SUMMARY

Property market dynamics is largely dependent on the economy and this study explores the existence of a long-term contemporaneous equilibrium relationship between the office property market and the macroeconomy. Using the cointegration technique, the study analyzes the relationship of office property prices and rentals with a set of macroeconomic variables and other chosen variables. Beginning with tests for stationarity and order of integration, the variables used in the study are found to be $I(1)$ (except for M2 and Banks' Loans and Advances to Building and Construction). The tests for seasonal unit roots also indicate that these variables do not possess seasonal unit roots.

Cointegration analysis is first carried out to examine the existence of bivariate cointegration relationship of office property prices and rentals to the chosen variables. The results reveal the absence of bivariate cointegration relationships. A possible explanation for this is that office property prices and rentals are exposed to and affected by, these macroeconomic variables simultaneously. This implies that it may be more appropriate to model this relationship as a multivariate cointegrated system. Thus, multivariate cointegration analysis is carried out to explore the dynamic relationship between the office property market and these variables.

The results of the multivariate cointegration analysis indicate that it is appropriate to model the relationship of office property prices and rentals with these macroeconomic variables as multivariate cointegrated systems. Office property prices were found to be influenced by GDP, Actual Occupied Office Space, M1, M3 and Vacancy whilst office property rentals were influenced by GDP (FIRE sector), M1, M3, New Company Formation and Vacancy. These results indicate that there is a systematic co-movement of office property prices and rentals and the chosen variables in the long run. This implies that there may be information contained in these variables that is useful in the prediction of office property prices and rentals.

Forecasting is then carried out based on the results of the cointegration relationships. Comparing the forecasts obtained from the ECM specifications with forecasts from the VAR specifications, the results indicate that the ECM specifications have better
forecasting ability. Thus, it can be concluded that information regarding the long-term equilibrium relationship can improve forecasting performance. Finally, the model chosen to forecast future office property price movements predicts that office property prices will experience an upward trend from 2000Q1 to 2000Q4 except for a slight fall in 2000Q3. Similarly, the model employed to forecast future office property rental movements predicts that office property rentals will experience an upward trend from 2000Q1 to 2000Q4.