

The Quantum Leap

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With this second special issue on real estate, *The Journal of Portfolio Management* has made what I consider an even larger contribution than in the extraordinary work included in the first special issue in 2003. These articles reveal a critically important development in our understanding of the role of real estate and of portfolio management in general.

The analysis of real estate has developed far beyond calculating rates of return, relating real estate to hedging against inflation, or emphasizing its diversifying contribution to the overall portfolio. As the articles in this issue so amply demonstrate, we are now using all the tools of modern portfolio theory to analyze real estate—to understand the critical variables that explain the behavior of real estate assets, to underscore the unique features of real estate, to relate real estate to the other assets in the total portfolio, and to improve our ability to predict returns and quantify risk. In short, what has always been a kind of hands-on, journeyman's task of decision-making has developed into a sophisticated and powerful process.

The result provides a quantum leap in the quality of the analysis to give us a more profound understanding of real estate as a portfolio asset. This in itself would be a worthy accomplishment. But by putting these theoretical tools into action in real estate, these scholars and practitioners have enriched the entire field of portfolio management and improved our understanding of how markets function. Everyone in the field of finance, not just "real estatenicks," should sit up and take notice.

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