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Academic and Applied Real Estate Research:

“As two worlds collide” or “As two worlds divide”

Introduction

It has been said that the majority of real estate based academic research is out of touch with the reality of the marketplace, and in most cases conflicts with what those in industry truly find useful. It has also been said that real estate based professional research is too basic and is out of touch with the rigors and theoretical discipline of scholarly work.

What is the current state of real estate research, both academically and professionally, and what research should be conducted? Are the two worlds between academia and professional real estate research colliding to form new and innovative hybrid approaches, or are the two worlds divided and drifting further apart in their ability to solve real world real estate related problems?

This article discusses the current state of academic and professional real estate research, issues and problems, and where research needs to go to provide value for both academia and industry.

Academic Research

Academic real estate research has been criticized over the years for not producing theories and applications that can be transferred to industry for investment and portfolio decision-making, or to government for policy-making and administration. There have been numerous books and articles written on real estate related issues, land-use, investment theory and portfolio management, but when most academic writers are conducting research and publishing articles, they may not be taking into consideration who the true end user is.

Who should the end user be? Should it be the real estate industry? Should it be the real estate academic community? Should it be the university and department? Should it be the firm? Should it be the individual researcher?

It seems as though most university based research today is targeted toward a narrow constituency in the academic community, and is used primarily to win tenure track positions at major research institutions. But who determines what topics to research? Is it influential corporate donors, is it prestigious fellows within the real estate, economics, and finance departments, or is it other senior research staff that wields power over those receiving grants and stipends. Or is research and the topics being researched dictated by

what is currently popular with the academic community, allowing those writing the articles to gain access to highly sought after slots in peer review journals.

It is said that academic researchers have a role as the purveyors of unbiased research, research conducted outside of the real estate industry's influence. They are the guardians of pure and ethical research. But who is setting the research agenda? Is it the academic community? Is it real estate department heads? Who?

Academic researchers do not have senior acquisition and portfolio officers monitoring them constantly to see if the results of their research vindicate their investment decisions or promote their marketing plan. But academic researchers do have to face influential academic elites monitoring, guiding and in most cases determining the direction of their research. These elites hold the purse strings to highly coveted research grants, stipends and fellowships. The majority of academic researchers do not have the luxury of following their own research agenda, they are usually guided by the interests of senior research staff, and if the results of their research run counter or does not contribute to the development of the sponsors theory, the individual may find the use and publication of their research restricted or compromised.

For these reasons, the majority of real estate academic research is useless to those in industry, the topics tend to be too narrow, out of touch from reality, are too complex at times. There lacks direct communication link between the academic community and industry. Real estate academic research is fulfilling an important need, in that it gives scholars the tenure track they need to become full professors. But is this type of research adding value to both the real estate academic and professional communities?

Professional Research

Professional real estate research has been criticized for not producing theories and applications that can be transferred to academia for theory and knowledge building, since most research is too basic and proprietary in nature. Over the years, industry research analysts may have come up with significant econometric forecast models or innovative portfolio optimization models, but know one in the academic community would know of it or benefit from it due to its proprietary nature.

Usually, it is after these models and processes have become obsolete or out of date before they make their way to the academic or industry press. Since almost all private industry research is proprietary, the majority of data and research results useful to academics and others in the industry is never known or shared; and if research analysts moves from one firm to another, or one position to another, or if whole departments and positions are eliminated, massive amounts of valuable human capital, research and knowledge is lost in the process.

Most professional researchers do not write articles for public consumption, and do not promote or share their theories and models. Articles that they do write are usually vague and shallow in nature, and talk more about the most recent fads, trends or topics in real estate. Most industry researchers who do publish articles and research are usually promoting the firm's marketing plan.

But professional researchers are the soldiers on the front line of applied real estate research. Their problems are complex in nature, they use imperfect information, and in most cases they are using models and processes that are misspecified for meaningful and timely decision-making.

So what is the current state of professional real estate research? Currently, the majority of professional real estate research is basic and proprietary, vast amounts of knowledge and data are lost, and most published research is vague and promotional in nature. A significant amount of professional industry research is useless to those in academia in the sense that it does not contribute to building real estate knowledge and theory. Professional real estate research fulfills an important need, it provides firms with answers and marketing they want and need, and provides analysts with a clear career track to senior corporate positions.

If the majority of academic research is useless, and the majority of professional research is lost or not shared, what will real estate research look like in the future? Either the two worlds of academia and professional real estate research will come together to form a strategic partnership, or the two worlds will continue to drift farther apart.

“As Two Worlds Collide” or “As Two Worlds Divide”

Over the next twenty years there will be a new type of real estate research being conducted, and the skill sets of these Applied Real Estate and Financial Economists will be unique and in high demand at both the firm and academic level. These analysts bring both the academic and professional worlds together, and facilitate and foster integrated discussions and solutions to complex real world problems.

What will the Real Estate and Financial Economist of the future look like?

Along with impeccable communication and teaching skills, these new researchers will have a solid foundation in the social sciences, financial engineering and information systems analysis, programming, and design. Future research will consist of advanced theory building, systems development, mathematical programming, and hypothesis testing applied directly to real estate and financial asset and liability portfolio management.

Analysis conducted at this level will be an intense investigation in portfolio management theory: hedging and arbitraging of equity, debt and mortgage-backed security portfolios, and dynamics of information asymmetries in both the real estate and capital markets.

The ultimate goal will be to expand traditional portfolio theory as it is applied to both the financial and real estate communities, and development large matrices of investment and trading alternatives. These matrices will encompass hundreds of domestic and international securities and domestic and international real estate assets showing various risk, reward and arbitrage combinations.

The successful application and implementation of advanced computing theory to complex financial and portfolio management problems will set the foundation for professional and academic careers in real estate and financial economics. Individuals pursuing this line of research will be given high levels of responsibility when conducting academic research and when making complex financial and portfolio management decisions for industry clients.

This approach to real estate research will contribute to the building of advanced real estate investment and portfolio management theory.

The goal of this type of applied real estate and financial economic research is to develop strategies and theory that will allow firms to shift from one real estate market and asset to another, or one financial market and obligation to another, or multiples of real estate assets and markets and financial markets and obligations to another while simultaneously hedging and arbitraging positions. It is imperative that research and development be conducted in areas such as sophisticated information systems and technologies, computer trading and indexing, and the development of derivative securities. But for these systems to emerge intense research and development must be conducted by and in conjunction with the academic community.

As more advanced approaches are researched and developed, fundamental real estate economic and market research must not be neglected.

What is needed is a combined approach to real estate research, an approach that is more scientific and rigorous in nature, but has a fundamental foundation. This can be done through the combination of fundamental tracking and forecasting of economic, real estate and financial cycles with efficient portfolio construction, optimization and risk management strategies.

Improvements to basic economic, demographic and real estate market research for investment due diligence, underwriting and portfolio management must continue and not be neglected as the professional and academic community moves from basic to a more advanced research paradigm.

Conclusion: Integration through Communication

It is believed that real estate based academic research is out of touch with the real world and professional real estate research is too basic to contribute to theory, but it is also believed that there needs to be a new approach to real estate research, a more applied approach.

Over the next twenty years the way we approach and solve real estate related problems will have changed significantly. Real estate research will be conducted in a more integrated fashion, lead by modern real estate and financial economists. These individuals will bridge the gap between academic and professional research, acting as change agents within the university and corporation. Their ability to communicate and transfer knowledge from the research institution to the real world, and from the real world to the research institution will allow the academic community to test the theoretical validity of hypotheses. Applied real estate and financial economists of the future, in conjunction with advanced communications and computing systems, will cause the academic and professional real estate research worlds to collide, forming new and innovative approaches to solving real world estate related problems.

But for this to happen both communities must embrace each other's work, and work to create a formal and informal communications link between the two. Associations such as ARES and AREAUEA do a good job of this, but they need to come forward, in conjunction with private corporations, to provide the electronic communications network between academia and the private sector. The development of a sophisticated telecommunications network would foster the transfer of knowledge between the two sides. To stop and reverse the distance between academic and professional real estate research their needs to be leadership and capital commitment to the process.

If the two communities continue to drift farther apart, real estate research in twenty years may not look any different and may not add any significant value to the academic or professional communities.