

An Analysis of ARV Estimates



CONTEXT

Benefits for Borrowers

The ARV, or after repair value, of a property is essentially the projected value of a property after it has been repaired or flipped. Translated, the ARV is roughly the price you'd expect the property to fetch in its new and improved condition. As such, the ARV is a crucial piece of information for flippers to obtain as it helps measure whether or not there is enough margin for the renovation project to become profitable. Additionally, when a borrower is going through the lending process, having as accurate an ARV estimate as possible is beneficial because it helps inform the terms of the loan (interest rate, etc.). Finally, having an accurate ARV estimate is helpful when planning out a given project's budget and scope of work.

Benefits for Investors

Accurate ARV estimates are valuable for our investors as well. As noted above, ARV estimates help inform the terms of the loans (specifically, the interest rates, risk factors, and loan grades) we give and subsequently offer up for funding on our platform. Our investors then use this information to make decisions about where to put their money. Additionally, consistently having ARV estimates that match closely to the final selling price helps give investors on our platform confidence that we are knowledgeable in the local market and are providing accurate risk assessments on the amount of leverage against any particular project.

Process

When a borrower approaches GROUND FLOOR for a loan for their proposed project, they present us with a detailed scope of work along with their estimate of the home's ARV. This estimate is primarily based off of that borrower's intimate knowledge of the community and the market trends where they work. Then, GROUND FLOOR contracts an independent appraiser to obtain a second ARV estimate. This second estimate is backed up by comparable properties in the area, the appraiser's years of experience and knowledge of the market, and other relevant data. GROUND FLOOR's underwriting team then uses all of this knowledge, plus data from even more comparable properties, to reach a final ARV estimate. This is the value we use to assign a grade and interest rate to the loan.



Borrower provides
an initial
ARV estimate



GROUND FLOOR orders
independent appraisal
to receive a second
ARV estimate



GROUND FLOOR uses a
third-party pricing and valuation
tool to further reconcile ARV with
even more comparable properties



Underwriting team
compares this reconciled
value to appraisal value to arrive
at a final ARV estimate

Findings

We recently completed an analysis of all 121 loans that paid off in 2018 via a sale of the property to compare ARV estimates to the actual sale prices of the property. Below is a preview of the particulars we examined. To see the full table of data for all 121 loans, please [click here](#).

Name	Date of Repayment	Loan Amount	Appraisal ARV	GROUNDFLOOR ARV Value	GROUNDFLOOR ARV Delta	Actual Selling Price	GROUNDFLOOR Sales Price Delta	Appraisal Delta	Performance State
Property 1	1/2/2018	\$78,400.00	\$120,000.00	\$123,757.00	3.10%	\$125,000.00	-1.00%	-4.00%	Current
Property 2	1/3/2018	\$91,050.40	\$150,000.00	\$135,000.00	-10.00%	\$150,000.00	-10.00%	0.00%	Current
Property 3	1/7/2018	\$68,390.00	\$110,000.00	\$108,000.00	-1.80%	\$122,500.00	-11.80%	-10.20%	Current
Property 4	1/8/2018	\$75,000.00	\$310,000.00	\$310,000.00	0.00%	\$365,000.00	-15.10%	-15.10%	Current
Property 5	1/9/2018	\$76,900.00	\$121,950.00	\$121,950.00	0.00%	\$131,500.00	-7.30%	-7.30%	Current
Property 6	1/10/2018	\$87,290.00	\$125,000.00	\$125,000.00	0.00%	\$146,500.00	-14.70%	-14.70%	Current
Property 7	1/11/2018	\$241,860.00	\$425,000.00	\$385,000.00	-9.40%	\$425,000.00	-9.40%	0.00%	Current
Property 8	1/13/2018	\$105,930.00	\$170,000.00	\$170,000.00	0.00%	\$183,000.00	-7.10%	-7.10%	Current
Property 9	1/14/2018	\$141,750.00	\$210,000.00	\$210,000.00	0.00%	\$281,500.00	-25.40%	-25.40%	Current
Property 10	1/15/2018	\$67,990.00	\$87,250.00	\$93,783.00	7.50%	\$97,000.00	-3.30%	-10.10%	Current
Property 11	1/16/2018	\$100,000.00	\$220,000.00	\$220,000.00	0.00%	\$235,000.00	-6.40%	-6.40%	Current
Property 12	1/17/2018	\$159,780.00	\$220,000.00	\$254,500.00	15.70%	\$345,000.00	-26.20%	-36.20%	Current
Property 13	1/22/2018	\$114,170.00	\$179,900.00	\$182,000.00	1.20%	\$170,000.00	7.10%	5.80%	Current
Property 14	1/24/2018	\$57,300.00	\$130,000.00	\$175,000.00	34.60%	\$158,000.00	10.80%	-17.70%	Default
Property 15	1/25/2018	\$58,340.00	\$104,000.00	\$100,000.00	-3.80%	\$160,000.00	-37.50%	-35.00%	Current
Property 16	1/26/2018	\$80,860.37	\$97,028.00	\$128,000.00	31.90%	\$126,000.00	1.60%	-23.00%	Current
Property 17	1/28/2018	\$222,840.01	\$270,000.00	\$315,000.00	16.70%	\$362,426.00	-13.10%	-25.50%	Current
Property 18	1/29/2018	\$109,870.00	\$155,000.00	\$155,000.00	0.00%	\$152,000.00	2.00%	2.00%	Current
Property 19	1/30/2018	\$284,800.00	\$345,000.00	\$402,000.00	16.50%	\$427,029.00	-5.90%	-19.20%	Current
Property 20	1/31/2018	\$127,070.00	\$200,150.00	\$200,000.00	-0.10%	\$232,400.00	-13.90%	-13.90%	Current
Property 21	2/1/2018	\$77,360.00	\$85,000.00	\$136,000.00	60.00%	\$121,000.00	12.40%	-29.80%	Workout
Property 22	2/2/2018	\$208,090.00	\$300,000.00	\$300,000.00	0.00%	\$310,000.00	-3.20%	-3.20%	Current
Property 23	2/3/2018	\$180,000.00	\$272,000.00	\$275,000.00	1.10%	\$421,000.00	-34.70%	-35.40%	Default

We are proud to report that the data clearly indicates that GROUNDFLOOR's reconciled values are generally higher and closer to the true value of the property than the appraisal values. Summary findings from the analysis include:

4.6%

GROUNDFLOOR's estimated ARVs were on average 4.6% greater than the appraised values.

1.5%

Relative to the actual sale price, GROUNDFLOOR's ARV is on average 1.5% low, while the appraisal ARV is on average 3.7% low.

4.7%

Relative to the actual sales price, GROUNDFLOOR's median value was 4.7% low, while the median appraisal value was 8.6% low.

0.21949

The GROUNDFLOOR ARV estimates have a standard deviation of 0.21949, while the appraisal ARV estimates have a standard deviation of 0.2565.

Conclusions

Put simply, the above data indicates that GROUNDFLOOR's underwriting team is spot on when it comes to accurately predicting the ARV of a given property we're funding. Not only do our ARV estimates generally reconcile to a higher value than the appraisal ARV estimates, but our estimates also generally reconcile to a value closer to the property's true value. Moreover, GROUNDFLOOR's underwriting conclusions have less variability when compared to appraisal values.

This all spells good news for both our borrowers and investors -- when we're able to accurately predict a property's ARV, we're able to more accurately determine a project's loan grade and interest rate, which translates to more accurate information for our investors as they make decisions about which loans to invest in. It's just one more way that the GROUNDFLOOR team is committed to our customers!