

Office Market Construction Decisions:
Myopia Versus Informed Decision-Making

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Abstract

The purpose of this paper is to improve our understanding of office market supply-side decision-making and the role of observed asking rents and vacancy rates in the construction cycle. We explore the extent to which developers are myopic, responding only to recent or current observation of these market indicators, and the extent to which they behave as if they had good forecasts of future market conditions. To accomplish this, new construction of office space is modelled as depending upon, in addition to the standard determinants, three forms of rent and vacancy variables. The first is rent or vacancy rate at the time the construction decision is made; the second is a forecast of rent or vacancy rate in the period in which construction will be completed; and the third is future rents or vacancy' rates. While we cannot discount myopic behavior during our time period, simulation results do not support the attribution of 1980s overbuilding to naive forecasts of asking rents and vacancies alone.