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Inaccurate Zillow 'Zestimates' a source of conflict over home prices



Zillow CEO Spencer Rascoff, shown in his downtown Seattle office, says Zestimates are "a good starting point" but that nationwide Zestimates have a "median error rate" of about 8%. (Ellen M. Banner / TNS)

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When "CBS This Morning" co-host Norah O'Donnell asked the chief executive of Zillow recently about the accuracy of the website's automated property value estimates — known as Zestimates — she touched on one of the most sensitive perception gaps in American real estate.

Zillow is the most popular online real estate information site, with 73 million unique visitors in December. Along with active listings of properties for sale, it also provides information on houses that are not on the market. You can enter the address or general location in a database of millions of homes and

probably pull up key information — square footage, lot size, number of bedrooms and baths, photos, taxes — plus a Zestimate.

Shoppers, sellers and buyers routinely quote Zestimates to realty agents — and to one another — as gauges of market value. If a house for sale has a Zestimate of \$350,000, a buyer might challenge the sellers' list price of \$425,000. Or a seller might demand to know from potential listing brokers why they say a property should sell for just \$595,000 when Zillow has it at \$685,000.

Disparities like these are daily occurrences and, in the words of one realty agent who posted on the industry blog ActiveRain, they are "the bane of my existence." Consumers often take Zestimates "as gospel," said Tim Freund, an agent with Dilbeck Real Estate in Westlake Village. If either the buyer or the seller won't budge off Zillow's estimated value, he told me, "that will kill a deal."



Millennials are finally entering home-buying market

Back to the question posed by O'Donnell: Are Zestimates accurate? And if they're off the mark, how far off? Zillow CEO Spencer Rascoff answered that they're "a good starting point" but that nationwide Zestimates have a "median error rate" of about 8%.

Whoa. That sounds high. On a \$500,000 house, that would be a \$40,000 disparity — a lot of money on the table — and could create problems. But here's something Rascoff was not asked about: Localized median error rates on Zestimates sometimes far exceed the national median, which raises the odds that sellers and buyers will have conflicts over pricing. Though it's not

prominently featured on the website, at the bottom of Zillow's home page in small type is the word "Zestimates." This section provides helpful background information along with valuation error rates by state and county — some of which are stunners.



Homeowners underestimate their property values 1.6%, research says

For example, in New York County — Manhattan — the median valuation error rate is 19.9%. In Brooklyn, it's 12.9%. In Somerset County, Md., the rate is an astounding 42%. In some rural counties in California, error rates range as high as 26%. In San Francisco it's 11.6%. With a median home value of \$1,000,800 in San Francisco, according to Zillow estimates as of December, a median error rate at this level translates into a price disparity of \$116,093.

Some real estate agents have done their own studies of accuracy levels of Zillow in their local markets.

Last July, Robert Earl, an agent with Choice Homes Team in the Charlottesville, Va., area, examined selling prices and Zestimates of all 21 homes sold that month in the nearby community of Lake Monticello. On 17 sales Zillow overestimated values, including two houses that sold for 61% below the Zestimate.

In Carlsbad, Calif., Jeff Dowler, an agent with Solutions Real Estate, did a similar analysis on sales in two ZIP Codes. He found that Zestimates came in below the selling price 70% of the time, with disparities ranging as high as \$70,000. In 25% of the sales, Zestimates were higher than the contract price. In 95% of the cases, he said, "Zestimates were wrong. That does not inspire a

lot of confidence, at least not for me." In a second ZIP Code, Dowler found that 100% of Zestimates were inaccurate and that disparities were as large as \$190,000.

So what do you do now that you've got the scoop on Zestimate accuracy? Most important, take Rascoff's advice: Look at them as no more than starting points in pricing discussions with the real authorities on local real estate values — experienced agents and appraisers. Zestimates are hardly gospel — often far from it.

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