AI and AVMs in commercial real estate: plausible pathways and sector implications

Summary

The IPF proposes commissioning a report to set out plausible views on the future use of AI and AVMs in commercial real estate valuation. This report will be credible, accessible, and thought provoking with potential implications to the real estate industry clearly articulated.

Background

The use of Artificial Intelligence (AI) and its application in Automated Valuation Models (AVMs) is increasingly discussed but may still be poorly understood by many in the real estate sector. Potential implications to the sector may therefore be under appreciated creating a risk that market practitioners may not be adequately prepared for a future that may look very different.

Research Aim

To explain in an accessible way (written for experienced property professionals) how AI and AVMs work, how they approach real estate valuation, what weaknesses there may be, and the requirements for the technology to reach its full potential.

To develop robust scenarios for the use and effectiveness of AI and AVMs in the valuation process. We propose a 25-year horizon, taking us to 2050. This would also necessitate consideration of valuation factors that will require attention over this horizon, such as operational real estate and increased capital expenditure requirements to meet net zero carbon targets.

Each scenario should include, where relevant, potential outcomes for different stakeholders in the real estate industry and market function.

"Staging posts" between now and 2050 might be relevant in order to articulate likely matters pertinent to decision making now.

Approach

We would suggest the following, but are receptive to alternative approaches:

A section explaining the technology, its requirements and its potential written for an intelligent audience of property professionals, but who may not have practical knowledge of the subject. Although aimed at UK commercial property, observations from residential property or from other geographies should be included where relevant. Contextual observations on previous technological change and the pace of implementation might be relevant. This section should be succinct leaving sufficient space in the report for forward looking views and implications.

A section articulating plausible scenarios for the technology over the next 25 years and what would be required to get there.

A section, potentially informed by interviews, surveys, and workshops, articulating plausible outcomes to the real estate industry. This could include, but is not limited to, valuations, surveying, and fund

management with any resultant implications to market function clearly laid out. The inclusion of any case studies where the AI and AVMs are currently being used would also be of interest.

There is no "right answer", but the discourse should be robust, credible, accessible, and can be provocative if needed.

A combination of technological expertise and real estate market experience would be beneficial. This could be from the same individual or from the same company. Joint ventures would also be welcomed.

Output

We envisage a written report of around 15 pages of text, which should include a one page executive summary. In addition, the authors will be required to provide assistance with the dissemination of the research through media coverage and a commitment to present at an IPF-organised event/webinar.

Research Monitoring

Under the chairmanship of Bill Page of LGIM Real Assets, a Project Steering Group (PSG), will act as a monitoring group to oversee the research and to provide constructive support to the appointee(s). The membership of the PSG will include IPF Consultant, Rachel Portlock; Andrew Baum, Emeritus Professor, University of Oxford; Sue Forster, CEO of IPF and Tom Leahy, Head of EMEA Real Assets Research, MSCI.

The research team will be required to liaise with the IPF Consultant and CEO, Sue Forster, at regular intervals throughout the duration of the project, in addition to pre-agreed meetings between the team and the PSG during its term.

The PSG will also be responsible for approving the final Report prior to publication.

Project Duration

We assume three months from appointment to final approved draft.

Appointment Process

A formal proposal should be submitted by email to the IPF Consultant, Rachel Portlock (rportlock@ipf.org.uk) by close of business, 15 October 2024.

Submission Guidelines are available to download from the IPF website or may be provided on request. All research funding proposals must conform to the requirements of these Guidelines.

The IPF reserves the right not to proceed with any proposal, as well as to appoint a research team without conducting interviews.

Cost

We guide £25,000 excluding VAT and costs of production.