

Building real income in an inflationary environment with real estate.

Explore 3 reasons why real estate can be key to generating positive inflation-adjusted returns in a low-rate world.

Q. Why do you like real estate in an inflationary environment?

There are really three key reasons why we like real estate and inflationary environment. The first one is that we've observed historically that real estate has produced good returns in many different types of market environments, and we're seeing that, particularly where it makes the most sense now, in low-rate environments, which we're in today, as well as an environment where we're experiencing transitory inflation.

So, you know, we're really seeing investors start to think about their portfolios a little bit differently, particularly as it relates to allocating away from fixed income to get more stable inflation protection with real estate investments.

Secondly, real estate has many attractive attributes that lead to the quality of being able to protect against inflation. And, you know, a couple of those are one lease length. So, having the ability for owners to handle the management of the length of leases, which translates into the ability to manage rental growth, but also expense management, where owners have the ability in some cases to pass along expenses down to the tenants.

This ultimately leads to higher net operating income and higher returns, which will benefit, you know, having that flexibility in an inflationary environment. And lastly, really, what we've experienced recently is the impacts of commodity prices, particularly in lumber and copper and steel, and those prices having downstream impacts to new construction and building, which ultimately leads to higher evaluations and higher prices for investors.

So, you take all that into consideration and you really have a recipe for real estate being a good addition to a portfolio that is looking to have investments that protect against inflation.

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