Press Release

Increased Odds for Long-Term Rise in Inflation Rates

- Brief inflation hike to be expected in the wake of the pandemic
- Increased inflation rates and lower interest rates will result in negative real interest
- Negative real interest will make real estate yet more attractive
- Experts anticipate rise in NPLs in certain segments

Berlin, 26 March 2021 – The end of the corona year 2020 with its massive government aid programs in North America and Europe has caused the public debate to return to the subject of inflation. The end of the coronavirus pandemic will coincide with an initial hike in inflation. It will be little more than a catch-up effect, and will not persist. But in the long run—meaning over the next ten years—higher inflation rates than those seen in the recent past have become much more likely. The highly indebted countries need negative real interest rates to ensure their debt sustainability. Negative real interest means that the inflation rates outpace interest rates. For real estate markets, this implies: Negative real interest makes real estate even more attractive as an asset class.

These are the key takeaways of today's online press conference headlined **"Inflation Returning? What Does That Mean for Real Estate Markets?"** and attended by **Prof. Dr. Friedrich Heinemann**, head of the research department "Corporate Taxation and Public Finance" at the ZEW Centre for European Economic Research and adjunct professor for macro-economics at the University of Heidelberg, by **Prof. Dr. Steffen Sebastian**, tenured chair of real estate financing at the International Real Estate Business School (IREBS), University of Regensburg, by **Francesco Fedele**, the CEO of BF.direkt AG, and by **Torsten Hollstein**, the Managing Director of CR Investment Management.

Prof. Dr. Heinemann summarised the findings: "The transition to COVID-19 herd immunity will be matched by a short-lived inflation spurt, during which we may see inflation rates of three or four percent. But this short-term effect will quickly subside after the end of the pandemic. Nevertheless, there is reason to expect lengthy phases in the decade ahead during which inflation will significantly exceed the ECB's inflation target of two percent. There are essentially two reasons for this: For one thing, many of the effects that have long put a damper on inflation, such as the ready availability of low-wage labour in Asia, are about to expire. Secondly, the very high post-pandemic debt levels in countries like Italy will be unsustainable without long-term financial aid from the ECB. The ECB itself is increasingly becoming mired in the “fiscal dominance” trap, and no longer truly able to mount a robust response to increased inflationary pressure. Long-term interest will respond to higher inflation only to some extent, because debt relief for high-debt countries can only be accomplished through falling real interest rates.”

Prof. Dr. Steffen Sebastian added: “There is a long-term relationship between interest rates and inflation. The decisive question is how to define ‘long-term.’ The ECB is a strong market player, to be sure. But it does not represent the market as a whole. While the central bank of the eurozone may ignore the need for inflation compensation when buying up government bonds, private lenders have no such option. They need inflation compensation.”

Francesco Fedele, the CEO of BF.direkt AG, said: “Negative real interest—meaning that inflation outpaces interest rates—makes real estate even more attractive as an asset class. I’m not aware of any sign suggesting that real estate investments have lost in appeal. Even if long-term interest rates were to rise, it would not compromise the attractiveness of the asset class. And this is true regardless of the type of use.”

Torsten Hollstein, Managing Director of CR Investment Management, commented: “I do not envision a fundamental shift in the years ahead that would affect the positive factors that speak in favour of the asset class of real estate. However, rent rates in certain segments will come under pressure. We are already seeing it in the case of retail real estate, and the phenomenon is arguably conceivable for offices, too. In short: We might see some reshuffling within the asset class of real estate. But the macro trend remains positive.” And Prof. Dr. Steffen Sebastian added: “In my opinion, residential real estate will be the last segment to be affected by price fluctuations.

On the subject of non-performing loans (NPL), Hollstein added: “I’ve seen the number of NPLs rise in certain segments. But these involve mainly small and medium-sized enterprises. Their trend is primarily related to COVID-19, and unconnected to interest rates and inflation expectations.”

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About BF.direkt

BF.direkt AG is an independent specialist for the funding of residential and commercial real estate projects. As one of Germany's leading financing advisers, the company develops innovative funding strategies and finds suitable finance partners for them. BF.direkt is familiar with any financing component available on the market, including debt, equity and mezzanine capital. On occasion, BF.direkt will invest in projects in its own right. Clients of BF.direkt include renowned contractors, property developers, listed property companies, property funds, pension funds and family offices domiciled inside and outside Germany. BF.direkt regularly arranges lending volumes of more than 1 billion euros a year, thereby facilitating an annual transaction volume of over 1.5 billion euros.

About CR Investment Management

CR Investment Management is a strategic investor and asset manager with commitments across Europe. The company concentrates on themed and opportunistic investments in Germany, Luxembourg, the Netherlands and Ireland where it maintains dedicated branch offices. As asset manager, CR develops solutions for the value-add structuring of complex or non-performing portfolio structures. In this line of business, CR serves investment companies, private equity investors and financial institutions, also offering long-term expertise in the optimisation of corporate real estate. Over the past ten years, CR has restructured real estate portfolios worth 30 billion euros and has placed 7 billion euros worth of properties in Germany alone after repositioning them. http://www.crmanagement.eu/

About IREBS

The IREBS International Real Estate Business School comprises eight chairs and professorships in economics and law plus ten honorary and visiting professorships at the University of Regensburg. Teaching at IREBS is interdisciplinary and practice-oriented in order to prepare students optimally for their future jobs. The research done here covers current application-oriented issues as well as demanding basic research.

At its satellite campuses in Frankfurt am Main, Munich, Berlin, Düsseldorf, Eltville and Hamburg, the IREBS devotes itself moreover to the continued professional development of junior executives and high-skilled professionals. With its broad-based academic spectrum, IREBS therefore ranks among the best higher education institutions in international real estate economics.

About ZEW

The Mannheim-based ZEW – Leibniz Centre for European Economic Research is a leading German economic policy institute and a member of the Leibniz Association. The researchers at ZEW work in the field of applied empirical research.

ZEW conducts evidence-based economic policy research on a range of high-visibility topics, including the digital transformation, demographic change, European integration, and the energy transition. As an independent research institute that is home to a broad spectrum of expertise, ZEW advises key political decision-makers while actively contributing to important public debates.