

**December 10, 2014**

## **Automated Valuation Products (AVMs)**

*Automated valuation models (AVMs) have become a recent topic of interest for some in both the real estate brokerage and appraisal communities.*

### **What is an AVM?**

An **Automated valuation model** (AVM) is, generally speaking, a computer software program that analyzes data from various sources and uses automated processes to produce a value or range of values for a particular property.

Investment professionals, lending institutions, and governmental agencies often use this type of computer analysis to evaluate portfolios or assist with in-house refinances or valuations for property tax assessment reviews. The disadvantages of using an AVM include the fact that they do not take into account the property condition, as a physical inspection of the property does not occur. The valuation produced assumes an average condition, which may not reflect reality. Therefore, purchasers should not rely solely on an AVM to establish the true value of the property in its actual condition at the time of a transaction.

### **Federal or State Laws or Regulations Governing AVMs**

Currently there are no federal laws or regulations regarding AVMs. The Uniform Standards of Professional Appraisal Practice (USPAP), is published and maintained by The Appraisal Standards Board (ASB) of The Appraisal Foundation, a non-governmental entity charged by Congress with creating national appraisal standards for licensed appraisers. USPAP is not federal law, but it does provide some insight as to AVMs. Advisory Opinion 18 of USPAP addresses how an appraiser might use an AVM. It states that “The output of an AVM is not, by itself, an appraisal.” USPAP goes on to state that:

An appraiser is not performing an appraisal, appraisal review, or appraisal consulting assignment when he or she simply runs an AVM by using information provided by the client and:

1. does not alter the input or affect the output of the AVM; and
2. does not communicate his or her own appraisal, appraisal review, or appraisal consulting opinions or conclusions regarding the AVM’s output.

The Advisory Opinion goes on to say:

The appraiser should take steps to ensure that communication of the AVM’s output is not misconstrued as an appraisal, appraisal review, or appraisal consulting report. For example, the appraiser should:

1. not communicate his or her opinions or conclusions as an appraiser regarding the credibility or reliability of the AVM’s output;

2. not provide an appraiser's certification or statement of limiting conditions in connection with the AVM's output; and
3. ensure that his or her role as only an AVM operator is clearly indicated if his or her signature or other identification marks appear on document(s) used to communicate the AVM's output.

The North Carolina Appraiser's Act defines an appraisal "an analysis, opinion, or conclusion as to the value of identified real estate or specified interests therein performed for compensation or other valuable consideration." The law makes it illegal for any person to act as an appraiser without first being licensed as an appraiser. It does not address business entities and does not specifically mention AVMs.

Brokers intending to perform AVMs for a fee should be careful to not communicate his or her opinions or conclusions regarding the credibility or reliability of the AVM's output and ensure that his or her role as only an AVM operator is clearly indicated on document(s) used to communicate the AVM's output. In addition, brokers are advised to consult with their own private attorneys to be certain that the product they are producing does not constitute an appraisal under North Carolina law.