

THE INFLATION HEDGING PROPERTIES OF REAL ESTATE: A COMPARISON BETWEEN DIRECT INVESTMENTS AND EQUITY RETURNS

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Abstract: Using panel data augmented Fama-Schwert regressions this study analyses the inflation hedging properties of different types of real estate assets. The results reveal that real estate equities like other equities, too, do not provide any hedge against inflation. Moreover, the correlation is negative, indicating that increasing prices have a negative impact on real estate returns. One explanation for this finding is, that investors adjust their expectations when overall business activity weakens in response to increasing inflation. Direct investments in real estate show a more differentiated picture. While retail real estate does not provide a hedge against inflation, office as well as residential real estate returns rise with inflation. In particular, residential real estate is characterized by quite robust inflation hedging properties probably due to the low substitutability of dwellings.

Key words: *Inflation, Real Estate Returns, Fama-Schwert-Regression, Panel Data*

JEL Classification: *C33, E31, R33*

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