

Subject: CAN AN ALGORITHM PRICE A HOME?

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THE ALGORITHM HAS A OPINION: Understanding the AVM and what it means for Real Estate



There was a time when determining the value of a home involved a fairly predictable process. Someone pulled comparable sales, studied the neighborhood, looked at the property, made adjustments and—if a mortgage was involved—an appraiser physically went to the house.

Today, a computer can produce an estimated value before someone has even found the lockbox.

Welcome to the world of the Automated Valuation Model, better known as the AVM.

AVMs aren't exactly new. Their roots go back decades to computerized mass-appraisal techniques used by assessors and researchers. But as public property records became

digitized, MLS data became more accessible, computing power increased and enormous databases of real estate information were created, automated valuation became much more sophisticated.

By the 1990s and early 2000s, automated technology was becoming an increasingly important part of mortgage underwriting and collateral risk management. Then consumer websites brought automated home estimates directly to homeowners. Suddenly, practically everyone could type in an address and get a number.

And we all know what happened next.

"But the internet says my house is worth..."

Real estate brokers everywhere just felt that sentence in their soul.

SO, WHAT EXACTLY IS AN AVM?

In its simplest form, an AVM is a computerized model designed to estimate the value of real property.

Federal regulations define an AVM, in the mortgage context, as a computerized model used by mortgage originators and secondary-market issuers to determine the collateral value of a home securing a mortgage.

Think of it as an extremely fast, extremely data-hungry comparative analysis. The AVM takes information about a property, compares it with enormous amounts of other information, applies mathematical and statistical modeling and produces an estimated value—sometimes in seconds. Different AVMs use different formulas, and those formulas are generally proprietary. That means two AVMs can look at the same house on the same day and produce two different values.

Why?

Because the answer is only as good as the data going into the model and the methodology being used to interpret it.

How Does the Automated Valuation



WHERE DOES THE AVM GET ITS INFORMATION?

Depending on the provider and what data is available in a particular market, an AVM may pull from dozens—or even hundreds—of data points. The major categories generally include:

- **Public Property Records**

County assessor and recorder information can provide ownership history, legal descriptions, parcel information, recorded sales, lot size, square footage and other property characteristics.

- **MLS Data**

Where permitted, MLS information can provide listing history, sales information, property characteristics and current market activity. Some AVMs specifically incorporate MLS data to improve property information and better understand current market conditions.

- **Comparable Sales**

AVMs analyze recent sales of properties considered similar to the subject property. Some sophisticated models can evaluate far more potential comparable properties than a person reasonably could.

- **Property Characteristics**

Bedrooms. Bathrooms. Square footage. Lot size. Year built. Property type. Garage. Construction characteristics. These

details help the model determine which properties are most comparable.

- **Geographic Information**

Location matters in real estate—we've been saying that forever. AVMs evaluate geographic relationships, neighborhoods, subdivisions, proximity and other location-based information.

- **Historical Sales**

If a property has sold previously, that history can help establish how its value has changed relative to the surrounding market.

- **Market and Price Trends**

AVMs can analyze whether prices in an area are increasing, declining or holding steady. Some models use home-price indexes and repeat-sales analysis to estimate changes over time.

- **Current Market Activity**

Depending on available data, models may consider listings, recent transactions, neighborhood trends and other indicators of supply and demand.

In fact, some models don't simply use one valuation method. They may run several different calculations and reconcile those results into a final estimate. That's pretty impressive.

**BUT, and this is a very important BUT,
HAVING A LOT OF DATA ISN'T THE SAME
THING AS KNOWING THE PROPERTY**

THE "CAN'T SMELL THE CAT" THEORY

This is where I introduce what I affectionately call the "Can't Smell the Cat" theory of automated valuation.

An AVM can know that the house has 2,100 square feet, three bedrooms, two bathrooms and a two-car garage. It may know the house next door sold six weeks ago. It may know what the owner paid for it in 2018.

What it doesn't necessarily know is that you opened the front door and immediately smelled twenty years of cats. The computer can't walk through the kitchen and discover that what

public records describe as "updated" apparently means updated during the Reagan administration.

It doesn't stand in the backyard and hear interstate traffic.

It doesn't see the spectacular mountain view from the patio.

It doesn't necessarily know that one owner spent \$150,000 thoughtfully renovating a property while another house with nearly identical public-record characteristics hasn't been touched in 35 years.

An AVM analyzes data about a property. A physical inspection observes the property itself. Those are not always the same thing.

That distinction is important enough that Fannie Mae's valuation options differentiate between data/model-driven valuation approaches and traditional appraisals in which an appraiser physically visits the property. For certain situations, Fannie Mae also uses property data collection specifically to obtain current information about a home's characteristics and condition.

In other words, even the technology recognizes that sometimes somebody needs to look at the house. And occasionally, smell the cat.

AN AVM KNOWS THE DATA. IT DOESN'T KNOW THE HOUSE.

WHY DO BANKS LIKE AVMs?

Three big reasons: speed, cost and risk management. A traditional appraisal takes time. An AVM can return information almost instantly.

That speed allows lenders to evaluate collateral earlier in the process, review portfolios, identify potential valuation risks and, for eligible transactions, use valuation alternatives that can reduce both time and expense.

Fannie Mae, for example, uses extensive property and

appraisal data along with proprietary analytics when determining whether certain loans qualify for value acceptance, commonly associated with an appraisal waiver. For a lender processing thousands—or hundreds of thousands—of mortgages, efficiency matters.

AVMs can also provide consistency. A computer doesn't wake up grumpy, get stuck in traffic or decide it simply doesn't like ranch-style houses. It applies its model repeatedly across large numbers of properties.

But that doesn't mean regulators have handed the keys to the computers and walked away.

The Automated Valuation Model (AVM) Quality Control Standards Rules took effect October 1, 2025 requiring covered institutions using AVMs for certain mortgage credit decisions and securitization determinations to maintain quality-control standards designed to ensure confidence in AVM estimates, protect against data manipulation, avoid conflicts of interest, require testing and reviews, and comply with applicable nondiscrimination laws.

That's significant because AVMs are no longer a novelty. They are becoming part of the infrastructure of modern real estate finance.

FOR APPRAISERS, AN AVM IS A TOOL ... NOT A REPLACEMENT FOR PROFESSIONAL JUDGMENT

AND THEN THERE ARE THE APPRAISERS

Ask appraisers about AVMs and you'll probably get an interesting conversation. There are reasons to like them.

An AVM can process tremendous amounts of information quickly. It can help identify trends, flag unusual results and provide another data point for comparison. Technology can make parts of the valuation process more efficient, and appraisers themselves increasingly work with sophisticated databases and analytics.

The concern comes when we start confusing a valuation tool with valuation judgment. A licensed or certified appraiser does something an algorithm cannot fully replicate: observe, investigate, verify, interpret and explain.

A good appraiser recognizes when the "comparable" house really isn't comparable. They can identify functional obsolescence, deferred maintenance, unusual construction, renovations, view differences, location influences and countless other details that don't always fit neatly into a database field.

AVMs also tend to perform better where there is plenty of reliable data and similar housing stock. Unique properties, rapidly changing markets, rural areas or places with fewer transactions can be more challenging. Even sophisticated AVM providers acknowledge that models have to account for differences in data availability from county to county and market to market.

Garbage in, garbage out still applies—even when the garbage has a really impressive algorithm.

7 Use Cases Of Automated Value Model For Real Estate



WHAT DOES ALL OF THIS MEAN FOR REAL ESTATE?

AVMs aren't going away.

If anything, expect them to become faster, smarter and more integrated into mortgage lending, real estate technology and the consumer experience.

That's not necessarily bad.

The pros are real: speed, lower costs, consistency, massive data analysis, scalability and the ability to provide quick valuation guidance.

But the cons are equally real: incorrect or outdated source data, difficulty valuing unique properties, limited understanding of condition, potential model bias, lack of local nuance and—of course—the inability to physically experience the property.

For brokers, I don't believe the lesson is to compete with the AVM. The lesson is to explain it.

When a seller says an online estimate values the house at \$475,000, our response shouldn't automatically be, "That's wrong." A better conversation is: "Let's look at what information that estimate may be using—and what it may not know about your property."

Technology can calculate. Data can inform.

Algorithms can recognize patterns faster than any human being ever could.

But real estate is still remarkably local, remarkably individual and, occasionally, remarkably smelly. An AVM can be an incredibly useful tool. It can give us another perspective, another piece of information and another way to understand a market.

We simply need to remember what it is designed to be: An estimate of value—not an all-knowing declaration of value.

Because no matter how sophisticated the algorithm becomes, sometimes understanding a house still requires someone to walk through the front door.

And yes, sometimes you really do need to smell the cat.

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