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ALL CONSUMING

David Leonhardt

Online Bettors Find a New Love: Real Estate

THE world's online betting markets have done quite a nice job of predicting the future lately.

A kind of futures exchange where participants bet on real-world events, these markets could have told somebody last fall to ignore the talk of a late surge by John Kerry and stick with President Bush. Based on the odds posted at InTrade, one of the biggest exchanges, you could have correctly forecast the presidential winner of all 50 states, and 33 of 34 Senate races.

The markets also could have told you that Cardinal Josef Ratzinger was neither too old nor too doctrinaire for his red-hatted colleagues. His contract was the most expensive on InTrade in the days before he was chosen to succeed John Paul II, meaning that it had the smallest payoff, because traders considered the cardinal the favorite.

In this country's version of a conclave, Carrie Underwood was correctly anticipated as the next "American Idol" winner. About 85 percent of recent Emmy winners have been identified by the odds. Even Saddam Hussein's capture was not beyond their powers of prescience. In the days before American soldiers pulled him out of his hole in 2003, the price of a contract tied to his capture more than tripled in price.

Now one of these markets has turned its gaze to a consumer activity that is a favorite discussion topic these days: real estate. And thebettors see no signs of a bursting bubble anytime soon.

San Diego? Prices will rise another 5 percent in the third quarter, according to thebettors at HedgeStreet, another Web site. New York? They will inch up 2 percent. In Los Angeles, they will jump 7 percent. In each of the cities, as in San Francisco, prices will be more than 10 percent higher than they had been a year earlier.

The Internet has allowed these betting markets to flourish, and their predictive power stems from what the writer James Surowiecki calls "The Wisdom of Crowds," in his recent book of that name. When people take the time to study something and then put their money where their mind is, their cumulative intelligence can be cunning. As long as there are enough prognosticators, they gather their evidence independently and their backgrounds are diverse, they often do better than individual experts who have spent years studying the subject.

HedgeStreet began accepting bets this year on house values in a handful of major cities. In the weeks leading up to the release of new numbers from the National Association of Realtors,bettors can buy contracts that make a payout according to a metropolitan area's average price.



Lonni Sue Johnson

The higher that average ends up being, the more that the contract pays. So the contract's price tells you what investors, as a group, expect to happen. When the San Diego contract rises in value, it's because traders think the upcoming house prices will be high and the contract's payout handsome.

With real estate brokers in some cities reporting that home sales have recently slowed, it might be tempting to dismiss HedgeStreet's bullishness as yet another sig-

One bullish cybermarket says not to worry, there is some boom left.

nal that the nation's love affair with real estate has become a dangerous obsession. Many economists — including Richard J. DeKaser, chief economist at National City, a large mortgage lender, who has compared home values to population and income in every large metropolitan area — insist that many home prices are irrationally high.

Even Russell Andersson, a co-founder of HedgeStreet, which is based in San Mateo, Calif., calls the current betting market a reflection of housing euphoria. "Personally, I think we are cresting," Mr. Andersson said. "I think the market may be more likely to go down by 20 percent than go up by 20 percent."

But the recent track record of the betting

markets has earned them some deference, and the real estate traders certainly have a coherent argument on their side. Mortgage rates remain low. The economy continues to grow. The nation's biggest cities are much nicer places than they were a generation ago. The sales slowdown reported by brokers looks similar to other recent pauses that proved ephemeral. Even if it busts at some point, the housing market may have some boom left in it.

The founders of HedgeStreet envision it ultimately as more than a playground for aspiring prophets. If it grew large enough and added contracts with a longer horizon than a quarter, it could allow people to insure themselves against some of life's economic risks.

Somebody who drives 100 miles a day could buy gas price contracts, which HedgeStreet also sells, to hedge exposure to rising oil prices. A family that had all its wealth tied up in the California real estate market could do likewise with local housing prices. As any good financial

adviser will preach, diversification is crucial to smart investing.

But using the betting markets as an insurance policy will make sense only when they attract enough investors to meet all of the requirements for a truly wise crowd: size, independence and diversity. HedgeStreet housing contracts now trade only a few thousand times each quarter. The crowd is big enough to make its forecasts interesting but small enough to elicit some skepticism from the rest of us.

At InTrade, the most accurate odds have been the ones based on the largest volume of trades, said Michael Knesevitch, the company's director of communications. The political contracts exchanged hands a few million times before last year's election, for example.

When the volume dips into the thousands, the markets sometimes produce a Ratzinger and other times an Edith Brown Clement, the federal appeals judge whobettors wrongly thought would be Mr. Bush's Supreme Court nominee. Still, the markets often do a better job than many of the experts who appear in the news media.

Looking ahead, the markets think Ben S. Bernanke or Lawrence B. Lindsay will succeed Alan Greenspan as Federal Reserve chairman. Hillary Rodham Clinton or Mark R. Warner, the governor of Virginia, will be running in the 2008 presidential election against Senator John McCain of Arizona or Senator George Allen of Virginia. "Desperate Housewives" will win the Emmy next month for best comedy. If you believe the traders, you will not want to sell any real estate between now and then.

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