KGAL Research: Real estate can protect against inflation – but not in all scenarios

- **Rising inflation puts real value preservation in focus**
- **Inflation hedge depends on adjustable net income, purchase price, timing of acquisition and financing**
- **Residential tends to offer a better inflation hedge than commercial real estate**

Grünwald near Munich, 19 November 2026 – Real estate can provide long-term protection against inflation, but often fails to fully offset short-term inflation surges. The hedging function is stronger for expected price increases than for unexpected spikes in inflation. Residential assets tend to perform better in this respect than commercial real estate. Alongside rental income growth, the purchase price, the timing of acquisition, financing and economic conditions are key to preserving value in real terms. These are some of the findings of KGAL's latest Research Spotlight, which draws on a review of numerous academic studies and market data.

"Expected price increases can already be factored into both the purchase and the financing of a property. When inflation rises unexpectedly, however, interest rates and valuations often react more quickly than rents. A long-term investment horizon therefore allows rent adjustments time to take effect," says Andreas Trumpp, Head of Research at KGAL.

Over periods of ten years or more, broadly diversified real estate investments have generally preserved purchasing power, according to the European data analysed. However, this does not demonstrate reliable protection against unexpected inflation shocks. The long-term findings support the role of real estate as a component of an investment strategy aimed at preserving value in real terms.

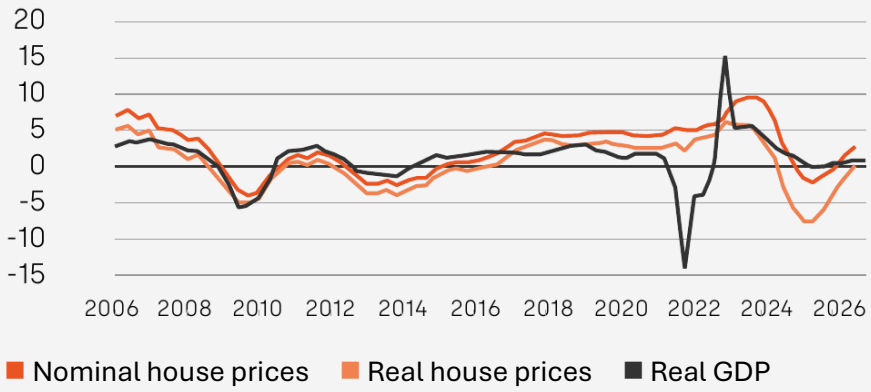
Residential offers an advantage over commercial real estate

Research suggests that residential assets often offer better inflation protection than office or retail properties. Relatively stable housing demand and limited supply may help explain this. Although inflation-linked leases are more common in commercial real estate, they do not automatically protect against a loss of purchasing power. In a weak economy, vacancies, rental defaults and falling market rents can erode the benefits of such rent indexation.

Rising rents do not protect against falling property values

The analysis also highlights that rising rental income and falling property values can occur at the same time. This was evident between 2022 and 2024, when property values came under considerable pressure despite rising rents. According to a market study, European property values excluding the UK were around 19 per cent below their 2022 peak in April 2024.

Development of nominal and real house prices and real GDP



Source: ECB, KGAL Research

“A long holding period and index-linked leases alone do not guarantee inflation protection. What matters is that net income remains resilient even under less favourable economic conditions and that the financing provides sufficient flexibility,” says Trumpp.

For investors, the financing structure, the timing of acquisition and the cause of inflation are therefore crucial, alongside the ability to adjust rental income. While strong demand makes rent increases easier to achieve, rising costs in a weak economy can weigh on income. Long-term fixed interest rates can support inflation protection, whereas variable rates and upcoming refinancing can erode it.

The full Research Spotlight is available here

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About KGAL

KGAL is a leading independent investment and asset manager with assets under management of over €15 billion. The focus of its investments is on long-term real capital investments for institutional and private investors in real estate, infrastructure and aviation. The group, which operates across Europe, was founded in 1968 and is headquartered in Grünwald near Munich. Its 396 employees contribute to achieving sustainably stable returns, taking into account return and risk considerations (as of 31 December 2025).

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