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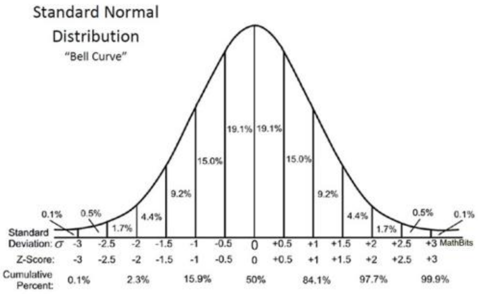

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Use and Abuse of Statistics

People should not be blinded by numbers, models and statistical analysis. Numbers are our servants not our masters. They are generated to describe behaviour not to prescribe it. As much as 'flattening the curve' has entered the public lexicon it is as wrong to think we can 'will' a curve to behave in a way that we wish.

In property even plain numbers are 'averages' in the sense that they are in reference to something else or another value. The street number on the door of a building, the price paid for a building and the amount of rent that passes only makes sense relative to something else. The central problem, or false security, is that most people associate numbers to absolute rather than relative values. Implicitly they are comparing a number to themselves.

Take a hypothetical example, the newspaper screams 'Apple to sell its store on 5th Avenue for $1 billion' – most people take that to mean, 'that's a lot of money relative to my salary.' But the story is very different if the rent is 10% of sale value or 2% of value; if cost of debt is 10% or 2%; if the lease is 10 years or the tenant plans to leave immediately after the sale; if a great deal of investment is required on the site or not a dime. A veteran real estate player would do these calculations intuitively or in their head in a nanosecond – but they are done nonetheless. Yet most people uncritically remember a 'big' number and move on. The lesson here is that the context is more important than the raw number.

The problem occurs when statistics are used in a biased and partial way to get people to do things – with the context thrown away. This is something that is being increasingly done as first, numbers sound impeccably authoritative; secondly, generating massive amount of data / numbers is very easy as a result of computers; thirdly, most people aren't used to modelling analysis, that is to say generally putting in context and specifically, controlling for errors and looking for the usual tricks. This is rich hunting territory for unscrupulous politicians or money managers to use raw information out of context to get people to do things that they want them to do.

Statistics without context should not tell us what to do is to invest / not to invest. We can gauge the market know what is historically expensive what is historically cheap. We can collect information about comparable transactions recently or a long time ago or in situations that are analogous to situations that we find ourselves. We can even calculate normal distributions around which probabilities could cluster. But numbers by themselves are useless in capturing the context, sentiment and the tenor of the times – if they were our markets would be automated and we would not have incidents like the 1987 market crash from a statistical point of view. People, with all their idiosyncrasies, drive investment not numbers.

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