"A key measure of inflation climbed to a near-40-year high last month. It was the steepest annual price increase since February 1982"

CNN Business, 10 February 2022

"Around the world, soaring prices are emerging as a feature of the pandemic-era recovery"

The Washington Post, February 2022

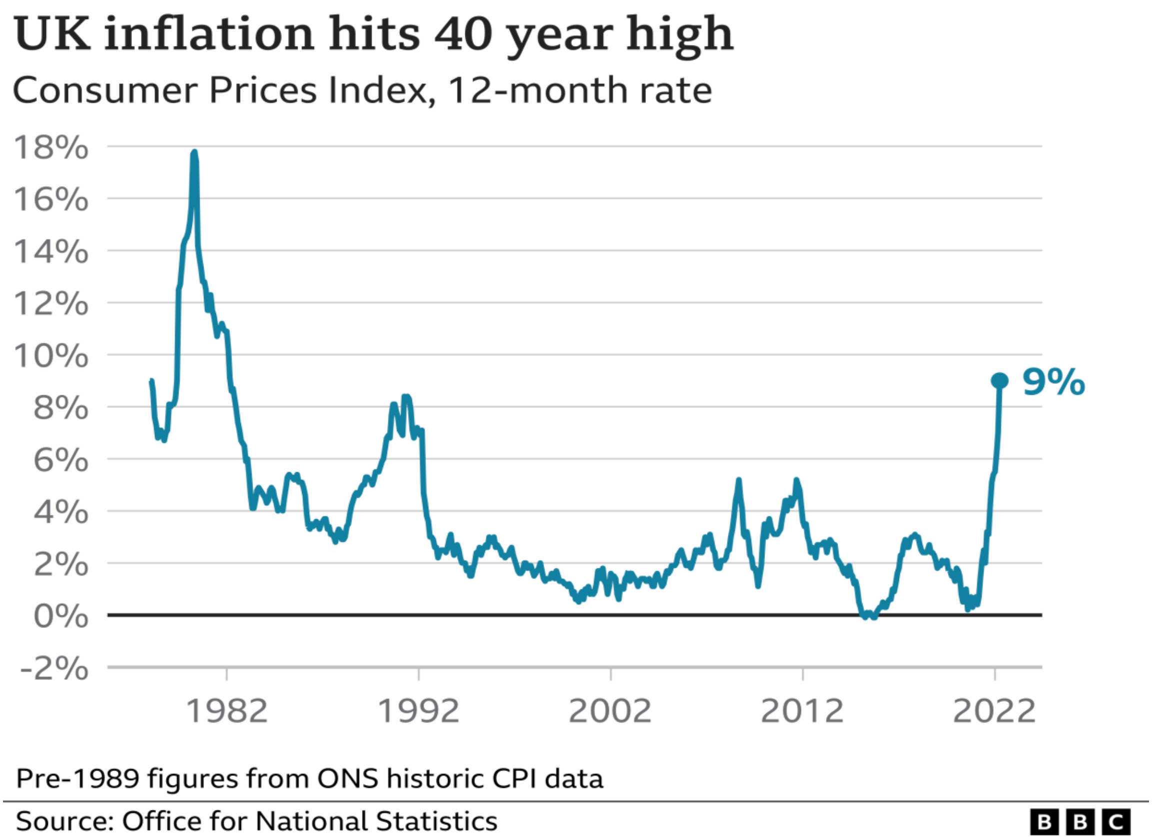
"Australian inflation hits 20 year high"

Reuters, April 2022

INFLATION AND AUSTRALIAN REAL ESTATE

Citylife International Realty

May 2022



Around the world, aggressive rates of inflation in both consumer and producer prices, well beyond the inflation targets set by central banks, are appearing.

These rates of sudden inflation have tended to catch some government and central bank officials off guard who have been forced to acknowledge that inflation is coming faster and higher than they expected.

Earlier this year, billionaire investor Charlie Munger, vice-Chair of Berkshire Hathaway and Warren Buffett's long time business partner, called surging inflation "the biggest long-range danger we have probably apart from a nuclear war."

These inflation rates may be partly explained by:

- rising commodity prices (including agriculture, energy (e.g., oil), materials (e.g., timber), minerals and metals (e.g., copper)); and
- disrupted supply chains resulting from supply bottlenecks, elevated shipping rates as well as critical component shortages such as semi-conductors; and
- the expansion in the money supply of fiat currencies

And lurking around the corner could well be inflation beyond what most of you have ever experienced before.

Inside this Report:

Why you need to fear inflation

Australia's current inflation rate has been confirmed at 5.1% at the date of this report, and the US is sitting at 8.5%.

Just a few months ago, we were told by Central Banks that inflation is transitory - clearly, we see now it is not.

In a recent show economist John Adams believes Central Bank policies can only lead to an inevitable result – hyperinflation. (John Adams; "The Coming Hyperinflation of Australian Property")

The raising of interest rates by the Reserve Bank of Australia (RBA) is now a hot topic of conversation that many Australians are having.

The most important economic questions facing the Australian people are inflation, interest rates, and mortgage/financial stress.

Warren Buffett wrote about this back in the 1970s, the last time the United States (and Australia) experienced above-average inflation for an extended period.

In 2022, he said *inflation is swindling investors and cash hoarders alike.*

And way back in 1977, he wrote: *"How Inflation Swindles the Equity Investor."*

That year the annual inflation rate was running at nearly 7%. Over the preceding seven years, the average inflation rate was close to 7%, going as high as 11% in 1974. Over the next four years, it would average close to 11% per year.

Buffett's main takeaway is that stocks are more similar to bonds than most investors assume, especially when it comes to investing during a highly inflationary environment:

Buffett's reasoning was based on the idea that return on equity for US corporations is relatively stable over time at around 12%. ROE measures the profit corporations generate for every $1 of shareholder equity.

Higher inflation would be harmful if the ROE on stocks doesn't change all that much since investors would be receiving a lower share of profits after accounting for a higher cost of living.

Buffet explained:

"Even if you agree that the 12% equity coupon is more or less immutable, you still may hope to do well with it in the years ahead. It's conceivable that you will. After all, a lot of investors did well with it for a long time. But your future results will be governed by three variables: the relationship between book value and market value, the tax rate, and the inflation rate.

So there we are: 12% before taxes and inflation; 7% after taxes and before inflation; and maybe zero percent after taxes and inflation. It hardly sounds like a formula that will keep all those cattle stampeding on TV.

As a common stockholder you will have more dollars, but you may have no more purchasing power."

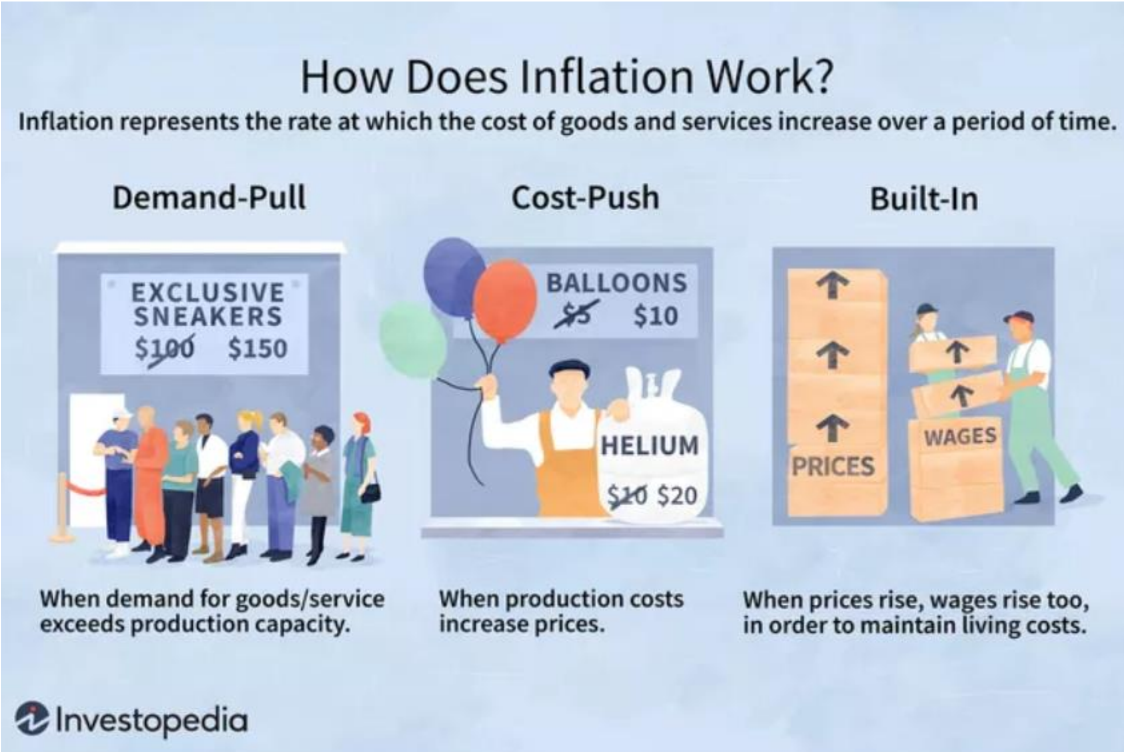
Unfortunately, this means high inflation can be bad for both stocks *and* bonds.

What is Inflation?

Inflation is the decline of purchasing power.

The general economic consensus view is that a long sustained period of inflation is caused by money supply growing faster than the rate of economic growth.

Monetary inflation is the term used by some economists to differentiate direct inflation in the money supply from price inflation which they view as a result or necessary outcome of the former.



Originally“inflation” was used to refer simply to monetary inflation, whereas it often refers to price inflation in current usage.

Australia’s current inflationary pressures are caused by the broad-based nature of price rises, as the impacts of **supply disruptions, rising shipping costs and other global and domestic inflationary factors flow through the economy.**

Effects of Inflation

An increase in prices implies **a decrease in the purchasing power of cash.**

The effect of inflation is not distributed evenly, and as a consequence there are hidden costs to some and benefits to others from this decrease in purchasing power.

For example, depositors who are paid a fixed rate of interest on deposits will lose purchasing power from their interest earnings.

Lenders will lose purchasing power on interest payments (which is why interest rates tend to go up when inflation is high) while **borrowers benefit.**

Individuals orinstitutions with cash will experience a decline in the purchasing power of their holdings.

Debt Relief: Investors who have loans with a fixed interest rate will see a reduction in the “real” interest rate as the inflation rate rises. The “real” interest on a loan is the nominal rate minus the inflation rate. (R=n-i) For example, if you have a loan with an interest rate of 6%, and the inflation rate is 3%, the real interest rate you are paying for the **loan is 3%.**

On the flip side, if you had a loan at a fixed interest rate of 6% and the inflation rate jumped to 10%, you would have a **real interest rate** of -4% (minus 4%).

Another problem is by far the most insidious, for it is the hardest to see. Inflation overwhelms people especially those on lower incomes, as food prices rise, petrol rises, prices of all basic goods shoot up in short order. Yet salaries do not rise as quickly, they lag far behind prices.

Finally, **if inflation leads to “hyperinflation**” then this truly is a worst case scenario (see the story in thisreport on “The Nightmare German Inflation 1923”).

“The important point to understand is that money loses its value through inflation - this includes the money others have lent you.”

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LESSONS FROM THE PAST: HYPERINFLATION

The Nightmare German Inflation 1923

“This report of Germany’s hyperinflation, originally published in 1970 by Scientific Market Analysis, could play an important part in your preparation process. There is little doubt it will affect your thinking.
– Michael J. Kosare

Extract only:

“What caused the inflation?

Our thesis is simple: The inflation was caused by the government issuing a flood of new money, causing prices to rise. Then, as the inflation gained momentum, events seemed to demand the printing of larger and larger issues of currency. To halt the process would have taken political courage, and this was lacking. As usual, the true facts were hidden behind a barrage of excuses, explanations and propaganda laying blame on everyone except the true culprit.

First, it would be wrong to think that everyone was opposed to inflation.

Many big business leaders accepted it cheerfully.

It wiped out their debts.

They knew how to protect themselves and even profit – by speculating in foreign exchange, by converting money into goods and fixed plant, by borrowing money from the bank and using it to buy up cheap stocks and competing companies.

Their wage costs, in true value, decreased, swelling their profits.

Yet many workers also thought that they were benefiting, at least in the earlier stages of the inflation.

Their wages were increased, and it took time before they recognised that, with prices soaring even faster, they were actually suffering a cut in true income.

This is what happened in Germany. The government issued notes which were promptly discounted by the Reichsbank, i.e., the bank issued money on the “security” of these worthless notes. To compound the evil, the bank failed to raise its interest rate sufficiently.

Businessmen found it very profitable to borrow money from the bank and buy up goods, shares and companies. Their debt was wiped out within weeks by the rapid inflation, and the businessman remained holding the valuable assets he had bought. The net result was a huge “private inflation” caused by the rapid expansion of credit.

Even foreign exchange was bought with borrowed money, so that the Reichsbank actually financed speculation against its own currency.

Yet the bank refused to raise interest rates, arguing that this would only add to the cost of business and thus would increase inflation!

“The most successful were those who saw the trend of events early, who borrowed to the hilt and bought up goods, shares and companies at bargain prices.”

The tax system virtually broke down. Businessmen found that by merely delaying tax payments, it wiped out their debt. On the whole, much energy and wealth was wasted in unproductive channels – speculation, paperwork and unprofitable equipment. The working capital of industry was largely into fixed investments. Business was booming and unemployment virtually vanished until the last stages of the inflation.

The rising stars were those of shrewd speculators and manipulators geared to quick trading and to jumping from deal to deal and from company to company. The most successful were those who saw the trend of events early, who borrowed to the hilt and bought up goods, shares and companies at bargain prices. Conglomerates sprung up forty years before the heyday of the conglomerate movement in the US.

However, very few businesses failed, since their debts were constantly wiped out by inflation. Bankruptcies had run to 815 per month in 1913; by late 1923 they were 10 per month.

Some economists argued that inflation may have helped Germany by stimulating the building of capital plant and the rationalisation of industry. But much of this investment proved to have no value except in the dream world of inflation. Most of the inflation combinations fell apparently
dissipated, making that much harder the eventual process of economic rebuilding and rationalisation.

Stabilisation
– The Rentenmark Miracle

The depreciation in the mark would virtually eliminate their true value. But the government, lacking adequate income, felt forced to resort more and more to creating money. By October 1923, 1% of government income came from taxes and 99% from the creation of new money.

Effects of Inflation on Business

As inflation proceeded, people rushed to buy goods and get rid of their depreciated money. For similar reasons, businessmen hastened to buy machinery, to build new factories, to buy huge stocks of coal, steel and other raw materials.

Those who had access to credit borrowed heavily for these purposes, and inflation wiped out their debt.

There was a tremendous conversion of working capital.

In November 1923, a currency reform was undertaken. A new bank, the Rentenbank, was created to issue a new currency – the Rentenmark. This money was exchangeable for bonds supposedly backed up by land and industrial plant. A total of 2.4 billion Rentenmarks was created, and each Rentenmark was valued at one trillion old paper marks.

From that moment on the depreciation stopped – the Rentenmarks held their value; even the old paper marks held stable. Inflation ceased.

What was the secret of the “miracle of the Rentenmark”? After all, the new currency was not redeemable in anything. Its backing by real property was a fiction, since there was no way by which property could be foreclosed or distributed.

Further, there we have the government distributing a vast new supply of money – 2.4 billion trillion in terms of the old mark. Ought that not have led to a new wild inflation?

To understand this, we must recall that the real value of the money circulating in late 1923 was small – equal to a mere 168 million pre-war gold marks. The continued depreciation at this point was due to utter lack of confidence – to the belief that the printing presses would run indefinitely. But actually there was a great shortage of and need for money. New money could be introduced without price inflation if only people had confidence in it. How was confidence developed?

First, the government announced that the new currency would be “wertbestaendig” – stable in value. In their hunger for usable money people accepted this, at least until it should be proven false. Then the property backing seemed to give the currency value. True, the Assignats of the French Revolution, backed by fixed property, had depreciated, but still the backing helped.

Second, and certainly most important, the government limited strictly the amount of Rentenmarks which could be issued and it halted the issue and discounting of notes and the creation of paper marks. Finally, after April 1924, the Reichsbank stopped the expansion of credit to businesses which had been stimulating inflation. Businessmen were required to repay loans in gold marks, equal to the original value of the loan. Thereafter, incentive was gone to borrow except for legitimate needs.

Cash: Money held in cash lost value rapidly and soon became completely worthless. Of all investment forms, this was the most disastrous.

Bank Deposits: In theory, bank deposits became as worthless as cash. However, after the stabilisation the government decreed partial reimbursement, and sums in the range of 15-30% of the original deposit value were repaid. Naturally, however, the great majority of depositors withdrew their funds at some time during the inflation, after much of the value had been lost, and exchanged them for goods. Few Germans held money in deposits through the entire period.

Real Estate: Farmers and holders of urban property seemed to benefit if their property was mortgaged; the inflation soon wiped out the mortgage debt.

However, they received no income, as noted above, since rents were frozen. After the stabilisation, heavy new taxes and the urgent need for cash forced most holders to re-mortgage their property, often more heavily than originally, so that their gains were illusory.

Still, those who held real estate throughout managed to save the capital thus invested. However, those who sold during the inflation fared poorly.

Foreign Exchange: Those who held funds in dollars, pounds or other stable currencies, or in gold, saved their capital. The government set up rigid exchange controls as the inflation proceeded. As usual under such conditions, a black market flourished.

Common Stocks: In an inflation, common stocks are generally considered a desirable hedge to protect against or even to profit from the rise in prices. In practice, it is not so simple. In this country stock prices have been known to fall violently just when inflation was most evident (1946, 1957, 1966, 1969). Market fluctuations – the rise of exciting new speculative stocks, waves of fear or greed – all make it much too easy to buy or to sell at the wrong time or to go into the wrong stocks.”

Lessons from the past: Australian inflation - the 1970’s and 1980’

Bernie Fraser: Talk to the 20th Conference of Economists
Governor Reserve Bank of Australia Hobart – 3 October 1991

The 1970s

Why did people lend funds at very low – and often negative – real interest rates in the 1970s? Were they stupid, or just unlucky? With the benefit of hindsight, it seems surprising that even professional money managers should have bought bonds and debentures, and made fixed-rate mortgage loans during this period.

We should not allow ourselves any feelings of superiority just because we have the benefit of hindsight. The fact is that many investors in the 1970s were the victims of an unanticipated rise in inflation.

Having become accustomed to low inflation during the 1960s (averaging 2½ per cent over the decade), investors could not foresee the sharp jump in the early 1970s, with inflation spiralling to 18 per cent in 1974. **Such increases were outside their range of experience.** By 1976 they were still in a difficult position. By then they had a few years of very high inflation behind them, but what were they to expect for the future? Should they assume inflation would continue at its recent exceptionally rapid rate, or could they expect it to be brought under control and quickly return to the levels experienced in the 1960s? Many, apparently, thought the latter.

One thing we have learnt over the years is that it takes a long time for inflationary expectations – and then business strategies – to adjust to changing circumstances. Two examples will illustrate this:

i. When Australian Savings Bond (ASB) No. 1 was introduced in January 1976 subscriptions flooded in. The issue had to be closed early for fear that it would cause problems for the savings banks and building societies. Investors thought the 10½ per cent interest rate on offer was too good to be true – not just the mums and dads, but also many big players who were subscribing in units of $100,000. Inflation at the time was higher than 10½ per cent but the general expectation seemed to be that there would be a quick return to the more familiar rates of the 1960s. In the event, inflation declined only slowly and the real yield of ASB No.1 was pretty miserable – only 0.6 per cent per annum if held to maturity.

ii. Life offices in the 1970s engaged in a lot of long-term, fixed-interest lending, and frequently provided developers of commercial buildings or housing estates with mortgage finance. **In the 1970s the developers did very well out of this borrowing as inflation pushed up property prices**. The lenders, however, did very badly, with many loans in their portfolio earning interest rates much lower than they could earn through new lending. By the 1980s the big institutions had learnt their lesson and stopped providing fixed-term credit; in some cases they (and several finance companies) switched to providing equity through joint property ventures – financing, in retrospect, they should perhaps have been doing in the 1970s!

As I say, these examples illustrate that:

- **even professional investors** can lose money through unanticipated changes in the rate of inflation; and, more importantly,

- it can take a long time for people to, firstly, adjust their inflationary expectations and, secondly, adjust their business strategies.

Of course, other factors were at work during the 1970s. In particular, interest rate ceilings on bank deposits and the fact that the Government set the yields on its own debt introduced important rigidities. Nominal interest rates were slow to adjust upwards because such adjustments required politically unpopular government decisions. This slowness exacerbated inflationary pressures, although over time some adjustments were made. Without these ceilings, nominal interest rates would probably have risen more quickly, although **we still would have seen negative real interest rates** (as we did in most OECD countries, some of which had looser controls on interest rates than Australia).

Interest rate ceilings, however, should not have prevented bigger players from making a positive real rate of return on their savings. Those who made $100,000 subscriptions to ASB No. 1 had choices beyond government bonds and bank deposits, including the purchase of equities or property. That many did not pursue those latter courses suggests that they expected to get a reasonable return from ASBs. Similarly, professional funds managers did not have to make mortgage loans or buy debentures, but many did so because they too were slow to accept the change in the inflationary environment.

Gradually, however, inflationary expectations adjusted upwards. This was kicked along throughout the world by further large increases in oil prices in 1979. For some countries, including the United States, inflation was higher in the early 1980s than it had been in the mid 1970s. By 1982, when the first bond tender was held in Australia, yields reached 16.6 per cent, which were high in real terms, however measured. Bond yields remained high for the rest of the decade, being generally within a 12 to 15 per cent range. Inflation by this time had declined well below its rate in the 1970s, averaging 7 to 8 per cent over the period in question. Yet real rates of interest remained high in the 1980s, whether calculated on a conventional or ex post basis. **Why were real rates so high in the 1980s, when inflation itself was on a downward trend?**

The 1980s

The answer in part is in the mirror image of the 1970s experience. After that decade of very high inflation, in Australia and abroad, inflationary expectations adjusted upwards. (Inflation fell briefly to around 5 per cent in 1984, following a recession and a wage freeze, but inflationary expectations did not adjust downwards.)

In this climate of entrenched high inflationary expectations, **it became difficult to find investors who were prepared to lend long term at fixed rates**. The smell of burnt fingers in the 1970s lingered on. Even lenders whose inflationary expectations had begun to turn downwards still demanded a risk premium as insurance against a resurgence in inflation. High interest rates had to be offered to coax lenders out of the woodwork. In contrast to the 1970s, funds managers and others were now more interested in buying equities and property.

While high inflationary **expectations reduced the willingness to lend long term at fixed rates**, they whetted the appetite for borrowing. Many assumed inflation would continue to whittle away the real value of their borrowings, and at the same time push up the value of acquired real assets. Borrowers were also very aware that they could write off the full borrowing costs against current income for tax purposes, even though the inflation component was implicitly a repayment of capital.

In these ways, entrenched high inflationary expectations contributed **to the asset price boom in the second half of the 1980s**. They also help to explain the conundrum that very strong demand for credit could persist notwithstanding some very high real interest rates. After a time, of course, that demand could not be sustained, and high real interest rates eventually won out. **But we were all surprised by how far real interest rates had to be pushed up,** and how long they had to be kept there, to check the asset price boom and associated heavy demand for borrowed funds.

Inflation and Interest Rates

Inflation makes tomorrow’s dollars’ worth less than todays.

That makes **property assets increase** value and **borrowing more attractive** to borrowers but lending less attractive to lenders.

To compensate, lenders raise interest rates since (among other things) they too know that the dollars they will be repaid next month are worth less than the ones they loan out today.

But during high inflationary times, it can be challenging to get a mortgage.

High-cost mortgage rates mean buyers have less purchasing power, so many continue to rent.

This surge in demand results in increased rental rates, which is great for landlords, but terrible for renters.

There is nothing an investor can do to change what is happening. All one can do as an investor is recognise the causes and try to benefit from what will happen.

But, as a borrower, there is much one can and should do when looking at the situation.

After all, **governments don't want continually increasing inflation** – if they did, as happened in the late 1970s, for example - interest rates would eventually reach a point where there are loud demands to 'do something'. When they 'do something', it invariably means reversing or at least slowing the actions listed above.

Those actions have a definite impact on anyone looking to borrow money, just as the inflation did. They may lower rates encouraging more borrowing, but it also causes dollars borrowed today to be worth less than they would be tomorrow.

So, when you consider borrowing, you have to try to guess – just as the banks do – about which way inflationary or deflationary pressures are likely to go.

That's a tough job for even so-called professional economists, so how can most of us make informed judgements?

There is no fool proof method, but some indicators are available. It used to be that gold and silver were significant indicators, but that is no longer true since the dollar is no longer related to any hard commodity. Still, there are one or two that can be helpful.

Since oil is a fundamental commodity that is tied to so much production of other things, as the price of oil rises, inflation is likely to heat up some. So look at the price of oil options to see whether prices are expected to be higher or lower in the future.

The interest rate of mortgages for fixed-rate loans for three and five years is also an indicator. In this case it suggests how the professional money managers are betting interest rates will move or change over the coming years.

AUSTRALIAN HOME LOAN RATES

AS AT: 25/5/22

Fixed Rates

SOURCE	1 Year	2 Years	3 Years	4 Years	5 Years
BCU	2.99%	3.49%	3.89%	4.19%	4.39%
CBA	3.14%	3.94%	4.34%	4.54%	4.64%
St George	2.89%	3.79%	4.29%	4.49%	4.69%

Notes: 1. Owner occupied homes, principal and interest payments.

2. Investment loans and interest only higher rates will apply.

Keep in mind that a dollar today is a measure of the cost of goods and services today, just as a dollar tomorrow is a measure of that cost tomorrow.

But when borrowing money, you're buying dollars today to spend today, but will pay them back in the future.

How much those dollars are worth when you pay them back is a measure of what that loan will actually cost you.

> "A surge in inflation expectations on the back of such a loss in confidence would induce people to reduce deposits and cash holdings and pile into real assets."
>
> *Joachim Fels*

STRATEGIES TO PROTECT AGAINST INFLATION

"Warren Buffett says inflation is 'swindling' investors and cash hoarders alike."

NEW YORK POST, MAY 2, 2022

Traditionally, gold (liquid) and real estate (not liquid) have a reputation as good inflation hedges. In the case of hyperinflation, hard assets such as precious metals and real estate are customarily viewed as inflation hedges. In contrast, the value of paper-based assets such as stocks, bonds, and currency erode rapidly**.**

With real estate, you can BORROW (which is good in inflationary times), and you get a return. But you need to be able to cash flow it, as it is likely interest rates will also go up. So will rent, but possibly not as quickly.

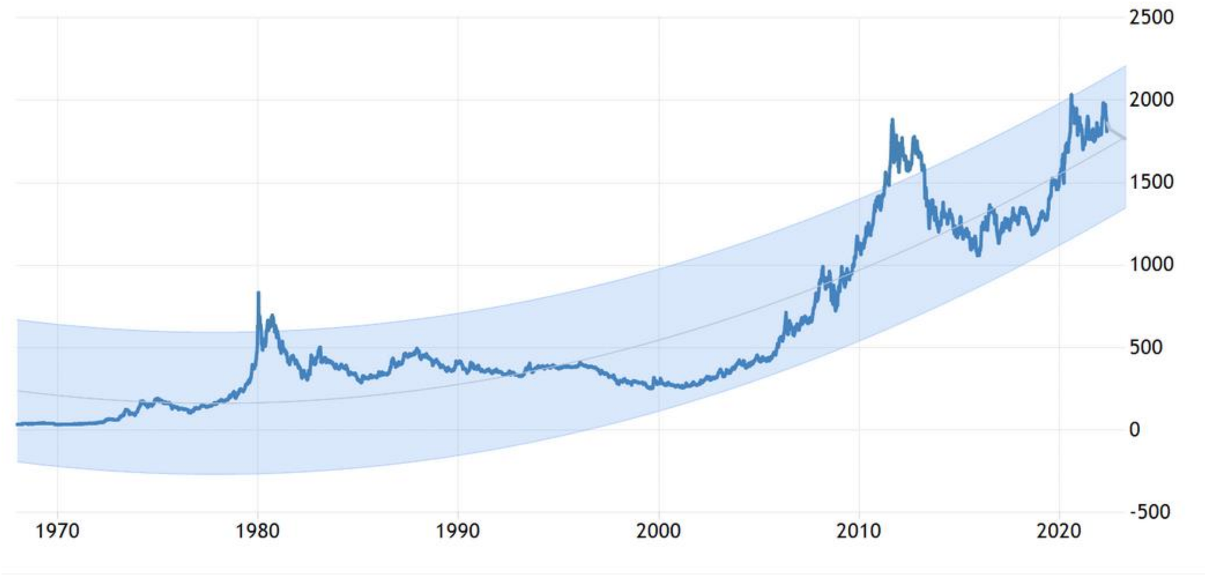
Plus borrowing can become harder to obtain.

Most cash savings can be eaten up quickly in high inflationary times.

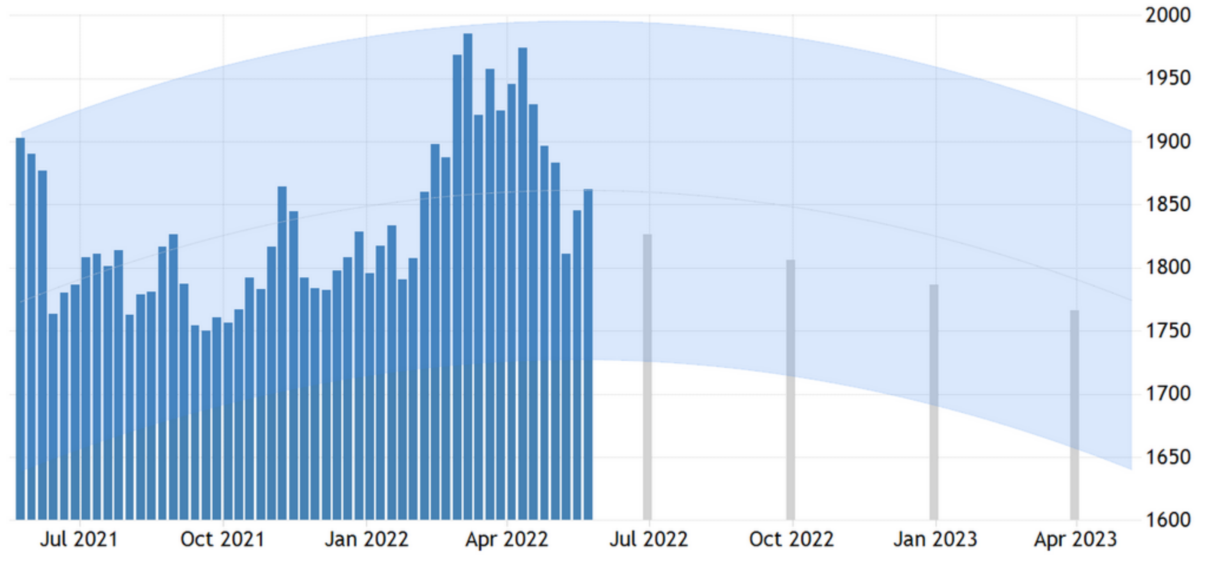
There are two types of investments traditionally favoured as inflation hedges: precious metals and real estate.

Precious metals. If you talk to gold supporters, they will assure you that gold always holds its value over time.

But this may not be true. For example, gold investors lost 10% on average from 1980 to 1984, when the annual inflation rate was about 6.5%.



“I wouldn’t buy gold purely because you think inflation is coming,” said Michael McClary, chief investment officer at Valmark Financial Group in Akron, Ohio.



Looking forward, we estimate gold it to trade at 1766.56 in 12 months' time, according to Trading Economics global macro models.

Other inflation options

Instead, investors might consider upping allocations to four asset classes: stocks, Treasury inflation-protected securities (known as TIPS), real estate investment trusts and commodities (oil, for example) as a better inflation hedge, McClary said.

Besides the short-term risk, there are other disadvantages to buying gold. Namely, if you buy gold bullion or coins, you must store them somewhere – like a bank safe deposit box. Of course, gold doesn't pay dividends or give any return. It doesn't pay interest or rent – it just sits there.

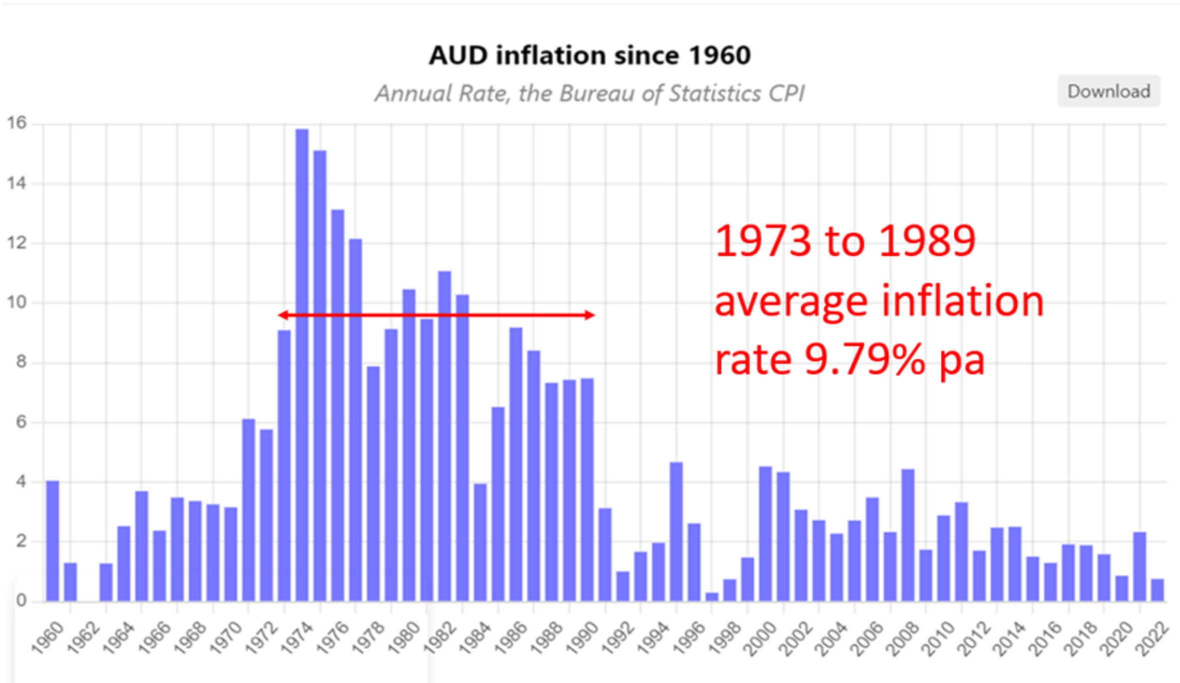
Some analysts say that some money market funds, which pay higher yields as interest rates rise duringinflationary times, can also be a good inflation hedge.

THE EFFECT OF INFLATION ON AUSTRALIAN REAL ESTATE

Many readers will not have experienced inflation since they started working. So if we go back to the last time Australia had high inflation, namely the 1970s and 1980s let's see what happened to property prices.

($1,000 in 1973 is equivalent in purchasing power to $4,458 in 1989, an increase of $3,460 over 16 years. This was an average inflation rate of 9.79% per year between 1973 and 1989, producing a cumulative price increase of 345.83%.

According to the Bureau of Statistics consumer price index, prices in 1989 were 4.46 times higher than average prices since 1973.



SO, what did Sydney house prices do in that same time? One of Australia's oldest sayings in real estate was always "property outperforms inflation by around 2%".

Well, certainly we can see that is true for Sydney house prices last time inflation hit:

1973 – 1989 Sydney house prices up 590%* or 12.9% p.a for 16 years

(*Source: BIS Shrapnel)

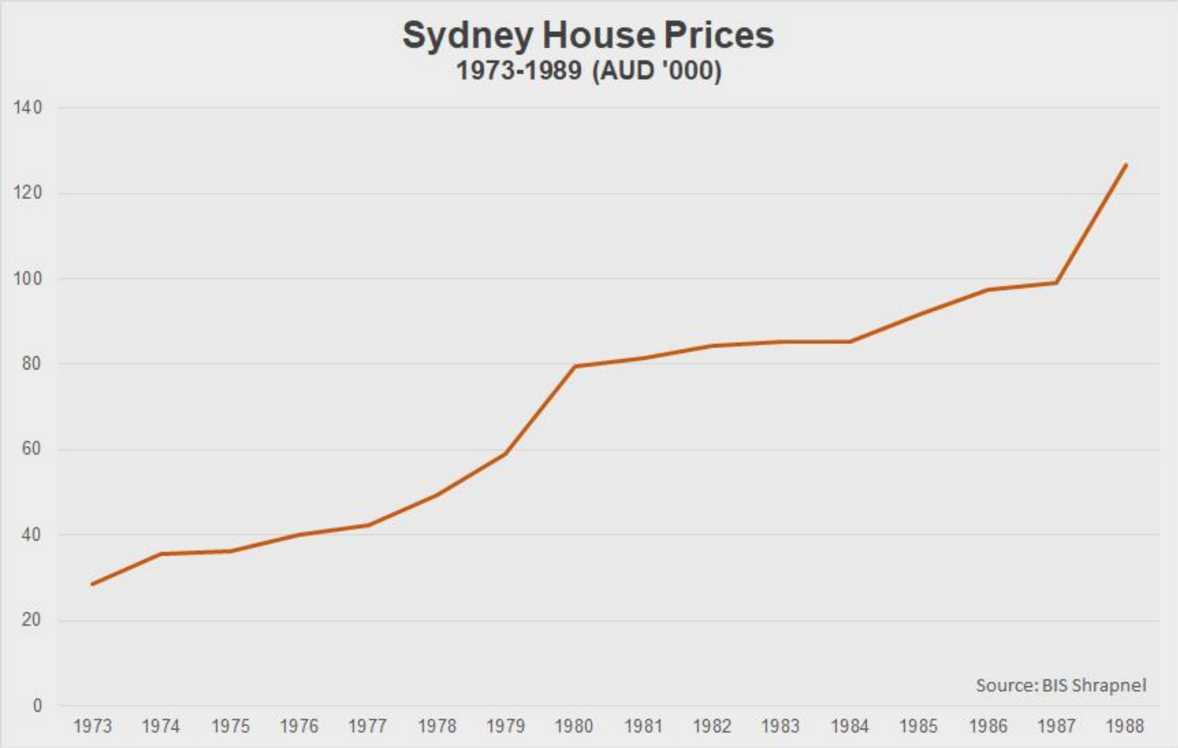
INFLATION AND AUSTRALIAN PROPERTY

The last time Australia faced high inflation was in the 1970's and 1980's. This chart illustrates what happened to Sydney house prices.

Period	Time	Average Inflation Rate p.a.	Average house price increases p.a	Total Growth
1973 – 1989	16 years	9.79%	12.9%	590%

Note: Inflation for 30 years from 1990 – 2020 has averaged 2.5% p.a.

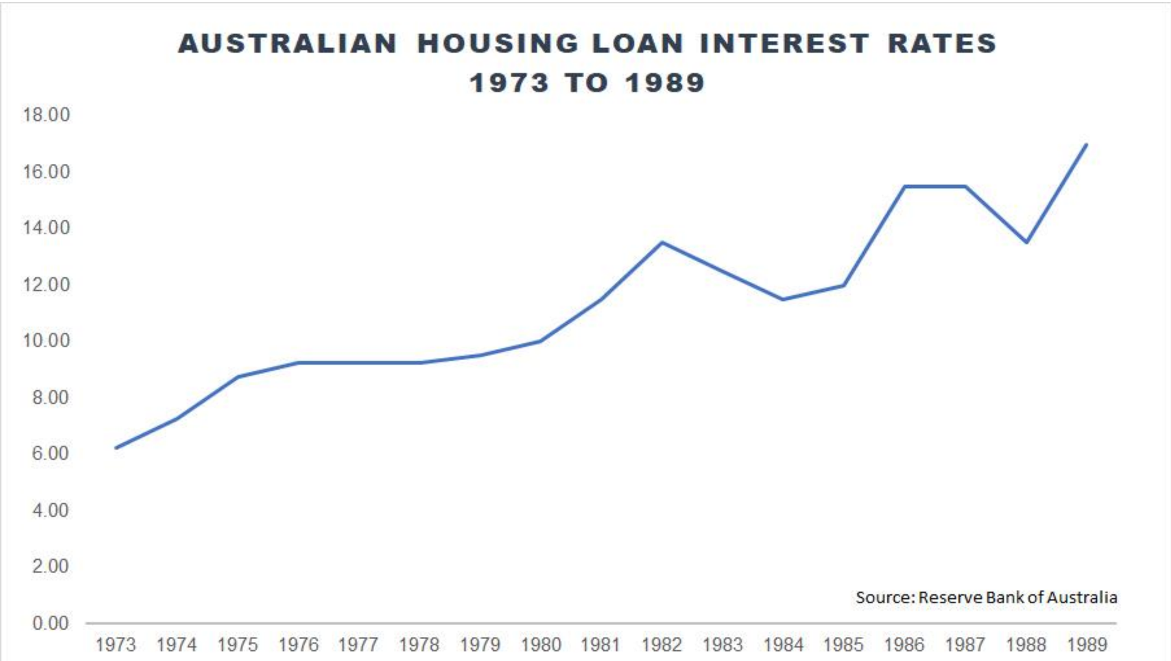
Sources: Macrotrends, ABS, BIS Shrapnel



Clearly, propertyy values did keep well above the inflation rate last time around.

However, interest rates were significantly higher at that time, so if investors or home owners had a high level of borrowings, some of the property gains would be offset by the high interest.

This time around, we are looking at relatively lower interest rates and high inflation.



Importance of the real interest rate after inflation

Even though it seems it was very expensive to borrow in the 1970s and 1980s, the real interest rate was much lower after taking into account inflation.

Using the United States as an example, the nominal and real interest rate (after inflation) often don't move in tandem. Because of the high inflation rate, the real interest rate was below zero for a period.

No wonder people were borrowing as much as they could and throwing it into property!

Source: Mishkin, S.F. and Eakins, S.G. (2018). Financial Markets and Institutions, Global Edition (9e). Pearson Higher Ed USA

If it is Australian property you will use as your hedge, look for the following:

Some suggested property strategies to hedge against inflation

If you agree with what you have read in this and other reports, **then you will be aware that the worst thing to hold is cash,** and the best thing is real assets and to have some (manageable) debt.

If you feel Australian property is the correct hedge for you, then here are some suggested strategies you may want to consider adopting to maximise the effects of inflation to your benefit (as always, seek professional advice before making any investment decision):

1. Lock your loan interest rate in for as long as possible when they are low.

2. Start to **pay off as much principle** as you can on each repayment as soon as you see interest rates starting to rise, so that when rates head back up, you are sitting on a nice little buffer.

3. Once you have enough "buffer" or equity in place, **do not pay off any more principle** (as the debt will be reduced by inflation in tomorrow's dollars).

4. Ensure your investment properties will always be able to be rented out, so purchase in locations **of tenant demand**.

5. Over time your mortgage and its repayments will lose their value due to inflation. That is, they are getting cheaper. So if you can find a way to **delay repayments,** you will make more just due to inflation.

6. Consider investing in REIT'S or BTR projects run by professionals, especially if they target the lower rents. As interest rates go up, many buyers have less purchasing power, so they continue to rent. This results in rising rents. Why use professionals? Simply put, professional syndications and funds and private equity placements don't rely on substantial bank loans, **so high-interest rates don't affect them** as much as if you do it yourself.

Investments for an inflationary economy

Investing in real estate is always of course, highly dependent on the market, type of property and location. But the following real estate investments have fared better than others in a high inflationary economy:

- Residential rental property will likely have higher than average demand and returns. Rents are likely to rise. Values will rise in line with or above inflation.

- Real estate investment trusts (REIT) will follow the market demands and appreciation similar to that of physical real estate and can be a good way to distribute your investment across many assets.

- Build to Rent (BTR), real estate syndications, and other private equity real estate placements run by professionals, with low debt levels, and targeting popular residential rental markets, can also **represent excellent opportunities.**

- Increased costs of building materials for new homes and apartments is another disadvantage. New construction can be a very difficult investment during inflation between the high cost to borrow and the additional cost to build. **This may create a shortage of new supply.** And when times get hard, travel often gets cut from the budget pretty quickly so holiday homes in locations driven by tourism may not fare as well as other forms of real estate investing.

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