

15 March 2023

## Response to IVSC Perspectives Paper Automated Valuation Models and Residential Valuations

Prepared by the IVS Technical Working Group,  
a subcommittee of the API Standards Steering Committee

The API would like to thank all the members of the IVS Technical Working Group for their contributions, knowledge and insights which formed the basis of the APIs responses and comments.

The working group consisted of;

Mark Kay	Chair of API SSC
Rob Hecek	Chair of APIV, Valuecorp
Allen Crawford	Corporate and Commercial Property Advisors
Greg Preston	Preston Rowe Patterson
Kevin Brogan	Herron Todd White
David Brandon	API, Manager Professional Standards

Yours faithfully,



**David Brandon**  
Manager Professional Standards  
Australian Property Institute Ltd



**Mark Kay**  
Chair Standards Steering Committee  
Australian Property Institute Ltd  
on behalf of API IVS Technical Working  
Group

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## Response to IVSC Perspectives Paper Automated Valuation Models and Residential Valuations

Dear IVSC Tangible Assets Board,

Thank you very much for the opportunity to provide feedback on the IVSC Perspectives Paper – Automated Valuation Models and Residential Valuations which was released in November 2022.

<https://www.ivsc.org/perspectives-paper-automated-valuation-models-and-residential-valuations/>

The API comprises a membership cohort of almost 7,000 property professionals across Australia, the overwhelming majority of which are Valuers.

The API welcomes the intention of the IVSC Perspectives Paper and its attempts to provide clarity as to when the use of an AVM could result in compliance with IVS and the question “Can a Residential AVM ever produce an IVS Compliant Valuation?”

API Valuers undertake valuations of all asset classes across Australia with the vast majority involved in providing valuations of residential property for mortgage and loan security purposes.

The IVSC is established as the global standards setter for the Valuation Profession. It is responsible for, and is the global leader, in developing the International Valuation Standards for the valuation of all classes of assets and liabilities. IVSC engages with bodies active in the regulation of financial markets to ensure that valuation issues are understood, and the public interest is protected.

### Overall response

Given the wide use of AVMs in the marketplace the API congratulates the IVSC for taking a positive step to define what an AVM is and how they differ from an IVS compliant valuation.

Industry knowledge shows the increasing use of and requirements for technology and data assisted reports and as the Global Standards setting body interpreting the market is essential.

The API considers that the paper could have more clearly distinguished between the question of “can a Residential AVM ever produce an IVS Compliant Valuation?” and the requirements for *valuers* when using a *Model* as an input in the valuation process. Possibly separating these questions into two perspectives papers or separate sections may improve the readability of the paper.

## Definitions included in the paper

The API considers that with the growing use of *AVMs* that they should be included/addressed within IVS. This would permit the IVS to include a clear statement (definition) of what an *AVM* is and how they differ from an IVS compliant valuation.

Where a term included in this response reflects an IVS defined term, or is defined below, it is shown italicised.

The use of the term “value” in the definitions below is the general meaning of the term rather than the IVS defined term *value*, as the term *value* in the IVS is the “the opinion resulting from a valuation process that is compliant with IVS”.

*Automated Valuation Model (AVM)*: A fully automated system that provides an indication of value of a specified *asset* as at a specified date, using automated calculation techniques, without the direct input, oversight, and contribution of a *valuer* directly related to that specified *asset*.

*Residential AVM*: An *AVM* of a residential property.

*Model*: The quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques and assumptions to derive value. A *Model* may or may not have considered input from a *valuer*.

The paper notes that *valuation* is a process and not simply the amount resulting from the process. This is consistent with the definition of valuation in the IVS which is “the act or process of determining an opinion or conclusion of value of an asset on a stated basis of value at a specified date in compliance with IVS”.

## Can a Residential AVM ever produce an IVS Compliant Valuation?

The paper states “that the use of Automated Valuation Models for residential secured lending (or other) purposes, in isolation, cannot produce an IVS compliant valuation” as all the requirements contained within the IVS are unable to be met.

The *valuation* process under IVS includes “requirements in relation to scope of work, investigations and compliance, reporting, basis of value and valuation approaches and methods, all of which have to be met to produce an IVS compliant valuation”.

Where a *valuer* uses a *Residential AVM* as an input or tool in the *valuation* process this may result in an IVS compliant valuation provided the *valuer* follows all the requirements within IVS.

It is noted that when a *valuer* relies on a *Model* as an input or tool in the valuation process, the *valuer* has “the same level of responsibility as when they rely on any other expert for analysis outside their area of expertise. The valuer cannot blindly rely on that model” and “must perform analysis to evaluate the data inputs, formulas and algorithms, the assumptions underlying the data inputs and their appropriateness for the valuation process.”

A fully automated valuation *Model (AVM)* is unable to provide an “opinion of *value*” and therefore does not meet the definition of *value* contained in the IVS. As there is no *valuer* involvement in an *AVM* the resulting indication of value does not meet the requirements contained within IVS to be an IVS compliant valuation.

The API agrees with the conclusions reached within the paper in response to the question “Can a Residential *AVM* ever produce an IVS Compliant Valuation?” and the explanations contained outlining the reasoning why an *AVM*, in isolation, is unable to produce an IVS compliant valuation.

The additional discussions regarding the use of an *AVM* by a *valuer* as part of the valuation process reinforces the principles contained in Valuation Models covered under section 90 of IVS 105 Valuation Approaches and Methods. The API considers that further guidance on the shortcomings and notable risks of an *AVM* should be outlined by the IVSC to differentiate between an IVS compliant valuation and an *AVM*.

### What are the IVS Scope of Work requirements that a Residential *AVM* alone might not achieve in isolation?

The overarching principal of IVS 101 Scope of Work (IVS 101) is obligations on what a *valuer* must do.

Paragraph 10.2 of IVS 101 covers the intent of the IVS to cover three (3) types of *valuers*. Those doing the valuation for their own employee, for clients or, for reviewing valuations. In each instance there is a *valuer* undertaking the work. Without a *valuer* performing the work there cannot be compliance with IVS 101.

Paragraph 20.2 commences “a *valuer must*”. An *AVM* is fully automated and hence there is no *valuer*.

Paragraph 20.3 sets out the obligations on the *valuer*. Without a *valuer* those obligations are not met. Viz:

- (a) There are obligations on the identity of the *valuer*. An *AVM* is fully automated and hence (a) cannot be met;
- (g) The *basis of value* used must be appropriate for the *purpose* of the valuation and the basis must be explained. In some instances, the comparability of the evidence (data sources) is difficult, and the *valuer* needs to exercise judgement on the selection, analysis and application of the evidence.
- (i) (j) (k) The nature and extent of the *valuer’s* work and limitations thereon must be explained. If the *valuer* is not certain nor has verified all the inputs, analysis and application of the data sources, the *valuer* is unable to make the obligatory comments.

The API agrees fully with the explanations in the perspectives paper relating to IVS 101.

The API suggests that the explanatory comments on the top of the second column on page 9 be removed and the paper include the explanatory commentary that follows the relevant sub-sections of IVS 101 section 20.3.

### What are the IVS requirements for Investigations and Reporting?

IVS 102 – Investigations and Compliance outlines the enquiries, investigations and procedures that a *valuer* must undertake in order to comply with the IVS. The reference to “professional judgement” is not possible in the case of a fully automated valuation *Model*.

Paragraph 20.3 notes “sufficient evidence must be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported.” As noted in the paper “it is impossible that the subject property (let alone the comparable properties) have been subject to a physical inspection to determine their comparability with the assistance of a valuer.”

In the case of a fully automated valuation *Model* there is no *valuer* involvement and therefore unable to “evaluate all inputs and assumptions” contained in the *Model*.

IVS 103 – Reporting outlines the minimum information and disclosures required to comply with IVS.

The paper states, “it is unlikely that a Residential AVM in isolation would meet these reporting requirements” and that “while a Residential AVM may be able to generate a standardised report which meet certain disclosure requirements, its ability to truly provide detail on consequences of the reasonableness and impact of certain assumptions in all valuations is highly questionable.”

The API agrees with the discussion and explanations relating to investigations by the *valuer* that are not met with a fully automated *Residential AVM*, and therefore with no *valuer* involvement it is not possible to meet the minimum requirements for an IVS compliant valuation report.

**Can a Residential AVM be intelligent enough to interpret the meaning of a particular Basis of Value?  
Can a Residential AVM incorporate different Valuation Approaches and Methods with any level of reliability?**

These questions are intertwined, and we have reviewed them together.

The Introduction to IVS outlines the Core Principles of Valuation, which include:

- "Valuers must select the basis (or bases) of value appropriate for the assignment and follow all applicable requirements."
- "Valuers must use appropriate information and data inputs in a clear and transparent manner so as to provide a credible valuation."
- "Valuers must properly use the appropriate valuation methodology (ies) to develop a credible valuation."

The use of *must* in each of these core principles indicates an unconditional responsibility that the *valuer* must fulfill.

This is reinforced in IVS 104 which adds at 10.1 that "It is critical that the *basis (or bases) of value* be appropriate to the terms and *purpose* of the valuation assignment, as a *basis of value* may influence or dictate a *valuer's* selection of methods, inputs and assumptions, and the ultimate opinion of *value*."

As noted previously, there is no *valuer* involved in a fully automated *Residential AVM*, so the requirements under IVS 104 (and elsewhere in the IVS) for a *valuer* to fulfill is unable to be met.

Appropriate Valuation Approaches and Methods are outlined in IVS 105. Paragraph 10.1 states that "Consideration must be given to the relevant and appropriate valuation approaches".

In short, fully automated *Residential AVMs* do not satisfy the above criteria and cannot therefore reliably interpret the appropriate *basis of value*, and consequently an *AVM* may not use an appropriate methodology (in a clear and transparent manner) to provide a credible valuation.

The API agrees with the conclusions reached in the perspectives paper that "it would not be possible for a Residential *AVM* to be IVS compliant without the input and professional judgement of a valuer".

### Can Residential AVMs comply with IVS 400-Real Property Interests?

The requirements under section 20.6 of IVS 400 – Real Property Interests are noted in the paper as "standard due diligence for a valuer" and "would not generally be carried out within the context of a Residential *AVM*, as the majority of these requirements would require the intervention of a valuer".

There is no *valuer* involvement in the case of a fully automated *Residential AVM* so the requirements under IVS 400 section 20 Introduction, section 30 Basis of Value and section 40 Valuation Approaches and Methods which require the *valuer* to make professional judgment decisions are impossible to be met.

The API agrees with the conclusions reached under this section that "a Residential *AVM* would not be compliant with IVS" and "the need for the inclusion of the valuer's professional judgement".

## Overall conclusions contained within the perspectives paper

The API agrees fully with the summary contained within the Conclusion section of the paper, namely;

“a fully automated Residential AVM with no valuer interaction is not IVS compliant for the following reasons:

- there is no valuer involvement in either the creation of the model or the output;
- it does not include the valuer’s professional judgement noting that a valuation is defined in IVS as “the act or process of determining an opinion or conclusion of value of an asset at a specific date in compliance with IVS”; and
- a Residential AVM is unable to provide an opinion on value.”

The API notes that the perspectives paper also contains discussions of several other reasons that support the conclusion that a fully automated *Residential AVM* is not IVS compliant.

The API acknowledges that *AVMs* have been around for many years in one form, or another, and that with improvements in the accuracy of data and modelling their use and acceptance by consumers of valuation products is likely to increase. The API believes it is therefore important for the IVSC to provide clear guidance on what an *AVM* is and what it isn’t, as well as outlining the benefits and risks of these products so that the public is fully informed.

It would also be beneficial for the IVSC to consider the development of a ‘standard’ that deals with the use of *AVMs* as an input or a tool by valuers as part of their investigations and procedures when undertaking valuations. This could also reinforce the requirements for an IVS compliant valuation.

Kind regards



**Amelia Hodge**  
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