

# ASK THE ADVISERS

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## Real Estate as an Inflation Hedge

With inflation at historically high levels Americans are losing buying power. The average American has lost more than \$4,000 in annual income since 2021 due to high inflation and higher interest rates according to data compiled by the Heritage Foundation. Owning real assets has historically served as an effective hedge against inflation. For those who own homes or investment properties, they have seen their wealth increase as real estate prices have been rising.

However, those who own publicly traded real estate investment trusts, (REITs), have not fared as well. Publicly traded REITs tend to be highly correlated to the stock market. Public REITs, like the Vanguard REIT Index (VQN), are down over 25% through late September of 2022 even though so much real estate has appreciated dramatically. The price of private real estate is not necessarily correlated with publicly traded REITs. Private real estate has, in fact, performed well thus far in 2022. Since 1992, private real estate has averaged 9.11% per year compared to 7.82% for stocks. More importantly, if you look at all the rolling 10-year periods since 1992, the worst 10-year

period for private real estate was 6.08%, whereas the worst 10-year period for stocks was **negative** 1.38% per year.\*

What is more relevant perhaps is how private real estate has fared in times of rising interest rates. U.S. private real estate values have generally increased during periods of rising interest rates. Since 1990, there have been five different periods in which interest rates increased by at least 1.4% and each time private real estate has appreciated between 6.2% and 14.7%.\*\*

Historically private real estate investments were exclusively the domain of pension funds, large institutions, and ultra-high net worth families. Minimum investments were \$5 million or more. These real estate deals were typically very illiquid and were 8-10 year holds with some annual income distributions. Over the last few years this has all changed. Some major real estate companies are now allowing minimum investments as low as \$25,000. Moreover, many of these funds are now offering monthly or quarterly liquidity options.

\*Invesco \*\*Blackstone Brochure