Automated property valuations are 20 years old – **where next?**

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Summary

While artificial intelligence (AI) is big news today, data and technology has been powering automated valuations of residential property for 20 years.

Advances in technology and digitised data mean UK mortgage lenders have significant headroom to expand the use of automated valuations and property risk data to enhance lending decisions and improve the customer experience.

With lending growth and margins under pressure, seeking efficiencies and a more streamlined process is going to be essential to maintain market share, innovate new products and deliver a high-quality customer experience.

AI is big but data driven modelling is not new

Artificial intelligence is one of the biggest trends in technology right now with huge potential to reshape our everyday life. Huge advances in computing power combined with unprecedented availability of data has opened-up the scale of potential to train machines to learn and deliver answers for everyday uses.

However, building and deploying data driven models that produce machine generated outputs for specific use cases is not new.

Automated valuations of residential property are 20 years old this year

2024 marks the 20-year anniversary of automated valuation models (AVMs) being used by mortgage lenders to value residential property to support secured lending decisions.

AVMs are computer-generated valuations that leverage a range of spatial and residential property data through sophisticated algorithms and models.

Hometrack has been the pioneer of automated valuations in the UK

Today, all UK mortgage lenders use automated valuations as part of their mortgage origination process. We were the pioneer of AVM technology in the UK from the early 2000s. HSBC was the first major lender to licence and deploy our AVM technology for remortgage decisions in 2004.

Today, we power the valuation and property risk assessment of new mortgage lending decisions for 18 of the top 20 lenders, all on an exclusive basis.

AVMs are used for a quarter of all mortgage lending decisions

Today, AVMs are used to support around a quarter of all valuations for secured lending in the UK. This covers both re-mortgage and home purchase lending decisions. In addition, our AVM is used to support BTL mortgages and the counterpart portfolio assessment for professional landlords, as well as in second charge lending, bridging finance and fraud & risk auditing.

In the early years over the 2000s, AVM use was limited to lending decisions for remortgage and further advance. Their use extended to lower risk home purchase lending from 2015.

In addition to mortgage origination decisions most lenders take regular portfolio valuations for all the loans on their mortgage book. These address level valuations are significantly more accurate to assess loan to values than using a house price index and are used to inform refinancing and more efficient capital planning and provisioning.

Transparent, independent, data driven valuations

Our AVM was designed to follow the same procedures as a human valuer would do, enabling more easy understanding of how it operates and aligning to a comparable evidence approach to valuation.

1. verify the subject property, its location and attributes;

2. identify and select the most appropriate comparable evidence;

3. adjust the comparable data to ensure a like for like comparison; and,

4. a combination of algorithms and models generate the most accurate valuation result and confidence level.

The AVM model is constantly tested against physical surveys to ensure it's delivering an accurate market value.

Improvements in the quality and volume of geospatial and property data has ensured AVM performance has grown over the years.

Confidence levels critical to the successful use of AVMs

The most under-appreciated aspect of AVM technology, but arguably one of the most important and valuable components, is that every valuation is accompanied by a confidence level, which describes the accuracy of the valuation which helps the end user (the lender or broker) determine when it's appropriate to rely on the results.

This is important, as some types of property are easier to value than others: it's much easier to value a 3-bed semi in a very liquid local market where all the homes are similar, than valuing an isolated farmhouse with very little local sales evidence. This challenge is the same – whether you're a computer or a human, but to date, only the AVM provides this insight.

AVM model governance and performance reporting

Improvements in accuracy and performance have been accompanied by advancements in model governance and reporting on accuracy and performance over time. It's vital that AVM performance, measured by the confidence levels and accuracy, remains consistent and predictable through the cycle. This covers periods when volumes may be lower and/or prices changes may become more volatile.

Our AVM has been through two property downturns over the last 20 years - the global financial crisis in 2007 and over the closure of the housing market over the pandemic in 2021. The AVM performed in line with expectations over these periods. The speed of model recalibration and extensive testing ensure the model delivers the consistent and predictable performance expected from lenders.

60% of valuations could be fully automated

Most lending decisions are based on more typical, homogeneous housing types of homes that are easier to value with a high level of confidence.

Our view is that automated valuations, used in conjunction with additional property risk data, could be used to safely inform up to 60% of lending decisions, compared to 25% today.

Surveyors will continue to be required to value more risky property types and there is a clear case for lenders to pay more for these more complex valuations.

Digitising the mortgage journey and speeding up decisions on a property as loan security is more than just about faster accurate valuations. Lenders need to understand a wider range of potential property risks that sit alongside the valuation to enable a more comprehensive assessment of the property as loan security.

This additional property risk data is already available through our property risk management software. This incorporates sophisticated rule sets that enable lenders to make faster property risk decisions on the right cases, while focusing more effort on the smaller proportion of complex cases.

Technology and data is powering the digitisation of the mortgage journey

AVM technology has enabled major gains in efficiency and risk management for lenders over the last 20 years. There have been material improvements in the customer experience for borrowers.

Advances in valuation technology and digital property data are expanding the scope and potential for lenders to accelerate the digitisation of the mortgage lending journey through a deeper understanding of property risk.

With lending growth and margins under pressure seeking efficiencies through use of technology and data is going to be essential to maintain market share, innovate new products and deliver a high-quality customer experience.

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