

ENTR

Inflation and Residential Real Estate Investment

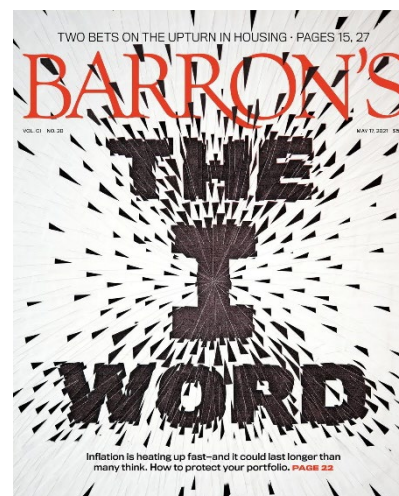
After a decade of low and stable prices, the prospect of growing inflation has been rising up the agenda.



December 2020



March 2021



May 2021

For investors, inflation is a major cause for concern because **it makes money saved today less valuable tomorrow.**

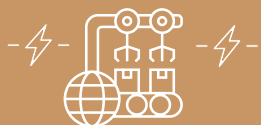
In this context, it is helpful to get back to basics by understanding the nature of inflation and how residential property investments provide an effective hedge against inflation.

What is inflation?

In simple terms, inflation describes the **gradual rise in prices of goods and services over time** which leads effectively to the value erosion of money.

There are several reasons why inflation occurs. Typically, it comes from a surge in production costs – referred to as **a cost-push inflation** – or from an increase in demand for product and services – **a demand-pull inflation**. Both factors can happen at the same time as it is currently the case.

Main types of inflation



Cost-push inflation

due to an increase in production costs

Examples of cost-push inflation drivers:

- Increase in commodity prices: oil, copper, etc.
- Shortage of semiconductors
- Disruption due to lack of shipping containers



Demand-pull inflation

due to an increase in demand for goods & services

Examples of demand-pull inflation drivers:

- Spending of accumulated extra savings
- Spending of government relief funds/grants
- Growing money supply from central banks

In the short term the reopening of major economies is expected to trigger a degree of demand-pull inflation as consumers will be looking to spend some of their accumulated savings.

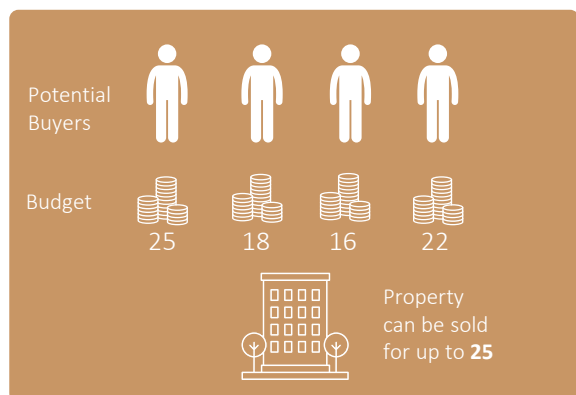
Over a longer horizon, central banks are expected to be inflation-tolerant and allow the printing of more money to facilitate repayment of governments debt used to fund massive COVID relief packages.

How does real estate provide a hedge against inflation?

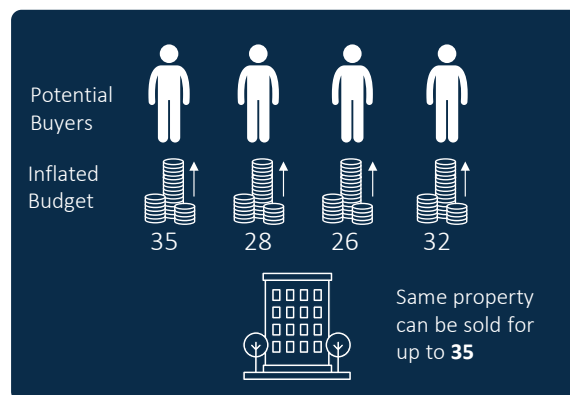
In an inflationary environment, **residential properties provide inflation-protection benefits** to investors through value appreciation and rental rate increase:

Appreciation in property values: there is a positive correlation between inflation and the price of properties in limited supply, especially in global city centers. As the supply of money increases among investors, the value of real assets rises according to the monetarist theory as illustrated in the basic example below.

Before inflation



After inflation



As construction materials become more expensive due to inflation, the property supply will reduce and developers will pass on the cost to new buyers. For property owners, the scarcity value of their existing real estate mechanically benefits from this lower supply.

Increase in rental rates: when inflation is rising, banks raise their interest rates to preserve their margins. Faced with higher borrowing costs, most people will opt to rent rather than buy. **This influx of tenants will drive an increase in rental rates** going to property owners. Properties with shorter leases benefit the most as tenancy agreements are regularly renewed and rental rate are revised upward to keep in line with inflation.

About ENTR

ENTR provides a seamless, transparent and innovative way to access prime residential real estate in major global cities.

Investors with ENTR co-own a collection of carefully curated prime properties located in the most attractive cities around the globe. These assets are fully managed and optimized by ENTR to generate regular incomes and capital gain.

ENTR combines extensive experience, rigorous selection processes and technology to reinvent the real estate ownership experience in a changing world.



ENTR produces regular curated analysis and on the ground perspectives about investment in prime residential properties in global cities.

If you would like to be among the first to receive these materials and find out more about our real estate investment solutions, please fill in your details on <https://www.the-entr.com/contacts>

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