

## **Core real estate as an inflation hedge ... Just not all of the time**

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This study explores the inflation hedging potential of core US over multiple commercial real estate cycles and seeks to provide a richer understanding of this relationship by quantifying how it evolves over time. Inflation is decomposed into expected and unexpected components per the Fama and Schwert (1977) framework. Most of the prior literature on this topic only address linear relationships but this study finds a significant degree of non-linearity in the data that needs to be explicitly addressed. Smooth transition regressions are used to model the evolution of real estate inflation hedging ability through the cycle to capture this dynamic. The inflation hedging potential of blended equity portfolios incorporating both public and private allocations are also explored. These blended portfolios are becoming increasingly prominent and are of particular relevance to defined contribution and perpetual ‘semi-liquid’ programs largely targeting individual investors, that both have additional liquidity requirements to meet. The results show that the core real estate provides an effective inflation hedge through most phases of a market cycle but this relationship appears to break down during periods of heightened market volatility.