**Machine Learning Engineer Nanodegree**

**Capstone Proposal**

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**Proposal**

**Introduction**

This project will define a model to better evaluate the sell price of houses in Ames, Iowa. The data can be found [here](https://www.kaggle.com/c/house-prices-advanced-regression-techniques). It’s important to mention that this dataset is part of a Kaggle competition, so it will be simple to compare the model performance to other model’s performance.

**Domain Background**

There are three values for any home on the market: What the seller thinks it’s worth, what the buyer thinks it’s worth and what a professional appraiser will think it’s worth. The seller wants as much money as possible for his house. The buyer wants to pay as low as possible and the professional appraiser will gather some data from the house, together with his background experience to come with a price.

Seller and buyer usually trust the professional appraiser, but how accurate is his price? What if he has personal interest in completing this deal? Does he have all the data and knowledge to accurately evaluate that specific house? And the last point: isn’t he biased?

**Problem Statement**

There are some ways to evaluate houses but the most used is the sales comparison method, that compares the house to be sold with similar properties in the same locality.

With this in mind and assuming that there is a database with explanatory variables describing (almost) every aspect of residential homes in Ames, Iowa, it’s possible to create a model to accurately evaluate house’s price.

The model will try to regress the explanatory variables to the fairest price possible, removing from the equation the integrity and knowledge of the professional appraiser.

**Datasets and Inputs**

With 79 explanatory variables describing (almost) every aspect of residential homes in Ames, Iowa, this dataset must be perfect to predict house prices in Ames. The [Ames Housing dataset](http://www.amstat.org/publications/jse/v19n3/decock.pdf) was compiled by Dean De Cock for use in data science education. It's an incredible alternative for data scientists looking for a modernized and expanded version of the often cited Boston Housing dataset.

**Data Description**

MSSubClass: Identifies the type of dwelling involved in the sale.

20 1-STORY 1946 & NEWER ALL STYLES

30 1-STORY 1945 & OLDER

40 1-STORY W/FINISHED ATTIC ALL AGES

45 1-1/2 STORY - UNFINISHED ALL AGES

50 1-1/2 STORY FINISHED ALL AGES

60 2-STORY 1946 & NEWER

70 2-STORY 1945 & OLDER

75 2-1/2 STORY ALL AGES

80 SPLIT OR MULTI-LEVEL

85 SPLIT FOYER

90 DUPLEX - ALL STYLES AND AGES

120 1-STORY PUD (Planned Unit Development) - 1946 & NEWER

150 1-1/2 STORY PUD - ALL AGES

160 2-STORY PUD - 1946 & NEWER

180 PUD - MULTILEVEL - INCL SPLIT LEV/FOYER

190 2 FAMILY CONVERSION - ALL STYLES AND AGES

MSZoning: Identifies the general zoning classification of the sale.

A Agriculture

C Commercial

FV Floating Village Residential

I Industrial

RH Residential High Density

RL Residential Low Density

RP Residential Low Density Park

RM Residential Medium Density

LotFrontage: Linear feet of street connected to property

LotArea: Lot size in square feet

Street: Type of road access to property

Grvl Gravel

Pave Paved

Alley: Type of alley access to property

Grvl Gravel

Pave Paved

NA No alley access

LotShape: General shape of property

Reg Regular

IR1 Slightly irregular

IR2 Moderately Irregular

IR3 Irregular

LandContour: Flatness of the property

Lvl Near Flat/Level

Bnk Banked - Quick and significant rise from street grade to building

HLS Hillside - Significant slope from side to side

Low Depression

Utilities: Type of utilities available

AllPub All public Utilities (E,G,W,& S)

NoSewr Electricity, Gas, and Water (Septic Tank)

NoSeWa Electricity and Gas Only

ELO Electricity only

LotConfig: Lot configuration

Inside Inside lot

Corner Corner lot

CulDSac Cul-de-sac

FR2 Frontage on 2 sides of property

FR3 Frontage on 3 sides of property

LandSlope: Slope of property

Gtl Gentle slope

Mod Moderate Slope

Sev Severe Slope

Neighborhood: Physical locations within Ames city limits

Blmngtn Bloomington Heights

Blueste Bluestem

BrDale Briardale

BrkSide Brookside

ClearCr Clear Creek

CollgCr College Creek

Crawfor Crawford

Edwards Edwards

Gilbert Gilbert

IDOTRR Iowa DOT and Rail Road

MeadowV Meadow Village

Mitchel Mitchell

Names North Ames

NoRidge Northridge

NPkVill Northpark Villa

NridgHt Northridge Heights

NWAmes Northwest Ames

OldTown Old Town

SWISU South & West of Iowa State University

Sawyer Sawyer

SawyerW Sawyer West

Somerst Somerset

StoneBr Stone Brook

Timber Timberland

Veenker Veenker

Condition1: Proximity to various conditions

Artery Adjacent to arterial street

Feedr Adjacent to feeder street

Norm Normal

RRNn Within 200' of North-South Railroad

RRAn Adjacent to North-South Railroad

PosN Near positive off-site feature--park, greenbelt, etc.

PosA Adjacent to postive off-site feature

RRNe Within 200' of East-West Railroad

RRAe Adjacent to East-West Railroad

Condition2: Proximity to various conditions (if more than one is present)

Artery Adjacent to arterial street

Feedr Adjacent to feeder street

Norm Normal

RRNn Within 200' of North-South Railroad

RRAn Adjacent to North-South Railroad

PosN Near positive off-site feature--park, greenbelt, etc.

PosA Adjacent to postive off-site feature

RRNe Within 200' of East-West Railroad

RRAe Adjacent to East-West Railroad

BldgType: Type of dwelling

1Fam Single-family Detached

2FmCon Two-family Conversion; originally built as one-family dwelling

Duplx Duplex

TwnhsE Townhouse End Unit

TwnhsI Townhouse Inside Unit

HouseStyle: Style of dwelling

1Story One story

1.5Fin One and one-half story: 2nd level finished

1.5Unf One and one-half story: 2nd level unfinished

2Story Two story

2.5Fin Two and one-half story: 2nd level finished

2.5Unf Two and one-half story: 2nd level unfinished

SFoyer Split Foyer

SLvl Split Level

OverallQual: Rates the overall material and finish of the house

10 Very Excellent

9 Excellent

8 Very Good

7 Good

6 Above Average

5 Average

4 Below Average

3 Fair

2 Poor

1 Very Poor

OverallCond: Rates the overall condition of the house

10 Very Excellent

9 Excellent

8 Very Good

7 Good

6 Above Average

5 Average

4 Below Average

3 Fair

2 Poor

1 Very Poor

YearBuilt: Original construction date

YearRemodAdd: Remodel date (same as construction date if no remodeling or additions)

RoofStyle: Type of roof

Flat Flat

Gable Gable

Gambrel Gabrel (Barn)

Hip Hip

Mansard Mansard

Shed Shed

RoofMatl: Roof material

ClyTile Clay or Tile

CompShg Standard (Composite) Shingle

Membran Membrane

Metal Metal

Roll Roll

Tar&Grv Gravel & Tar

WdShake Wood Shakes

WdShngl Wood Shingles

Exterior1st: Exterior covering on house

AsbShng Asbestos Shingles

AsphShn Asphalt Shingles

BrkComm Brick Common

BrkFace Brick Face

CBlock Cinder Block

CemntBd Cement Board

HdBoard Hard Board

ImStucc Imitation Stucco

MetalSd Metal Siding

Other Other

Plywood Plywood

PreCast PreCast

Stone Stone

Stucco Stucco

VinylSd Vinyl Siding

Wd Sdng Wood Siding

WdShing Wood Shingles

Exterior2nd: Exterior covering on house (if more than one material)

AsbShng Asbestos Shingles

AsphShn Asphalt Shingles

BrkComm Brick Common

BrkFace Brick Face

CBlock Cinder Block

CemntBd Cement Board

HdBoard Hard Board

ImStucc Imitation Stucco

MetalSd Metal Siding

Other Other

Plywood Plywood

PreCast PreCast

Stone Stone

Stucco Stucco

VinylSd Vinyl Siding

Wd Sdng Wood Siding

WdShing Wood Shingles

MasVnrType: Masonry veneer type

BrkCmn Brick Common

BrkFace Brick Face

CBlock Cinder Block

None None

Stone Stone

MasVnrArea: Masonry veneer area in square feet

ExterQual: Evaluates the quality of the material on the exterior

Ex Excellent

Gd Good

TA Average/Typical

Fa Fair

Po Poor

ExterCond: Evaluates the present condition of the material on the exterior

Ex Excellent

Gd Good

TA Average/Typical

Fa Fair

Po Poor

Foundation: Type of foundation

BrkTil Brick & Tile

CBlock Cinder Block

PConc Poured Contrete

Slab Slab

Stone Stone

Wood Wood

BsmtQual: Evaluates the height of the basement

Ex Excellent (100+ inches)

Gd Good (90-99 inches)

TA Typical (80-89 inches)

Fa Fair (70-79 inches)

Po Poor (<70 inches

NA No Basement

BsmtCond: Evaluates the general condition of the basement

Ex Excellent

Gd Good

TA Typical - slight dampness allowed

Fa Fair - dampness or some cracking or settling

Po Poor - Severe cracking, settling, or wetness

NA No Basement

BsmtExposure: Refers to walkout or garden level walls

Gd Good Exposure

Av Average Exposure (split levels or foyers typically score average or above)

Mn Mimimum Exposure

No No Exposure

NA No Basement

BsmtFinType1: Rating of basement finished area

GLQ Good Living Quarters

ALQ Average Living Quarters

BLQ Below Average Living Quarters

Rec Average Rec Room

LwQ Low Quality

Unf Unfinshed

NA No Basement

BsmtFinSF1: Type 1 finished square feet

BsmtFinType2: Rating of basement finished area (if multiple types)

GLQ Good Living Quarters

ALQ Average Living Quarters

BLQ Below Average Living Quarters

Rec Average Rec Room

LwQ Low Quality

Unf Unfinshed

NA No Basement

BsmtFinSF2: Type 2 finished square feet

BsmtUnfSF: Unfinished square feet of basement area

TotalBsmtSF: Total square feet of basement area

Heating: Type of heating

Floor Floor Furnace

GasA Gas forced warm air furnace

GasW Gas hot water or steam heat

Grav Gravity furnace

OthW Hot water or steam heat other than gas

Wall Wall furnace

HeatingQC: Heating quality and condition

Ex Excellent

Gd Good

TA Average/Typical

Fa Fair

Po Poor

CentralAir: Central air conditioning

N No

Y Yes

Electrical: Electrical system

SBrkr Standard Circuit Breakers & Romex

FuseA Fuse Box over 60 AMP and all Romex wiring (Average)

FuseF 60 AMP Fuse Box and mostly Romex wiring (Fair)

FuseP 60 AMP Fuse Box and mostly knob & tube wiring (poor)

Mix Mixed

1stFlrSF: First Floor square feet

2ndFlrSF: Second floor square feet

LowQualFinSF: Low quality finished square feet (all floors)

GrLivArea: Above grade (ground) living area square feet

BsmtFullBath: Basement full bathrooms

BsmtHalfBath: Basement half bathrooms

FullBath: Full bathrooms above grade

HalfBath: Half baths above grade

Bedroom: Bedrooms above grade (does NOT include basement bedrooms)

Kitchen: Kitchens above grade

KitchenQual: Kitchen quality

Ex Excellent

Gd Good

TA Typical/Average

Fa Fair

Po Poor

TotRmsAbvGrd: Total rooms above grade (does not include bathrooms)

Functional: Home functionality (Assume typical unless deductions are warranted)

Typ Typical Functionality

Min1 Minor Deductions 1

Min2 Minor Deductions 2

Mod Moderate Deductions

Maj1 Major Deductions 1

Maj2 Major Deductions 2

Sev Severely Damaged

Sal Salvage only

Fireplaces: Number of fireplaces

FireplaceQu: Fireplace quality

Ex Excellent - Exceptional Masonry Fireplace

Gd Good - Masonry Fireplace in main level

TA Average - Prefabricated Fireplace in main living area or Masonry Fireplace in basement

Fa Fair - Prefabricated Fireplace in basement

Po Poor - Ben Franklin Stove

NA No Fireplace

GarageType: Garage location

2Types More than one type of garage

Attchd Attached to home

Basment Basement Garage

BuiltIn Built-In (Garage part of house - typically has room above garage)

CarPort Car Port

Detchd Detached from home

NA No Garage

GarageYrBlt: Year garage was built

GarageFinish: Interior finish of the garage

Fin Finished

RFn Rough Finished

Unf Unfinished

NA No Garage

GarageCars: Size of garage in car capacity

GarageArea: Size of garage in square feet

GarageQual: Garage quality

Ex Excellent

Gd Good

TA Typical/Average

Fa Fair

Po Poor

NA No Garage

GarageCond: Garage condition

Ex Excellent

Gd Good

TA Typical/Average

Fa Fair

Po Poor

NA No Garage

PavedDrive: Paved driveway

Y Paved

P Partial Pavement

N Dirt/Gravel

WoodDeckSF: Wood deck area in square feet

OpenPorchSF: Open porch area in square feet

EnclosedPorch: Enclosed porch area in square feet

3SsnPorch: Three season porch area in square feet

ScreenPorch: Screen porch area in square feet

PoolArea: Pool area in square feet

PoolQC: Pool quality

Ex Excellent

Gd Good

TA Average/Typical

Fa Fair

NA No Pool

Fence: Fence quality

GdPrv Good Privacy

MnPrv Minimum Privacy

GdWo Good Wood

MnWw Minimum Wood/Wire

NA No Fence

MiscFeature: Miscellaneous feature not covered in other categories

Elev Elevator

Gar2 2nd Garage (if not described in garage section)

Othr Other

Shed Shed (over 100 SF)

TenC Tennis Court

NA None

MiscVal: $Value of miscellaneous feature

MoSold: Month Sold (MM)

YrSold: Year Sold (YYYY)

SaleType: Type of sale

WD Warranty Deed - Conventional

CWD Warranty Deed - Cash

VWD Warranty Deed - VA Loan

New Home just constructed and sold

COD Court Officer Deed/Estate

Con Contract 15% Down payment regular terms

ConLw Contract Low Down payment and low interest

ConLI Contract Low Interest

ConLD Contract Low Down

Oth Other

SaleCondition: Condition of sale

Normal Normal Sale

Abnorml Abnormal Sale - trade, foreclosure, short sale

AdjLand Adjoining Land Purchase

Alloca Allocation - two linked properties with separate deeds, typically condo with a garage unit

Family Sale between family members

Partial Home was not completed when last assessed (associated with New Homes)

**Solution Statement**

With all these variables it’s easy to think of a model to regress them to the most accurate price possible. The first try will be a gradient boosting that is a model that deals well with both categorical and numerical variables. Also, it’s very robust against co-linearity.

The model will be evaluated using [Root-Mean-Squared-Error (RMSE)](https://en.wikipedia.org/wiki/Root-mean-square_deviation) between the logarithm of the predicted value and the logarithm of the observed sales price. (Taking logs means that errors in predicting expensive houses and cheap houses will affect the result equally.)

**Benchmark Model**

There are some ways to compose the price of a house. One of them is to add the cost of construction to the market value of the land, but this method is very complex, because apart from the market value of the land, you need a list of all materials used to build the house, their prices and the manpower costs. Besides that, there is appreciation of the total value after the house is built.

A better way to evaluate the model is to compare its performance with the performance of similar models using a common metric (RMSE). This can be done using the Kaggle leaderboard ( <https://www.kaggle.com/c/house-prices-advanced-regression-techniques/leaderboard> ).

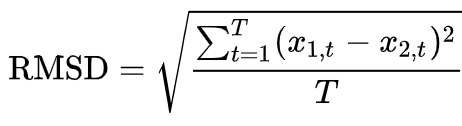
**Evaluation Metrics**

The  or root-mean-square error (RMSE)  is a frequently used measure of the differences between values (sample or population values) predicted by a model or an [estimator](https://en.wikipedia.org/wiki/Estimator) and the values observed. The RMSE represents the square root of the second [sample moment](https://en.wikipedia.org/wiki/Sample_moment) of the differences between predicted values and observed values or the [quadratic mean](https://en.wikipedia.org/wiki/Quadratic_mean) of these differences.

RMSE is a measure of [accuracy](https://en.wikipedia.org/wiki/Accuracy_and_precision), to compare forecasting errors of different models for a particular dataset and not between datasets, as it is scale-dependent.[[1]](https://en.wikipedia.org/wiki/Root-mean-square_deviation#cite_note-1)

RMSE is always non-negative, and a value of 0 (almost never achieved in practice) would indicate a perfect fit to the data. In general, a lower RMSE is better than a higher one. However, comparisons across different types of data would be invalid because the measure is dependent on the scale of the numbers used.

RMSE is the square root of the average of squared errors. The effect of each error on RMSE is proportional to the size of the squared error; thus larger errors have a disproportionately large effect on RMSE. Consequently, RMSE is sensitive to outliers.



The logarithm will be applied to both observed and predicted sales price so that the error predicting expensive and cheap houses will affect the result equally.

**Project Design**

This project will follow a simple, but complete machine learning pipeline. It will start with a data exploration analysis checking for nulls, variance, correlations, etc.

With that, the first insights will start to arise. With that in mind, the next step will be to prepare some new variables based on the ones already analyzed (feature engineering).

It’s important to mention that any modification on the dataset will be applied only after splitting it in train in test, so the rules created on train, can be applied and validated in test.

After that, the plan is to create a gradient boosting model to check how good the selected variables are to regress the sell prices. The model will also be used to perform the feature selection.

The last step of the project will be to use TPOT, that is an automated machine learning library, to try to obtain an optimal model for the problem.

The TPOT will also be good to compare a human created model to an automated created model.

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