

Cap Rates as a Function of Real Economic Growth

Using real growth to explain cap rates at the national and metropolitan levels

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Abstract We demonstrate a method to explain and forecast both national and market-level cap rate expansions as a simple binary interaction between Gross Domestic Product and Consumer Price Index. Achieving both a strong confusion matrix and sharp outperformance versus a buy-and-hold strategy, our research contributes to the existing corpus in three ways. First, we establish a statistically significant relationship between the interaction effect of GDP and CPI versus cap rates which holds explanatory power at the national and market levels, by mapping the ground truth from a non-discrete to a binary variable.

0.1 Conflict of interest

The author works for a Real Estate Private Equity firm which has ownership interest in office and multifamily assets throughout the US.

Keywords Binary Logistic Regression · Cap Rates · US Real Estate Markets · Multifamily Cap Rate · Apartment Cap Rate