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# RESEARCH INSIGHTS

## "DETERMINANTS OF DISCOUNT RATES, CAPITALISATION RATES AND GROWTH RATES"

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### EXECUTIVE SUMMARY

This paper analyses the determinants of key inputs for the explicit discounted cash flow (DCF) or the implicit capitalisation models, namely the discount rates and the capitalisation rates. We also study the factors affecting the implied growth rate of the net operating income (NOI). We make use of a rich database for the commercial real estate market in the US that covers a long time period (2002–2024) and over 60 metropolitan markets. Given that the figures are appraisal-based, we use a common desmoothing approach and analyse the determinants of discount rates, capitalisation rates and growth rates using regression analysis.



This paper provides a comprehensive analysis of the determinants of key inputs needed when appraising a commercial real estate property with an income approach. In particular, it not only explores the impacts of macroeconomic variables on discount and capitalisation rates but also those of various types of properties. As such, the results of this study should have important implications in practice.



### KEYWORDS

- Discount rate
- Capitalisation rate
- NOI growth rate
- Commercial real estate
- Gateway markets

### RESEARCH RELEVANCE

- Paper explores the impacts of macroeconomic variables on discount and capitalisation rates in the U.S., but also that of various types of properties.
- With a lag, real GDP growth reduces both rates, as expectations of economic growth reduce risk premia.
- Real interest rates consistently increase capitalisation, discount, and growth rates through higher borrowing costs and portfolio reallocations.

### BIBLIOGRAPHIC INFORMATION

Hoesli, M., & Shmygel, A. (2025). Determinants of Discount Rates, Capitalisation Rates, and Growth Rates. *Journal of Property Investment & Finance*, 43(3)  
<https://doi.org/10.1016/j.jbusrev.2025.102421>

*“The paper analyses the determinants of key inputs for the explicit discounted cash flow (DCF) or the implicit capitalisation models, namely the discount rates and the capitalisation rates.”*

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