FEATURES

Zillow's Estimates of Single-Family Housing Values

by Daniel R. Hollas, PhD, Ronald C. Rutherford, PhD, and Thomas A. Thomson, PhD

ABSTRACT

This article compares Zillow.com's estimates of home values and the actual sale prices of 2045 single-family residential properties sold in Arlington, Texas, in 2006. Zillow indicates that this market is one where its data has its highest accuracy rating. However, the results show the median difference between the Zillow estimate of market value and the actual sale price is 7.92%, and the average overpricing by Zillow is 11.66%. The results also show that Zillow overestimated the value for 40% of the properties by more than 10%, and only 0.88% of the property prices were underestimated by 10% or more. The study suggests that homeowners' estimates of value may be more accurate than Zillow's estimates.

Over the past several years, home value estimates have been an issue of considerable importance, as evidenced by the numerous news accounts of first rising and then falling home prices. Homeowners, neighbors, tax assessors, appraisers, and real estate agents have been estimating values based on the available market information. In addition, Zillow.com, a real estate Web site launched in February 2006, includes estimated market values for houses.

Zillow provides an estimate of market value for over 46 million homes based on a proprietary formula.[1] In general, it offers free value estimates, or Zestimates, using data from appraisal districts and from multiple listing services (MLSs), depending on availability. Zillow currently also accepts for-sale listings, offers information about buying and selling, and provides links to mortgage providers and real estate professionals. Several of these latest information offerings have been added since the data for this study was collected.

The key issue regarding Zillow's Zestimates is whether they reflect transaction prices. Zillow has been described both as "a useful site" and as "categorically wrong." There have been many instances of praise and many instances of complaints by homeowners using the Web site to estimate the value of their homes. Realtors in general have also been critical of the values produced by Zillow. The objective of this research and article is to examine the relationship between Zillow's Zestimates and actual transaction prices, while also examining how the Zillow model compares to a standard hedonic model of sale prices.

An unanswered question is how Zillow's estimates of value compare to actual sale prices. In 2006, Mullaney stated Zillow had informed *BusinessWeek* that it would be able to obtain a value estimate within ±10% of actual value for 62%

1. For details about Zillow's estimation methods and models, see http://www.zillow.com/howto/Zestimate.htm. Zestimate® is a trademark of Zillow, Inc.