No Extra Value in Geo Domains

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This essay explains why the value of geo domains can be predicted by the same factors that drive domain name values. The essay also outlines the limitations of using aggregate macro data and their implications for using the market approach to value geo domains.

Valuation Data
There are two types of data that can be used to estimate the value of a domain name, namely micro and macro. Micro data is drawn from publicly available key-word search and navigation information, such as the number of key-word search results, the pay-per-click (PPC) rate for the domain names, and the links to the associated Web site. On the other hand, one can also predict value by building statistical models based on macro variables such as economic growth, education, pollution, crime rates, etc. Moreover, at times it makes sense to include both types of variables.

Macro data does have some limitations when it comes to statistical domain valuations.

1. Limited publicly available data on
    a. Prediction variables. Macro data is not published frequently, with a number of the variables updated just once a year. Moreover, the paucity of data makes it hard to use time-leads and lags of the predictive factors.
    b. Sales of domain names.
        - There are few publicly available sales of domain names valued over $500,000.
        - Some of the sales are through privately negotiated deals. Such deals are not necessarily conducted at arm's length, and therefore their use is suspect. Nevertheless, there is empirical evidence of the presence of a price premium associated with privately negotiated domain-name transactions.[1]

2. Data from prediction variables are not time-synchronous with domain name sales.
3. Macro data tends to be very noisy.
4. Macro data across geographical regions need not be measured over the same period. Annual data, for example, can be published based on a calendar or fiscal year.

5. Some cities may have missing predictor data.

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[1] Alex Tajirian, "Price Inefficiencies in Domain Name Markets: An Empirical Investigation," DomainMart.

Modeling

People have different preferences for living in or visiting a given city. Thus, developing a metric to determine the best aggregate desirability of a city is not easy. A more useful metric is based on specific dimensions such as safety, education, economic growth, and purpose of visit. Moreover, identifying comparable cities is too broad a concept; in combination with the macro issues noted above, this makes valuing the associated domain names futile.

Key word searches and navigation provide us with a viable alternative to using macro data. To develop a scientific estimation technique, we use regression-tree models.[2]

To sketch out a value-predicting regression model, I use a sample of 2,066 sales prices for publicly available ".com" domain names (none of them single-word names) combined with the time-synchronous value of their associated predictors based on our statistical appraisal model. Using various definitions of "geo domain," I then decide which names do and do not fall into that category.

It goes without saying that using prices of similar geo domains as a predictor violates the fundamental logic of the market approach. If one is able to accurately identify comparable sales, then mission accomplished! All he or she needs to do is calculate the average and/or the median of the prices of the comparables—and, voilà , a very good estimate of value.

Using the regression-tree estimation technique, I find that the predictor for geo domains does not have a statistically significant impact on value.

Implications

1. Using macro variable–based models to value geo domains has conceptual and data limitations.

2. Fortunately, when using a statistical model to predict the value of geo domains you don't need a special variable to distinguish between geo domains and others. Otherwise, we would have to explain the anomaly of positive/negative price premium on geo domains.

3. In your estimation of value with micro data
    a. The data set of sold domain names should not include only geo domains, as that would reduce the accuracy of estimates by eliminating useful information.
    b. You should use the income approach to appraise domain names that have high value, such as individual city names. This estimation methodology does not require finding comparable domains. ■

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[2] See Alex Tajirian, "Valuing Domain Names: Methodology," DomainMart.