

Market Specific Determinants and Macroeconomic Fundamentals of Canadian Commercial Real Estate Capitalization Rates

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Abstract: This paper examines the market-specific determinants and macroeconomic fundamentals of Canadian commercial real estate capitalization rates. It builds upon the expansive and growing body of literature into commercial real estate pricing that models capitalization rates as a function of interest rates and local market fundamentals. It introduces additional macroeconomic factors to the model including general corporate risk premium and net financial transactions relative to GDP, finding that these additional factors can add to the ability to explain historical movements in Canadian cap rates. It concludes that there are market specific characteristics creating enduring differences in cap rates between Canadian real estate markets, and that introducing macroeconomic factors that exert common influence across markets can serve to better model historical movements in Canadian capitalization rates.