

Media release

Allianz Real Estate research: 40-year data analysis shows real estate offers a hedge against high inflation

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In an era of record high inflation and significant uncertainty regarding future inflationary trends, real estate as an asset class offers institutional investors a long-term hedge against its adverse effects, according to Allianz Real Estate's proprietary analysis of 40-year data in five key cities for its latest research report, *Real estate investing in an uncertain environment*.

The firm analyzed office sector yields in New York, London, Paris, Frankfurt and Sydney and found rents have grown in line with inflation and real rents have been relatively stable within the context of real estate cycles. Indeed, real estate yields, given they are real yields, tend to be unaffected by rising inflation or inflation expectations.

Dr Megan Walters, Global Head of Research, Allianz Real Estate, said: "CPI inflation climbed to 7.5% in the U.S. and to 5.1% in the eurozone in January 2022 – among the highest readings for decades. But even with record inflation levels and uncertainty, our analysis shows real estate can provide long-run protection for investment portfolios.

"Real government bond yields are a key benchmark for real estate yields and the spread between the two is a risk premium for owning property. Historically, the long-term average for this premium was in the order of 340 basis points for our five markets. At year-end 2021, however, the spread was 515 bps, providing a strong and attractive cushion against rising real bond yields."

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The study by Allianz Real Estate argues that, with real estate able to offer a strong protection against inflation, investors should consider five sectors for globally diversified core portfolios: prime offices in global talent pool cities; U.S. multifamily; Europe logistics; Japan multifamily; and life sciences.

For Europe logistics, the pandemic marked a tipping point in European e-commerce adoption. Compared to 10.6% at the start of the pandemic, the online share in retail sales in Europe is expected to have reached 14.3% by year-end 2021, though this is still behind the U.S. (c.20%) and South Korea (>35%).

In terms of the office sector, Allianz Real Estate's office portfolio covers c. 225 assets in 47 cities. Such a large portfolio allows the firm to measure a range of metrics including location, asset quality, ESG and tenant quality. Its research shows that city center assets near restaurants and amenities, with strong ESG, smart and user-centric credentials and good public transport will continue to be in high demand.

"This is reflected in valuation yields compressing at a rate greater than global average office yields during the pandemic," added **Dr Megan Walters, Global Head of Research, Allianz Real Estate**. "Looking forward, prime office assets will provide resilient and inflation-protected income growth, with Allianz Real Estate forecasting long-term average rental growth of 3%+ pa for top office markets."

"Overall, 2022 has started with elevated inflation in many countries. In this environment, we believe our five real estate sectors are among the top choices for diversified portfolios. Their attractive investment proposition is based on inflation-linked income streams, through lease indexation or inflationary market rents in the long run, and a sizeable yield spread over real risk-free rates."

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To download a copy of Allianz Real Estate's report - *Real Estate investing in an Uncertain Environment* - please click <here>

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Source: Allianz Real Estate, data as at 31st December 2021.

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