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It's Online But Off Price

Inaccurate data often skew websites' home-value estimates

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Until recently, folks buying or selling a home had to rely on local real-estate agents to figure out how much a house was really worth. Their closely held "multiple listing services" were the best source of information around.



A screen shot from
RealEstateabc.com

All that is changing with the advent of home valuation websites like Zillow.com, Cyberhomes.com, and HouseFront.com, which make getting a read on a home's worth as easy as a few mouse clicks. Just type in the street address and, presto, complex computer programs instantly compare the house with online databases containing as many as 100 million property records.

Within seconds, up pops not only a dollar estimate of the home's worth but also a screen full of other previously hard-to-get information, such as what the house sold for in the past and what buyers have recently paid for comparable properties. Some sites even help you bypass the agent entirely and post an online "for sale" listing, or E-mail an unsolicited offer directly to the owner.

With brokers still demanding sales commissions of up to 6 percent of a home's sale price, buyers and sellers who use the new online tools to help close the deal themselves can split the difference and save thousands of dollars.

Indeed, most industry observers agree that these new sites have the potential to help revolutionize real estate, perhaps even doing what Zillow.com's founders, who previously created Microsoft's Expedia.com travel site, did for the buying and selling of airline tickets. "I'm not saying full-fee brokers will ever go away," says University of Chicago economist Steven Levitt, coauthor of the book *Freakonomics*. He predicts the profession will continue to survive at the high end, much as travel agents turned "travel counselors" do now. "But with all the data available on these new websites, and places like craigslist where you can list your home free of charge, sellers will have more and more options."

Buggy. But the promise of a perfectly transparent market, in which people know all they need to know to make a buy or sell decision with the click of a button, is still a long way off. "You'll get much better advice

from a good agent who knows the neighborhood cold," says industry consultant Steve Murray, who notes that the computer programs and databases are still full of bugs.

Zillow notes on its website that its estimates have about an average 7.2 percent variance nationwide from actual selling prices, and even larger gaps in places like New York City, where it is typically 9.5 percent, or about \$35,000, on a median-priced home.

Indeed, a *U.S. News* analysis of computer-generated estimates around the country found that the automated programs missed the actual sale prices of recently sold homes by an average of about 15.5 percent, in one case missing the mark by close to 78 percent (table below).

Their collective Achilles heels are the public-records databases used to gather most of the information, such as city and county records of sale prices, square footages, and numbers of bedrooms that are often inaccurate. Even worse, those records can't reflect hard-to-quantify features like a good view, a quiet street, or a recently remodeled kitchen.

Some programs do add in other details culled from multiple listing services, appraisers, title insurers, and even corrected data from property owners who log on to the sites themselves. They then use mathematical algorithms to apply dollar values to, say, a whirlpool bath in the master bedroom or an oversize lot.

River view. Even then, the nuances of a given home or market often elude them. Take, for example, a luxury apartment near Boston's Charles River. "It has two roof decks that look out over the river," notes real-estate agent Jason Weissman, whose company recently sold the place for nearly 20 percent more than Zillow had estimated. "You couldn't see that information anywhere in Zillow's estimate."

You may soon, however, thanks to an enhancement that allows property owners to enter and correct details about their properties—data that will be cranked into future estimates. Other sites, too, increasingly allow users to adjust the estimates based on less quantitative data. They include RealEstateabc.com's sliding-scale system for comparing views, privacy, and the like or Cyberhome.com's "refine value" section, which allows users to add features like bathroom remodels.

Meanwhile, the sites say they're constantly upgrading their databases and algorithms to better track all of a home's attributes.

In fact, Zillow's improving accuracy may have actually helped real-estate agent Rory Siems close a deal on a multimillion-dollar home in California's Laguna Beach, which just went under contract for within 1 percent of Zillow's estimate. "My client checked the property on Zillow," Siems says, "and we used their estimate in our negotiations."

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