

# Hedge Against Inflation With These 3 Real Estate Investment Types



The annual inflation rate in the United States is currently around 7.5%—the highest it has been since 1982.<sup>1</sup> It doesn't matter if you're a cashier, lawyer, plumber, or retiree; if you spend U.S. dollars, inflation impacts you.

Economists expect the effects of inflation, like a higher cost of goods, to continue.<sup>2</sup> Here's what you need to know about inflation, how it impacts you, and how an investment in real estate can help.

## WHAT IS INFLATION AND HOW DOES IT IMPACT ME?

Inflation is a decline in the value of money that can lead to:

**Decreased Purchasing Power:** As prices rise, your dollar won't stretch as far as it used to. So you'll be able to purchase fewer goods and services with a limited budget.

**Increased Borrowing Costs:** In an effort to curb inflation, the Federal Reserve is expected to raise the federal funds rate. Prepare to pay a higher interest rate on new mortgages, car loans, and variable-rate credit cards.<sup>3</sup>

**Lower Standard of Living:** Wage growth tends to lag behind price increases.<sup>4</sup> Therefore, you may have to make lifestyle changes and prioritize essentials.

**Eroded Savings:** As of February, the national average interest rate for a savings account is 0.06%, not nearly enough to keep up with inflation. And economists don't expect that rate to go much higher.<sup>3</sup>

## REAL ESTATE: A PROVEN HEDGE AGAINST INFLATION

So where is a good place to invest your money to protect (hedge) against the impacts of inflation? Here are a few investment vehicles financial advisors typically recommend:

**Stocks:** Some people invest in stocks as their primary inflation hedge. However, the stock market can become volatile during inflationary times, as we've seen in recent months.<sup>5</sup>

**Commodities:** In theory, the price of commodities should climb alongside inflation. But the classic choice—gold—hasn't risen consistently during periods of inflation since the 1970s.<sup>6</sup>

**Inflation-Indexed Bonds:** Treasury inflation-protected securities, or TIPS, are considered low risk, but the returns they offer are generally low, as well.<sup>7</sup>

**Real Estate:** Real estate prices often rise with (or faster than) inflation.<sup>8</sup> That's one of the reasons demand for real estate is soaring right now.<sup>9</sup>

We believe real estate is the best hedge against inflation. Home prices rose nearly 17% from 2020 to 2021, 10% ahead of the inflation that occurred in the same timeframe.<sup>10</sup> Plus, certain types of real estate investments can help you generate a stream of passive income.

## TYPES OF REAL ESTATE INVESTMENTS

There are three basic investment types that we recommend for beginner and intermediate investors. We can help you determine which options are best for you.

**Primary Residence:** If you own your home, you're already ahead. As inflation rises, the value of your home is likely to go up. At the same time, you've locked in a set mortgage payment, so you'll be immune to rising rental costs. If you don't currently own a home, our team can help you find a property that fits your needs and budget.

Whether you already own a primary residence or are still renting, now is a good time to also start thinking about an investment property. The types of investment properties you'll buy as a solo investor generally fall into two categories:

**Long-Term (Traditional) Rentals:** A long-term rental is a dwelling that's leased out for an extended period. For most tenants, the rental serves as their primary residence, which means it's a necessary expense. This unique quality can help provide stable returns in uncertain times. A well-chosen property should pay for itself through rental income, and you'll benefit from appreciation as it increases in value.

**Short-Term (Vacation) Rentals:** Short-term rentals function more like hotels in that they offer temporary accommodations. A short-term rental can potentially earn you a higher return than a long-term rental, but this comes at the cost of more hands-on management. Done right, short-term rentals can be both a hedge against inflation and a profitable source of income. As a bonus, when the home isn't being rented you have an affordable vacation spot for yourself!

Contact us today if you're interested in exploring options in either the long-term or short-term rental market. Mortgage rates are expected to rise, so you'll want to act fast to maximize your investment return.

## WE'RE INVESTED IN HELPING YOU

Inflation is a fact of life in the U.S. economy. Luckily, you can prepare for inflation with a carefully managed investment portfolio that includes real estate. If you're ready to invest in real estate to build wealth and protect yourself from rising inflation, contact us. Our team can help you find a primary residence or investment property that meets your financial goals.

Sources: 1. Bloomberg 2. CNN 3. CNBC 4. Reuters 5. NBC News  
6. CNBC 7. Morningstar 8. The Washington Post 9. Bloomberg 10. CNN

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