

IPF Educational Trust (IPFET) sponsored research

Conservatism is inherent in forecasts

The findings of a recent IPFET Sponsored PhD thesis, *Forecasting Accuracy in the UK Commercial Real Estate Sector*, has shown that forecasters tend to display conservatism in their forecasts, resulting in overestimated capital growth and total return in a poorly performing market, and underestimated forecasts in a strong market. The findings show that, while accuracy increased for rental forecasts, overall accuracy was reduced in a market downturn.



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The PhD thesis by Dimitrios Papastamos evaluated the rationality (bias and efficiency) of the IPF UK Consensus Forecasts. The thesis examined current, one-year and two-year forecasts, exploring the momentum and rationality of the forecasts through the forecast errors. It also compared the forecasts of macroeconomic forecasters with those from property forecasters to see whether there was a marked difference in behavioural characteristics. The research found that the tendency to produce negative forecast errors in a downturn and positive in an upturn was common to both property and macroeconomic forecasters. However, overall, the macroeconomic forecasters showed greater accuracy in their forecasts.

In conclusion, the empirical findings show that the future trends in rents are likely to be captured more effectively by the IPF forecasts that contain some degree of judgment, in contrast to a pure econometric model. However, a purely econometric model displays greater accuracy for short-term forecasts of capital values and total returns, particularly in a market turning point where IPF forecasts are more conservative.

NOTE: The IPFET introduced the IPFET PhD Studentship Programme in 2010, awarding an annual PhD Studentship to UK-based real estate investment PhD students. The 2011 Studentship was awarded to Dimitrios Papastamos, undertaking research at CASS Business School and the University of Reading. He was awarded his PhD in December 2013 and is now a Senior Analyst at Eurobank Property Services, Athens.