

AVMS: HOP ON BOARD THE TRAIN, OR GET LEFT BEHIND?

Since the development of the first commercially marketed automated valuation model (AVM) in 1981, appraisers, investment professionals and lending institutions have been using these powerful, technology-driven reports to calculate a property's value at a specific point in time by analyzing values of comparable properties.

By the dawn of this millennium, AVM technology was used primarily by institutional investors to determine risk when purchasing collateralized mortgage loans. Today, AVMS are often deployed by mortgage lenders to determine a property's worth. They are particularly useful in assessing the value of a property and are an important tool in the belts of many successful appraisal professionals who use them to streamline their business and save time, money and resources.

Three decades into the AVM era, rapid advancements in computational models and data quality have fueled the expansion of AVM capabilities, and coupled with improved testing capabilities, AVM results continue to become more reliable for certain valuation needs. Yet, according to **Bill King**, senior vice president of valuation solutions for Platinum Data Solutions in Aliso Viejo, Calif., widespread skepticism about the technology and how it may impact the human element of the appraisal industry still persist.

AVM technology has always been the subject of much criticism and industry debate; many in the industry allege that AVMS fail to take into account a property's condition or current market value. Above all, many have argued that no AVM technology will ever be able to replace a physical inspection of a property.

Despite the utility of AVMS in helping appraisers and lenders come to value conclusions on property, many appraisers who have been slow to adopt technology fear it may render their services obsolete, King said.

King is responsible for overseeing product development and expansion for Platinum's line of valuation technologies and services, including a suite of AVM products that focus on risk mitigation and workflow efficiency solutions for the mortgage industry. Having worked in the housing and appraisal industries for as long as AVMS have been around, King — whose resume includes work as a senior executive, forensic expert, appraiser and real estate agent — is now a nationally recognized instructor of real estate

and appraisal courses and seminars, as well as a speaker and author on issues of importance to the industry.

In King's mind, AVMS operate in the same manner as engine and fuel, with the engine representing computing power and the algorithms run by a computer, and the fuel representing the data that is put into the computer.

"A great engine with poor fuel will not perform well, nor will a poor engine with the best fuel," King said.

That's why today's successful appraisal professionals view AVMS as a tool in their arsenal, not a replacement for them, King said. And those who view AVMS as the enemy and have not yet brought the technology into their practices may get left behind, as there is an increasing demand by lenders for appraisers to provide services that reconcile multiple valuations on a property into a final value. AVMS are often included in these services, King noted.

"Appraisers don't want to be replaced by AVMS, and some feel they should resist all AVM efforts in order to protect their job," King said. "I am always amused by appraisers I meet at conferences who blast the use of automated technologies in valuation, but who bought their plane ticket on Orbitz, checked in on their cell phone, rode a driverless tram to the gate and checked into the hotel at a kiosk in the lobby. In the simplest of terms, those who see themselves only as appraisers will probably get run over by the technology. Those who see themselves as valuation professionals will benefit from the technology."

Traditional AVM technology — putting an address into a computer and getting a valuation number as the output — can be a useful data point for an appraiser. It offers one potential indication of value for a given property. Knowing that reviewers and underwriters may use that output as one of several benchmarks against which to measure the appraisal can enable appraisers to be prepared for the inevitable questions when the two numbers disagree, King said.

"They can also acknowledge the AVM in the appraisal and offer a brief explanation for why their result is different; sometimes the best defense is a good offense," he said. Many of today's AVMS provide a list of transactions that were used by the model to develop the final output. This list

of transactions can supplement the appraiser's research and serve as a cross-reference to the sales data the appraiser gathers from other sources, King said.

As this report was written, loans for federally related financing still required the services of a licensed or certified appraiser. But change is inevitable, and AVM technologies "are happening today faster than ever before," King said.

"The natural evolution of technology in valuation analysis has changed, and will continue to change how real estate valuations are conducted," he said. "There have been and will continue to be circumstances where automated and so-called alternative valuation services will replace traditional appraisals. There will also be new opportunities created by the emergence of new technologies."

The industry is likely to see enhanced analytic capabilities and improved data quality in the near term — which may indeed replace some appraisal services at some point — but even with those advancements, "the best AVMs are still an artificial form of intelligence," King noted.

"Appraisers are sought for their expertise and judgment; the judgment of the trained professional cannot be replicated by a computer. Appraisers who embrace automated

technologies of all kinds and complement them with their professional skill and judgment will be at the head of the class for years to come," King concluded.

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Bill King,
senior vice president of valuation solutions, Platinum Data Solutions

MOBILE APPRAISING: THEN AND NOW

By Mark Stockton

In 1984, my company opened an appraisal office in Denver to experiment with the concept of mobile appraising. We equipped a vehicle with "state of the art" hardware — a Compaq "portable" computer (weighing 28 pounds!) set on a pedestal between the front bucket seats, loaded with our proprietary property valuation software and a database pulled from the local MLS. The purpose of this exercise was to determine whether or not an appraiser could provide first-class appraisal services without being tied to an office.

Technology did have its limitations in 1984. There was a degree of coordination required in order to complete an appraisal report, whether in the office or in a mobile environment, that we don't have to contend with today. Cameras used film, and film had to be processed. Reports were provided as hard copy documents that had to be printed, collated and hand delivered or mailed. Procedures

had to be put in place to accommodate these steps in appraisal development if our experiment was to have a chance of succeeding.

Accordingly, film was dropped off and picked up at the 1-Hour Photo shop and delivered to the office each afternoon by the appraiser, along with a floppy disk that contained the day's work. An assistant would generate and deliver the final reports the next day.

We promised rapid turnaround for reports that were developed using sophisticated analytics and supported by complete documentation. The reception was overwhelming. We were asked by national lenders to expand the concept country-wide, but being primarily developers of analytical tools for appraisers, we made the decision to encourage others rather than expand our own appraisal operation.

Here's what we found out during the nearly two years of our experiment: