

The Potential of AVM and AI – Opportunities and Risks for Appraisers

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SUMMARY

The utilization of Automated Valuation Models (AVMs) in real estate appraisal is becoming increasingly prevalent. Banks, for example, are increasingly using them in the financing process of standard properties such as apartments and single-family houses, while real estate investors frequently use them in investment decisions. This has led to concerns among appraisers that their profession may become obsolete in the future. AVMs are often only utilized in conjunction with an overall automated valuation of a property, which can be imprecise, particularly for commercial properties or specialized properties such as schools with less transaction data. AVMs are also criticized for their "black box" nature, as it is difficult to understand the factors that lead to a specific valuation.

However, there are ways to combine the strengths of AVMs and human appraisers. AVMs can be used as a supporting tool for appraisers by extracting key insights and opening the black box to answer questions about how individual property characteristics are valued by the AVM.

In the context of regression analysis, a model was developed that uses AVMs to support appraisers in determining inputs for the appraisal process in a transparent way, thus improving efficiency and transparency and making the appraisal more fact-based. This model allows the appraiser to verify the results of the AVM and adjust them if necessary to improve the accuracy of the estimates.

Overall, the combination of AVMs and AI offers the opportunity to improve the efficiency and accuracy of real estate appraisals without undermining the role of the human appraiser. It is crucial to view AVMs as a supportive tool rather than a threat to the profession and to integrate the benefits of AVMs and AI into the appraisal process.