Office rents are prices for heterogeneous goods and are determined by various criteria: location, lease factors, building quality, equipment and layout of the office rental unit. On the one hand, this heterogeneity causes difficulties the aggregation and implementation of office rents into one index value; on the other hand, this same heterogeneity makes a reliable index even more valuable.

In practice, the prevailing methodology to compute office rent indices is to calculate average office rents. This methodology assumes homogeneity among all office rent determinants. It goes without saying that such an assumption does not hold true neither in practice nor in theory, and that the explanatory power of such office rent indices for real estate analysis is inappropriate when one looks beyond indicating a general trend in real estate markets.

Against this background, the author Simon Kempf has developed hedonic office rent indices for German metropolitan areas. These indices are useful for real estate practitioners as well as academics who are looking for trustworthy market and economic indicators.

His work is structured in seven chapters. Subsequent to the concise introduction, chapter two outlines the theory of the construction of the hedonic office rent indices. Thereafter, chapter three gives an insight on the general functioning of the office market, thereby identifying and elaborating the implications on developing office rent indices for the German property market.

Chapter four analyses the influencing factors of office rents. After an extensive literature review the explorative survey carried out by Simon Kempf among over 1,700 real estate professionals sheds light on the topic of drawing lease contracts. So far this issue has been largely neglected in German property research as it has only been analysed on the level of strategic portfolio management. In chapter five, the hedonic analysis of German office rents is undertaken representing the main empirical analysis and the nucleus of his thesis. Before the hedonic analysis based on a data set comprising more than 22,000 office leases is conducted, the author has to deal with the problem of missing data. Instead of using the single imputation method to solve this problem - a common, but misleading way in statistical analysis - he breaks ground by introducing the
multiple imputation method to the German property research community. In chapter six, hedonic office rent indices for Berlin, Düsseldorf, Frankfurt, Hamburg and Munich based on the Laspeyres and Paasche index formulae are elaborated and compared. Finally, the last chapter summarizes the results, points out the limitations of his research and thereby indicates the direction of future work.

The thesis, which has been accepted at European Business School (EBS) in summer 2008, is both innovative and creative. We sincerely hope that this thesis will be well appreciated by property researchers and real estate practitioners alike.

Wiesbaden, September 2008

Prof. Dr. Matthias Thomas MRICS
Executive Director
Real Estate Management Institute
Stiftungslehrstuhl Immobilienmanagement

Prof. Dr. Nico Rottke MRICS
Executive Director
Real Estate Management Institute
Aareal Professur Real Estate Banking

Real Estate Management Institute
European Business School (EBS)
International University Schloss Reichartshausen
PREFACE OF THE AUTHOR

The judgement of rental level development plays a fundamental role in any real estate investment decision. One would expect established and consistent office rent indices to be available in all mature office markets. So far quite the opposite is the case in Germany. The development of office rent indices is particularly difficult due to the heterogeneity of office leases as well as the sheer absence of available data. The fact, that - despite the aforementioned problems - I was able to develop hedonic (i.e. quality adjusted) office rent indices for German metropolitan areas and finish my thesis, is due to many friends and persons who accompanied me along my “thesis-project”. To these people I want to direct my preface.

For the numerous consultations during the monthly meetings, annual proposal defences as well as the review of my thesis, I want to thank Prof. Dr. Matthias Thomas MRICS and Prof. Dr. Schiereck of the Real Estate Management Institute (REMI) of the European Business School (EBS). For the support during the quantitative statistical analysis I am very thankful to Prof. Dr. Steffen Sebastian of the University of Regensburg. Special thanks I owe to Prof. Dr. Kurzrock of the University of Kaiserslautern, Lars Dierkes of IPD GmbH as well as Justus Vollrath who provided and retrieved all relevant office lease data out of the IPD rental databank. For the explanation of the difficulties in gathering office rental market as well as office lease data in Germany, I owe my gratitude to Günther Muncke and Ulrich Denk, BulwienGesa.

For assistance and moral support, I am very thankful to my employer and my colleagues of Savills Immobilienberatungs-GmbH Corporate Finance - Valuation.

I want to express my thanks to all my friends who supported me with helpful comments but even more important with their patience. Here, I am specifically grateful to Jeffrey King and Fenja Winkelmann who proofread the thesis from the beginning to the end and, improved the quality of my thesis significantly with their comments and remarks.

Last but not least, I am thankful to my family and to my girlfriend Anais Cosneau.

Berlin, September 2008

Simon Kempf
Development of Hedonic Office Rent Indices
Examples for German Metropolitan Areas
Kempf, S.
2016, XLIII, 371 p. 62 illus., Hardcover
ISBN: 978-3-658-11169-4