

Rode's econometric model

Rode's econometric model of the South African property market forecasts crucial property variables based on historic relationships and economic fundamentals. In addition, the econometric model's forecasts assume that these relationships will continue.

The benefits of the econometric model for predicting future movements in the property market are that the model

1. identifies the variables to be used in the model;
2. apportions weightings to the variables based on their relative contributions to the outcome; and
3. allows for the influence of the variables on each other.

The human mind is incapable of performing any of these feats — let alone all three simultaneously.

However, disadvantages of the model relate to

1. its reliance on historic relationships between the variables and its assumption that these relationships will persist in the future; and
2. the assumption that the macroeconomic forecasts that serve as inputs to the model will turn out to be correct.

In a few instances, structural changes in the property market have made it necessary for Rode to do some of the forecasts (i.e. office vacancies and capitalisation rates) manually. A manual adjustment was also required for the forecast of flat rentals, as the econometric model was not able to absorb the current slowdown in flat rentals which commenced from the end of 2002. In the case of listed property, Rode has refined the model forecasts seeing that the original econometric model did not provide satisfactory results. This refined model is based on quarterly data, as opposed to the main econometric model which uses annual data. ■