
BOOK REVIEW

Title	Real Estate Investment – A Capital Market Approach
Authors	Gerald R. Brown and George A. Matysiak
Publisher	Financial Times Prentice Hall
Reviewer	David Higgins University of Technology, Sydney

The main focus of this book is about creating and adding value through the effective management of property assets. It combines the underlying elements of economic and financial theory with the required discipline approach to examine the many unique aspects surrounding the investments in property. The book identifies the property fundamentals as a prerequisite for understanding the value of commercial property. In addressing these preliminary issues the book provides the reader with the knowledge to integrate the analysis of commercial property into the capital markets and so provide the basis for commercial property to be treated like any other financial asset.

The book contains essential material for education purposes. It clearly details property theory and has made extensive use of examples in order to illustrate important points. In many cases adopting a step-by-step approach to identify special techniques. The empirical evidence can highlight the argument and is made even more authentic by the selection of common Investment Property Databank (IPD) data throughout the book.

The target audience for the book is extremely broad, from undergraduate to practicing property professionals. In understanding this, key topics in the book can be selected and studied without reference to past chapters. The introduction provides an excellent reading schedule for the different entry levels. A concern is that in lifting the student's knowledge to a higher level the book fails to take the further step to identify the areas of further research within the main text. For example, measuring property performance without reference to the structure of property income and capital returns indices compared to those in the financial market, and the thorny issue of regression analysis and heteroscedasticity (the variance of the error terms is constant for all observations).

The authors have broken down the contents of the book into three main sections. The first part examines the time value of money and the valuation of cash flows. It focuses on the development of common valuation models, covering the important issues, for example the often-misunderstood relationship between valuations and prices. In showing the valuation framework the book details the various techniques. For example, the equivalent yield can be derived in two ways: the first uses the term and reversion, and the second the layer approach.

The second part of the book focuses on the risk and return in real estate. Following the examination of distribution characteristics of real estate returns, there is a sound explanation of modern portfolio theory and the construction of property portfolios. The difference between risk-reduction and diversification is discussed and the important area of data selection, in particularly valuation smoothing. The book discusses an interesting proposition to determine the optimal property value. It suggests the optimal updating strategy for valuers is to use the weighted average of the previous values and the most recent comparable transaction prices.

The third part of the book relates to the issues in portfolio management. It discusses the efficiency of the property market, developing property portfolio strategy and performance measurements. A number of important investment topics are considered and their application to property, for example an active or passive investment strategy and the difficulties in tracking an index with a property portfolio. Finally, the last two chapters cover quantitative techniques and some general unanswered questions. This provides both a useful point for statistical references and a starting point for future property research.

This book contains essential material on the quantitative analysis for investment in property. Both those readers who are studying property and those who have a direct interest in property investment will benefit from the contents and topics covered in the book. Overall, it presents a comprehensive guide to property investment with clear empirical analysis to support the theoretical information. The real estate profession now has a book, which does justifiably bridge the gap between financial theory and property investment.

David Higgins