Forecasting office space rents by combining expert opinion with time series statistics

By Max Kummerow

Curtin University

Kummerom@cbs.curtin.edu.au
Phone 9266 2978
Fax 9266 3026
Department of Property Studies
GPO Box U1987
Perth, W.A. 6000
Australia

Abstract

Better forecasting of future market conditions could reduce oversupply cycles and help reduce this major source of risk and economic inefficiency. Previous research (Kummerow, 1997, 1999) highlights supply lags as a cause of office market cycles. Supply decisions based on forecasts could help eliminate cycles by creating just-in-time inventory. This paper proposes forecasting teams, processes and institutions to inform major office building investment decisions. Since capital markets are risk averse, reducing risk of oversupply would reduce costs of capital for office projects and hence make more projects feasible. Timely adequate supplies of office space and lower cost capital would also reduce costs of tenancy. Models of office markets in the academic literature often use time series data to estimate responses of office market variables to predictor variables. In a world of change and complexity use of these conditional forecasting models based on statistics calculated from historical outcomes would often be misleading. Nevertheless, forecasting methods used by industry might be improved by incorporating information on historical market adjustments. The paper proposes system dynamics software as a convenient way to combine econometric results with qualitative or quantitative expert opinion to produce better forecasts and improve office market investment outcomes.