*But Zillow says……….*

**Zestimates: Realtors are not fans**

Zillow says Zestimates currently have a median error rate of 6%. That may seem to be a large margin — but it has improved. The algorithm began with a 13.6% median error rate in 2006, according to Zillow.

**How Zillow Zestimates are computed**

Zillow doesn’t reveal much about what’s inside the black box of Zestimates, other than to say that the value is calculated three times a week based on “millions of public and user-submitted data points.”

However the Zestimates are created, Zillow says between major upgrades new iterations of the model are constantly being devised. And since Zestimates were introduced on the site in 2006, the company has deployed three completely new versions of the algorithm, in 2006, 2008 and 2011.

“Home characteristics, such as square footage, location or the number of bathrooms, are given different weights according to their influence on home sale prices in each specific geography over a specific period of time,” Zillow says.

The site also mixes in property tax information and prior sale prices for a home, as well as for others nearby.
But the accuracy of the home value estimates is hotly debated. Zillow says it calculates the accuracy of its “proprietary automated valuation models,” or AVMs, by taking a home’s final sale price and comparing it to the Zestimate on or before the sale date.

## 1. Inaccurate Basic Information

Three times a week, Zillow’s unique algorithms update its collection of property values, which are based on both public data and user-submitted data. According to Zillow, “the vast majority of Zestimates are within 10 percent of the selling price of the home.” But Zestimates are only as accurate as the data behind them, so if the number of bedrooms or bathrooms in a home, its square footage or its lot size are inaccurate on Zillow, the Zestimate will be off.

Users can correct these mistakes. However, Zillow cautions that updating a property’s details won’t result in an immediate change in the home’s Zestimate, and sometimes it won’t result in any change at all. Perhaps having a fourth bathroom doesn’t do much for home values in your town, for example.

Along with accepting user-submitted data, Zillow deals with the inaccuracy problem by reporting estimated value ranges for individual properties. The smaller the range, the more reliable the Zestimate is because it means Zillow has more data available on that property. Looking at the high and low end of the range will give you a better sense of a home’s possible worth.

## 2. Mistakes or Omissions in Sales Prices or Property Tax Records

Zillow factors the date and price of the last sale into its estimate, and in some areas, these data make up a big part of the figure. If this information is inaccurate, it can throw off the Zestimate. And since comparable sales also affect a home’s Zestimate, a mistake in one home’s sales price record can affect the Zestimates of other homes in the area.

The Zestimate also takes into account actual [property taxes](http://www.investopedia.com/terms/p/propertytax.asp) paid, exceptions to tax [assessments](http://www.investopedia.com/terms/a/assessment.asp) and other publicly available property tax data. Tax assessor’s property values can be inaccurate, though. The tax assessor’s database might have a mistake related to a property’s basic information, causing the [assessed value](http://www.investopedia.com/terms/a/assessedvalue.asp) to be too high or too low. Homeowners can report incorrect sales data or tax records to Zillow online. (For more, see

## 3. Upgrades and Unique Features Unaccounted For

Sometimes a homeowner makes improvements to a property, and Zillow has no way of knowing unless your local property tax assessor knows about them. If you make any upgrades that require permits from the city, that information may be passed along to the property tax authorities and entered into the public record, which is where Zillow could learn about it. If you added a permitted fifth bedroom to your home, for example, and the property tax assessor deemed that the upgrade increases your home’s value, that information would probably eventually find its way into your home’s Zestimate. But if your home has a brand-new designer kitchen that didn’t require any major permits, yet your neighbor’s home, which also has 1,700 square feet, three bedrooms and two bathrooms, has its original 1975 kitchen, Zillow will value both homes similarly even though your home may fetch a higher sale price.

Upgrades aren’t always as valuable as you think, though. It depends a lot on local housing market conditions and what projects you’ve done. So just because your home’s value on Zillow hasn’t changed since you added that bedroom or remodeled your kitchen, don’t assume you can tack on an extra $30,000 to the Zestimate. Conversely, if Zillow says your home is worth $300,000 but you know you haven’t updated it as much as similar homes in your neighborhood, it might sell for less or take longer to find an interested buyer.

## 4. Housing Turnover Rate

The more home sales there are in your area, the more data Zillow has about how much buyers think those homes are worth. This data make Zestimates more accurate. So if you live in a hot market in the San Francisco Bay Area, your Zestimate might be more accurate than if you live in a rural town where people stay in their homes for decades and sales are rare.

## 5. Major Changes to the Zillow Algorithm

Zillow updates its algorithm as it comes up with more ways to improve its accuracy. When this happens, Zestimates can change significantly even though nothing has changed about those homes or the [real estate](http://www.investopedia.com/terms/r/realestate.asp) market. That said, in July 2016, Zillow upgraded its algorithm again. Zillow says its latest update makes the estimator's national median error rate 6%. That's down two points from the estimator's previous national median error rate of 6%.

## The Bottom Line

Zillow isn’t trying to hide the imperfections of its Zestimates from consumers, and you can’t expect perfectly accurate estimates from competing sites, either. Merely use the prices from Zestimates as a broad guideline, and contrast these figures against other sources. A comparable market analysis from a local [real estate agent](http://www.investopedia.com/terms/r/realestateagent.asp) and a professional appraisal of the home are the best ways to learn its likely value.

Even these tools are imperfect: Sometimes there are no recent sales of similar homes, and [appraisers](http://www.investopedia.com/terms/a/appraiser.asp), who are only human, can’t help but be slightly subjective in their assessments. In the end, there is no way to get a perfect assessment of a home’s value; there are just guidelines that we’ve chosen to follow when buying, selling, applying for a loan and in other situations when we need to know a home’s value.

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