Abstract

The presented study describes commercial real estate markets with focus on office sector. We identify the capitalization rate (investment yield) as one of the fundamental elements in the commercial property valuation. Based on historical office investment yield observations and various econometric models we predict the office capitalization rate development in the Czech Republic. We use data of the United Kingdom, Ireland and Sweden to identify common yield trend especially with respect to their real estate crises in 1990s that embody features similar to the real estate crisis in 2008-2010. As explanatory variables for the econometric models (ARIMA, OLS, VAR) we use financial and macroeconomic variables. We use the OLS models to identify the optimal set of explanatory variables, to be applied in VAR models. On dataset of the comparable countries we compare the goodness of fit of the VAR and ARIMA models. The best variants are then used for the prediction of the Czech office yield. Lastly, we improve our results by implementing exogenous forecasts of macroeconomic variables used in the models. Majority of our predictions forecast a slow decrease of the capitalization rate in next two years (2010-2012) in the magnitude of 0.25% - 1% (to 6.25%-6%).