

PREFACE OF THE EDITORS

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.

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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.

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Examples for German Metropolitan Areas

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