

Your REALTOR:



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Update™

## Just How Accurate Are Those Online Home Value Estimates?

If you've ever gone online to check out the value of your home or to make comparisons, you aren't alone. Online home value estimators can be a handy tool in some cases, but you have to understand their limitations.

Zillow's Zestimate is perhaps the most well-known estimator, but Redfin has one too.

Below, we talk about what you should know about home valuation tools, also known as automated valuation models or AVM.

## What is an Automated Valuation Model?

AVMs are computer-driven algorithms and formulas that use basic property features paired with pricing trends and local market information to create a value range or an estimated value for a home.

There are some cases where a lender might use an AVM to quickly get a potential estimate of the value of a property.

All the AVMs use their own formulas and may pull data from different databases. As you might imagine, the estimates' reliability and accuracy depend primarily on the quality and integrity of the data they're pulling information from.

There are a lot of underlying assumptions made with an automated model.

For example, AVMs work on the assumption that all properties are in a similar condition to one another. There's no way for these automated algorithms to consider if a home is in poor condition or if upgrades have been made.

Due to the fluctuations in the figures AVMs come to, lenders will set policies on whether they'll use them and, if so, which they'll use.

## How Do Zillow Zestimates Work?

Zillow's well-known Zestimates are based on what the company says is a proprietary algorithm. Zillow reports the estimates include data from public records and data users submit.

The company doesn't claim that they're 100% accurate. If all the properties within a small radius are similar, the prices are more accurate because there are less likely to be major variances throwing off the algorithm.

If the estimates come from a neighborhood with older homes, they're likely to be less accurate. Some homes will have been improved and maintained over the years, and others won't have been.

The accuracy of a valuation is measured using an error rate. An error rate calculates how often the algorithm is wrong. More specifically, how often the value of a property as measured by the AVM is very different from the sales price of a home.

The Zestimate gets within 5% of a home's actual sales price more than 82% of the time. It's within 10% of sales price more than 95% of the time and within 20% nearly 99% of the time.

That can sound pretty accurate at first, but it's less impressive when you figure out how many tens of thousands of dollars these variances can represent.

The Zestimate median error rate goes up to nearly 7% for off-market homes. If a home hasn't been sold lately, there's not much data that an AVM can pull on it.

Over time, the algorithms tend to get more accurate. Zillow says that it will make offers to buy homes at their Zestimate price in some markets, or at least it did when Zillow Offers was operational, which it recently announced was closing down.

## Realtor.com Offers Three Figures

Realtor.com takes a different approach when it offers online users home value estimates. The company pulls estimates from data provided by different companies it partners with. There are three estimates so that people can see the picture of how much their home is worth is more variable than what they might get from just one figure.

## Redfin vs. Zillow

Redfin and Zillow are two competing tools for estimating the value of a home. They can sometimes give different figures for the same property.

Overall, Zillow's Zestimate seems to be more accurate. The median error rate is a little lower than what's calculated for Redfin, including both on-market and off-market properties.

Redfin is very transparent, though, which is an advantage it has. Redfin provides a lot of information on how they get their figures.

You have to remember that while these tools might give you a general idea of how much a home is worth, they're not the same as an appraiser.

Before a lender signs off on a home loan, they require an appraisal. Appraisers do a walk-through and then write a report. They will also include market data and comparable properties, so this will be much more accurate than what you see online.

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