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Automated Valuation Models (AVM)

- USPAP and AVMs

ADVISORY OPINION 18

167 Review of the Output of an AVM

168 An appraiser bound by law, regulation, or an agreement to comply with USPAP may be asked if the output of

169 an AVM is credible for a specific property, given the intended use of the AVM's output. Such a request

170 involves an aspect of value and thereby making this determination is an appraisal practice service, but one for

171 which USPAP has no specific performance standards. The appraiser must ensure compliance with the ETHICS

172 RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE.



Automated Valuation Models (AVM)

Overview of the Mechanics of an AVM and How to Interpret the Results

- Reconciliation of Values Between Appraiser's Opinion and AVM Report

At the client's request, the appraiser is providing the following reconciliation between their opinion of value and the value stated in the AVM output (attached) that was provided/chosen by the client.

Prior to reconciling the two values, the appraiser independently researched, verified and analyzed sales and listings of properties they (appraiser) felt to be indicative of the subject's value, and reconciled those findings to the opinion of value presented in this appraisal report.



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Automated Valuation Models (AVM)

Overview of the Mechanics of an AVM and

How to Interpret the Results

Reconciliation example #1 – Appraisal is more than 10% HIGHER than AVM

Appraiser's Opinion of Value: \$215,000

AVM Estimated Value: \$189,000



Automated Valuation Models (AVM)

Overview of the Mechanics of an AVM and How to Interpret the Results

Reconciliation example #1 – Appraisal is more than 10% HIGHER than AVM

An examination of the AVM report shows that the appraiser and the AVM model used 2 of the same sales. 1393 S. Northwood is the appraiser's comparable # 1 and AVM's comparable #2. 2032 N. Parmelee is the appraiser's comparable #3 and the AVM's comparable #5. These two comparables are the highest summarized by the AVM.



Automated Valuation Models (AVM)

Overview of the Mechanics of an AVM and How to Interpret the Results

Reconciliation example #1 – Appraisal is more than 10% HIGHER than AVM

As shown in the attached report, the subject has had significant updating completed on the kitchen, master bedroom and both baths and is located directly on the golf course. Both comparables mentioned above have been verified as having similar updates to the subject, and are also located on the golf course.



Automated Valuation Models (AVM)

Overview of the Mechanics of an AVM and How to Interpret the Results

Reconciliation example #1 – Appraisal is more than 10% HIGHER than AVM

Of the remaining 3 sales summarized in the AVM, none were golf course lots and none had as significant updating as the subject. Furthermore, comparable 1 in the AVM (the lowest sale) was a lender mediated sale that sold over list price after only 2 days on the market, indicating it may have been a below market transaction.

Automated Valuation Models (AVM)

Overview of the Mechanics of an AVM and How to Interpret the Results

Reconciliation example #1 – Appraisal is more than 10% HIGHER than AVM

It appears the difference in values may be due to the AVM report giving less weight/recognition to the subject property's condition and golf course location, and possibly its inclusion of a non-market oriented sale.

Automated Valuation Models (AVM)

Overview of the Mechanics of an AVM and
How to Interpret the Results

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Automated Valuation Models (AVM)

Overview of the Mechanics of an AVM and How to Interpret the Results

*Reconciliation example #2 – Appraisal is more than 10%
LOWER than AVM*

Appraiser's Opinion of Value: \$245,000

AVM Estimated Value: \$291,245



Automated Valuation Models (AVM)

Overview of the Mechanics of an AVM and How to Interpret the Results

Reconciliation example #2 – Appraisal is more than 10% LOWER than AVM

An examination of the AVM report shows that the appraiser and the AVM model shared one common sale. 13612 Osborne is the appraiser's comparable # 1 and AVM's comparable #3.



Automated Valuation Models (AVM)

Overview of the Mechanics of an AVM and How to Interpret the Results

Reconciliation example #2 – Appraisal is more than 10% LOWER than AVM

As stated in the attached appraisal report, and demonstrated by the use of two current listings, the subject's market has had declining property values over the last six months. Like the AVM, the appraiser found few sales in the subject's neighborhood that occurred in the last 6 months. The abundance of available properties for sale (oversupplied market, 17 month inventory) further supports that the market is soft/declining and negative time adjustments are warranted for properties that sold over 6 months ago.



Automated Valuation Models (AVM)

Overview of the Mechanics of an AVM and How to Interpret the Results

*Reconciliation example #2 – Appraisal is more than 10%
LOWER than AVM*

It appears the difference in values may be due to the AVM report giving less weight/recognition to the market decline as all sales summarized by the AVM were over 5 months old.



Automated Valuation Models (AVM)

Overview of the Mechanics of an AVM and

How to Interpret the Results

Reconciliation example #3 – Appraisal is WITHIN 10% of AVM

Appraiser's Opinion of Value: \$295,000

AVM Estimated Value: \$291,245



Automated Valuation Models (AVM) Overview of the Mechanics of an AVM and How to Interpret the Results

Reconciliation example #3 – Appraisal is WITHIN 10% of AVM

An examination of the AVM report shows that the appraiser and the model used 2 of the common sales. 13601Correnti Osborne is the appraiser's comparable # 2 and AVM's comparable #5 and 13739 Raven is the appraiser's comparable #3 and the AVM's comparable #10.

While the appraiser's opinion of value is higher than the AVM report, the difference is considered to be nominal.