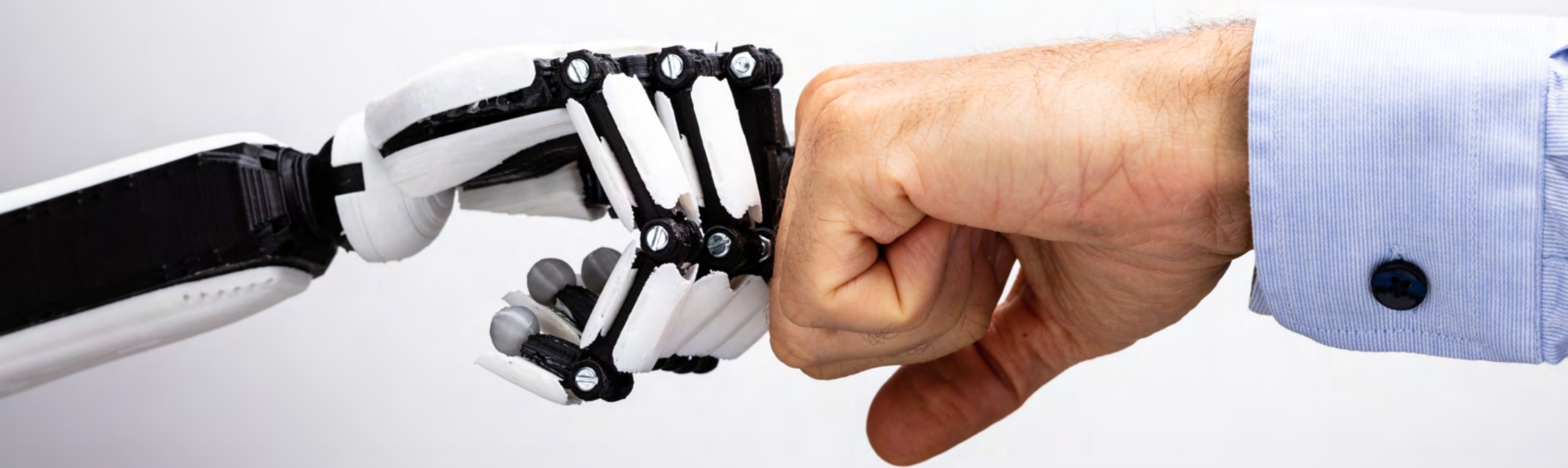


# THE VALUE OF VALUATION



GARY GARNER

## Digital valuation tools vs humans

There has been an increasing amount of commentary in recent times promoting wider application for digital valuation tools. While these new Automated Valuation Models (AVMs) have their place, they are most certainly not a replacement for registered valuers conducting professional valuations. There is a good analogy here with autonomous (self-drive) cars. The technology may be fantastic, but occasionally things can, and do, go horribly wrong. And, as for autonomous vehicles, the result can be absolute carnage.

The paradox here is that during their university training (a three-to-four-year programme), aspiring valuers are specifically taught how not to act just like a computer. They are trained to recognise the dangers inherent in relying upon purely mathematical averages and algorithms – yet at the same time, learning how to take such

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information into account. And, of critical importance, they are taught how to exercise human balance and judgement – something that computers typically find quite impossible to mirror.

Registered valuers also have an additional period of three years of internship after graduating before they can sign-off a valuation report. This means having a total of six to seven years of training before being able to legally operate. Registered valuers are also required to undertake their activities in accordance with the Valuers Act (1948) and associated Ministerially approved New Zealand Institute of Valuers (NZIV) Rules and Code of Ethics.

Aside from being required to maintain their professional competency, registered valuers are also required to act independently and with complete impartiality, regardless of who the client is that is hiring them. Furthermore, under the Valuers Act the NZIV has a legal duty to protect the interests of the public in relation to valuations of land and related subjects. There is no such mandate or requirement for AVMs.

## More than a mathematical problem

Imagine a computer, instead of a judge, hearing a court case, proceeding to formulate a verdict and sentence. Frightening thought? Similarly, the valuation profession (like a number of other professions) relies upon ways of thinking and interpretation that just cannot be digitised, even though digital information is typically collated and analysed as part of the process. Just one simple example is how one might take into account, say, an ocean view.

The influence and likely impact on property value, including ascertaining the possibility as to the ease in which it might be 'built out' by a neighbour, is not primarily a mathematically-based problem. It is only by comparative analysis – weighing up and down the relative merits of other similar or most comparable properties – that a more reliable conclusion may be arrived at. It relies very heavily on human judgement and assessment. The mathematical calculations are just one part of a much more complex process going on.

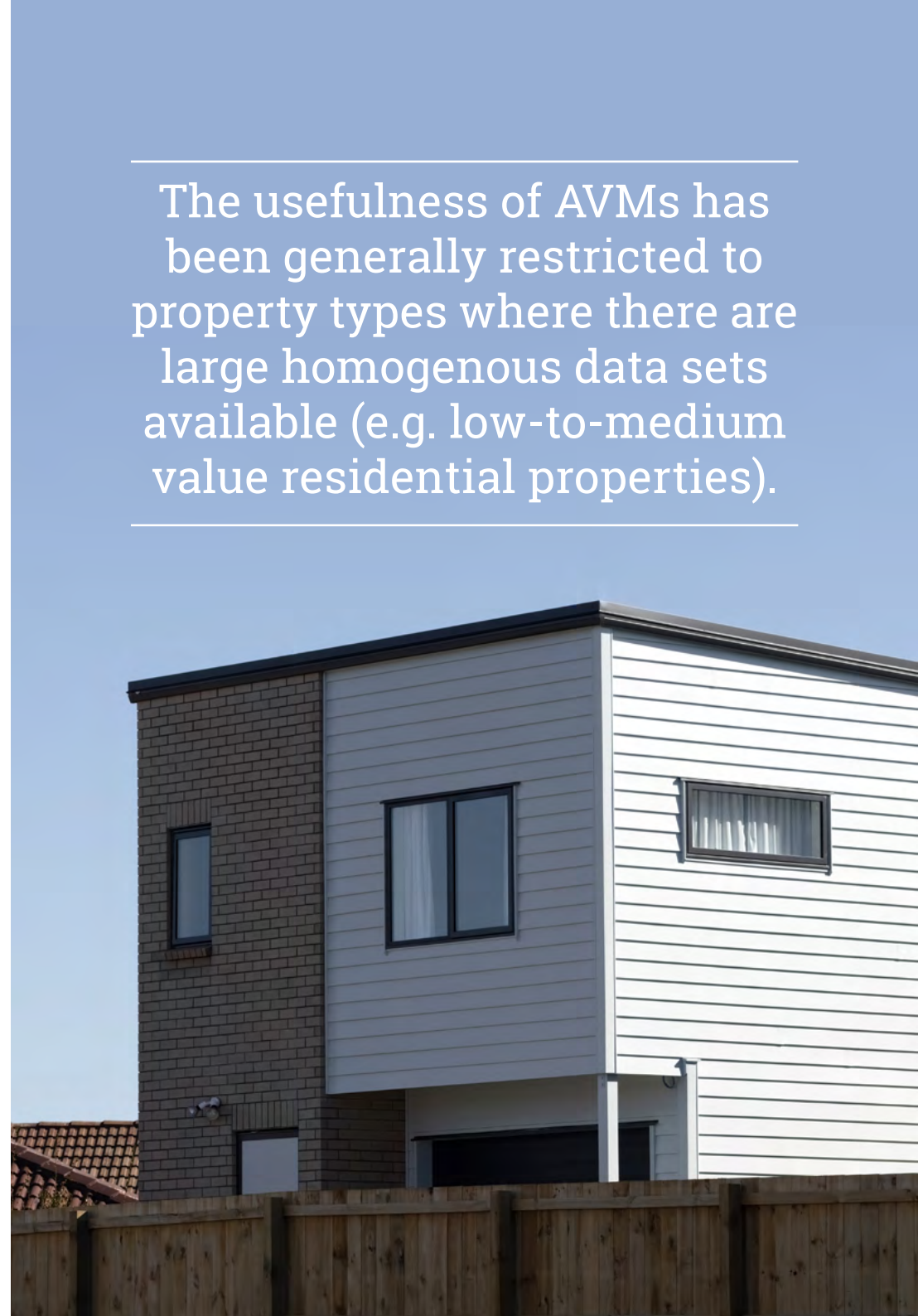
It is for this reason that the usefulness (when used cautiously) of AVMs has been generally restricted to property types where there are large homogenous data sets available (e.g. low-to-medium value residential properties). It is highly improbable that these systems will ever prove as useful for other property types where there are typically far fewer transactions (comparable properties) available for analysis. For example, rural properties, industrial properties, office blocks, mining sites, hotels and accommodation houses – to name just a few.

These properties are by their nature not all that homogenous and typically vary widely in their landforms, topography, land use, productivity, infrastructure availability, consent restrictions and caveats, building materials/quality and design – and a host of other variables. It is not feasible that anything other than a human is capable of taking this complex web of variations into account – and then trying to balance up conclusions based on empirical evidence that is often in short supply. Computers are not good at this and this helps explain why they are not commonly used in these arenas.

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## The involvement of registered valuers in the valuation process in New Zealand sets it apart from other jurisdictions where vested interests can bring pressure to bear, unduly prejudicing the wider public interest.

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### Role in courts

The analogy of the judge exercising reasoning used earlier is not so far removed from reality here. It is for this reason that registered valuers are also called in as expert witnesses to assist the courts in making determinations. There are also a number of registered valuers appointed to the Land Valuation Tribunal, including several appointees to the High Court in New Zealand – sitting with the Justice who relies upon the valuer's technical knowledge in order to draw conclusions and consider evidence.

The valuation profession in New Zealand is a part of a progressive open market economy, characterised by strong, transparent and trusted property systems. Registered valuers have a key role to play in ensuring market participants are properly informed. Independent valuation advice, based on international best practice standards, provides confidence for buyers, sellers and lending institutions. The involvement of registered valuers in the valuation process in New Zealand sets it apart from other jurisdictions where vested interests can bring pressure to bear, unduly prejudicing the wider public interest.

In short, in the valuation world, it is contended that, like many things in this life, you get what you pay for 🏠



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