# Survey of on the use of Automated Valuation Models for properties within equity release portfolios

## Equity Release Working Party, October 2024

The survey was conducted in mid-2024 and responses were received from six life insurers with a combined equity release portfolio of c £19bn.

**Current Usage of Automated Valuation Models (AVMs)**

In terms of current AVM usage, the vast majority of respondents did not use these models at initial underwriting stage, with one counterexample given relating to bulk ERM transactions. AVMs were however used by four respondents as part of the revaluation process alongside more traditional methods such as Indexation, Survey and Drive-by. There was a mix of respondent who used a combination of methods vs those who 'triaged' the portfolio based on factors such as LTV and time since last full valuation.

**Future usage of AVMs**

Some participants stated that they would increases their usage of AVMs, either at underwriting and / or revaluation stage, were some of the perceived limitations overcome.

**Limitations of AVMs**

The key perceived limitation of AVMs is that they do not appropriately allow for dilapidations, and there was overwhelming agreement on this point. One respondent adjusted for this by reducing the annual indexed return by a fixed amount since the prior physical valuation, but most did not make explicit adjustments at revaluation stage, presumably as AVMs are only one revaluation tool. Age of owner is not, in general, an input into the AVMs used, nor is the existence of an ERM on the property. Other perceived limitations of AVMs included:

- AVMs do not adequately cover climate risk, especially transition risk, other than to the extent that it is allowed for today in market pricing of similar properties. One participant cited the lack of publicly available EPC data as an obstacle here.
- Low confidence ratings, e.g. where properties are rural / in areas of low housing stock.

**Model improvements**

Participants suggested a number of areas where AVM models could be improved. As above, dilapidation and climate risk modelling were seen as candidates. Related, one participant noted that more granular data inputs, and greater use of real-time data, were required; these in turn would require increased computing power. Enhanced modelling had the potential to reduce capital requirements, although at this stage this would be difficult to quantify.

**Industry database**

Respondents expressed a strong interest in the development of an industry database of equity release specific property performance. Respondents would largely be happy to contribute their own data.