

Valuing Your Home With The Flip of a Coin

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 – which purportedly present 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 the information is presented in an easy-to-use user interface. To their enormous credit, Zillow has done a tremendous job in reaching "top of mind" status with consumers. **There's just one problem: those predicted values are wildly inaccurate and inconsistent.**

Beginning in 2010, McEneaney Associates has examined the accuracy of the estimates for property values that Zillow provides – their "zestimates" of value. This marks our fourth and most comprehensive analysis.

We took 500 properties in MRIS, our regional multiple listing system, which were scheduled to settle between March 24 and March 31, 2014. During that week, we looked for the zestimates of those 500 properties. Once the properties settled, we compared the actual sold price to the predicted values on Zillow.

ZILLOW ANALYSIS	METRO DC		DC
	SEP 2012	MAR 2014	MAR 2014
Within 20% of SP	96.0%	93.0%	84.1%
Within 10% of SP	80.0%	79.0%	58.0%
Within 5% of SP	51.0%	51.0%	34.8%
More than 5% high	25.0%	15.0%	20.3%
More than 5% low	24.0%	33.0%	44.9%
Highest	139.2%	256.1%	256.1%
Lowest	82.2%	62.8%	62.8%

To provide some context, we compared the results of the March 2014 research to that of our September 2012 research. Generally, Zillow's predicted market value is not any better now than it was 18 months ago. The zestimate is within 5% of the actual sales price roughly half the time in the metro area. But in Washington, DC, their results are much worse – they get within 5% of the actual sales price for only about one third of the identified properties. In September 2012, the zestimate was just as likely to be too low as too high; now, it is more than twice as likely to be too low.

As one might expect with a computer-generated value, there are always "outliers." In September 2012, the highest zestimate was roughly 140% of the actual sales price. The lowest was 82%. In the research we just concluded, the highest predicted value was 256% of the actual sales price and the lowest was 62.8%.

As REALTORS®, we know that one of our most difficult tasks is pricing a home. That holds true whether we are representing a seller or a buyer. Market pressures change from week to week and from neighborhood to neighborhood. The motivation of the parties is always a factor, as is the condition of a home and those around it. No algorithm, however sophisticated, can quantify the value of a kitchen that was remodeled just before a home was put on the market or a yard that is poorly maintained. It simply isn't possible for any AVM to predict the value of a home with a level of accuracy sufficient to make a housing decision. Zillow knows that's true – and they say as much on their website (although you have to dig a bit to find it).

Yet not a week goes by that we don't encounter a consumer who is fixated on a particular value for a home because that's what Zillow says it is. Kudos to Zillow for making this kind of impression on the public – it is brilliant marketing. But our research **and theirs** shows that, on average, those "zestimates" are within 5% of the actual value of a home just half of the time. As REALTORS®, if we got within 5% of the value of a home that infrequently we'd be out of business. (A look at Zillow's own analysis of their zestimates is on the next page.)

So if a consumer wants to base their valuation of a home purchase or sale on what they find on Zillow.com, we suggest they take out a coin and flip it. Heads – that value could be within 5% (high or low) of what the home is actually worth. Tails – that value could be 10%, 20% or more off target.

More Details on our Zillow Research “Zestimates” are consistently inconsistent

Zillow’s Published Accuracy

We noted above that Zillow posts the accuracy of their “zestimates,” and what they publish is almost identical to what our research indicates. In our 2012 and 2014 studies, Zillow got within 5% of the actual sales price 51% of this time – their own results say 50.9%. However, they don’t publish whether they are more likely to be high or low, nor do they indicate their high and low “outliers.” For more details on what they have to say about their own data: zillow.com/zestimate/#acc.

ZILLOW ANALYSIS	OUR RESEARCH		ZILLOW’S RESEARCH*
	SEP 2012	MAR 2014	
Within 20% of SP	96.0%	93.0%	91.3%
Within 10% of SP	80.0%	79.0%	76.3%
Within 5% of SP	51.0%	51.0%	50.9%
More than 5% high	25.0%	15.0%	N/A
More than 5% low	24.0%	33.0%	N/A
Highest	139.2%	256.1%	N/A
Lowest	82.2%	62.8%	N/A

Results by Property Type

We were curious whether Zillow fared any better based on the type of property. We found that they’re a bit less accurate for condo and co-ops than for attached or detached homes. Mirroring the overall results, in all three property types Zillow is at least twice as likely to predict a value that is at least 5% lower than the actual value as predicting 5% high.

METRO DC - BY PROPERTY TYPE			
ZILLOW ANALYSIS	Condo	Attached	Detached
Within 20% of SP	92.5%	89.2%	94.1%
Within 10% of SP	81.5%	74.6%	80.6%
Within 5% of SP	45.9%	48.5%	55.4%
More than 5% high	15.1%	14.6%	14.4%
More than 5% low	39.0%	36.9%	29.7%
Highest	256.1%	248.1%	209.0%
Lowest	65.6%	62.8%	70.1%

Results by Price Range

Not surprisingly, properties that sold for \$1,000,000 and more were a little tougher for Zillow to estimate accurately. They got within 5% of the actual price just over one third of the time. They fared much better for homes selling between \$500,000 and \$999,999, getting within 5% almost 60% of the time, but for homes selling for less than \$500,000 they were within 5% less than half the time.

METRO DC - BY PRICE RANGE			
ZILLOW ANALYSIS	< \$500K	\$500K-\$999K	\$1 Million +
Within 20% of SP	92.0%	95.2%	87.1%
Within 10% of SP	78.7%	82.6%	67.7%
Within 5% of SP	47.3%	59.3%	38.7%
More than 5% high	19.0%	4.2%	29.0%
More than 5% low	33.3%	36.5%	32.2%
Highest	256.1%	131.1%	141.5%
Lowest	65.6%	62.8%	73.7%



www.McEneaney.com
703.549.9292 • 202.552.5600 • 301.979.7270

LEADING
REAL ESTATE
COMPANIES®
of THE WORLD

Copyright 2014 - McEneaney Associates, Inc.

