NOV 2026 SPOTLIGHT: RESEARCH

WHEN AND HOW REAL ESTATE CAN HEDGE AGAINST INFLATION



As inflation has risen, preserving wealth has moved back up the agenda. Can real estate offer protection? It depends. The effectiveness with which real estate preserves purchasing power depends on rental income, the purchase price, financing, and the nature of inflation. Research reveals several clear patterns:

Long-term inflation protection is possible, but short-term protection remains limited.

Over periods of ten years or more, diversified real estate investments in the European datasets examined have generally preserved purchasing power. Over shorter periods, particularly when inflation rises unexpectedly, protection is incomplete. A long holding period does not necessarily offset an unfavourable entry price.

Real estate tends to provide better protection against expected inflation than against unexpected inflation.

Several studies point in this direction. Expected price increases can already be reflected in rents, purchase prices and financing terms. Inflation shocks, by contrast, often affect real estate through higher interest rates and falling values. The cause also matters: strong demand makes rent increases easier to achieve, while rising costs combined with weak demand make them more difficult.

Rents can provide protection, while values may fluctuate.

A substantial part of real estate's inflation protection derives from the ability to adjust rents. At the same time, capital values depend on interest rates, required yields and market cycles. Rising rents can therefore coincide with falling values. What ultimately matters is the net income remaining after costs and necessary capital expenditure.

Residential real estate generally provides better inflation protection than commercial real estate.

This is despite commercial leases in continental Europe being more frequently linked directly to inflation. Scarcity and stable demand can support protection; an indexation clause alone is not sufficient. Against this backdrop, the environment for residential property appears favourable.

Inflation protection varies across countries, lease structures and regulatory regimes.

Widespread indexation clauses in continental Europe, the frequent five-year rent reviews in traditional UK commercial leases and government restrictions on residential rents produce different outcomes. The key question is when, and to what extent, higher prices actually feed through into rental income.

The 2022-2024 inflation cycle illustrates the limits of real estate's inflation protection.

In many markets, rents rose while higher interest rates weighed on property values. Nominal residential property prices in the euro area had already returned to their previous peak by 2024, but this had not yet made up for the loss of purchasing power. For long-term investors, both income returns and capital performance over the full holding period matter.

Author



Andreas Trumpp, FRICS
Head of Research KGAL

What inflation protection means and why the evidence is mixed

The research does not provide a simple yes-or-no answer. Findings depend on whether a study examines house prices, rental income, total returns or listed companies. This makes it possible to identify the conditions under which real estate may help preserve purchasing power. The decisive factors are occupiers' earnings capacity, adjustable net income and sustainable financing.[1, 2, 3, 6]

What is meant by inflation protection

Preserving purchasing power means that the investment as a whole grows at least as quickly as the price level, after costs. A positive real return indicates that this was achieved over the period examined. It does not prove that the investment provides protection precisely when inflation rises unexpectedly.

An inflation hedge in the narrower sense responds systematically to inflation. With a complete hedge, the nominal return rises by roughly the same amount, so that additional inflation does not reduce the real return. A partial hedge offsets only part of the effect. Conversely, "not statistically significant" does not mean that real estate can never preserve purchasing power.[1, 3]

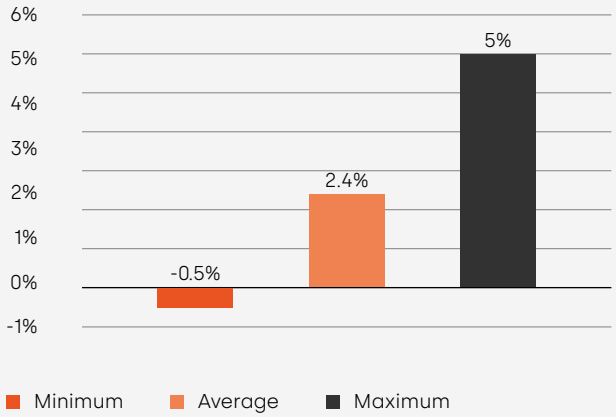
For real estate, three separate measures are crucial: rent received, the surplus after operating costs and necessary capital expenditure, and the total return including changes in value. An index-linked rent initially secures only one income item. The investor may still suffer a loss in real terms if refurbishment costs, interest expense or valuation losses rise more sharply.

The investment horizon materially affects the outcome

In the short term, financing conditions and purchase prices often respond faster than in-place rents. Over several years, rent reviews and new lettings can take effect. However, long-term statistical relationships do not promise that losses will have been recovered by a particular disposal date. Entry valuation and holding period must be considered together. Across the rolling ten-year periods considered by INREV, purchasing power was preserved in real terms in most cases. For European real estate funds with end years from 2010 to 2023, annualised real returns averaged 2.4%, within a range of -0.5% to +5.0%. For the UK MSCI property series with end years from 1990 to 2023, the average was 4.7%, with a minimum of -0.2% per annum. The series cover different periods and levels of the investment structure, so they do not provide robust evidence of UK outperformance. In addition, the windows overlap and are not independent observations.[8]

Real returns of European real estate funds

Rolling ten-year periods
ending 2010-2023



Source: INREV, KGAL Research

The timing of entry has a material influence on real investment performance. A long holding period alone does not guarantee the preservation of purchasing power. An IPF study emphasises the importance of the point in the cycle at acquisition and of economic growth. Its analysis covers total returns and gross rental growth.[3] Higher construction costs may restrain new supply and support rents on existing stock, provided demand is present. They do not create a floor value: buildings with weak demand may trade below replacement cost. At the same time, construction cost inflation makes refurbishment more expensive.[8]

Findings from selected studies

Long-term evidence supports real estate's inflation-hedging potential

A broad long-term study by Jordà, Knoll, Kuvshinov, Schularick and Taylor covers 16 industrialised countries from 1870 to 2015. Residential property produced real total returns of a similar order to equities, with lower measured volatility and low cross-country correlation. These findings relate to historical market portfolios including rental income.[15]

For Germany, Deutsche Bank Research reports nominal house price increases in all twenty-year periods examined from 1970 to 2022 and in 36 of 43 ten-year periods. Those frequencies alone do not demonstrate the preservation of purchasing power in real terms. The same analysis shows why: the 1995 price level was regained in nominal terms only in 2012 and in inflation-adjusted terms only in 2017. Rental income is not included.[17]

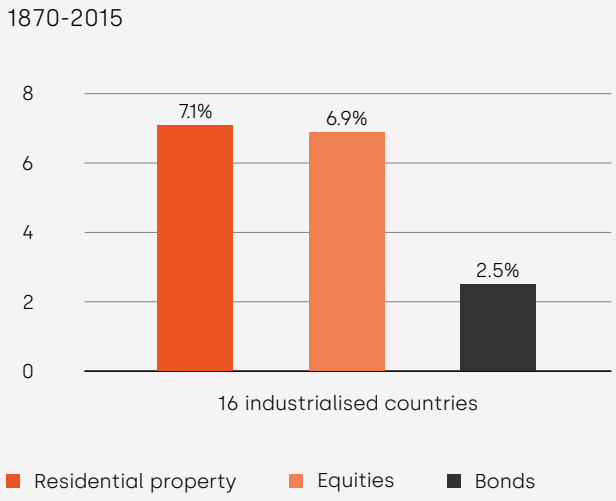
The long-term evidence therefore supports the possibility of preserving purchasing power in real terms, but it does not prove the existence of an inflation hedge at all times. Falling interest rates supported historical capital appreciation; this effect cannot simply be extrapolated. Knoll, Schularick and Steger also show that real house prices barely increased for long periods and that the subsequent rise was driven mainly by land prices.[8, 16]

Residential property often provides long-term protection

Fehrle (2023) examines residential property returns in 16 countries from 1870 to 2020. On average across countries, he finds at least partial protection over one-, five- and ten-year periods, and close to complete protection in the long-term post-war model. Germany is an outlier in the ten-year comparison: the estimated relationship is negative but not statistically distinguishable from zero.

The positive overall finding therefore does not provide stand-alone evidence for the German market. Historical return series and today's individual assets are also only partly comparable.[1]

Inflation-adjusted returns



Source: : Jordà et al. (2019), The Rate of Return on Everything[15]

More recent international findings are positive, but qualified

Muckenhaupt, Hoesli and Zhu (2025) examine Germany, France, Sweden, Switzerland, the United Kingdom and the United States through to the end of 2023. They find long-term protection and, for direct real estate, positive responses during crises. An important qualification is that "direct real estate" is represented by the net asset values of listed companies, using data from 1997 onwards and adjusted for valuation smoothing. The measure reflects debt financing and is therefore not comparable with a transaction index of directly held individual assets without leverage.[2]

UK commercial real estate provides a counterpoint

A 2024 IPF study extends the UK analysis to 2023. Commercial real estate generated positive real total returns over the long term but generally did not provide a complete inflation hedge. Gross rents display stronger protective characteristics than changes in value.

The report also emphasises entry timing and economic growth: high inflation combined with weak growth is particularly adverse. However, gross rental growth is not the same as growth in distributable net income. This empirically grounded industry study is only partly transferable to continental Europe because of its UK focus.[3]

German property vehicles provide protection only over the long term

Obereiner and Kurzrock (2012) find no short-term protection against expected or unexpected inflation for open-ended property funds, special property funds and property companies in Germany, but do identify corresponding long-term relationships.

Their data cover 1992 to 2009. The result is useful for distinguishing between time horizons, but says nothing about how current products have managed the inflation surge since 2022.[4]

New 2026 evidence warrants caution over house prices as an inflation hedge

Huang, Muin and Hong examine eleven G20 countries, including Germany, France and the UK, using data from 2005 to 2022. Their non-linear model generally finds that house prices do not provide effective protection; South Korea is a long-term exception in certain specifications. However, the paper does not analyse total returns including rent. It qualifies the claim that property values are automatically inflation-proof, but does not disprove the potential for an income-producing property to preserve purchasing power.[6]

Which types of real estate can provide protection, and under what conditions?

The following overview combines study findings with economic interpretation; it is not a statistically proven ranking. Within a sector, lease structure, location, asset quality and purchase price may matter more than type of use. According to INREV's literature review, some research finds stronger protective characteristics for residential than for commercial real estate, even though commercial leases in continental Europe are more frequently index-linked. Persistent housing demand and supply constraints are plausible economic explanations, but are not supported by separate causal evidence.

In commercial real estate too, an indexation clause is effective only if the occupier can afford the rent.[8]

Investment type	Potential protection	Key limitation
Rented residential	Ongoing housing demand and rents that catch up can support real in-come.	Demographics, regulation, ability to pay, maintenance and purchase price limit the effect.
Office and retail	Index-linked leases can raise in-place rents.	Weak demand may lead to defaults, vacancy and discounts on reletting.
Logistics and industrial	Rent reviews can be effective where space is scarce and in demand.	The economic cycle, new supply and specific lease clauses remain decisive.
Hotels and operational real estate	Operating revenues can adjust comparatively quickly.	Costs also rise; a fixed lease does not automatically pass through revenue growth.
Property companies and REITs	Long-term exposure to adjustable property income.	In the short term, market pricing, leverage and interest-rate risk have a particularly strong effect.

Indexation and actual rental income

For commercial rents, review intervals, thresholds, caps and the proportion linked to an index determine how much inflation feeds through. Even full indexation requires solvent occupiers. If the contracted rent subsequently rises above the market rent, the rent may have to be reduced when the space is relet.[8]

There is no general right to automatic inflation adjustment for existing residential rents in Germany. An index-linked rent requires an appropriate contractual agreement and, as a rule, the rent must remain unchanged for at least one year at a time. Without indexation, the local reference rent, statutory notice periods and caps may restrict adjustments.

Asking rents are therefore not a reliable measure of short-term growth across all in-place rents.[11,12] Prime market rents do not represent actual portfolio income. For investors, what matters is the amount remaining after vacancy, letting costs and capital expenditure. A building will remain in the prime segment only if it is modernised accordingly.

Rental growth can coincide with falling values

A simplified example illustrates the valuation effect. Sustainable annual net operating income of EUR 100,000 produces a value of EUR 2.5 million at a 4% capitalisation rate. If income rises by 5% but the capitalisation rate increases to 5%, the value falls to EUR 2.1 million, a decline of 16%. Financing and transaction costs are excluded.

The comparison is between two income and valuation scenarios; the capitalisation rate encapsulates market expectations. Higher expected net income growth may partly or fully offset rising required yields and may support value today. The extent of the offset depends on the scale, timing and reliability of future rent reviews and on cost trends.

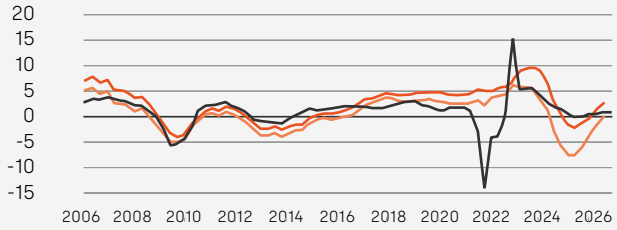
Inflation does not automatically increase net income growth. The ECB attributes the commercial real estate downturn since 2022 to monetary tightening and weaker demand for real estate.[8, 14]

One estimate illustrates the order of magnitude: by April 2024, European real estate excluding the United Kingdom was estimated to have lost around 19% of its value from its 2022 peak.

19% **Decline in value from 2022 to 2024**

The study also estimated an average gap of around 7% between valuations and transaction prices, rising to 15% for offices. These estimates do not constitute a uniform transaction index. They illustrate why lagging valuations may initially dampen the reported volatility of direct investments.[18]

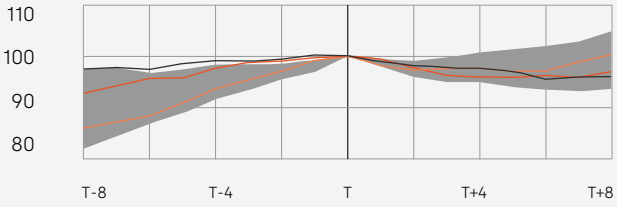
Trends in nominal and real housing prices and real GDP



Source: EZB, KGAL Research

Trends in nominal residential real estate prices and valuation levels

A comparison of price peaks



Source: EZB, KGAL Research

Outcomes depend on the type of inflation and the market

Expected inflation is different from unexpected inflation

Expected inflation may already be reflected in purchase prices, rents and financing rates. Any expected inflation benefit is therefore likely to be reflected in pricing. Unexpected inflation, by contrast, changes existing calculations: income may adjust only with a delay, while capital markets and lenders respond quickly.

The study Listed Real Estate as an Inflation Hedge Across Regimes examines the United States from 1975 and the United Kingdom, Japan and Australia from 1990, in each case through to 2023. For listed real estate, short-term relationships are more favourable in calm regimes than in turbulent periods. Over the long term, the findings are positive mainly for expected inflation, although results vary by country. They do not establish reliable short-term protection against unexpected inflation.[5]

The source of inflation also matters

When demand is strong, revenues, employment and demand for space may grow at the same time, making higher rents more affordable. When inflation is supply-driven, however, costs may rise while real incomes fall. The inflation rate alone is therefore a poor predictor of rental growth. Economic activity, the supply of space and occupiers' ability to pay are crucial. Even in a strong economy, rising interest rates may outweigh the valuation benefit of higher rents.[3, 14]

The cause and duration of inflation should be assessed separately. Supply shocks may recur and persist through input costs and wage adjustments. Europe's 2021-2023 episode demonstrates the importance of energy prices, pandemic effects and geopolitical shocks. Scenario analysis for investors should therefore include a persistent cost shock combined with weak demand.[13]

Fang, Liu and Roussanov (2026, available online in 2025) separate energy inflation from core inflation, which excludes energy and food. In their analysis, US REITs respond more favourably to energy inflation. This does not imply protection against every energy shock: energy prices may rise because of strong demand or because of supply disruptions. Splitting the consumption basket is no substitute for analysing the underlying cause.[7]

Findings are not fully transferable across European markets

The studies do not provide uniform evidence for Germany. Fehrle's negative ten-year estimate is not statistically distinguishable from zero, so it establishes neither reliable protection nor the absence of protection. The German fund study, by contrast, identifies long-term relationships.

UK findings are only partly transferable: traditional longer commercial leases often provide for upward-only open-market rent reviews every five years. Shorter leases and index-linked contracts supplement this model; inflation clauses are more common in continental Europe.[1, 3, 4]

> **The positive panel finding in the 2025 six-country study** is neither a country ranking nor evidence for every national market. Outside the euro area, exchange rates and hedging costs also affect the preservation of purchasing power from the perspective of a euro investor.[2]

Regulation also limits the pass-through of inflation. France generally capped its reference rent index at 3.5% from 2022 to early 2024; Spain limited annual rent increases to 3% in 2024. In Scotland, subject to exceptions, a 3% cap applied to covered private in-place rents until the end of March 2024. Such measures may restrict short-term protection. In Germany, the rent brake generally concerns the initial rent in designated areas. This must be distinguished from local reference rents and caps on increases under Section 558 of the German Civil Code for ongoing tenancies.[19, 20, 21, 22, 12]

The housing cycle also varied: according to the ECB, prices fell after the 2022 peak in twelve of the then twenty euro-area countries, with Germany making a significant contribution to the correction. Across the euro area, the downturn amounted to around 3% in nominal terms and around 10% in real terms. By the third quarter of 2024, nominal prices had regained the previous peak. Because the general price level had risen in the meantime, this did not represent a real recovery to the starting level. The approximately 10% figure refers to the decline during the downturn, not the remaining gap at the end of 2024. This is not an isolated causal test of inflation.[9]

Implications for institutional investors

Diversification increases the likelihood of inflation protection

Private landlords often bear substantial single-asset and tenant risk. Institutional investors can diversify more broadly across locations, occupiers and lease maturities. This increases the likelihood of capturing broad market performance; it does not itself create an inflation link. Fees, debt and liquidity reserves can also cause fund returns to diverge from asset-level returns.

Financing can strengthen protection or erode it

With long-term, fixed-rate nominal debt, unexpected inflation reduces the real burden of the liability. For cash flow to remain positive, however, rents or other income must rise sufficiently. Floating-rate debt, near-term refinancing and falling loan-to-value headroom may erode the benefit. The ECB regards fixed-rate periods as supporting households in the most recent cycle; among the large property companies examined, however, financing costs rose more sharply than income. The capital structure must therefore form part of the inflation-protection thesis.[9, 14]

How robust is the evidence overall?

Evidence for broad historical portfolios is only partly transferable to individual assets. Valuation-based series respond with a delay. Studies use different inflation measures and models for expected inflation; costs and capital expenditure are sometimes captured only in general terms. Positive real returns and simple correlations do not prove reliable protection against inflation surprises. The investment vehicle, data window and methodology remain decisive. For example, an older IW study finds stronger protection for residential than for office and retail. However, its direct real estate returns cover only 1998 to 2007. This is insufficient for a generally applicable current ranking. Particularly for newer sectors, long and comparable time series spanning several inflation regimes are lacking.[10]

Implications for an investment case

In an investment case, inflation protection should be assessed using verifiable assumptions:

- What proportion of rent is adjusted, and when?
- Do occupiers' revenues rise as well?
- What remains after costs and necessary capital expenditure?
- For how long are interest rates fixed, and what exit value is sustainable at higher required yields?

The implications can be assessed by comparing a strong-demand scenario with a scenario of persistent cost pressure and weak demand.

For core investments in established locations with stable tenancies, credit quality and long leases must be supplemented by adjustable income, a sustainable entry price and liquidity reserves. The planned holding period should allow rent reviews to take effect and help avoid a forced sale at an unfavourable valuation. Indexation supports current income, but it does not by itself preserve the real value of equity.

In brief: Over the long term, real estate can provide inflation protection under the right conditions, although that protection is often only partial. Residential property tends to perform better than commercial real estate. Investment decisions should therefore assess the adaptability of net income together with purchase price, financing and the cause of inflation. The decisive question is whether the protection remains effective under less favourable assumptions.



References

1 Fehrle, D. (2023). Hedging against inflation: housing versus equity. Empirical Economics 65, 2583–2626.

2 Muckenhaupt, J., Hoesli, M. and Zhu, B. (2025). Real estate as an inflation hedge: new evidence from an international analysis. North American Journal of Economics and Finance 80, 102488.

3 Investment Property Forum (2024). Property and Inflation Revisited.

4 Obereiner, D. and Kurzrock, B. M. (2012). Inflation-hedging properties of indirect real estate investments in Germany. Journal of Property Investment & Finance 30(3), 218–240.

5 Muckenhaupt, J., Hoesli, M. and Zhu, B. (2025). Listed Real Estate as an Inflation Hedge Across Regimes. Journal of Real Estate Finance and Economics 70, 189–239. Available online since 2023.

6 Huang, Y., Muin, M. F. and Hong, C. (2026). Do House Prices Effectively Hedge Inflation in G20 Countries? Investigación Económica 85(336), 34–62.

7 Fang, X., Liu, Y. and Roussanov, N. (2026). Getting to the Core: Inflation Risks Within and Across Asset Classes. Review of Financial Studies 39(3), 702–743. Available online since 2025.

8 INREV (2024). Real estate as an inflation hedge in a normalised monetary environment and changing occupier markets.

9 Höynck, C., Roma, M. and Schlieker, K. (2025). Developments in the recent euro area house price cycle. ECB Economic Bulletin 2/2025.

10 Demary, M. and Voigtländer, M. (2009). Inflationsschutz von Immobilien. Direktanlagen und Aktien im Vergleich. IW-Trends 1/2009.

11 German Civil Code. Section 557b, Index-linked rent.

12 German Civil Code. Section 558, Rent increase up to the local reference rent.

13 Lane, P. R. (2024). The 2021–2022 inflation surges and monetary policy in the euro area. ECB Blog, 11 March.

14 Cavalleri, A., de Nora, G. and Ryan, E. (2024). Rents or rates: what is driving the commercial real estate market? ECB Financial Stability Review, November.

15 Jordà, Ò., Knoll, K., Kuvshinov, D., Schularick, M. and Taylor, A. M. (2019). The Rate of Return on Everything, 1870–2015. Quarterly Journal of Economics 134(3), 1225–1298.

16 Knoll, K., Schularick, M. and Steger, T. (2017). No Price Like Home: Global House Prices, 1870–2012. American Economic Review 107(2), 331–353.

17 Möbert, J. (2023). Inflationsschutz durch Hauspreise – das neue Renditedreieck 1970–2022. BondGuide, 2 March.

18 Wright, C. and Schanz, S. (2024). European real estate market outlook Q2 2024. Aberdeen, 29 April.

19 INSEE (2024). Indice de référence des loyers, deuxième trimestre 2024.

20 La Moncloa (2023). Las Cortes Generales aprueban definitivamente el proyecto de Ley por el Derecho a la Vivienda, 7 May.

21 Scottish Government (2024). Continuing rent protection for private tenants, 24 January.

22 German Civil Code. Section 556d, Permitted rent at commencement; exceptions in Sections 556e and 556f.

Note:

Targeted review of the literature for Germany and Europe; not a systematic meta-analysis. Publication year and data period should be distinguished. Historical examples describe the respective period stated. Information as at 28 September 2026.

Important informationen

All rights reserved. The information contained in this document does not constitute investment advice or financial analysis; it merely reflects the views of KGAL. Past performance is not a guarantee of the future performance of an investment. Unless otherwise stated, the views contained in this document are based on research, calculations and information produced or obtained by KGAL. These views may change at any time depending on economic and other conditions. There is no assurance that countries, markets or sectors will develop as expected. Investments involve risks, including political and currency risks. The return and value of the underlying investment are subject to fluctuation. This may result in the total loss of the capital invested. This document is not a prospectus and does not constitute an offer to buy or sell units in an investment fund or financial instrument. It is intended exclusively for marketing and information purposes. The document is not tailored to the personal circumstances of potential investors. It is not a substitute for individual advice based on a prospectus. The document does not claim to be complete. No participation or subscription can be made on the basis of this document.

Image credits: KGAL