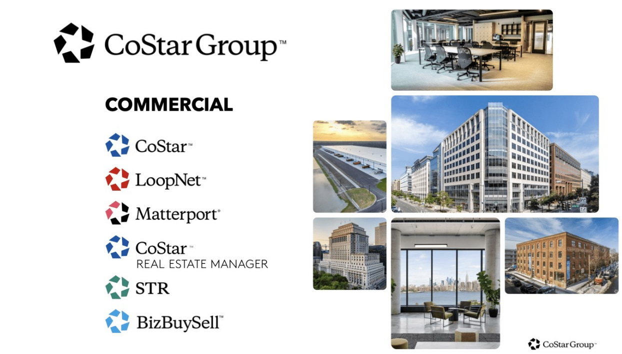
CoStar Group, Inc. (NASDAQ: CSGP)



Author: Mike Gorlon
Date: 6/14/26
Company: CoStar Group (NASDAQ: CSGP)
Recommendation: Buy
Market Capitalization: $13.41B
Enterprise Value: $13.39B (pre-Zonda acquisition)
Current Price Per Share: $32.84
Target Price Per Share: $56.73
Expected Return: 73%
Disclosure: I own shares of CoStar Group at the time of writing.

Elevator Pitch

CoStar Group is the leading provider of commercial real estate information, analytics, and online marketplaces. It was founded by Andy Florance in 1986 while he was still a student at Princeton, and he is still running it 40 years later. The stock has been slaughtered. It traded as high as roughly $97 within the past year and now sits under $33, down about 65%. It was even kicked out of the Nasdaq-100 index in May.

Two factors drove the stock down. First, the company poured an enormous amount of money into Homes.com, its attempt to take on Zillow in residential real estate, and that spending crushed reported earnings. Second, the market has decided that AI is going to destroy every software-as-a-service company, and CoStar got thrown out with the rest of them.

I think both issues are misunderstood. The Homes.com spending is a one-time capital allocation problem that is already being wound down. Management has committed to cutting the net investment, which was $850 million in 2025, by more than $300 million in 2026 and by $100 million or more each year through 2030.

Many companies have had a period of misallocating capital and have moved on. So whether homes.com is successful or not, the large investment phase is over and it is already reflected in the stock price and should be treated as a low-priced call option.

The AI fear ignores the most important thing about this business: CoStar owns the proprietary commercial real estate data, collected by thousands of researchers since the late 80s, and an LLM can't scrape what isn't publicly available. Software interfaces may get commoditized by AI but proprietary data won’t.

Meanwhile, 93% of company revenue is subscription-based, the founder and CEO has been buying stock in the open market, the company is working through a $1.5 billion buyback authorization, and two reputable investment firms with good track records (Akre Capital and Tsai Capital) are buying.

At roughly 19x my estimate of normalized 2025 operating income to enterprise value, the price offers a favorable risk/reward setup for a good business with a lot of pessimism baked in.

Business Summary

CoStar Group collects, standardizes, and sells real estate information to brokers, agents, property owners, developers, institutional investors, commercial lenders/banks, appraisers, and many other professionals. It also runs online marketplaces that monetize the audiences that the information attracts.

Andy Florance founded the company in 1986, took it public in 1998, and built it into the dominant platform for commercial real estate through organic investment and a long string of acquisitions, which include LoopNet, Apartments.com, STR, Ten-X, BizBuySell, Land.com, OnTheMarket (U.K.), Matterport (completed February 2025), Domain (Australia and completed in August 2025), and most recently Zonda (expected to close 2nd half of 2026).

The data engine that CoStar built is hard to replicate because it has been collecting this data going back to the late 80s. It also employs a large number of research professionals who collect and verify commercial real estate information through phone calls, emails, public records review, and field inspections.

Field researchers photograph buildings inside and out, capture Matterport 3D tours, measure buildings, record for-sale and for-lease signs, count parking spaces, and gather tenant information. That is physical, boots-on-the-ground data collection, and the company has been doing it and accumulating the results for nearly four decades.

The company reports in two segments: Commercial and Residential. The Commercial segment includes the CoStar platform, LoopNet, Ten-X, STR, and BizBuySell. The Residential segment includes Apartments.com, Homes.com, Land.com, plus Domain and OnTheMarket.

Approximately 93% of 2025 revenue came from subscriptions, and subscription contracts with a term of at least one year made up about 76% of trailing twelve-month (TTM) revenue. Net new bookings were a record $308 million in 2025. Revenue earned outside the U.S. was $350 million in 2025, up from $162 million in 2024, mostly thanks to the Domain and OnTheMarket additions.

Exhibit A: Revenue by Type of Service

Revenue by Type ($M)	2025	2024	2023
CoStar	1,259	1,156	1,096
LoopNet	312	282	265
Other Commercial Real Estate	216	77	82
Total Commercial Real Estate	**1,787**	**1,515**	**1,443**
Residential Real Estate	1,460	1,221	1,012
Total Revenue	**3,247**	**2,736**	**2,455**

Source: Company Filings

In 2025, revenue grew 19% to $3.25 billion, but the company reported a $72 million loss from operations and only $7 million of net income against $282 million of operating income as recently as 2023. That collapse in reported profitability is almost entirely the Homes.com investment phase plus acquisition-related amortization, and it is the main reason the stock screens so poorly right now.

The first quarter of 2026 is starting to show that the company is transitioning from an operating loss due to the homes.com investment phase to profitability as the homes.com investment phase ends. The company swung back to positive GAAP operating income of $3 million in Q1 2026.

Business Segments

CoStar

This is the crown jewel. CoStar is a subscription-based platform for commercial real estate that includes property inventory across office, industrial, retail, multifamily, hospitality, and land; for-sale and for-lease listings; sale and lease comparables; tenant information; analytics; and industry news.

It also includes STR's hospitality benchmarking and lease management software under the CoStar Real Estate Manager and Visual Lease brands. CoStar is often referred to as the Bloomberg terminal for commercial real estate.

Just as a bond trader can't function without Bloomberg, a commercial broker, lender, appraiser, or institutional investor needs CoStar to value, lease, and buy/sell buildings. CoStar generated $1.26 billion of revenue in 2025 from Costar Suite.

Apartments.com

Apartments.com is the flagship of CoStar's network of apartment rental marketplaces, which also includes sites like ApartmentFinder. CoStar acquired Apartments.com in 2014 and built it into the leading online apartment marketplace.

Property owners and managers pay subscription advertising fees to showcase their apartment buildings while renters search for free. The marketplace benefits from a classic network effect: renters go where the most listings are, and landlords advertise where the most renters are.

Apartments.com sits inside the Residential Real Estate segment, which produced $1.46 billion of revenue in 2025, up 20%. Apartments.com makes up the majority of the revenue and operating profit in the residential segment but its strength is obscured by homes.com.

Homes.com

Homes.com is a residential property listing and marketing portal that lets homebuyers browse for-sale home listings while providing the tools, workflow, and marketing that residential agents and brokers use to promote themselves and their listings. CoStar monetizes it through agent/broker memberships.

It differs from Zillow because when someone fills out their contact information on Zillow.com to contact a real estate agent, this person’s contact information goes to an agent who paid for that lead, who would be the buyer’s agent. When someone fills out their contact information on Homes.com, the person’s contact information goes directly to the listing agent.

LoopNet

LoopNet is the commercial real estate marketing marketplace, where property owners, landlords, and brokers advertise properties for sale or lease through tiered subscription ad packages (Silver, Gold, Platinum, and Diamond).

What makes LoopNet hard to replicate is that every listing is supplemented with CoStar's underlying database of property information, so the marketplace and the data business reinforce each other.

With the Domain acquisition, LoopNet also now offers commercial listings in Australia. LoopNet generated $312 million of revenue in 2025, up about 11%.

Other Brands

The rest of the portfolio includes Matterport (3D digital twins sold on a subscription basis, acquired February 2025), Ten-X (online commercial real estate auctions), BizBuySell (businesses for sale), Land.com, Domain (Australia's residential portal, acquired August 2025), and OnTheMarket (U.K. residential portal).

Zonda
In May 2026, CoStar announced an agreement to acquire Zonda, a new-home construction data and marketplace company, for $800 million in cash. This acquisition is expected to close in the second half of 2026.

Zonda provides data, workflow software, and marketplace platforms (newhomesource.com and livabl.com) for new-home construction. It serves residential homebuilders, land developers, building product manufacturers, and lenders.

Why the Stock Is Down

You would have to go back to somewhere around November 2018 to find the last time CSGP traded at these prices even though the business is far larger today.

Exhibit B: CoStar's Stock Price is Flat Going Back to 2018

Source: Google

Several things compounded on each other to make this happen:

1. Homes.com dragged down reported earnings. Operating income went from $282 million in 2023 to roughly breakeven in 2024 to a $72 million loss in 2025. Net income of $7 million against a market cap near $14 billion makes the P/E ratio look absurd, and a lot of screens and quant models simply spit the stock out.

2. AI fears. The market has been derating data and SaaS subscription businesses on the fear that LLMs will replace seats and scrape data. CoStar has been hit harder than the large SaaS names. I'll explain below why I think this fear is misplaced for this particular company.

3. Missed targets and soft guidance. Andy's track record of beating out competition has been exceptional. Then AI came along, homes.com continues to flop, and the company missed its homes.com medium-term target.

In February 2022, the company said in its FY 2021 annual press release that it believes its residential opportunity (homes.com) has the potential to add billions in revenue over the medium to long-term. Had homes.com contributed billions in revenue five years later than total revenue would be around $5 billion for 2026, but 2025 revenue came in at only $3.25 billion and the company isn't guiding anywhere near $5 billion for this year.

The new target is roughly a 15% revenue CAGR from 2025 through 2028, which puts $5 billion in revenue out to around 2028 or 2029, though it is unclear how much homes.com will contribute to this amount.

4. Activist pressure. D. E. Shaw published an open letter to the board in March 2026 criticizing what it called the longstanding underperformance of Homes.com. CoStar publicly rebutted the claims the next day. I viewed the activist involvement as a positive since it puts pressure on management to deliver and be more accountable, and to align incentive pay with more ambitious targets. The company has redesigned its 2026 executive compensation program after stockholder engagement. Third Point has since sold its position and the CEO indicated on the last earnings call that the company activist campaign is largely behind the company.

5. Removal from the Nasdaq-100. On Friday May 8, 2026, CSGP fell 6.3% on no news while the large SaaS names were down 1-3%. Then after the market close, Nasdaq released the following:

> *"Nasdaq (Nasdaq: NDAQ) today announced that Lumentum Holdings Inc. (Nasdaq: LITE) will become a component of the Nasdaq-100 Index® replacing CoStar Group, Inc. (Nasdaq: CSGP) prior to market open on Monday, May 18, 2026."*

The index removal created forced selling from ETFs that have to reweight. Importantly, it doesn't change the fundamentals of the business one bit. The stock has found a pretty strong support level at around $31-$32 a share at the moment.

Moat

The moat lives on the commercial side, and it's the database. CoStar has been collecting proprietary commercial real estate data since the late 80s through methods that are physical and labor-intensive. The company has thousands of researchers making calls, doing field inspections, photographing properties, and capturing 3D tours. CoStar also has its own plane it uses to just fly around and capture photos of real estate from the sky. It has been collecting real estate data for 40 years, making it incredibly hard for a competitor entering the market to catch up.

Its CoStar Suite is embedded in workflows where professionals spend the majority of their workdays. The marketplaces add a second layer also and complement its CoStar Suite and other products by generating real estate data.

This acts as a reinforcing flywheel that feeds itself. The listings, traffic, and advertiser activity on Apartments.com and LoopNet throw off proprietary data that flows back into the CoStar Suite, making the Suite more valuable, which deepens CoStar's grip on the professionals who list on the marketplaces in the first place, which in turn pulls in more audience and more data — each turn making the whole system harder to compete with.

Marketplaces tend to have network effects also. Apartments.com and LoopNet are where the audiences already are, so that's where the advertisers need to be, which attracts more audiences. And the subscription model adds a third layer: 93% of revenue is subscription, roughly three quarters of it on contracts of at least one year, which makes revenue sticky and predictable.

CEO Background and Experience

Andy Florance founded CoStar in 1986 while he was a student at Princeton. He took the company public in 1998 and has been CEO the entire time, which means he has led the same company through shifts in many different computing cycles.

There aren't many founder-CEOs who have navigated four decades of computing cycles with the same business, and I think that experience matters a lot right now because the AI transition is precisely the kind of platform shift he has managed before.

If the day comes when the right move is to sell data through APIs to third parties that want to feed it into LLMs, or to shift toward usage-based pricing, it helps to have the founding CEO in charge to make that call. I don’t think we are there yet, but I will discuss this in more detail in the next section.

Andy is not without mistakes though and his pay has been excessive, especially considering the lousy stock performance over the past 8 years. But he has skin in the game and he is very competitive to the point where it almost seems like he will stop at nothing to win. And that means using the courts and litigation to do everything it can to protect its intellectual property and stall competitors.

Andy also bought roughly $5 million of stock in the open market this year. I would honestly like to see a much larger purchase for it to be a stronger signal, but an open-market buy from a founder during a drawdown is still a bullish sign, not a bearish one.

Homes.com Struggles

This is the problem child. Andy's decision to go after Zillow was flawed from the outset because the underlying for-sale listing data is owned by the MLS system. Companies like Zillow and Homes.com pay each regional MLS to use data that real estate brokers update.

On top of not owning the data, the market was already fragmented: Zillow, realtor.com, Redfin (acquired by Rocket), plus the real estate brokers themselves. The real estate brokerages include firms like Compass whose agents can market listings on their own sites. Google, which has a partnership with HouseCanary, is also entering this space after it announced that it is expanding its real estate listings nationwide.

CoStar's net investment in Homes.com reached $850 million in 2025. D. E. Shaw published an open letter in March 2026 criticizing the spending and its returns. Third Point was also involved in an activist campaign, but both firms have since ended their activist campaigns.

The company cited 337% membership growth since the first quarter of 2024, roughly 26,000 members as of Q3 2025, a large monthly visitor base and solid ROIs for the listing agents using the portal, so there has been some progress here, but my opinion is that the returns won't end up justifying the amount of money CoStar invested.

The good news is twofold though. It is a one-time misallocation of capital, not a recurring one. Management has committed to cutting the net investment by more than $300 million in 2026 and by at least $100 million annually through 2030, with the business targeted to reach positive adjusted EBITDA in 2030.

Homes.com also doesn't make up much of the company's total revenue. So it still has CoStar Suite, Apartments.com, LoopNet, and the other marketplaces that are doing fine. I treat homes.com as a low-priced call option because the market is giving very little, if any at all, value to it.

AI Fears

Let me start by stating the AI bear case because there is some logic in it. The fear is that agentic AI reduces the number of analysts, brokers, and other professionals, so the number of licenses a customer needs will drop, and that LLM front-ends disintermediate search portals or LLMs reduce the barrier to entry to create a new portal.

Here is why I don't think it is as relevant for CoStar.

First, I think the service that commercial brokers offer on multi-million-dollar deals is more insulated from AI than the market assumes. There is too much at stake on a multi-million-dollar real estate transaction to rely on AI alone, which is subject to hallucination or making mistakes. Most of the data for commercial real estate isn't publicly available like stock market data is, so the lower availability of data makes LLMs' output less reliable, and it makes CoStar's platform more valuable as well as the brokers who use their networks to source listings.

Real estate transactions are also not standardized transactions but are instead more complex that have less liquidity. These deals include terms like annual rent escalations, CAM, tenant improvement allowances, and use-clauses. Failing to understand the details can result in costly mistakes.

Second, on the consumer side, I find it really hard to believe that humans are going to outsource the decision on where to live entirely to an LLM at the moment. I tested this myself.

ChatGPT has an agreement with Zillow, so I put it into shopping research mode and asked it to find me a rental apartment in a city I used to live in. It did a decent job as a first step, but it left out a lot of apartments that I thought it should have included.

When someone is choosing where to live, they want to make sure they have seen all of the options, and that means going to the portals, whether that is Apartments.com on the rental side or Homes.com, Zillow, realtor.com, or Redfin on the for-sale side. The infrastructure for agents to autonomously buy a home or lease an apartment isn't setup at the moment also. These are large transactions where a mistake can be very costly as well.

An LLM can be a good first pass or a secondary check, but it isn't a replacement for the marketplaces. This could change in the future, but I don't see it happening in the next 3 years, which should give CoStar stock enough time to rerate if it does end up happening.

LLMs reduce the barrier to entry to create a portal but Apartments.com has already built a network effect with the dominant share of traffic. Since prospective renters already go to Apartments.com and property managers list on Apartments.com, it would take a lot of effort to steal share for a competitor outside of Zillow who already had a lot of traffic in the real estate portal space.

Third, AI is disrupting the analytics and user interface portion of software, but without the data that CoStar has in its proprietary databases, companies won't have much to analyze with AI. Even if a competitor uses AI to build a much better interface, the platform is useless without relevant real estate data, and the data acquisition here is physical. Could AI help collect some real estate data? Maybe some of it, but not close to the breadth of data that CoStar already has and continues to collect.

CoStar also has options to transition if the time comes. It could sell data through an API to third parties that want to ingest it into an LLM. It could allow customers to export data while requiring them to stay on the per-seat subscription model. Usage-based pricing is an option down the road.

I don't think we are there yet and I don’t think we are there in the next 5 years. The stock is more likely to recover before we get to a different pricing structure outside the per-seat model. In the meantime, the company has numerous verticals to sell into: real estate brokers, commercial brokers, lenders, Fortune 500 companies looking to expand store count, and international markets.

Andy is also not sleeping on AI. CoStar appointed a member to its board in March 2026 with a background in AI. It also launched an AI search assistant for homes.com and it bought Zonda, which owns valuable data for residential developers.

Valuation

Reported earnings have been depressed by the Homes.com investment phase, and net income has been distorted by swings in interest income from when the cash balance was much higher before the Domain and Matterport acquisitions. To value CoStar, I want to estimate what the company is going to earn now that the homes.com investment phase is over. To do this, I need to look at what the company was earning before the investment phase, but I also need to adjust for interest income. Since interest income was an abnormal boost that earnings got from the high cash balance, I use operating income instead. GAAP is used throughout the valuation.

CoStar bought homes.com in May 2021. The company began investing to build the platform after the acquisition but operating margin was still 22% for 2021. The year before, the operating margin was 17.4% but this included effects from COVID. In 2018 and 2019, the operating margin was 23% and 26%, respectively. I use 22% as the more conservative estimate out of these choices that isn’t distorted by COVID.

The current enterprise value is $13.4 billion, which includes a market cap of $13.41 billion (408.4 million shares at $32.84), plus roughly $1.2 billion of debt including lease liabilities, minus roughly $1.2 billion of cash. In other words, the cash and the debt nearly cancel out, and the debt the company carries is $1.0 billion of senior notes at a fixed 2.80% that don't mature until July 2030.

The Zonda acquisition is going to be funded from cash on hand. This is going to change the enterprise value calculation once it closes, but there is no disclosure on operating income, revenue, or EBITDA from the acquisition, so I don’t include it in my valuation.

Applying a 22% operating margin to 2025 revenue of roughly $3.2 billion gives about $704 million of normalized operating earnings, which puts the current EV/EBIT multiple at roughly 19x. Looking forward, management is guiding to roughly 15% annual revenue growth, which would put revenue a little shy of $5 billion by 2028. At a 22% EBIT margin, that's about $1.1 billion of EBIT in FY 2028, or roughly 13x today's EV.

Using a 5-year DCF model, I projected out revenue, operating income, and unlevered free cash flow. I applied a 15% revenue growth rate through FY 2028, 10% in FY 2029 and 2030, 5% terminal growth rate, and a 10% discount rate. Operating margin is projected to reach 30% in FY 2029 and FY 2030, bringing me to a value of $56.73 a share or 73% total return from the current share price of $32.84.

Conclusion

You would have to go back to around 2018 to find CSGP stock at this level but the business is several times larger now and the moat is still intact. The AI disruption fears are misunderstood, and the Homes.com problem is a one-time misallocation of capital that is already being decreased on a published schedule.

The bullish signs have been stacking up so far in 2026. The founder/CEO bought stock in the open market, Akre Capital adding 7.6% to its position in Q1, Tsai Capital divested its stake in Q3 2025 but bought the stock back in Q1 2026 after the increased selling pressure in Q4 2025, CoStar announced it is decreasing its spending on homes.com, and it announced a $1.5 billion stock buyback ($700 million planned for 2026) on top of a $500 million buyback it just completed at the end of 2025.

Together, with the stock at a 2018 price with a much larger business, the risk/reward is skewed in the long's favor.