



HORSESHOES AND HAND GRENADES

One of the great evolutions in real estate during the past decade is the power of the Internet, and more than 90% of homebuyers begin their search there. We think that's great, and buyers are more empowered than ever with loads of information. Some of that information can come from sites like Zillow that offer what's called an "automated valuation model" – AVM for short – that purportedly offer a great estimate of the current market value of millions of homes. It's cool technology, amassing an enormous amount of information from publicly available sources in one place that is then scrubbed through very sophisticated algorithms to predict value. And all of that is typically presented in an easy-to-use interface. There's just one problem: those predicted values are wildly inaccurate and inconsistent.

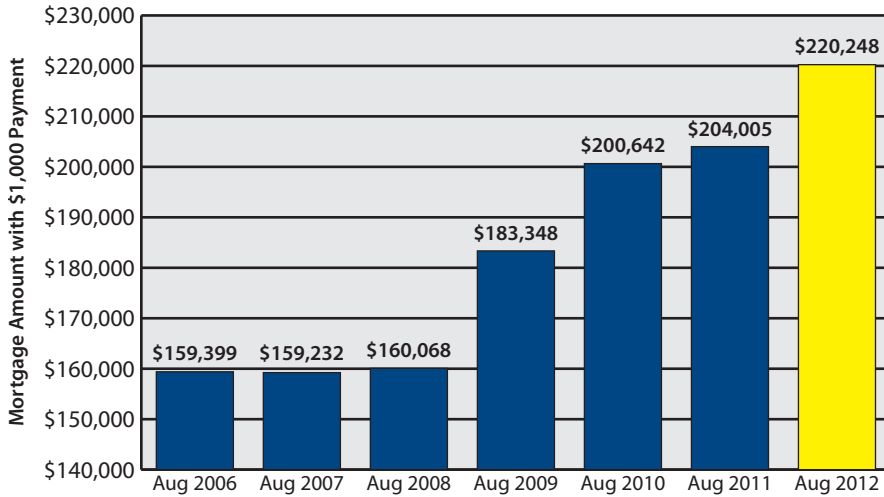
We check on the accuracy, or lack thereof, of these sites every year. We identified almost 300 properties throughout the Washington, DC metro area that went to settlement in the first two weeks of September 2012, and compared their actual sales prices to the predicted values from three prominent AVMs – Zillow, Eppraisal and Chase Home Valuator – as well as the relevant taxing jurisdiction's current assessments. To be as generous as possible, we excluded new homes since it would be unlikely that any of these AVM sites could have the details on just-completed homes. We selected all types of homes – condos, townhomes and detached – across all price ranges. To top it off, we looked at the predicted value **after** the properties had gone to settlement, knowing full well that the AVMs could have had the opportunity to update their models with the actual sales price. We broke the result down by area, and the chart to the right shows the dismal results of the 60 homes evaluated in Washington, DC.

WASHINGTON, DC	Zillow	Eppraisal	Chase	Tax Value
Within 20% of SP	87%	57%	75%	50%
Within 10% of SP	54%	34%	56%	18%
Within 5% of SP	41%	17%	36%	8%
More than 5% high	26%	20%	31%	17%
More than 5% low	33%	63%	33%	75%
Average	103.4%	93.1%	103.5%	89.2%
Highest	274.9%	174.3%	208.8%	144.2%
Lowest	68.9%	47.9%	56.1%	49.9%

Zillow was the "best" of the bunch, getting within 5% of the actual value 41% of the time, and the rest fared much worse than that. (Look at the tax assessed value – it was within 20% of the value just half the time!) We call this the "horseshoes and hand grenades" home valuation model. You know the old cliché that close only counts in horseshoes and hand grenades – well "close" isn't nearly good enough when it comes to valuing a home. That's precisely why we don't offer the estimated values from any of the site on our website – we think our clients deserve up-to-date **knowledge** about the market, not just a data dump. Before you decide to put a lot of confidence in these AVMs, consider this comment in an email to us from a senior Zillow executive this summer when we complained about the problems caused by the inaccuracy of their "Zestimates" of value: "You are correct – this is nothing new for any of us. But because consumers are so fond of the Zestimate, it is not going anywhere." OK, we get it – they know it's inaccurate but don't really care because it brings eyeballs to their site. But since **they** know they're not accurate, we think you should too.

BUYING POWER

Mortgage Amount with \$1,000 Payment

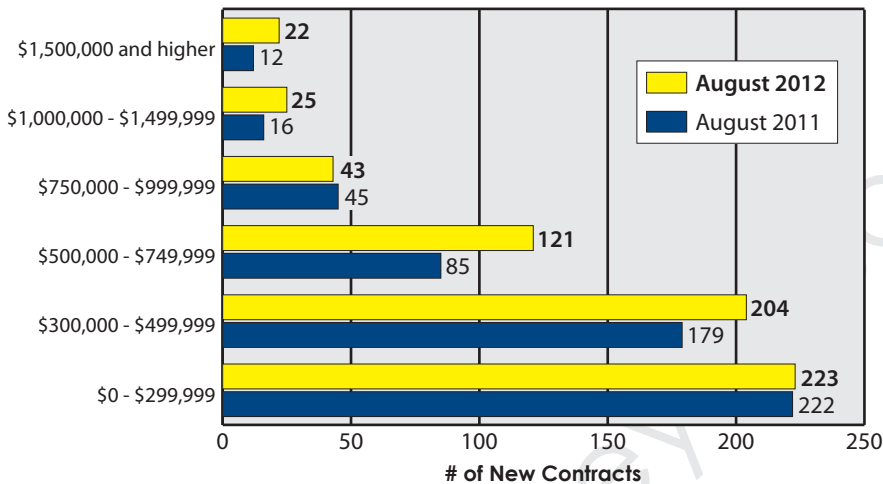


BUYING POWER

- A \$1,000 principal and interest payment supported a loan of \$220,248 at the end of August which is **\$16,243 more** than this time last year, and \$60,849 more than August 2006.
- In August 2006, it would have taken a monthly PI payment of \$2,509 to purchase a median priced home. With today's lower rates, it takes a payment of \$1,993 – **that's a 20.6% drop.**

NEW CONTRACT ACTIVITY

Washington, DC - August 2011 vs. August 2012 by Price Range

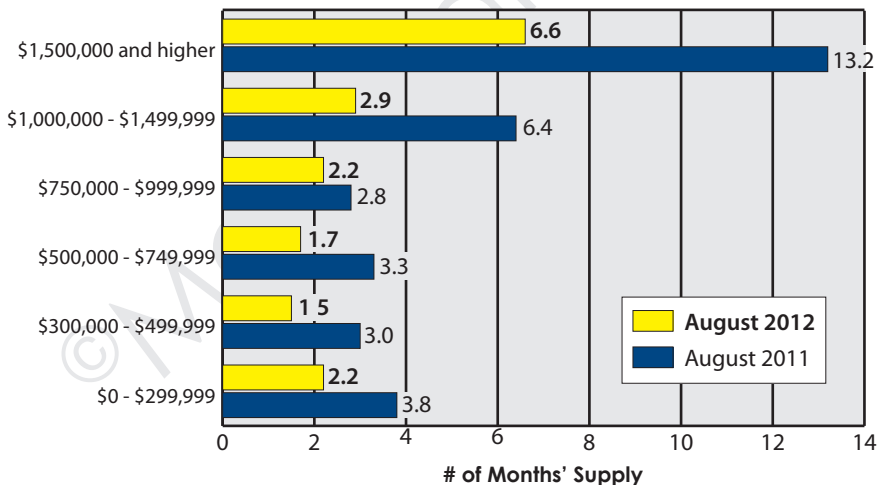


NEW CONTRACT ACTIVITY

- The number of new contracts ratified in August 2012 was **up 14.1%** from August 2011, and was up in every price range as well.
- Contract activity YTD is **up 6.9%**.
- **28.2%** of all homes going under contract in August had at least one price reduction.
- **52.8%** of all homes that went under contract in August were on the market 30 days or less.

MONTHS' SUPPLY

Washington, DC - End of August 2011 vs. End of August 2012 by Price Range



MONTHS' SUPPLY

- The overall supply of homes on the market at the end of August was **2.1 months**, down significantly from 3.6 months at the end of August 2011.
- DC has, by far, the most balanced market in the region across all but the highest price ranges.
- Even the 6.6 month supply in the top price range is considerably lower than anywhere else in the metropolitan area.



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