

Capstone Project - The Battle of Neighborhoods (Week 2)

Final report

Prediction of real estate prices based on surrounding venues

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I. Introduction:

This exercise is carried out as a part of peer graded assignment of Applied Data Science Capstone course by IBM/Coursera. While the problem and the analysis approach are left for the learner to decide, the assessment does demand making use of Foursquare location data to solve the problem taken into consideration.

The main goal of this exercise is to predict the real estate prices of residential property in New York city based on the venues in the neighborhoods with the help of correlation between the real estate value and its surrounding venues.

The idea comes from the process of a normal family finding a place to stay after moving to another city. It's common that the owners or agents advertise their properties are closed to some kinds of venues like supermarkets, restaurants or coffee shops, etc.; showing the "convenience" of the location in order to raise their house's value.

So, can the surrounding venues affect the price of a house? If so, what types of venues have the most affect, both positively and negatively?

The target audience for this report are:

- Home buyers, who can get the first hand estimate of the value a house in a given location
- Builders, who will make use of these predictions to maximize ROI
- Residents in a given postcode can use this info to understand the approximate value of their premises

II. Data description:

New York city neighborhoods were chosen as the observation target due to the following reasons:

- The availability of real estate prices. Though very limited.
- The diversity of prices between neighborhoods. For example, a 2-bedrooms condo in Central Park West, Upper West Side can cost \$4.91 million on average; while in Inwood, Upper Manhattan, just 30 minutes away, it's only \$498 thousands.
- The availability of geo data which can be used to visualize the dataset onto a map.

The type of real estate to be considered is 2-bedroom condo, which is common for most normal nuclear families.

The dataset will be composed from the following two main sources:

- CityRealty which provides the neighborhoods average prices.
<https://www.cityrealty.com/nyc/market-insight/features/get-to-know/average-nyc-condo-prices-neighborhood-june-2018/18804>
- FourSquare API which provides the surrounding venues of a given coordinates.

The process of collecting and clean data:

- Scrap the CityRealty webpage for a list of New York city neighborhoods and their corresponding 2-bedroom condo average price.
- Find the geographic data of the neighborhoods. Both their center coordinates and their border.
- For each neighborhood, pass the obtained coordinates to FourSquare API. The “explore” endpoint will return a list of surrounding venues in a pre-defined radius.
- Count the occurrence of each venue type in a neighborhood. Then apply one hot encoding to turn each venue type into a column with their occurrence as the value.
- Standardize the average price by removing the mean and scaling to unit variance.

The result dataset is a 2 dimensions data frame (Figure 1):

- Each row represents a neighborhood.
- Each column, except the last one, is the occurrence of a venue type. The last column will be the standardized average price.

	Neighborhood	Accessories Store	Adult Boutique	African Restaurant	American Restaurant	Animal Shelter	Antiq Shop		Whisky Bar	Wine Bar	Wine Shop	Wings Joint	Women's Store	Yoga Studio	StandardizedAvgPrice
0	Battery Park City	0	0	0	3	0	0		0	1	4	0	1	0	-1.303912
1	Bedford-Stuyvesant	0	0	0	0	0	0	...	0	1	6	0	0	1	-0.418350
2	Boerum Hill	0	0	0	1	0	0		0	0	2	0	0	2	0.015011
3	Brooklyn Heights	0	0	0	2	0	0		0	1	4	0	0	5	-1.099479
4	Bushwick	0	0	0	1	0	0		0	0	1	0	0	2	-0.587926

Figure 1 - Final dataset

The dataset has 50 samples and more than 300 features. The number of features may vary for different runs due to FourSquare API may returns different recommended venues at different points in time.

The number of features is much bigger than the number of samples. This will cause problem for the analysis process. Detail and counter-measurement will be discussed further in the next section.

III. Methodology:

The assumption is that real estate price is dependent on the surrounding venue. Thus, regression techniques will be used to analyze the dataset. The regressors will be the occurrences of venue types. And the dependent variable will be standardized average prices.

At the end, a regression model will be obtained. Along with a coefficients list which describes how each venue type may be related to the increase or decrease of a neighborhood's real estate average price around the mean.

Python data science tools will be used to help analyze the data.

1. First insight using visualization:

In order to have a first insight of New York city real estate average price between neighborhoods, there is no better way than visualization.

The medium chosen is Choropleth map, which uses differences in shading or coloring to indicate a property's values or quantity within predefined areas. It is ideal for showing how differently real estate priced between neighborhoods across the New York city map.

The map (Figure 2) shows high price in neighborhoods that located around Central Park, Midtown and Lower Manhattan. The price reduces further toward North Manhattan or toward Brooklyn.

Manhattan can be considered the heart of New York city. It's where most businesses, tourist attractions and entertainments located. So, the venue types that can attract many people are expected to have the most positive coefficients in the regression model.

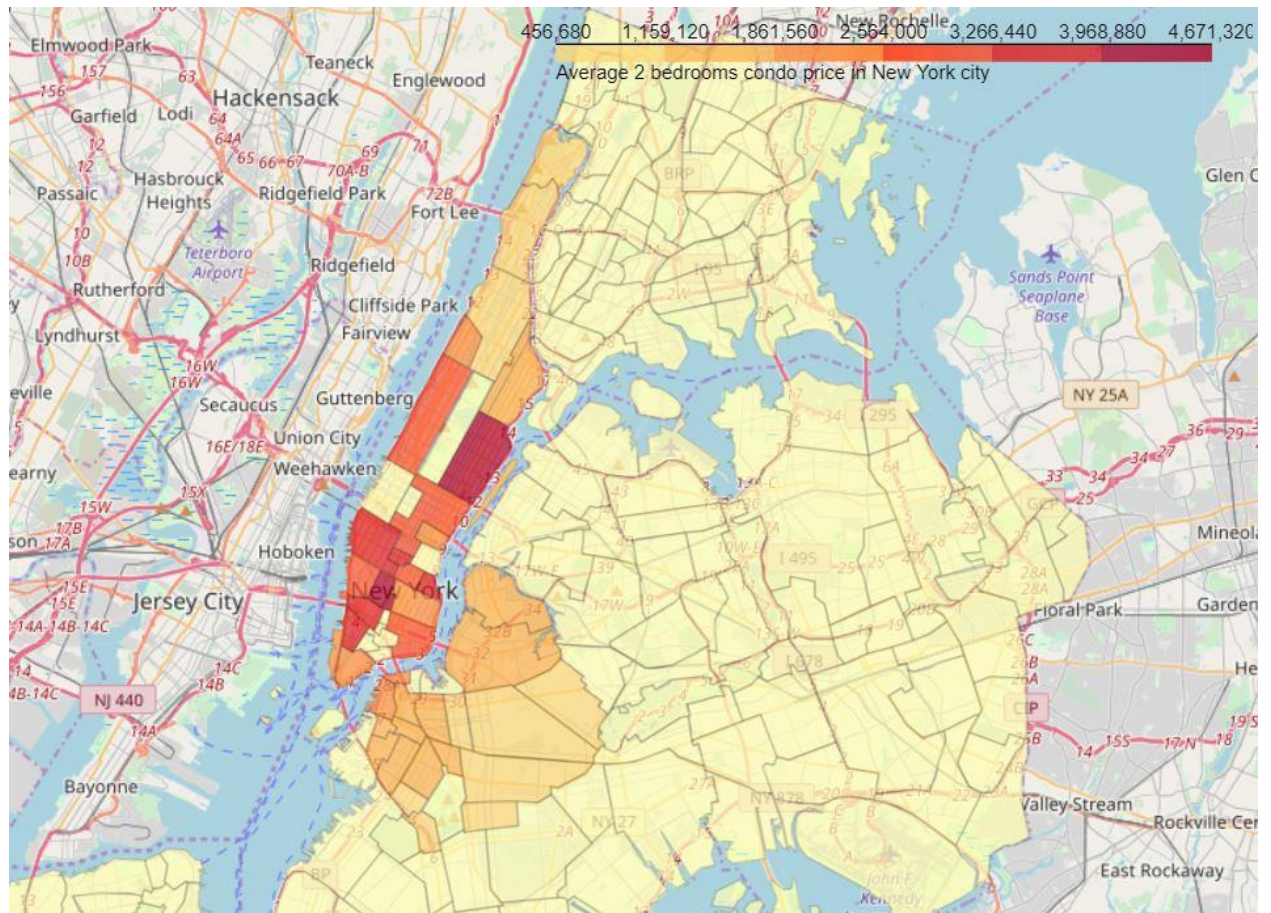


Figure 2 - New York city real estate price spread between neighborhoods

2. Linear Regression:

Linear Regression was chosen because it is a simple technique. And by using Sklearn library, implementing the model is quick and easy. Which is perfect to start the analyzing process.

The model will contain a list of coefficients corresponding to venue types. R2 score (or Coefficient of determination) and Mean Squared Error (MSE) will be used to see how well the model fit the data.

The result (Figure 3) doesn't seem very promising. R2 score is small, which means the model may not be suitable for the data.

```

R2-score: 0.273792308888
Mean Squared Error: 0.254179706388
Max positive coefs: [ 0.26348338  0.26213799  0.26213799  0.26213799  0.25818747  0.25818747
 0.25135936  0.24564842  0.23349638  0.22658134]
Venue types with most postive effect: ['Design Studio' 'Train Station' 'Jewish Restaurant' 'Resort' 'Buffet'
'Cafeteria' 'Colombian Restaurant' 'Dumpling Restaurant' 'Other Nightlife'
'Botanical Garden']
Max negative coefs: [-0.20813947 -0.20763403 -0.1798399 -0.1798399 -0.1798399 -0.17776278
-0.17776278 -0.17776278 -0.17776278]
Venue types with most negative effect: ['Board Shop' 'Gay Bar' 'Supplement Shop' 'Rest Area' 'Lighthouse' 'Office'
'Flea Market' 'Golf Driving Range' 'Recreation Center'
'General Entertainment']
Min coefs: [ 0.  0.  0.  0.  0.  0.  0.  0.  0.  0.]
Venue types with least effect: ['TV Station' 'Gas Station' 'Pakistani Restaurant' 'Volleyball Court'
'Hookah Bar' 'Indoor Play Area' 'Laser Tag' 'Christmas Market' 'Cemetery'
'Mini Golf']

```

Figure 3 - Linear Regression result

But on the bright side, the coefficient list shows some interest and logical information:

- “Studios” and “Eateries” both mean businesses. “Train Station” means ease of transportation. All of which usually increase the value of a location.
- “Bar” and “Market” sure are nice to visit sometimes but may not be a suitable neighborhood for family with kids. “Lighthouse” and “Golf” usually located in the rural areas. The demand for such locations is usually low.
- “TV station”, “Cemetery”, “Laser Tag”, “Mini Golf” all give value to a limited range of people. “Gas Station” is available everywhere. These types of venue usually are not dicision factor when considering a location.

Back to the model, what seems to be the problem? And what are the possible solutions?

Looking back further to the dataset, its dimensions sizes is clearly unbalanced, only 50 samples, and more than 300 features. Logical steps to take are either collecting more samples or trying to reduce the number of features.

But since there are no other public source available, increasing sample size is not possible at the moment. So, deceasing features is the only option for now.

And that’s why Principal Component Regression is chosen to analyze the dataset in the next part.

3. Principal Component Regression (PCR):

PCR can be explained simply as the combination of Principal Component Analysis (PCA) with Linear Regression. **Invalid source specified.**

PCR employs the power of PCA, which can convert a set of values of possibly correlated variables into a set of values of linearly uncorrelated variables called principal components. As the result, the number of features is reduced while keeping most of the characteristic of the dataset.

Then PCR use Linear Regression on the converted set to return a coefficient list, just like in normal Regression techniques.

Again, R2 score and MSE are used to see how well the model fit the dataset.

```
R2 score: 0.35472117102292033
MSE: 0.22585382294276588
```

Figure 4 - PCR scores

The result is promising as it shows improvement over the simple Linear Regression.

As for the coefficient list, the size has been reduced after performing PCA. So, a dot product with eigenvectors is needed to get it back to the original features size.

```
Max positive coefs: [0.00571133  0.00540403  0.0050254    0.0046398
0.00457383 0.00446204
 0.00439181 0.00436738 0.00416115 0.0040487 ]
Venue types with most positive effect: ["Women's Store" 'Cycle Studio'
'Hotel' 'Mediterranean Restaurant'
'Paper / Office Supplies Store' 'Chocolate Shop' 'Clothing Store'
'Perfume Shop' 'Noodle House' 'Design Studio']
Max negative coefs: [-0.00548597 -0.0050358  -0.00385865 -0.00383215 -
0.00380727 -0.00374514
 -0.00372062 -0.00361952 -0.00329387 -0.00326136]
Venue types with most negative effect: ['Deli / Bodega' 'Pizza Place'
'Bar' 'Convenience Store' 'Bagel Shop'
'Mexican Restaurant' 'Playground' 'Café' 'Thrift / Vintage Store'
'Music Venue']
Min coefs: [ 2.78486634e-08  1.75834391e-06 -3.44002362e-06 -9.64133392e-
06
 1.51611067e-05  2.68963720e-05  2.72175203e-05  2.72175203e-05
 -3.40860501e-05 -3.45505961e-05]
Venue types with least effect: ['Coworking Space' 'Event Space' 'Gaming
Cafe' 'Gym Pool'
'Sculpture Garden' 'Beer Store' 'Ukrainian Restaurant'
'Taiwanese Restaurant' 'Comic Shop' 'Waterfront']
```

Figure 5 - Coefficient list in original size

The insight is still consistent compared to the Linear Regression's.

IV. Results:

Even though the scores seem to be improved after applying a more sophisticated method, the model is still not suitable for the dataset. Thus, it can't be used to precisely predict a neighborhood average price.

Explanations for the poor model can be:

- The real estate price is hard to predict.
- The data is incomplete (small sample size, missing deciding factors).
- The machine learning techniques are chosen or applied poorly.

But again, on the bright side, the insight, gotten from observing the analysis results, seems consistent and logical. And the insight is business venues that can serve the needs of most normal people usually situated in pricy neighborhoods.

V. Discussion:

The real challenge is constructing the dataset:

- Usually the needed data isn't publicly available.
- When combining data from multiple sources, inconsistent can happen. And lots of efforts are required to check, research and change the data before merge.
- For data obtained through API calls, different results are returned with different set of parameters and different point of time. Multiple trial and error runs are required to get the optimal result.
- Even after the dataset has been constructed, lots of research and analysis are required to decide if the data should be kept as is or be transform by normalization or standardization.

It can be considered the most important process in the whole data science pipeline. Which can affect the most on the result.

On the other hand, choosing the suitable technique to construct the model is also a worthwhile process. As this report shows that, by applying a different method, the result can be improved

VI. Conclusion:

It's unfortunately that the analysis couldn't produce a precise model or showing any strong coefficient correlation for any venue type. But we can still get some meaningful and logical insights from the result.

Doing this project helps practicing every topic in the specialization, and thus, equipping learners with Data Science methodology and tools using Python libraries. Also doing a real project certainly helps one learns so much more outside the curriculum, as well as realizes what more to research into after completing the program. And as this report shows, there are surely a lot of things to dig into.