specifically: as support for adjustments, as an additional "method" of valuation, and as a new service to provide to your clients (i.e. Appraiser Reviewed AVM).

A Brief Introduction to AVMs

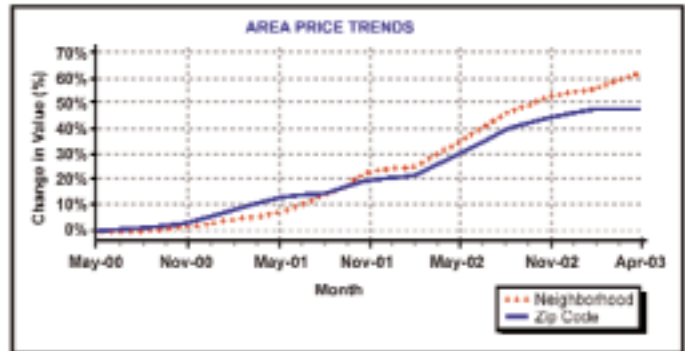
If you are familiar with AVMs then, by all means, skip this section. Otherwise, the term "AVM" is the acronym for Automated Valuation Model. In simple terms, an AVM is a computer program that "simulates" portions of the traditional appraisal process in order to produce a valuation estimate. The accuracy and usability of a particular AVM is determined by the model(s) with which it is designed. While the details of model design are far beyond the scope of this article, suffice it to say that models in the industry range from simplistic simulations of the comparable sales approach to extremely complex data analysis using various predictive technologies.

New Support for Adjustments

The next time you are completing the Sales Comparison section of your appraisal report, imagine if you could easily and accurately adjust each sale for changes in market conditions over time (i.e. "time adjustments"). Further, imagine if you were able to provide absolute support for those adjustments. Now you can.

One of the products available from AVM vendors is called an Index. The Index captures and tracks the changes in market conditions over time. Using the chart to the right, you can easily see the change in value (Y-axis) over time (X-axis).

The charts below were generated using VeroValue AVM for single family residences. Chart No. 1 represents the 92806 (CA) zip code area while Chart No. 2 represents the 80218 (CO) zip code area. Reading from the left, the data are normalized to zero with price changes tracked cumulatively.



To use this information within your existing appraisals follow these steps: (1) generate the index graph, (2) apply the respective changes to each comparable data item, (3) copy the index graph into your appraisal report (hint: an untitled map page works well), and (4) reference the addendum in your sales comparison comments. If you compare the above steps to the traditional process of extracting adjustments using several sets of paired sales you can see the time savings benefit. Further, and a bit more rewarding, imagine a reviewer calling and asking what data you used to support your time adjustment factor. Your answer: All of it!

"New" Method for Valuation

By the time you have read through page 2,809 of The Appraisal of Real Estate book, you will have thoroughly

covered the three approaches to value. With the availability of AVMs, now may be the time to start thinking of a fourth valuation approach. Although AVM valuations are more of a composite of existing methods, they may provide additional and objective support for your traditional valuation estimate.

As time is money for most appraisers, we would prefer that once an appraisal leaves the office it is finished, without being subjected to further explanation and requests for additional support. By including a full AVM valuation report as an addendum to your full appraisal, you may be providing the additional support that a review desires. In order to use this information within your existing appraisals follow these steps: (1) generate the AVM Valuation Report, (2) Copy the report into your appraisal software (second hint: an untitled map page works well), and (3) reference the AVM valuation in your reconciliation comments.

New Services: Appraiser Reviewed AVMs

Just as appraisers added 2055s, 704s and a host of other services to their menu, we are rapidly approaching the next new service: Appraiser Reviewed AVMs. This service will combine the speed and cost savings of an AVM with the expertise of the local area appraiser.

For simple properties, the appraiser can indicate that the AVM appears realistic as generated and inform his client accordingly. Other properties may require the appraiser to provide additional support for the value generated by the AVM or adjust the value generated by the

AVM with or without additional support. In these cases, the appraiser would submit this information directly into the AVM form itself. The finished form is then electronically signed and printed or emailed in PDF format directly to the appraiser. For more complex assignments, the appraiser may need to inform his client that a higher level of service is required (e.g. 2055, 1004). This provides the lender with the ability to save time and money when it is appropriate and yet, relies on the local valuation expert – that would be you - to make this determination.

Future Integration

We have covered just three ways that appraisers may use AVM technology in their current appraisal practice. As technology advances, there will certainly be more tools for appraisers to use in their business, including more robust adjustment indicators, automatic integration within forms software, and even tools to help forecast values into the future. 🏠

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