



## Domain Name and Real Estate Analogy is Slippery

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When using real estate to draw analogies with domain name values one needs to distinguish between commercial and residential property. The former presents a better analogy for a domain name that is suitable for commerce, while the latter is superior when considering domain names for personal use.

In commercial real estate markets values are primarily driven by occupancy rates and lease prices, say, per square foot. Thus, given an estimate of these two quantities for a given property, its market value can be easily quantified. Moreover, if the ongoing lease rate is \$30 per square foot, no rational tenant will pay \$50 per square foot for a comparable property. Furthermore, even when the property is undeveloped, but is within a commercial zoning designation, value is still primarily driven by the cash flows the property is expected to generate. Nevertheless, different potential buyers may value it differently because of their different projections of the revenue, construction cost estimates, and risk. Thus, value is easily quantifiable for developed as well as undeveloped commercial real estate.

On the other hand, although value estimates of residential real estate are also driven by sales of comparable property, a buyer's assessment of value is much more subjective, as there are no cash flows to estimate. Moreover,

although, in principal, one can use residential lease rates to infer property value, these two rates are often out of whack. Thus, the frequently made statement that the market "price is what the buyer is willing to pay" can be appropriate only for residential real estate with unquantifiable cash flows.

Consequently, if a domain name is more suitable to be used as a commercial site, its value is primarily driven by quantifiable cash flows. On the other hand, if it is more suitable for personal use, its market price may be driven by the "what the buyer is willing to pay" principal. One should keep in mind that the intrinsic value of an asset is based on the asset's best use. Thus, if a buyer wants to use a commerce-viable domain name as a personal website, either the buyer is paying too much or has a personal valuation that is different than the market's.

Hence, only for personal domain names the "price is what the buyer is willing to pay" principal should be applied, as benefits of ownership are very subjective and thus, their value to the seller is not readily quantifiable.

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