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ONLINE PROPERTY VALUATION MODELS – HOW ACCURATE ARE THEY?

As might have been anticipated, my recent article providing a guide to the current portfolio of providers of online property valuations models triggered the inevitable question – "just how accurate are they?"

So I thought I would do some desk research. However before I unleash a barrage of criticism stating that there are heaps of examples where the Automated Valuation Models (AVM's) are so wide of the mark to make them laughable, let me simply say this. There over 1.5 million AVM's or potential AVM's for NZ properties – there will always be outliers and extremes. I do not have time nor patience to review thousands of properties, or even hundreds of properties. I chose to select just 12 properties.

The method I have used, is to track the latest auction results as published by the team at Interest.co.nz as the auction year started after Christmas. I simply took the first 12 I saw which comprised 8 properties in Auckland and 4 in Tauranga. So again I acknowledge that my sample is hardly representative nor truly random. It is made up of auction sales only, the sales are only for those 2 areas of the country and represented a very quiet period of the year.

With these 12 property sales results I went to each of the 5 providers:

- Homes.co.nz
- Trade Me Property Insights
- Realestate.co.nz Property Profile
- MyValocity (you do need to create an account to use the AVM)
- QV – mobile app for iOS and Android

I knew none of these providers had updated their valuations to take account of any of these actual 12 sales neither would the sale records have been picked up through local council sales or agent reporting so there was no bias of an AVM being influenced by these recent sales.

Another point to note is the analysis compared the sale price at auction to the mid-point of the price range of the AVM.

So here is the table of results. The colour code used is blue where the AVM equalled the sale price exactly, red signifies an AVM below the sale price with green where the AVM is above sale price. Finally, grey indicates that the provider had no AVM for the property.

9 Rickards Place, New Lynn	$ 825,000	3-Feb	-6%	-1%	2%	-3%	-9%
17 Henry Street, Avondale	$ 940,000	2-Feb	2%		2%	1%	1%
59 Stuges Road, Henderson	$ 660,000	2-Feb	0%	3%	3%	8%	-2%
18 Hatherlow Street, Glenfield	$ 955,000	1-Feb	-14%	-8%	-2%	-11%	-11%
32 Cyclamen Road, Mangere	$ 890,000	30-Jan	-5%	-7%	-4%	-4%	-4%
1 Grenadine Place, Unsworth Heights	$ 998,000	25-Jan	-9%	-11%	-9%	-10%	-5%
6 Taranto Place, Glendowie	########	24-Jan	4%	13%	9%	14%	11%
40 Belmont Terrace, Milford	########	18-Jan	-16%	-12%	-6%	-19%	-19%
93A Manuwai Drive, Matua, Tauranga	########	31-Jan	18%	5%	1%	19%	
167 Edgecumbe Road, Avenues, Tauranga	$ 685,000	25-Jan	0%	-2%	7%	4%	-5%
66 Ocean Crest, Tauranga	$ 665,000	25-Jan	-12%	-10%	-12%	-12%	-17%
20a Pyes Pa Road, Pyes Pa, Tauranga	$ 600,000	19-Jan	-4%	-12%	-12%	-5%	-8%
		Gross Median Error	5.4%	7.3%	4.8%	8.7%	6.7%

As you can see, the visual skew towards red indicates that based on this sample set most AVM’s were below sale price.

The original version of this article I used an average variance measure, after receiving valuable feedback I have now used the calculation of Gross Median Error.

All providers achieved a gross median error of less than 10%, with Realestate.co.nz achieving less than 5% which is impressive. I would deduce that a factor in their accuracy, is they benefit from the very latest REINZ data each month of unconditional sales, whilst all other provides rely largely on settled sales which come through at least a month to 2 months later.

Another perspective I was keen to examine in respect of the accuracy of AVM's was the indicative range they provide to reflect the level of confidence. For each provider, for each property I assessed the range as a percentage of the midpoint price.

9 Rickards Place, New Lynn	$ 825,000	3-Feb	11%	29%	21%	13%	13%
17 Henry Street, Avondale	$ 940,000	2-Feb	8%		21%	11%	11%
59 Stuges Road, Henderson	$ 660,000	2-Feb	8%	32%	21%	10%	15%
18 Hatherlow Street, Glenfield	$ 955,000	1-Feb	5%	32%	20%	12%	12%
32 Cyclamen Road, Mangere	$ 890,000	30-Jan	11%	29%	22%	12%	12%
1 Grenadine Place, Unsworth Heights	$ 998,000	25-Jan	9%	31%	22%	11%	11%
6 Taranto Place, Glendowie	$1,491,000	24-Jan	12%	32%	21%	6%	6%
40 Belmont Terrace, Milford	$2,045,000	18-Jan	10%	32%	21%	6%	6%
93A Manuwai Drive, Matua, Tauranga	$1,300,000	31-Jan	15%	32%	21%	6%	
167 Edgecumbe Road, Avenues, Tauranga	$ 685,000	25-Jan	12%	27%	22%	10%	15%
66 Ocean Crest, Tauranga	$ 665,000	25-Jan	9%	27%	22%	10%	18%
20a Pyes Pa Road, Pyes Pa, Tauranga	$ 600,000	19-Jan	10%	19%	23%	9%	18%
	Average		9.9%	29.4%	21.4%	9.6%	12.5%

This analysis is very illuminating. The provider with the tightest range (in theory indicating confidence factor) is MyValocity, closely followed by Homes, both just under 10%. This effectively meaning that their AVM range is 5% below the midpoint to 5% above which I would judge as fairly acceptable given this is a computer based estimation with no detailed knowledge of the specifics of the property.

Of interest in this analysis is the very wide margin in the range from Trade Me Property at close on 30% with their tightest range being for a single property at just 19%. Similarly Realestate.co.nz seem to apply a standard c.21% to all AVM's.

NZ property value gains slow in January

New Zealand property values rose at a slower annual pace in January but are expected to pick up in the coming months, says state-owned valuer Quotable Value.

Property values rose 6.4 percent on the QV house price index from January 2017 and slowing from a pace of 6.6 percent in December. Values gained 3.8 percent in the three months ended Jan. 31 to a nationwide average value of $671,531, QV said in a statement.

New Zealand's housing market has been slowing down over the past year as Reserve Bank restrictions on more highly-leveraged mortgage lending and tighter credit criteria being demanded by banks made it more difficult for borrowers, despite low interest rates making it easier to service much larger debts. RIsks posed to the broader financial system remain elevated, although lenders and rating agencies are less concerned, and the latest Barfoot & Thompson showed inventories building in the country's biggest city.

While sales volumes have dropped back, prices have remained high. Auckland values rose 0.7 percent in the year to January and 1.6 percent over the past three months, the highest rate of growth since November 2016, QV said. The average house value in the region is now $1.05 million, nearly twice the 2007 peak, and in the city it's $1.2 million, more than double the previous high.

"Market activity across the nation appears to be picking up now that people have returned to work from the holiday season," QV general manager David Nagel said. "The easing of the LVR restrictions for both investors and home buyers this month, along with continued strong net migration, low interest rates, and a shortage of housing supply means it's likely we can expect moderate value growth to continue during February and March which are annually the busiest months in the housing market."

Wellington, where rents have skyrocketed due to inadequate supply, reported a 9 percent annual gain and 4 percent quarterly increase in the region, and 8.9 percent annual gains and 3.5 percent quarterly gains in the city. The average regional value of $634,811 is 39 percent higher than the 2007 peak, while in the city it is $764,560.

“A lack of housing supply, coupled with a recent increase in population, continues to put upwards pressure on values,” said QV Wellington senior consultant David Cornford. “From an investment point of view, yields have started to creep up. This is a result of both higher rents and investors demanding higher returns now that value growth has slowed. I’d anticipate moderate value growth throughout 2018. The government is likely to further grow its workforce over the coming months, which should further increase demand and prices.”

Cornford said the Healthy Homes Bill, pushed by the government in an attempt to improve living conditions for renters, would likely raise rents because many central suburbs such as Aro Valley, Kelburn and Mt Victoria are full of older villas which may cost a lot to bring up to the bill’s standards.

“The surge in rents we have seen over the last three months is likely to motivate renters to enter the housing market and I’m expecting to see a strong presence again from first home buyers over 2018, particularly if LVR restrictions are eased further,” he said.

House values in Christchurch fell 0.6 percent on an annual basis, but rose 0.8 percent in the quarter, to an average $494,459. QV Christchurch senior consultant Daryl Taggart said high supply and lack of demand has continued from last year in the market.

Hamilton and Tauranga, where prices have risen due to the ‘halo effect’ of investors going outside of Auckland, both showed increases in January. Hamilton values rose 0.3 percent in the quarter and 2.6 percent in the year, to an average price of $544,935, while Tauranga posted a 1.7 percent quarterly increase and a 3.9 percent annual rise to an average $698,875.

Dunedin’s values rose 9.3 percent in the year and 2.6 percent in the quarter to an average value of $392,512. QV Dunedin property consultant Aidan Young said the first home buyer market had remained buoyant, due to a comparatively low entry-level price point, and market conditions were pushing rental prices up.

Hawkes Bay values kept rising, with Napier values up 15 percent annually and 3.5 percent in the quarter to an average $483,759, 42 percent above the previous peak in 2007. In Hastings, prices were up 16 percent annually and 3.9 percent in the quarter to an average $453,616, some 46 percent ahead of the 2007 peak.

Nelson property values rose 9.9 percent annually and 1.3 percent quarterly to an average of $558,587.

QV said there had been continued value growth across many smaller provincial centres in the North Island, with notable quarterly increases in Whanganui, South Waikato, Waitomo, Opotiki, Rangitikei and Carterton, and strong growth north of Auckland with Whangarei values up 10 percent and Kaipara rising 9.2 percent annually.

The South Island also saw notable value increases in regional centres such as Grey, Waitaki, Clutha and Southland. Queenstown Lakes saw values up 2.2 percent in the quarter and 8.1 percent annually to an average of $1.1 million.

NZ and Auckland residential property values rising again

The latest monthly QV House Price Index shows nationwide residential property values for January increased 6.4% over the past year and values rose by 3.8% over the past three months. The nationwide average value is now $671,531. When adjusted for inflation, the nationwide annual increase drops slightly to 4.7%.

Meanwhile, residential property value growth across the Auckland Region increased 0.7% in the year to January and 1.6% over the past three months, which is the highest rate of growth since November 2016.
The average value for the Auckland Region is now $1,054,974. When adjusted for inflation, values dropped 0.9% over the past year.

QV General Manager David Nagel said, “January has seen values continue to rise in many places around New Zealand but values have dropped in others and in general activity has been slower in many places over the holiday season.”

“Values in Auckland are now rising with quarterly growth up 1.6%, which is a greater increase compared to the last quarter of 2017"

“The Wellington market continues to rise, however value growth has slowed in the Hutt Valley.”

“The Christchurch market remains flat while the Dunedin market continues to see a trend of steady value growth seen there throughout 2017.”

“Market activity across the nation appears to be picking up now that people have returned to work from the holiday season.

The easing of the LVR restrictions for both investors and home buyers this month, along with continued strong net migration, low interest rates, and a shortage of housing supply means it’s likely we can expect moderate value growth to continue during February and March which are annually the busiest months in the housing market.”

Auckland

The former Auckland City Council central suburbs saw values rise 1.7% in the year to January and 1.8% over the three months. Auckland City - East continues its steady growth, up 2.9% year on year and 2.7% over the past three months, the average value there is now $1,576,640. Finally, Auckland City - Islands maintained its strong growth, up 12.6% over the past year and 4.7% over the last three months.

North Shore values also ticked up again rising 1.2% in year on year and 2.3% over the last quarter. Waitakere values also rose 0.5% over the past three months although values were down 1.6% in the year since January 2017.

Meanwhile, values continue to increase in both Rodney and Franklin. Papakura showed particularly strong growth again rising 2.4% year on year and 2.3% over the last quarter. Finally, Manukau continued the upward trend, up slightly 0.3% year on year and 1.2% over the last three months.

QV’s Auckland Property Consultant William Liew said “January, as is often the case, was relatively quiet due to the holiday period. The signs do suggest that the heat has been taken out of the market and buyers are showing less urgency”

“We have also seen the ongoing impacts of the LVR restrictions, changes of lending criteria and uncertainly with the change of government, which have contributed to a cooling in the Auckland market.”

Hamilton

Values in Hamilton increased slightly by 0.3% over the past three months but rose on average by 2.6% or $13,598 over the past year from an average of $531,337 in January 2017 to $544,935 in January 2018.

QV Property Consultant, Andrew Jaques said, “The market has started off reasonably slow, but this is typical of the time of year with many people returning from holiday and settling back in. We can confirm that listing numbers are down slightly with the majority of sales being completed through negotiation as opposed to auction which can slow down the sales process”

“At the same time, there is plenty of demand for rental properties due to the seasonal influx of students, particularly in the Hillcrest and Hamilton East suburbs near Waikato University. In response, we have seen an increase in the number of 3-4 bedroom townhouses being built in these suburbs, as the area becomes more attractive to investors looking to make solid returns from families and students”

Tauranga/Western Bay of Plenty

Tauranga home values increased 3.9% year on year or $26,123 from an average value of $672,752 in January 2017 to $698,875 in January 2018. Meanwhile, property values in the Western Bay of Plenty have risen 7.3% in the year to January from an average value of $575,089 in January 2017 to $617,120 in January 2018. Values dropped 1.7% over the past three months.

QV Tauranga Property Consultant David Hume said, “Strong migration continues to drive growth although we have continued to see less activity from Auckland investors as their local market stabilised.”

"Western Bay of Plenty continues to see good growth over and above the Tauranga area, partly due to the strong recovery of the Kiwifruit industry in Te Puke over the past five years."

Hawkes Bay

Values continue to rise across the Hawkes Bay region. Napier values rose 15.4% year on year and 3.5% over the past three months. The average value in the city is now $483,759 and values are now 42.2% above the previous peak of 2007. The Hastings market also continues rise up 15.7% year on year and 3.9% over the past three months and the market is now 45.5% higher than 2007. The average value there is now $453,616.

QV Senior Consultant Philippa Pearse said "The Hawkes Bay market remains strong although we have seen a slight decrease in activity typical for this time of the year with fewer listings than December. Buyers are active in the market and a shortage of listings particularly in the mid-to-lower price range which continues to support value increases."

"We are seeing continued interest from out of town buyers moving to the region. There is also a shortage of quality rental properties resulting in rental growth. I would anticipate this will result in value growth throughout 2018."

Wellington

Values across the wider Wellington Region rose 9.0% or $52,489 over the past year from an average value of $582,322 in January 2017 to an average value of 634,811 in January 2018. Values across the region rose 4.0% over the past three months.

Wellington City increased by 8.9% year on year and 3.5% over the past three months. The average value there is now $764,560. Wellington – Central and South is up the most, increasing by 5.5% over the past three months alone and 9.3% in the year to January 2018.

Meanwhile values continue to rise strongly across Wellington's regional centres. Upper Hutt is up 8.5% year on year and 1.1% over the past three months; while Lower Hutt rose 8.4% year on year and 0.6% over the past quarter. Further north, Porirua and the Kapiti Coast maintained their solid growth over the past year, up 13.4% and 12.9% respectively.

QV Wellington Senior Consultant, David Cornford said, "We have seen a typical slowdown in activity over the holiday period although activity has picked up with fresh listings and well-attended open homes since Wellington Anniversary Weekend."

"A lack of housing supply, coupled with a recent increase in population, continues to put upwards pressure on values. This tight supply is creating strong demand for vacant land and new builds – particularly in the outer Wellington regions including Churton Park, Grenada and Aotea."

"We're also seeing strong competition in the 1-1.5 million dollar range for family homes, particularly if the property is well presented and situated in a popular suburb such as Karori or Khandallah."

"Finally, from an investment point of view, yields have started to creep up. This is a result of both higher rents and investors demanding higher returns now that value growth has slowed."

"I'd anticipate moderate value growth throughout 2018. The government is likely to further grow its workforce over the coming months, which should further increase demand and prices."

"At the same time, investors are weary of the uncertainty around the Healthy Homes Bill. The prevalence of Wellington's older villa housing, particularly in the city fringe suburbs such as Aro Valley, Kelburn and Mt Victoria, mean many investors may face high costs getting their property up to the required standards. I'd anticipate these increased costs to be passed onto the tenants in the form of higher rents."

"The surge in rents we have seen over the last three months is likely to motivate renters to enter the housing market and I'm expecting to see a strong presence again from first home buyers over 2018, particularly if LVR restrictions are eased further."

Nelson

Nelson residential property values continue to increase, rising 9.9% or $50,244 year on year from an average value of $508,343 in January 2017 to $558,587 in January 2018. Values rose 1.3% over the past three months.

Meanwhile, values in the Tasman District have also continued to rise, up 12.6% or $62,796 year on year from an average value of $498,111 in January 2017 to $560,907 in January 2018. They increased 2.6% over the last three months.

QV Nelson Property Consultant Craig Russell said, “The Nelson/Tasman property market has seen an increase in market optimism over recent weeks compared with a rather cautious approach over the latter stages of 2017. There is a continuation of strong demand for well-maintained properties, particularly those valued at up to $700, 000.”

“From an investment perspective, yields have decreased in recent years. This is due to the fact that home values have increased at a faster rate than rental levels. However, this is offset by an increase in rental levels over the summer period as demand exceeds supply – which is putting some upward pressure on rental yields.”

Christchurch

Christchurch City values have dropped slightly, down 0.6% or $3,080 over the past year from an average value of $497, 539 in January 2017 to $494,459 in January 2018. However, values have increased slightly by 0.8% over the past quarter.

Meanwhile, growth remains relatively flat across Canterbury’s regions. The Waimakariri District is up 0.7% year on year although its value has remained unchanged over the past three months; while Selwyn values are down 0.1% year on year although they are up over the past three months.

QV Christchurch Senior Consultant, Daryl Taggart said, “It’s very much a continuation of last year’s theme in the Christchurch market. A high supply of housing stock and a lack of demand are driving low value growth.”

“In saying this, we are seeing that those properties, which have managed to generate a good deal of prospective buyer interest have sold very well. There are also some positive developments and projects being completed in the city, which is encouraging.”

Dunedin

It’s very much a continuation of last year, as Dunedin City continues its market growth. Values rose 9.3% over the past year from an average value of $359,055 in January 2017 to an average value of $392,512 in January 2018. Values also increased 2.6% over the past three months.

QV Dunedin Property Consultant, Aidan Young said, “The market has continued its positive growth, with impressive turnouts at open homes and relatively high sales prices. The First Home Buyer market remains buoyant, due to a comparatively low entry level price point. We’re also seeing plenty of sales activity at the upper end – around the one million dollar mark – which again reflects a good level of confidence in higher priced homes.”

“There is currently significant demand for vacant land, so we’re continuing to see competitive prices for sections across the city. These prevailing market conditions are also causing rental prices to increase, which may be attributed to potential buyers being required to stay in rental properties longer until they can find/afford to enter the market.”

“Given the current trends and activity in the market, I am not anticipating major changes to recent trends throughout this year. I’d anticipate market activity to pick up as we emerge out of the holiday period and buyers settle into last year’s change of government and the banks' easing their lending criteria."

Other Provincial centres

The growth in values across many smaller provincial centres in the North Island continues. Over the past three months, there were notable value increases in Whanganui, South Waikato, Waitomo, Opotiki, Rangitikei and Carterton among others. Meanwhile, it’s been a strong year of growth north of Auckland, with Whangarei and Kaipara both experiencing annual increases of value of 10% and 9.2% respectively.

In the South Island, regional centres including Grey, Waitaki, Clutha and Southland have experiencing notable value increases over the past quarter. Most notably, Mackenzie continues its significant growth up 10.3% over the past three months and 27.1% since January 2017. Finally, growth in Queenstown Lakes has dropped slightly to 2.2% over the last three months although growth remains very strong over the past year.