After Zillow's Home-Flipping Fiasco, Think Twice About Trusting 'Zestimate' Home Values?

Americans love the Zestimate, but Zillow's latest business problems suggest you should think twice before using the popular home value algorithm to make any big real estate decisions. Zillow announced Tuesday that it leaving the home-flipping business after three years. The decision raises questions not only about the company's future and the state of the housing market, but also about how good the company is at predicting home prices. The critical question for homebuyers and sellers: Can you trust the Zestimate?

Home price predictions have always been a big part of Zillow's appeal. When Barton and his co-founders launched Zillow.com in 2006, the "Zestimate" was a hail mary. Their original idea to auction houses floundered, so they cooked up a plan to estimate the value of every home in America. It drew so many people on day one that the site crashed. Today, the company publishes value estimates for 104 million properties and the Zestimate is featured prominently on home listing pages across the site. However, questions about the Zestimate have plagued ZIllow from the start. The real estate press pounced when then-CEO Spencer Rascoff sold a home for 40% less than the Zestimate in 2016. A few years later, the company offered $1 million to data scientists who could most improve accuracy. Through it all, Zillow has maintained that the figure is a place to start and does not replace a professional appraisal — while also claiming high accuracy rates and eventually using the Zestimate in its offers to buy homes. "We leveraged the Zestimate in our Zillow Offers operations the same way we encourage the public to use it: as a starting point," said spokesperson Viet Shelton.

Zillow does not share the exact formula for its estimates, but says it uses "statistical and machine learning models" to "examine hundreds of data points" for each home. Data points include things like square footage, location and the number of bedrooms and bathrooms. The Zestimate also takes into account tax assessments, prior sales and, if the home is on market, the listing price and how long it has been available. In the most recent update to the formula in June, Zillow says it made the estimates more responsive to market trends and seasonality. The information Zillow uses largely comes from property records, which are publicly available in most states, as well as from local multiple listing services. In most markets real estate agents use multiple listing services (the MLS) to share information about for-sale properties. In addition to the Zestimate, one of Zillow's early innovations was making the information on these once-private databases available to anyone with an internet connection. Zillow also allows homeowners to update facts about their homes, which it recommends doing if you feel the Zestimate for your home is too high or too low.

According to Ryan Lundquist, an appraiser in Sacramento, California, the Zestimate is "really hit and miss." Sometimes it is spot on with value and others it's off by hundreds of thousands of dollars. In general, the more data Zillow has on a home and a market, the more accurate its estimate is going to be. This means the Zestimate is probably closer to the actual value in a tract neighborhood where 25 similar homes sold last year than it is in a town where each street is different. Moreover, because Zillow isn't actually touring every home in America it's going to miss things a human wouldn't. "Zillow can't smell if twenty cats live there," says Lundquist. The problem is that many people take the Zestimate as gospel and won't hear of listing their home for less or paying more. Lundquist was once even threatened with a lawsuit because a homeowner worried his measurement of the home would hurt the property's Zestimate. Instead, Lundquist recommends taking Zillow at its word and using the Zestimate as just one piece of evidence among many. "This is a neat tool but I would never recommend for anyone to make real life real estate decisions based on this instant value," says Lundquist. "When real money is at stake, you've got to sort of step away from the computer and make sure you're talking to other humans."

Samantha Sharf - *Money* - 2021-11-03

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Fourth Quarter 2021

So far, this fall has remained active and all leading indicators for 2022 show tight inventory and continued strong demand which should lead to a very active spring market. The showing activity on homes for sale in my office has remained above the 5-year average for all of 2021. It can be argued that the overall trend since early August has an upward trajectory in the chart top left, further confirmation of a strong 2022 forecast. One hesitation with this metric's story, I'm not subjectively feeling or hearing about the strength this chart implies, which is hard to rectify with the chart' strength.

The chart top right shows that we haven't been replacing the homes being sold or pulled from the market with replacement properties since mid-July. Since then, our Replacement Rate has been negative and our Available Inventory has just gotten lower and lower, and if we project forward the trajectory of the Available Inventory line in the middle-left chart, we should start 2022 with a new historically low level of inventory.

With this low inventory and strong demand, the Available Supply metric remains firmly in Seller's Market territory. Even in the price points that aren't as strong, it is rare to find absorption rates that indicate even a balanced market. Typically, I am just narrowing down how strong of a seller's market the market data implies for an individual seller.

The % of Homes Under Contract for the areas within Boulder County, bottom left, not only shows strong buyer demand, every individual area remains above 50% Under Contract. When your worst performing area is 52% under contract and your best performing area is 78% under contract, you know the market activity remains very strong. In previous years when we entered the end of the year with very strongly climbing percentages under contract, the following spring was very frenzied.

A rosy look at the current metrics, but what are the possible dangers looking ahead? Rising interest rates, inflation fears, recession worries, etc. These are possibilities but not given outcomes. The one certainty that I foresee is a period of greater market uncertainty. A story I heard from a fellow stat follower about one of his friends shows the dilemmas ahead. This friend chooses to buy a $2.5M home with a 3% mortgage counting on a future of higher inflation. He wants to inflate away his debt by repaying today's loan back in tomorrow's devalued dollars. Here comes the uncertainty: Will we actually enter a future of higher inflation? Would this person have made this purchase with a 4% mortgage? Could he? If he couldn't, will other buyers also be unable to make this purchase in the future and the upper end crashes? If he hadn't made this purchase, would keeping the down payment cash on hand become dangerously expensive as it is devalued by inflation? Will people have to accelerate future purchase plans as a hedge against future inflation? Will people be able to grow their down payment funds fast enough to keep pace with inflation and market appreciation? Lots of questions and uncertainty. We'll be here analyzing the local market data to give you the best sense of where we stand so you can make informed decisions.

Have a fabulous and healthy end to 2021!

Mike Malec