94% Annual Domain Name Price Appreciation

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Abstract
Using a new statistical methodology the annual price appreciation on a very large class of domain names is estimated to be 94 percent. The paper outlines the methodology and points out its advantages and areas for future investigation.

Methodology

To estimate returns from domain name price appreciation, one can adopt statistical techniques developed to study the art and wine markets. Although these models are also viable for studying domain names, they require the availability of prices on multiple purchases of the same domain name over time. Unfortunately, however, examining our database of over 4,500 sales records since 2004, we are unable to find enough observations to meaningfully implement such an estimation technique. Thus, we developed a new robust methodology to overcome this major obstacle.

Our methodology is based on the following steps:

1. Classify the domain names in the dataset, described below, into groups with similar characteristics using tree-regression techniques.[1]

2. Estimate the average quarterly price for each group.

3. Calculate price appreciation for the first quarter of 2006 over the first quarter of 2005 for each group, by taking the difference between the average prices of these two quarters estimated in Step 2, above.

4. Calculate the weighted average of price appreciation, where each group's weight is the total sales value for the group in the initial period divided by the sum of total sales values in the same period across all groups.

5. Calculate the compounded annual appreciation rate obtained in Step 4, above.

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[1] For a general application of regression-tree techniques, see Ales Tajirian, "Valuing Domain Names: Methodology." For the list of domain name characteristics, see Alex Tajirian, "Appraisal Based on Estimating the Value Generating Process."

Superiority of Methodology
The following are the advantages of our methodology:

1. Other studies on domain name price appreciation neither make their methodology nor sales prices public. Thus, making their results highly suspicious.

2. The grouping of similar domain names allows a researcher to examine the performance of each group separately over time and across classes, such as hyphenated and numeric.

3. The model allows testing the statistical significance of inter-group and over-all price appreciation over time.

4. The model overcomes the problem of paucity of multiple buy-sell data for the same domain name.

Dataset
Our database contains over 4,500 publicly available domain name sale prices between January 2004 and May 2006. For this study, 2004 sales data where excluded. Also excluded are domain names with the following characteristics: foreign, hyphenated, numeric, none ".com," containing single-character prefixes and suffixes, and words ignored by Overture.com.

The resulting dataset has 2,050 ".com" domain name sales records.

Concluding Remarks
We are currently investigating the relative strength of brand and traffic value drivers in their contribution to price appreciation.[2] DomainMart will publish the price appreciation estimates quarterly.

[2] For estimating and using the brand-to-traffic (B/T) ratio in domain name analysis, see Alex Tajirian, "Making Sense of Domain Name Appraisals: The B/T Ratio."