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 variables 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 dating in 1990s which indicate similar features to 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 optimal set of explanatory variables, which we than apply in VAR models. On dataset of the comparable countries we compare the fitness of the VAR and ARIMA models, the best variants are used for prediction of the Czech office yield. We then improve our forecasts by implementing exogenous forecasts of macroeconomic variables used in the models. Majority of our predictions forecast a slow decrease of the prime office capitalization factor in next three years (2011 - 2014) in magnitude of 0.25% - 1.25% (to 6.25% - 5.75%).