

“Valuation in the Internet Age:  
Zapping Zillow”

### Zillow/Trulia Merger

- 2015
- Also ListHub contract ended for Zillow
- Allowed realtor.com to have more listings
- Agents are putting listings on Zillow because it is searched

### What issues do YOU have with Zillow?

### What is Zillow?

Zillow and related sites are version of **AVMs, Automated Valuation Models**

### How do AVMs work?

- **AVMS on the Lender Side**
- At time of application
- To remove PMI
- Portfolio Analysis

### AVMs on the Consumer Side

- Internet advertising
- Except for Zillow, drive consumer to lender and/or agent
- Use AVM pricing

### AVMS on the REALTOR® Side: RPR©

*Everyone wants to know: “What is the property worth?”*

### Fannie Mae –CU “Collateral Underwriter”

Collateral underwriter –began in 2012 UAD: Uniform Appraisal Dataset

- Specific requirements for specific fields on an appraisal report
- The death of “average”
- Requires appraiser to use USPS searchable addresses
- View and location
- Specific improvements, specific time frames

- Changed bathroom counts from 2.5 (two full, one half) to 2.1 (two full, one half) No more ¾ baths; if you can bathe there, it is a full bath
- Allowed FNMA to compare appraisals
- Build a HUGE database

### After UAD came CU—Collateral Underwriting

Fannie took all that data and created their very own AVM (which they insist is *not* an AVM!)

Lenders now get a report on the “risk” level of the appraisal

- Based on comparables
- Based on adjustments
- Lenders get provided with (in some cases) at least 20 other “comps” which *they* are supposed to review and vet *before* asking the appraiser to look at them
- But the lenders do not always do this....

### Flaws and Problems with AVMs:

- ✓ Incomplete data—AVM doesn’t know the seller paid \$7000 of buyer’s closing costs as a concession
- ✓ Inaccurate data—AVM doesn’t know the house was remodeled and has an additional bathroom; doesn’t know square footage is incorrect; doesn’t know there’s an additional garage; doesn’t know the kitchen was remodeled, etc., etc. , etc.
- ✓ Unverified data—the ‘machine’ doesn’t verify sales data “from a disinterested party” So, they don’t pick up on:
  - Divorce—one spouse buying out another
  - Estate sales to a family member
  - Non-brokered sales by a clueless seller
  - Non-brokered purchases by a clueless buyer
  - Foreclosures and short sales, in some circumstances
- ✓ Information comes from a variety of sources; some more reliable than others
- ✓ Failure to recognize relevant characteristics
- ✓ Failure to correctly analyze highest and best use
  - Valuing commercial property as residential, because that’s the current use

### Flaws and Problems with Valuations by Agents and Appraisers

- ✓ Geographical competency—it is for *everyone*, not just appraisers!
- ✓ Wrong comps

- ✓ Wrong adjustments
- ✓ Failure to recognize relevant characteristics
- ✓ Failure to correctly analyze highest and best use

#### Data:

- ❖ General: data about the region, county, city. Includes analysis of economy, climate, macro real estate market
- ❖ Specific: data about the property itself: courthouse data, maps, measuring the property, photographing the property, taking notes, drawing a floor plan
- ❖ Primary data: data you gather *yourself*
- ❖ Secondary data: data you get from others

Best data is almost always specific, primary—choice of comps—most of us will use a comp we have seen, appraised, listed, sold, etc.

#### Agents and Appraisers

What appraisers do that you may *not* be doing:

- Verify data about the sale for each comp
- Analyze how to make an adjustment, and be prepared to defend the adjustment
- Tighten up time and distance for comps (per lender request)
- Analyze supply and demand

#### Adjustments: The Challenge

- Adjustments are ***not the same across the board***
  - Example: full bath adjustment in house in \$75,000-\$100,000 price range is *very different* than the adjustment for a full bath in the \$200,000--\$250,000 range
- Adjustments need to reflect “typical purchaser behavior”
  - Don’t get seduced by a seller! They think their six car garage is worth \$30,000, but your question is, will the typical buyer pay another \$30,000 for that garage?
- Some adjustments are cost based, some are income based
  - Cost based example: house is a foreclosure, former owners removed furnace “cost to cure”
  - May add “entrepreneurial incentive” aka “hassle factor”
  - Income based: lots of rental activity, you can separate out the increased rental value of a bathroom, garage, etc—can capitalize it
- Most are market based
- Things which are difficult: unusual features that have appeal

- Things which the seller feels add value which do not have appeal

**So...what's the best formula for great pricing and great appraisals?**

- Local knowledge—geographic competency is *not* just for appraisers!
- Specific knowledge of comps—the more houses you have been in and seen personally, the better
- Using the right comparables
- Very good handle on supply and demand
- Making appropriate adjustments

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Let's look at RPR:

Wrap up:

What did you learn?

Q & A?