# INFLATION FIGHTERS

## Asset classes that can serve as a hedge in an environment of persistently high inflation

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# Hedging opportunity

## *Commercial real estate can serve as an effective hedge against inflation*

by Jeffrey Kanne and Darob Malek-Madani

The American public and investment professionals grew accustomed to very low inflation that dominated the 13-year period following the 2008 financial crisis — a period that now appears likely to be the exception rather than the rule. Between November 2008 and December 2020, U.S. inflation averaged only 1.6 percent, well below the Federal Reserve's target of 2 percent and less than half of the post–World War II average of 3.5 percent. This extended low-inflation period shaped assumptions and strategies, particularly in long-term investment planning.

Recent high inflation, peaking at 9.0 percent after the COVID-19 pandemic, however, shocked the public out of its low-rate complacency. Despite recent declines, inflation remains above target, and investors may be facing a prolonged environment of elevated price pressures. While it is important to note that the trajectory of inflation remains uncertain and unexpected factors could reverse inflationary pressure more quickly than expected, historical trends indicate investors should be prepared for an extended period of elevated inflation.

### Inflation drivers and pressures

While higher rates and the return to regular order in supply chains have helped bring inflation down to a reasonable level, there are structural and policy factors that suggest inflation could persist. During the COVID-19 pandemic, as the Fed lowered interest rates, the M2 measure of the money supply spiked to nearly 90 percent of GDP. It has since fallen substantially in relation to GDP but is still above pre-pandemic levels and substantially higher than pre–financial crisis levels, when it often hovered between 50 percent and 60 percent of GDP, according to the U.S. Bureau of Economic Analysis and the Board of Governors of the Federal Reserve System.

In addition to high money supply levels, consumers and the government continue to spend at higher rates than before the pandemic. Federal budget deficits have expanded significantly and continue to increase year-over-year, while consumers have been saving less and spending more than previous norms, according to the U.S. Bureau of Economic Analysis, personal saving rate, and the U.S. Department of the Treasury federal surplus or deficit. Perhaps most importantly, U.S. supply chains are facing potential disruptions from geopolitical tensions, tariffs and evolving trade policies. While the Federal Reserve is monitoring inflation closely, it may find it difficult to raise interest rates to control inflation if unemployment grows substantially, either through a slowing economy or through the widespread labor displacement from emerging technologies such as artificial intelligence.

Based on analysis and experience, commercial real estate has generally been seen as a hedge against inflation. The underlying premise is that as prices rise across the economy, rents will rise along with them, leading to more income and higher values. While, in theory, stocks or other equity investments outside of real estate should also have higher revenues and eventually higher returns in an inflationary environment, in practice, the relationship is less clear; real estate has historically functioned as an inflation hedge.

- **Lease dynamics:** Sectors that have short lease terms, such as apartments or hotels, can be particularly resilient to inflation because their rental rates will quickly adjust to prevailing rates even as expenses are rising. Even sectors with longer-term leases, such as office and retail, can act as a hedge against inflation because they often have net leases and percentage rent deals that pass through expense increases to tenants and force revenue sharing with owners as costs rise, even if actual rental rates are fixed for years.
- **Supply constraints and replacement costs:** Many commercial real estate sectors, such as urban high-rises or mission-critical industrial facilities, face market or political barriers to entry that allow existing owners to consistently raise rental rates. In an environment with rising construction costs, these dynamics can be magnified and spread even to sectors that have fewer traditional barriers to entry, such as suburban housing.
- **Fixed-rate financing:** Commercial real estate is often financed with fixed-rate debt, which can help magnify increases in value driven by rising inflation while keeping payments fixed even if the Federal Reserve is forced to raise interest rates to fight inflation.

## Current fundamentals

Commercial real estate has historically demonstrated strong performance during periods of high inflation, provided that market fundamentals remain stable. The early 1990s stand out as a period of high inflation when real estate did not outperform other asset classes, but this was also a period when commercial real estate was a driver of the economic downturn caused by overbuilding in the 1980s.

Traditional core real estate in the form of the NCREIF Property Index (NPI) and its component parts has substantially positive return correlations with inflation, meaning that when inflation increases, so does the underlying real estate return (see "Total return and correlation with inflation," below). At the same time, the S&P 500 Index, as well as bond indices, have demonstrated essentially zero or negative correlation over the same period.

**Total return and correlation with inflation**

| | Average annual inflation | NCREIF Property Index | S&P 500 | Bond Index | NPI Apartment | NPI Industrial | NPI Office | NPI Retail |
|---|---|---|---|---|---|---|---|---|
| Correlation: 1978–2025 | 1.00 | 0.36 | 0.02 | -0.10 | 0.39 | 0.35 | 0.30 | 0.19 |
| | | | | | | | | |
| **Periods with high inflation** | | | | | | | | |
| Returns: 1978–1981 | 10.9% | 18% | 12% | 5% | 20% | 17% | 22% | 11% |
| Returns: 1987–1990 | 4.5% | 7% | 12% | 7% | 8% | 8% | 3% | 11% |
| Returns: 2021–2022 | 6.8% | 11% | 3% | -8% | 13% | 28% | 1% | 3% |

*Sources: NCREIF.org, ICE BofA BBB U.S. Corporate Index Total Return Index Value*
*Notes: Although real estate cash flows may react with some lag to inflation due to the length of their leases or the terms of expense reimbursement, valuations of properties within the NCREIF Property Index (NPI) are typically adjusted at least annually, so returns in the index should relatively closely follow real-time changes in inflation and other market conditions.*

# Illustration: Real-life portfolio examples

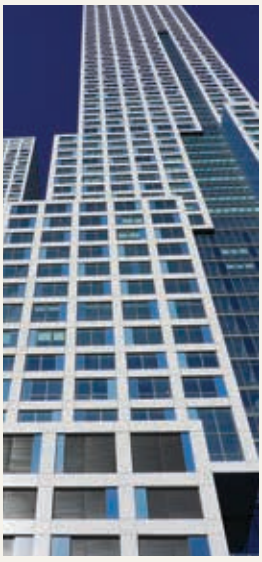
While not all assets follow the same trend, and performance varies by market and sector, our analysis of our own portfolio and our experience through prior inflationary periods suggest a common dynamic in commercial real estate: Development costs have surged due to labor constraints, global supply-chain disruptions, and rising material prices — yet in many cases property values are well below peak levels, offering compelling entry points, especially when compared to current replacement costs. This imbalance between market value and replacement cost reduces the likelihood of new, competing developments in these areas, at least until property values recover. As a result, we believe many existing commercial real estate projects could be well-positioned to be resilient during a future bout of rising inflation. Existing assets are increasingly irreplaceable, offering durable income and the potential for long-term appreciation.

To illustrate how specific real estate assets may be positioned to perform well in an inflationary period, we have summarized below several examples that reflect this dynamic.

The investments examples are solely for illustration of the points discussed herein, and there is no assurance that investments in the mentioned assets have been or will be profitable.

In each of these cases, today's valuations offer entry points well below the cost of new construction, at a time when high interest rates and labor shortages are discouraging new development. That supply gap is a powerful structural advantage for current owners. As inflation pushes up replacement costs and construction timelines, well-located existing assets with stable cash flows will increasingly command premium pricing and attract capital looking for yield and inflation protection.

### 1. Apartment tower – Jersey City



**Year built:** 2024
**Size:** 598 units
**Percent leased:** 95 percent
**Cost to construct:** $375 million
**Replacement cost:** approximately $431 million
**Second quarter 2025 value:** approximately $415 million

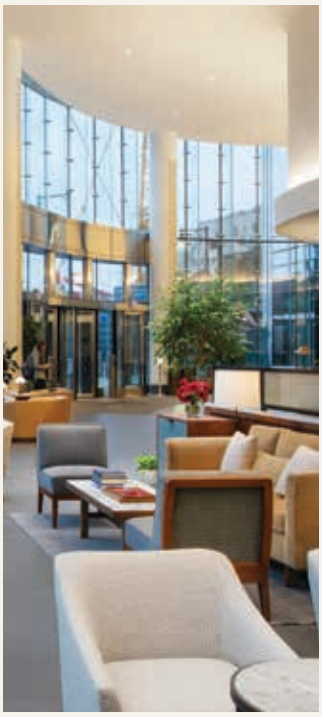
A 60-story phase III apartment tower within a 1,800-unit complex with 27,000 square feet of retail.

### 2. Apartment tower – Atlanta

**Year built:** 2023
**Size:** 370 units
**Percent leased:** 93 percent
**Cost to construct:** $194 million
**Replacement cost:** approximately $249 million
**Second quarter 2025 value:** approximately $249 million

A 29-story apartment tower completed in 2023, adjacent to vibrant midtown Atlanta.

### 3. Trophy office – Boston



**Year built:** 2023
**Size:** 999,000 square feet
**Percent leased:** 100 percent
**Cost to construct:** $991 million
**Replacement cost:** approximately $1.25 billion
**Second quarter 2025 value:** approximately $996 million

A 43-story, office tower in downtown Boston, which sits atop a T stop with multiple lines and easy access to the rest of the city, airport, and suburbs. The project has been fully leased to credit tenants since it opened.

*Replacement costs based on the original hard cost construction budget adjusted to 2025 values using the Turner Building Cost Index. 2025 land value and soft cost estimates based on 2025 appraisals. Replacement costs do not include any additional value to account for the entrepreneurial profit required by developers. Internal analysis of National Real Estate assets under management valuation and cost data. The reader should not assume an investment in the assets identified was or will be profitable. The investments examples featured in this discussion are provided solely for illustration of the points discussed herein. The particular investments identified and described herein are assets held in National's portfolio, however, they do not represent all of the investments purchased, sold, or recommended by National.*

In addition, during two of the three periods of higher inflation since 1978, there have been higher real estate returns than either stock or bond returns. In the third period, from 1987 to 1990, there was higher-than-average inflation but lower real estate returns. This period corresponded with the start of the real estate crash of the early 1990s.

Today, key commercial real estate fundamentals look relatively strong. With the exception of office properties, most sectors have seen increasing or steady occupancy rates along with rising rents and net operating income, according to data by CoStar Group and NCREIF. In addition, high interest rates have discouraged new development, helping to limit future supply and stabilize market conditions for owners.

What is even more important to future return potential than strong fundamentals, however, is that valuations have come down substantially after the past few years of rising interest rates. This dynamic means that today, even recently constructed commercial real estate projects are in many cases valued substantially below replacement cost. These lower valuations result in higher yields and substantial room for inflation-induced rental rate and value increases before new supply will be delivered at scale. This is particularly true given that one source for higher prices in this cycle will be supply-driven disruptions from tariffs and trade negotiations. This is likely to result in construction prices rising faster than wages. In this environment, the owners of existing assets have significant potential to benefit from a relatively long period of rising values without new competition.

## Conclusion

Given the anomalous low-inflation decade leading up to the COVID-19 pandemic, many institutional investors may have ignored inflation when creating their investment strategies, but recent experience and a review of history suggest elevated inflation could be more persistent than many expect.

For institutional investors seeking durable income, inflation protection and long-term value creation, we believe commercial real estate has unique potential compared to other asset classes in the current environment. While investors should remain cautious and attuned to sector-specific risks, maintaining a strategic allocation to this asset class may help not only to weather future inflation but also capitalize on the opportunities it creates. ❖

**Jeffrey Kanne** is president and CEO at **National Real Estate Advisers. Darob Malek-Madani** is head of research and analysis at the firm.

# Multifamily

## *A discussion about multifamily as a hedge against inflation*

with Denise Moose

**Gleb Nechayev,** *head of research and chief economist at Berkshire Residential Investments, was interviewed by special reports editor Denise Moose on the multifamily/residential sector and how it can be an inflation hedge.*

**In 2022, you published some findings on multifamily as an inflation hedge, in which you found multifamily was the strongest hedge of the core property types. Can you tell us a bit more about that?**

The original analysis was timely in that it was published near the peak of the post-pandemic inflation surge. The rapid rise in consumer prices has rekindled the old debate about whether commercial real estate provides a long-term hedge against inflation, so I thought it would be helpful to test that thesis using property values and net operating incomes for privately owned institutional assets, where historical data starts in 1978.

Our main finding was that multifamily was the only major sector that provided a consistent inflation hedge for both value appreciation and NOI growth. We also found, however, that different types of apartments can vary in terms of how their values and NOIs respond to inflation. That portion of analysis was based on the data from the mid-1990s and showed that garden-style apartments provided a better inflation hedge on the value side, while high-rise properties were able to better keep up with inflation in terms of NOI growth.

**Do the results continue to hold up if you include the NCREIF data from the past couple of years of elevated inflation?**

The overall long-term results hold up when including the additional three years of data — second quarter 2022 through second quarter 2025. However, the updated analysis now also shows that not only apartments but also industrial real estate can help hedge against inflation. During this period, same-store annualized NOI growth for the privately owned institutional assets reporting to NCREIF's National Property Index [NPI] averaged 5.5 percent for apartments and 8.8

percent for industrial, both well ahead of annual consumer price inflation of 3.2 percent.

### Why might apartments have such a strong partial hedge? What factors support this?

From the perspective of real estate fundamentals, there are two main interrelated reasons for the stronger inflation-adjusted performance of apartments. On the demand side, a relatively short leasing cycle of about a year, compared to more than five years in other major property sectors, allows apartments to adjust to market changes more rapidly and efficiently. In addition, inflation and interest rates tend to move together, and higher borrowing costs for home purchases also support rental demand — a factor not at play in other sectors. On the supply side, a shorter residential construction cycle allows developers to respond to changing market conditions quickly, keeping price levels close to equilibrium and reducing downside volatility in rents and property revenues. Real estate investors who are concerned about a potential scenario of higher-than-expected inflation might consider this when evaluating their portfolio allocations to different property sectors.

One of the key reasons apartment assets are well positioned for real growth in a baseline scenario is that over the last couple of years, wage growth has exceeded inflation, while rents on new leases remained relatively flat. As the temporary oversupply gets absorbed, there is a tangible recovery potential down the road — especially considering the substantial barriers to homeownership and the near-record gap between costs of purchasing a home and household incomes.

These are uncertain times, but the apartment sector is entering a new cycle phase amid a record housing supply shortage that is likely to keep upward pressure on rents. Rental housing, including apartments, has a unique distinction within real estate of being both a form of investment as well as providing "shelter," a service that accounts for more than 30 percent of the broader inflation measurement. The increasing real estate portfolio allocations toward rental housing that were observed historically could be reflecting a growing recognition by investors of its relative advantages in the current environment.

### From an institutional investor's perspective, how has the role of residential assets evolved in portfolio construction during recent inflationary cycles, and do you expect these strategies to remain durable in the future?

Residential assets will likely continue to play an increasingly important role in institutional real estate portfolios. According to NCREIF, for example, residential sector — including apartments, single-family rentals, manufactured housing and student housing — now accounts for 28.6 percent of the National Property Index, compared to 24.6 percent five years ago and 19.6 percent 20 years ago. There are reasons to expect this share to continue rising over time, not only due to the established track record of attractive return-risk characteristics and the inflation-hedging properties of apartment investments, but also the growth potential of the institutional single-family rental segment, which is still in the early phases of its evolution as an asset class. ❖

# How to play inflation

## *Why premium select-service hotels stand out*

by Greg Friedman

In an era where stubborn inflation keeps central bankers awake at night and rate volatility tests investor discipline, smart capital is quietly gravitating to assets that can flex, literally overnight. Hotels, with their daily lease resets, are one of the few real estate plays with a built-in inflation defense. But not all hotels are created equal. For investors looking to put capital to work today, premium-branded select-service and compact full-service hotels stand out as some of the most reliable performers across economic cycles, including inflationary periods.

### Short leases, big advantage

Unlike offices or retail, where lease terms can lock in rates for years, hotels are designed to be nimble. Operators adjust room rates daily, matching market demand and passing through cost increases with far less lag than other real estate types. During the inflationary surges of the 1970s and early 1980s, room rates in the United States climbed almost in lockstep with the Consumer Price Index. More recently, ADRs rose rapidly during the inflation spike of 2021–2023, especially in well-positioned premium brands.

Yet flexibility alone is not enough. Demand elasticity still matters. Not every guest will pay more just because costs are higher. This is where premium select-service and compact full-service assets show their edge.

### Why this segment holds up

Hotels at the upper end of the select-service spectrum, including Marriott's Courtyard and AC Hotels, Hilton's Hampton Inn and Hilton Garden Inn, and IHG's Hotel Indigo and Crowne Plaza, strike the balance travelers want: elevated comfort and amenities without full-service prices.

They cater to travelers who want quality and consistency without paying for frills they do not use. Business travelers, sports teams and mid-tier corporate groups typically make up the core customer base. This gives owners both repeatability and rate integrity.

Compact full-service properties, especially those under strong flags in good urban or suburban nodes, also shine here. They deliver enough amenities, such as an on-site restaurant, meeting space and a bar, to justify a healthy rate premium while keeping operating costs leaner than those of sprawling resorts or luxury assets.

Crucially, these segments tend to capture both leisure and corporate demand, a mixed base that smooths out swings. During the inflationary wave of the early 2020s, select-service and compact full-service assets led RevPAR (revenue per available room) recovery, often outpacing luxury hotels on a percentage basis thanks to their broad customer appeal and cost discipline.

## Operational discipline beats bloat

Inflation eats margins from the inside out. Labor, utilities and supplies rarely move in investors' favor. Select-service hotels, by design, are less labor-intensive than luxury or large resorts. They run with smaller staff footprints and simpler food and beverage programs, which means fewer wage pressures. Many operators have accelerated technology adoption, including mobile check-in, streamlined housekeeping and energy-efficiency upgrades, to help reduce variable costs.

These efficiencies are becoming table stakes, not nice-to-haves. For investors, they translate to stronger net operating income that can better weather wage inflation or spikes in utility costs.

## Renovate smart, hedge smarter

Capital expenditure is another piece of the puzzle. Premium-branded assets often benefit from major brand systems that help finance, plan and execute renovations that keep properties competitive. Well-timed refreshes of lobbies, modernized rooms, and better food and beverage can boost ADR growth well above inflation. A steady renovation plan is more than brand compliance. It is an operational hedge that keeps a property's revenue line moving when costs are rising.

## Smart financing and capital strategy

Many investors use fixed-rate loans to lock in predictable borrowing costs while rates are steady. Some also structure deals with joint venture partners to spread risk and bring in operating expertise or local market knowledge. Others diversify their capital stack by layering in preferred equity or mezzanine debt while keeping senior debt manageable.

These hotels generate daily cash flow, which gives owners flexibility to cover debt, reinvest in renovations or refinance when market conditions shift. Combined with the right partners and a well-balanced capital structure, this approach can help investors remain nimble and protect their returns over time.

## The case for new hotel development

The hotel sector has emerged from COVID-19 as one of the most resilient segments of real estate, demonstrating how quickly well-run assets can adapt to economic shifts and evolving traveler needs. Today, the limited new hotel supply, combined with strong travel demand, has created a favorable window for new development to stand out.

While travel has come roaring back, many existing hotels have been starved of fresh investment. Renovation pipelines slowed during the pandemic, and higher interest rates have kept many owners from catching up. Industry estimates indicate nearly $20 billion in delayed capital improvements is at risk, which means aging properties may fall behind in terms of quality and guest experience.

For investors, this opens the door to building modern, premium-branded select-service and compact full-service hotels that capture growing demand while competing with older properties that have not kept pace. New hotels also benefit from more efficient design, better technological integration and sustainability features that appeal to today's traveler and can lower operating costs.

In today's market, developing a well-located, well-branded hotel is not only about adding

supply. It's about delivering a fresh product that meets changing guest expectations and positions owners for stronger revenue and market share in the long term.

### Why opportunity zones make this play even stronger

For investors seeking not just stable cash flow but meaningful tax advantages, combining premium-branded select-service and compact full-service hotels with opportunity zone (OZ) investments can amplify returns.

Hotels are a natural fit for OZs because new developments and substantial renovations both qualify. When you build or reposition a hotel in a designated OZ, you unlock federal tax incentives that can defer, reduce or even eliminate capital gains taxes if the asset is held long enough.

This is not just an accounting perk; it is a real way to boost after-tax yield. Many OZ projects focus on multifamily or industrial, but hotels in the right urban infill or emerging submarkets can generate stronger annual income while capturing the same tax benefits.

Investors can roll capital gains into an OZ hotel project; defer the original tax hit; and, if they hold for 10 years, pay no additional tax on the appreciation of the new asset. Layer that on top of the sector's built-in daily lease resets and brand-backed demand, and you have a powerful inflation hedge that works twice: once through operations and again through tax savings.

In today's rate environment, keeping more of what you earn matters as much as earning it in the first place. A well-placed hotel in an OZ can do both.

Of course, not every flagged select-service or compact full-service hotel is equal. Location, local demand drivers and sponsorship all matter. Suburban hotels near hospitals or corporate parks, high-barrier urban infill sites, and leisure-heavy drive-to destinations continue to attract capital because they mix steady base demand with pricing power.

The common thread is well-run properties that deliver a reliable, repeatable product for guests who still need to travel, regardless of whether inflation is at 2 percent or 8 percent.

### Bottom line

Inflation may be sticky, but so is travel demand when the value proposition is right. For institutional investors deciding where to invest, premium-branded select-service and compact full-service hotels strike a balance: strong pricing power, manageable labor costs, daily rate resets, brand-backed demand — and, in the right location, compelling tax advantages.

That makes this corner of the hotel market not only a shelter in the inflation storm, but a durable, tax-smart income play ready to perform through the cycle. ❖

**Greg Friedman** is managing principal and CEO at **Peachtree Group.**

# Storage punches above its weight

*A middleweight fighter competes with the heavyweights*

by Jeff Bingham and Annie Trucco

During 2021–2023, the U.S. economy experienced the highest inflation since the early 1980s. Common measures of inflation, such as year-over-year CPI growth, peaked around 9 percent. With tariffs, increasing budget deficits and higher growth in the money supply, investors are rightly asking once again about inflation. Specifically, what property types and assets are poised to perform well if inflation rebounds?

In this essay, we highlight the merits of U.S. self-storage — a small but mighty competitor in the real estate industry. Despite its modest allocation in most institutional portfolios, we believe self-storage has attributes that make it well suited for an inflationary environment. Historically, when inflation has accelerated, storage has punched above its weight, and we think this history is relevant for future bouts with persistent price increases. Inflation risk is a key consideration for investors, and storage's lower sensitivity to this macroeconomic pressure strengthens the case for its inclusion in a diversified core portfolio. Below, we highlight five reasons why storage should be favorably situated if inflation trends higher.

### Round 1: Storage's performance since the pandemic provides the most recent evidence that it fights inflation

The storage sector's performance around the time of the highest inflation in 40 years offers

insights into its possible performance during elevated inflation in the future. The economic disruptions triggered by the COVID-19 pandemic laid the groundwork for the subsequent surge in inflation and interest rates, making the period from early 2020 onward a relevant starting point for analysis.

From first quarter 2020 to second quarter 2025, storage delivered annualized total returns of 9.5 percent — second only to industrial, according to Green Street's Commercial Property Return Index and NCREIF data from January 2020 to June 2025. This result spans both the sharp increase in move-in rents (up by 40 percent from 2020–2022) and the more recent moderation in fundamentals, according to *The Self-Storage Almanac 2025* by Erica Shatzer. Same-unit net operating income (NOI) growth also demonstrates storage's relative inflation-fighting abilities. From 2020 to 2025, annualized storage NOI growth

**Jeff Bingham**
**Heitman**

**Short lease terms in storage offer a tactical advantage when inflation accelerates. In most cases, storage operators can adjust rents every 30 days.**

is estimated at 5.3 percent, outperforming all property types except industrial, manufactured housing and single-family rental, according to Green Street same-unit NOI growth as of August 20225. Why has storage performed so well? We believe because of storage's attributes, which we enumerate in the sections that follow.

### Round 2: Storage's short lease terms provide a tactical advantage in inflationary environments

Short lease terms in storage offer a tactical advantage when inflation accelerates. In most cases, storage operators can adjust rents every 30 days. Such flexibility allows property managers to nimbly adapt to changing market conditions when the overall price level rises quickly. In contrast, property types with multiyear leases may struggle to adapt to higher inflation, especially if lease agreements lack contractual clauses for percentage rent or inflation-indexed rent escalations. As storage fundamentals stabilize, this dynamic pricing capability positions the sector to capture revenue growth across a range of inflation scenarios — whether inflation accelerates, holds steady or decelerates.

### Round 3: Storage is an affordable alternative

Storage is an inexpensive way to cope with the housing crisis and tight quarters. As housing has become more unaffordable, storage has become more affordable. And the rising cost of shelter makes storage an increasingly attractive solution for a household's space needs. As a simple example, in early August 2025, 30-year mortgage rates stood at 6.63 percent — a sharp increase from the pandemic-era low of 2.65 percent in January 2021, according to the St. Louis Fed FRED Database as of August 2025. For a median-priced home, mortgage payments alone have increased by more than 80 percent during that time to $2,105 a month (using the median home price in January 2021 and August 2025, 20 percent down payment, 30-year mortgage, $1,144 monthly payment in 2021, $2,105 monthly payment in 2025). In contrast, the median monthly offered rent in Heitman's portfolio is $134 — a figure that represents a gradually diminishing share of household budgets ($140 median monthly cost as of August 2025). Currently, the average storage cost-to-income ratio stands at 1.8 percent, significantly below the 2.3 percent average observed between 2012 and 2019, according to the *Self-Storage Sector Update* by Green Street as of August 2025. In the context of inflation protection, this relatively modest rent means even a substantial percentage increase would still represent only a small share of household income. Moreover, the length of stay in Heitman's own portfolio increased 24 percent between 2014 and 2024, reaching 24 months. We believe this trend reflects the affordability and convenience of storage. Many tenants opt for autopay, and the combination of automatic payments and low monthly costs encourages long-term retention.

### Round 4: Storage's high NOI margins and low capex provide a head start in fighting inflation

Self-storage benefits from a combination of high NOI margins and low capital expenditure (capex) requirements — two structural advantages that help mitigate the impact of rising inflation and interest rates. Today, storage NOI margins average approximately 73 percent, well above the long-term average of 68 percent, according to the *U.S. Self-Storage Outlook* by Green Street as of January 2025. At the same time, capex as a percentage of NOI stands at only 8 percent, significantly lower than the 14 percent average across all U.S. property types, according to Green Street's *Global Property Allocator* as of July 2025. These favorable economics are driven by the

sector's inherently low maintenance and staffing needs, as well as increasing operational efficiencies. An example of this is the growing use of AI to handle call volumes, according to the *National Storage Affiliates Trust Q2/2025 Conference Call*. This allows operators to better control expenses, particularly payroll, which is typically the largest line item in property operations. In short, when inflation rises, storage assets are less exposed to the cost pressures that weigh more heavily on property types with thinner margins and higher operating or capital requirements.

### Round 5: Academic research confirms storage's performance during elevated inflation

Peer-reviewed academic research provides rigorous support for the arguments outlined above. For example, one study found unexpected inflation negatively affected total returns for equity REITs overall from 2012 to 2020, but storage returns were unaffected by this inflation variable in all time periods from 1995 to 2020, according to "Impact of Economic Forces and Fundamental Variables on REIT Returns," *Applied Economics,* Vol. 54, No. 53, 6179–6201. The lack of a significant result for storage should make it a well-positioned property type versus its peers when inflation shocks do occur.

### Break between rounds: The toll of the housing market

We acknowledge a valid concern: Storage fundamentals have softened over the past two years, largely due to reduced household mobility. In fact, the household mobility rate in 2024 fell to just 8.3 percent — the lowest level recorded since the 1970s, according to *2025 The State of the Nation's Housing* by the Joint Center for Housing Studies of Harvard University. Higher mortgage rates have created a lock-in effect, leaving many households unwilling or unable to relocate. Mobility is one source of storage demand, and the sharp and sudden decline in mobility was directly related to the –2.2 percent same-unit NOI growth for storage in 2024 and the forecasted –1.5 percent growth in 2025, according to the Green Street database. But signs of recovery are emerging. Street rents have begun to show positive year-over-year increases, and NOI growth is predicted to turn positive in 2026.

In addition, there is precedent for compelling storage performance despite a stalled housing market. We believe the current market conditions closely resemble the post-GFC period, when homebuying activity was trending lower than current levels. Yet during that time, storage delivered several years of same-store NOI growth above 8 percent. This impressive growth was driven by minimal new supply — another feature of the current environment.

### Conclusion: Storage goes the distance

We believe storage should be favorably situated if inflation moves higher. The sector demonstrated competitive performance during the largest increase in inflation in 40 years. Its short lease terms enable property managers to nimbly adapt to changing market conditions. Storage also serves as an increasingly affordable alternative to housing for space needs, and its high margins cushion it from higher prices and interest rates. Academic research supports these observations. Lastly, we believe storage has many other positive features and faces a favorable supply/demand dynamic.

**The lack of a significant result for storage should make it a well-positioned property type versus its peers when inflation shocks do occur.**

**Annie Trucco Heitman**

Such arguments were not highlighted in this essay, but they further bolster storage's investment outlook. For example, storage NOI and returns are resilient during and after recessions, and this resilience is likely to be enhanced by the lack of new supply. By our estimates, storage rents would need to increase by nearly 50 percent on average to justify new construction.

Despite these compelling attributes, institutional investors continue to maintain a small weight to storage in diversified core portfolios. When we ask ourselves why, we can marshal few good reasons. The sector has been punching above its weight for years, and we believe storage retains an attractive risk-return profile. ❖

**Jeff Bingham** is managing director, co-head of global investment research, and **Anne Trucco** is senior associate at **Heitman.**

# Industrial real estate in an inflationary era

*Institutional investors are seeking resilient strategies*

by Ben Harris

Given the high level of uncertainty regarding the possibility of inflation in the current market environment, institutional investors are seeking resilient strategies to protect assets and capture returns. Amid shifting macroeconomic tides, the U.S. industrial real estate sector stands out not just for its historical strength during inflationary periods but also as an opportunity for differentiated managers whose approach can help navigate today's complex market. This article explores why appropriately executed industrial real estate investments are an effective inflation hedge and how trends have evolved in this cycle.

**The industrial sector and inflation: A brief historical backdrop**

During past inflationary cycles, including the 1970s and 1980s, industrial assets not only kept pace with but often outstripped inflation, according to a May 2023 McKinsey & Co. report titled "Is commercial real estate the best investment to hedge inflation?" Industrial real estate is widely regarded as one of the most inflation-resistant property types, characterized by low operating costs and capital expenditures relative to many other real estate asset classes, and by diversified tenant demand supported by a wide range of essential demand drivers. However, in 2025, several factors make today's inflationary landscape different from prior cycles:

- **Volatile capital markets backdrop:** The COVID-19 pandemic triggered global monetary easing and fiscal stimulus around the globe. As the pandemic receded in the United States, the Federal Reserve intervened in 2022 and 2023 with aggressive rate increases to combat inflation. This spike in financing costs cooled the transaction market and brought a wave of repricing across all real estate sectors.
- **COVID-specific demand spike:** After the onset of the pandemic, a rapid increase in demand for warehouse space to address supply-chain disruptions and meet the significant increase in ecommerce demand drove an already tight industrial market to record-low vacancy levels and triggered a spike in rents and elevated new construction of space.
- **New supply and normalization:** Given the strength in fundamentals, the industrial asset class experienced a spike in speculative development in recent years, leading to areas of oversupply and higher vacancies, which are now stabilizing as new construction starts have recently dropped sharply (today, down nearly 70 percent from the 2022 peak), according to the June 2025 report in *Commercial Property Executive's* "Industrial construction starts to plunge in 2025." Markets with low barriers to new supply experienced the steepest increases in vacancy, while infill locations and other supply-constrained regions have continued to experience low vacancy levels and persistent tenant demand.

There are also several factors that s make industrial an inflation outperformer:

- **Favorable lease structures:** Industrial leases are typically five to seven years, with regular contractual escalations and mark-to-market resets upon renewal, allowing cash flows to grow with inflation. Industrial leases are also typically structured as triple-net, with the tenant bearing all operating costs, including taxes, which allows landlords to pass operational cost increases through to tenants.
- **Moderate capital expenditure levels:** Industrial assets are long-lived and require limited ongoing capital expenditures. While a portion of the industrial stock does become obsolete more quickly, the majority of industrial facilities have a useful life of several decades. A tenant may upgrade and reinvest in the equipment and operation inside the building, but the building envelope can remain relatively static.
- **Facility costs are a small percentage of overall logistics costs:** Rents typically account for a small portion of a company's overall logistics costs, making inflationary rental increases less impactful to the overall business. In addition, site location can allow companies to offset inflationary costs in other areas of the business, giving industrial landlords pricing power for well-located sites, even in times of rising costs.
- **Urban sprawl has placed an increasing premium on well-located sites:** As cities grow, land available for new industrial development is increasingly located well beyond city centers, while at the same time, tenants are pushing for space requirements closer to those centers to access populations and minimize transportation costs. This has allowed industrial landlords with well-located sites in major urban areas to offer tenants a strong value proposition, despite rising rents. In addition, because industrial demand has pushed further into population centers, new industrial development experiences NIMBY ("not in my backyard") pressures and competes with other land uses such as multifamily, making it more and more difficult for developers to put new industrial supply into production.
- **Industrial is a more mature and institutional asset class today:** Over the past 25 years, especially the past 15 years, the industrial market has experienced increasing institutional ownership, according to Real Capital Analytics data. The asset class has become a more significant piece of a typical institutional real estate portfolio and, as a result, benefits from deeper capital markets and more disciplined landlords. This has moderated cyclicality somewhat, leading

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to quicker responses to excess supply. During the current cycle, industrial developers responded quickly to excess demand during the COVID-19 pandemic with a building boom, but just as quickly pulled back as demand waned. This has contributed to the asset class experiencing minimal distress.

### A new cycle

While Rockpoint believes the industrial sector offers powerful inflation-hedging characteristics, the environment is not without risk. The euphoria of COVID-driven industrial demand has led to significant excess supply in certain markets. Absorption of this excess space will take time and will remain a headwind in these markets. Additionally, some markets and sectors of the economy are more exposed to shifting international trade policy and tariffs than others, which could have an outsized impact on local industrial demand, making market selection critical to overall performance.

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During the COVID boom, large portfolio purchases were an effective way to benefit from the tailwinds that the industrial market was experiencing, as nearly every market saw favorable dynamics, with attractive financing terms and historically low interest rates artificially enhancing returns. An environment with higher rates, increased supply and normalizing industrial demand has exposed significant differences in how regions, markets and asset types have performed, making a high-level allocation strategy complicated to execute well. Selectivity and active management are key to maximizing opportunities amid today's numerous converging headwinds.

### Conclusion

In an environment in which uncertainty and the prospect of high inflation rule the headlines, industrial real estate remains a compelling asset class for new investment. However, broad-based exposure is no longer the answer — success in 2025 and beyond will require a highly selective market and asset focus, aggressive execution, and operational skill. Rockpoint's "address-level" investing, hands-on management and long-cycle experience provide robust inflation protection and durable value creation. ❖

**Ben Harris** is head of Rockpoint Industrial at **Rockpoint.**

# All aboard!

## *The European transport infrastructure opportunity*

by Romain Py

Transport infrastructure is a major driver of economic development, and Europe's transport infrastructure is at a crossroads. Europe boasts well-developed networks of railways, highways, ports and airports, facilitating the internal and international movements of goods and people within and across countries.

Unlike the United States, European transport infrastructure has benefited from significant private sector involvement. What began with toll roads has since expanded into ports, airports, car parking and other subsectors. This evolution has created an incredibly varied and dynamic investment universe with a deal flow far richer than that seen in the United States, and a significantly larger market, particularly in the mid-market.

Today, the case for transport investments in Europe is highly compelling. Not only is there a deep stock of existing assets, spanning a wide array of opportunities, including roads, airports, ports, rail, train stations, rolling stock, leasing and public transportation, but powerful megatrends of decarbonization and digitalization are driving ever more capital toward increasingly sustainable and efficient transport models. All the while, elevated uncertainty has sharpened investor focus on inflation-linked asset classes with proven track records.

### Megatrends reshaping transport

Since the pandemic, the transport sector has rebounded. Global airline passenger traffic exceeded pre-pandemic levels last year, while road freight transport is rapidly making up for lost ground.

This recovery is also reflected in investor appetite for transport infrastructure following a period of retreat, favoring renewable energy and digital infrastructure sectors instead.

Beyond this rebound, two longer-term megatrends are set to transform the sector and spur greater investments: demographic change (population growth and urbanization) and decarbonization. Increased demand for mobility from population growth and urbanization has also heightened public awareness of pollution and the heavy carbon footprint of transport, an issue exacerbated by periods of lockdown. When public mobility ground to a halt during the pandemic, many of the largest metropolitan areas welcomed the cleaner air and experienced smog-free skylines for the first time in decades.

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**Romain Py**
**Arjun Infrastructure Partners**

Against this backdrop, electrification is an obvious starting point for investors. The International Energy Agency expects more than one-quarter of cars sold globally this year to be electric, exceeding 20 million. Similarly, the development of high-speed rail passenger networks, such as France's TGV, Spain's AVE, and the Channel Tunnel connecting the United Kingdom and France, along with the procurement of modern fleets, can help meet both rising mobility and sustainability demands.

As transport infrastructure grapples with larger populations and heightened sustainability demands from customers, European regulations are creating a comprehensive approach toward energy transition, setting behavioral restrictions and efficiency targets. This regulatory clarity is helping to create a supportive investment framework, providing investments with some level of certainty.

Another megatrend boosting investment flows is digitalization. Greater adoption and improvements in operational efficiency are expected to benefit both energy use and sustainability efforts, as well as operator revenues. Traffic management systems, autonomous freight transport and optimized electric vehicle (EV) charging are among many of the potential digital tools that operators are likely to employ. Artificial intelligence and data analytics are particularly poised to transform the asset class.

## Characteristics that make the sector resilient to inflation

We don't define infrastructure in terms of bricks and mortar, but rather by its investment characteristics. We look for economically important assets that have long lifespans, high cash flow visibility and inflation protection, together with high barriers to entry or long-term contract protection. Key considerations include the essentiality of public transport systems for long-term contracts with public sector counterparties, availability-based revenues, and inflation protection through cost indexation, as well as secular growth drivers such as liberalization, urbanization, aging populations, road congestion and electrification.

Europe's robust regulatory environment, notably the concession model, alongside supporting regulations such as ULEZ and modal shift policies makes it a particularly attractive investment sector. The concession model is a particularly powerful tool, enabling buildout and maintenance of European infrastructure without overburdening public finances.

Meanwhile, certain sectors, such as rail, which historically sat on the cusp of core infrastructure, now offer well-structured opportunities that deliver growth potential beyond what is typically available in regulated utilities. A good example is Agility Trains West, a U.K.-based project serving Great Western Railway with a fleet of 57 high-speed trains. The project is expected to last more than 35 years and is supported by a 27-year inflation-indexed availability contract, providing stable cash flows for decades to come — making it a low-risk, long-term investment.

## Historical performance of transport during previous inflationary cycles

Transport infrastructure has historically demonstrated resilience during inflationary periods. As essential services, these assets are exposed to economic growth, meaning their usage and revenues will typically have some degree of GDP linkage, rising and falling in tandem with economic activity. However, given the geopolitical issues and inflation concerns in the world today, it is more important than ever to have downside protection — and transport assets have this characteristic.

Road assets, for example, have tolls and availability payments indexed to inflation; in previous cycles, such as in the post-1990s era of global GDP growth and declining interest rates, these assets have therefore experienced boosted returns.


### Lessons from the past, and what makes today different

Transport infrastructure is also a good way to diversify the portfolio, as it offers attractive features — notably, strong investment protection in the form of inflation-linked revenues and dividend yield. European transport infrastructure, supported by resurgent demand for mobility and favorable regulatory frameworks, is a particularly attractive space. However, it requires a patient and considered approach, particularly in the face of structural megatrends such as decarbonization, urbanization and digitalization.

In addition to these challenges, strained public finances of many governments will drive a greater need for private sector investment. Plugging this value gap will favor long-term investors with a strategic outlook.

Adjacent sectors, including equipment leasing and EV charging, are also evolving, mirroring the asset class growth. That said, truly understanding the business fundamentals — including the quality of the revenue streams, counterparty risk, contract length, inflation protection and barriers to entry — remains key.

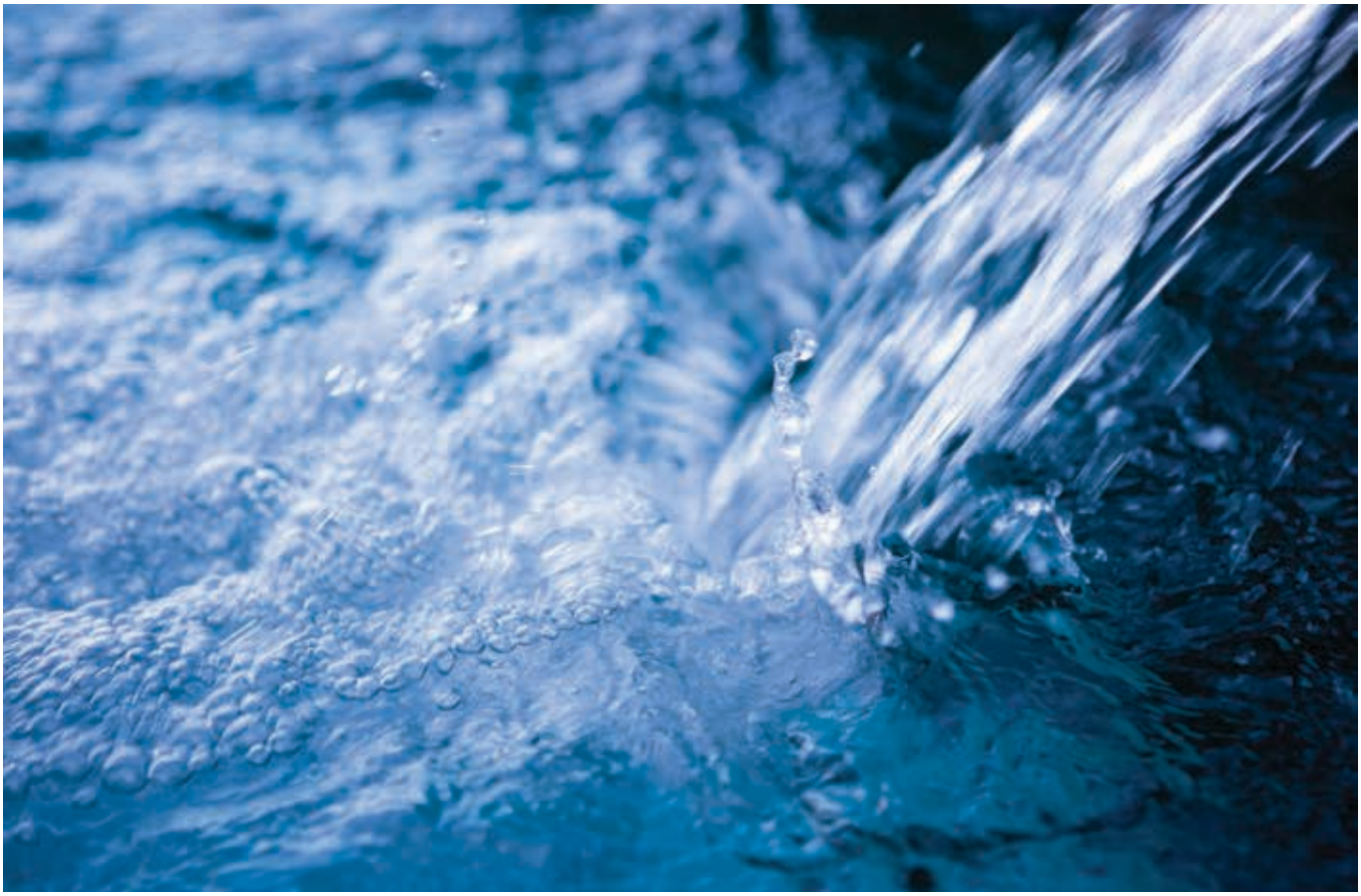
### EV charging — a new class of transport asset

One area dividing opinion is EV charging — a subsector at the convergence of structural changes experienced in the infrastructure asset class. In our view, EV charging is an industry that is susceptible to overbuild and low levels of utilization, with no real barriers to entry for street-level charging. The overall EV sales penetration rate — which includes both battery EVs and plug-in hybrid EVs — increased from 20 percent in 2023 to 25 percent in 2024 (25 percent in Europe versus 11 percent in North America). Despite this growth, the charge point operator market has proven a challenging environment, both in North America and Europe. In North America, profitability has remained elusive, and the expected withdrawal of government funding and tax incentives will further imperil project economics. In Europe, charge point operators continue to face the challenges of deploying capital to shifting and uncertain targets in a dynamic market. Investor sentiment has also remained subdued after concerns of public charging overbuild across many Western European markets.

We really like the tailwinds driving the low-carbon mobility sector; however, the EV charging landscape is still at an early stage of its lifecycle and evolving as a commercial proposition, particularly in Europe, where operators are exposed to full market risk. Consequently, Arjun has chosen to gain exposure to the sector through our investments in the motorway service areas, where EV charging usage is more predictable and only represents a portion of revenues and cash flows for a larger asset. Car parking assets also provide similar exposure to the EV transition story, while maintaining downside protection.

As global megatrends reshape the transport sector, Europe's rich networks of assets provide rare resilience through inflation-linked revenues and supportive regulation. For patient capital, transport infrastructure is not just a source of downside protection, it's a gateway to long-term growth and the future of sustainable mobility. ❖

**Romain Py** is a partner at **Arjun Infrastructure Partners.**



# Steady stream of stability

## *How strategic water infrastructure investments can deliver reliable returns and critical services*

by Samuel Lissner

Water is one of the most essential yet underinvested infrastructure categories. As climate volatility rises and aging systems falter, the demand for modern, resilient water infrastructure has never been greater. America's water systems, much of which were built in the mid-20th century, are now past their useful life, leaving communities to grapple with deteriorating pipes, outdated treatment facilities and mounting population pressures.

This challenge also presents a distinct investment opportunity. Water infrastructure sits at the intersection of critical need and durable return potential. It carries a long history of underpinning U.S. growth, yet today faces unprecedented capital requirements. Addressing these needs requires innovative partnerships and modernization, from advanced treatment facilities to smart metering and wastewater reuse. At the same time, the sector offers inflation protection, reliable demand, and strong alignment with sustainability goals.

Ridgewood's experience demonstrates how strategic investments in water infrastructure — spanning transportation, treatment, utilities, and technology — can deliver reliable returns while addressing some of society's most urgent challenges.

### A historical foundation: Building the backbone of American growth

The United States' water infrastructure has long been a bedrock of public health and economic development. Major investment in

municipal water systems began in the late 19th and early 20th centuries, spurred by the need to support growing urban populations. The post–World War II era brought a second wave of infrastructure expansion, with federal programs helping to build out thousands of water treatment and distribution systems across the country.

However, much of this infrastructure is now past its intended lifespan. Pipes laid in the 1950s and 1960s are corroding, treatment facilities are outdated, and population growth has outpaced capacity in many regions. At the same time, federal funding has declined relative to need, placing a heavier burden on local governments to maintain and modernize their systems.

Compounding this challenge is the fragmentation of the U.S. water market. There are more than 65,000 water utilities across the country, many of which are small, under-resourced and serving fewer than a few thousand people. This highly decentralized structure creates inefficiencies and complicates large-scale upgrades or innovation.

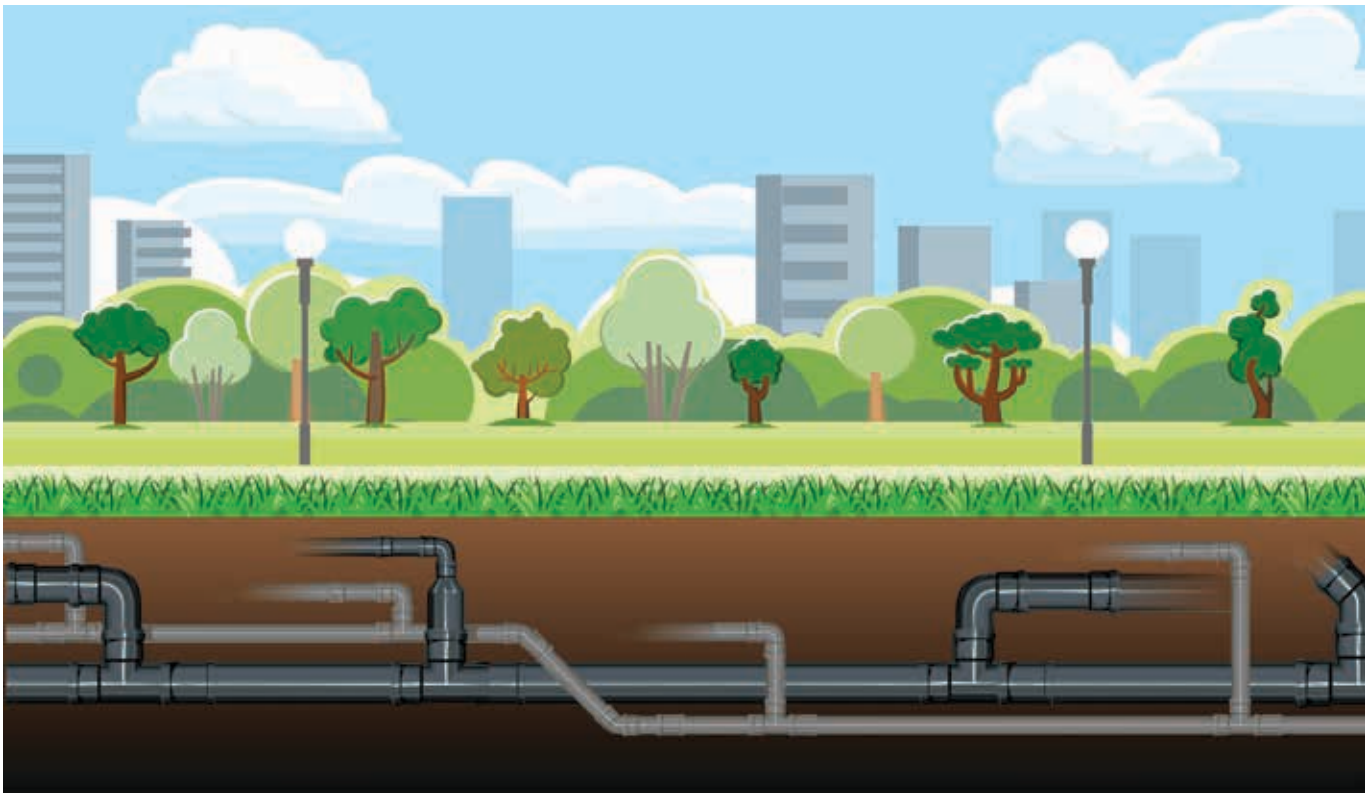
### Cracks in the system: Aging infrastructure meets rising demand

Much of the U.S. water system was built in the mid-20th century and is now well beyond its intended useful life. Estimates suggest more than $600 billion in water infrastructure investment will be needed in the next two decades to maintain and modernize this essential water services.

**The United States' water infrastructure has long been a bedrock of public health and economic development. Major investment in municipal water systems began in the late 19th and 20th centuries, spurred by the need to support growing urban populations.**

Municipalities, however, often lack the capital or operational capacity to execute needed upgrades alone. That's where innovative public-private partnerships (PPPs) come in, delivering needed resources and accelerating project timelines.

Ridgewood's investments in the Vista Ridge Water Pipeline in San Antonio and the Prospect Lake Water Treatment Center in Fort Lauderdale, Fla., are strong examples of PPPs delivering transformational results. Vista Ridge brought a new, sustainable water source to one of the nation's fastest-growing cities, while Prospect Lake provides advanced treatment capabilities for a rapidly urbanizing region. These projects not only ensure safe, reliable water for



communities but also deliver stable, long-term cash flows through structured municipal agreements.

### Modernizing for resilience and sustainability

Modern water infrastructure goes far beyond basic pipes and pumps. Today, technology is transforming how water is sourced, treated, distributed and conserved. Desalination, advanced wastewater treatment, smart leak detection and digital monitoring are among the innovations reshaping the sector.

**Moreover, water demand remains steady across economic cycles. Unlike discretionary consumer goods, water is essential for daily life, industrial production and agriculture. This noncyclical demand profile provides insulation against broader market downturns.**

Through our investment in EIP, Ridgewood has built a large platform of smart water meters that empower utilities and consumers alike. These meters offer real-time usage insights, leak alerts and system diagnostics that dramatically reduce water loss and improve billing accuracy. For municipalities, they represent a leap forward in efficiency, transparency and environmental stewardship.

Ridgewood's investment in WRM advances sustainability by providing pretreatment of commercial and industrial wastewater before it reaches municipal systems. This first stage of treatment takes pressure off public infrastructure, helps businesses meet regulatory standards, and supports more efficient long-term water management.

### A natural hedge: Inflation and market resilience

Water infrastructure holds a distinct advantage in today's economic landscape. Demand for water remains steady across economic cycles. Unlike discretionary consumer goods, water is essential for daily life, industrial production and agriculture. This noncyclical demand profile provides insulation against broader market downturns.

At Undine, Ridgewood built a midsize utility by consolidating and professionalizing smaller-scale water systems. Many of these local providers had aging infrastructure and inconsistent service. By integrating them into a single platform, we improved operations, reduced costs and enhanced regulatory compliance. The result: a more reliable utility that benefits from inflation-linked pricing and highly predictable cash flows.

Undine's model underscores another strength of the sector: localization. Many water businesses serve defined geographic regions and rely on domestic supply chains, minimizing exposure to global tariffs, foreign exchange volatility and international disruptions.

### Reliable returns in an uncertain world

For investors, water infrastructure offers some of the highest-visibility earnings across all sectors. Many projects are tied to long-term municipal contracts or operate within regulatory frameworks that generate stable, inflation-adjusted cash flows.

In addition, water infrastructure is naturally aligned with sustainability goals. It addresses pressing environmental challenges, ensures equitable access to basic services, and supports community health and development. As institutional capital increasingly seeks impact alongside return, water presents a compelling intersection of purpose and performance.

Ridgewood's experience across Vista Ridge, Prospect Lake, EIP, WRM and Undine has shown that strategic investments in water infrastructure can deliver financial performance, measurable environmental impact and lasting public benefit.

### Risks and considerations

As with any infrastructure investment, the water sector comes with its challenges. Capex requirements can strain balance sheets. Regulatory frameworks can be complex and shifts in political leadership can affect continuity. Relationships and expertise are critical to navigating these realities.

Climate change is both a motivator and a risk. While it increases the urgency of water investment, it also poses operational challenges — from droughts that reduce supply to floods that damage infrastructure. Resilience planning and adaptive design are key to managing such risks.

### Conclusion: An opportunity that's flowing steadily forward

Water infrastructure is essential, resilient and deeply aligned with both societal needs and investor expectations. Through targeted investments in water transportation, treatment, metering, reuse and utilities, Ridgewood is building platforms that solve real-world problems and can deliver reliable returns. The need for modern water solutions will only grow — and the opportunity to lead in this space has never been more compelling. ❖

**Samuel Lissner** is a partner at **Ridgewood Infrastructure.**

# Investing in farmland

## *How agriculture land can serve as an inflation hedge*

by Nick Tapp

Farmland is a specialist, niche subset of real estate investing that is increasingly gaining traction among long-term investors for whom specific characteristics of farmland are of particular value: low or negative correlation with other asset classes, including listed real estate, and positive correlation with inflation.

In the United States, institutional ownership accounts for approximately 3 percent of total farmland. The share has been growing, with the value of institutional investor holdings of U.S. farmland more than doubling to $16.6 billion in the three years to 2023. Along with those of Australia and Brazil, U.S. farmland values have outperformed recently, according to a report by Savills titled "Why invest in international farmland?" Over 20 years, global gains average about 10 percent a year. However,

returns vary, often quite widely, year-on-year. Farmland investing rewards patience.

Farmland is an unusual asset, in that improvements in technology, genetics, management and scale tend to deliver an increase in physical yields, often along with a reduction in costs. Better still, unlike built real estate, the principal asset, the land, is rarely subject to depreciation. The resulting increase in operating return, at an industry average level, then quietly capitalizes into the value of the underlying land asset, according to a recent Craigmore report titled "The return of the land." The cap rate remains relatively constant, responding somewhat to the rise and fall in interest rates. At the same time, much of what is produced on a farm forms an essential and unavoidable component of everyone's weekly expenditure. The impact of changes in supply, and less often in demand, is felt by the consumer and is part of the measurement of inflation.

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Farmland, therefore, tends to follow inflation more closely than equities and other assets due to its intrinsic link to the commodities produced and its value as a tangible asset. As inflation rises, the cost of food and agricultural commodities generally increases, thus increasing farm cash flows and the value of farmland. In addition, farmland is a real asset with limited supply and acts as a store of value during inflationary periods. In contrast, the stock market's response to inflation is more complex and can be negative due to factors like increased input costs, reduced consumer spending and rising interest rates aimed at bringing inflation under control. The consumer still has to eat.

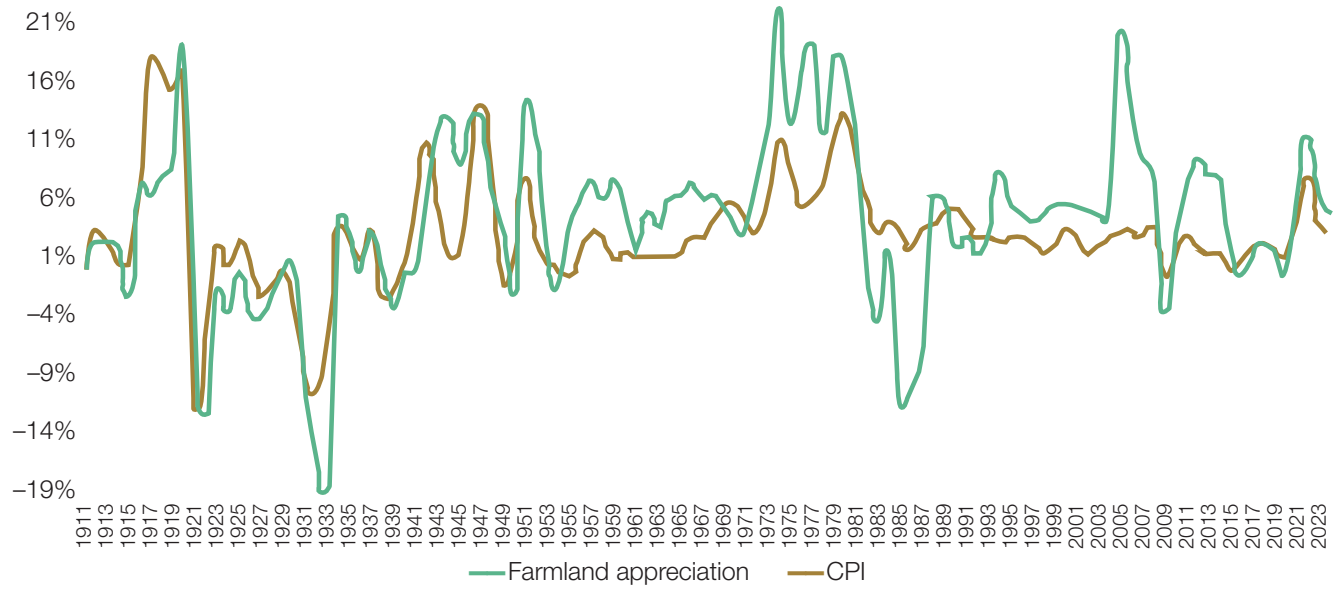
Since the start of USDA land values surveys in 1910, farmland appreciation rates have been positively correlated with inflation as measured by the Consumer Price Index (CPI). According to a recent report authored by Bruce Sherrick, director at the TIAA Center for Farmland Research and Fruin Professor of Farmland Economics, farmland appreciation is 67 percent correlated with inflation, while the S&P 500 shows a correlation of –10 percent since 1928. A positive correlation coefficient indicates that rising inflation has seen farmland values increase. In contrast, the slightly negative correlation to the stock market indicates that rising inflation has not necessarily seen the stock market follow suit, according to "The Correlation Between Inflation and Farmland, 2025" by Acretrader.

**Agriculture investment compared to other asset classes**

| Asset/Index | Annual average return | Standard deviation | Coefficient of variation | Correlation to agriculture | Minimum return | Maximum return |
|---|---|---|---|---|---|---|
| | | | 1970–2019 | | | |
| **U.S. ag 32 states** | **10.2%** | **6.5%** | **0.64** | **1.00** | **–5.8%** | **27.0%** |
| U.S. equities | 7.1% | 16.5% | 2.31 | –0.25 | –48.6% | 29.3% |
| European equities | 6.1% | 20.3% | 3.35 | –0.23 | –59.9% | 51.2% |
| U.S. corporate bonds | 7.5% | 2.6% | 0.35 | 0.09 | 3.4% | 14.2% |
| U.S. 10-year bonds | 6.3% | 3.0% | 0.48 | 0.15 | 1.8% | 13.9% |
| U.S. 30-year mortgages | 7.7% | 3.6% | 0.46 | 0.14 | 0.0% | 16.6% |
| U.S. listed real estate | 10.9% | 16.8% | 1.53 | –0.08 | –47.4% | 38.9% |
| Gold | 7.5% | 22.2% | 2.95 | 0.28 | –39.5% | 90.2% |
| PPI | 3.4% | 4.9% | 1.44 | 0.60 | –7.4% | 19.0% |
| CPI | 3.8% | 2.8% | 0.73 | 0.65 | 0.1% | 12.5% |

Note: **U.S. Equities:** S& P 500 index; **European equities:** MSI EAFE Index; **U.S. corporate bonds:** Moody's Seasoned Cororate AAA rated bonds; **U.S. 10-year bonds:** U.S. 10-year Treasury Constant Maturity Rate; **U.S. 30-year mortgages:** Average rate on 30-year fixed rate mortgage; **U.S. listed real estate:** FTSE Nareit All Equity REITs Index; **Gold:** London Bullion Market Association Gold Price; **PPI:** Producer Price Index; **CPI:** Consumer Price Index. *Source: Prof. Bruce Sherrick, director of the TIAA Center for Farmland Research*

**Farmland appreciation is positively correlated with inflation**




*Sources: USDA and Minneapolis Fed*

Farmland, however, is a complex asset to acquire and manage, often with thinly traded markets and extreme asset heterogeneity — every farm really is different. Overlaying the range of soil types, climatic conditions, distance to market, farm scale and other factors of physical location, which determine this exceptionally high level of heterogeneity, are a range of political challenges and interventions, varying by country, at least, and sometimes by region. Farmland was for much of settled human history the source of wealth and power, and for many around the world, it is still part of national identity. Ownership of farmland is political. In many countries, private ownership of or investment in farmland is not possible. Political intervention also extends, of course, to decisions around taxpayer support for farmers and farming businesses, farm subsidies and tax breaks, and this support can change almost at a moment's notice.

A high level of asset heterogeneity coupled with political intervention risks obscuring the positive long-term characteristics of farmland, particularly the relationship with inflation, as part of a well-structured investment portfolio. The complexity of acquisition, ownership and management trumps the strongly defensive fundamental upside.

This seems to be why farmland has remained a relatively niche investment asset class, despite the strong fundamentals. Climate and commodity price risk remain real. Political risks, in all their forms — from violent expropriation of title at one end to changes in tax breaks at the other — can undermine, occasionally catastrophically, the basic investment thesis. Add to this mix a general lack of familiarity with the asset class among investment professionals, and it should be no surprise that not all decisions are well-founded. Farming is remarkably parochial, and the locals will certainly know their region better than will an incoming, usually urban, investment manager.

When you build a portfolio of high-quality farms that enjoy a supportive climate, are toward the lower end of cost of production and are secure from political disruption, your patience will be amply rewarded. ❖

**Nick Tapp** is head of investor relations at **Craigmore Sustainables.**

# The case for mission-critical NNN

## *Investing in a high-inflation environment*

by EJ Wislar

Persistent inflation has challenged institutional investors across asset classes. Fixed-income returns have been eroded, equities have become more volatile, and many real estate sectors are struggling with rising operating costs. Amid this uncertainty, mission-critical triple-net lease (NNN) investing has emerged as a compelling strategy, offering predictable income, contractual rent escalations and insulation from expense inflation. Reshoring and onshoring trends create a unique opportunity to develop or acquire highly functional assets leased to investment-grade tenants for lease terms exceeding 10 years.

For global allocators, NNN investments represent a rare opportunity: combining the stability of bond-like income with the upside potential of real assets. Further, cash yields exceed those of the bonds of the underlying tenant while providing long-term upside. By aligning with essential, mission-critical tenants under long-term contracts, NNN provides the inflation protection and resilience that institutional portfolios increasingly require.

### The inflation challenge for institutional investors

Inflation has reasserted itself as a persistent feature of the global economy. Even as central banks raise rates, core inflation in developed markets remains above policy targets. In emerging economies, energy and

### The benefits to investors of triple-net leases


*Source: PRP Real Assets*

commodity price volatility has exacerbated inflationary pressures.

For institutional investors, the consequences are clear:

- **Fixed income:** Real yields on government bonds remain depressed when adjusted for inflation.
- **Equities:** Rising wages, materials and energy costs compress corporate margins and amplify earnings volatility.
- **Real estate:** While real assets are traditionally viewed as an inflation hedge, not all sectors are equally protected. Multifamily and office owners, for example, face higher property taxes, insurance premiums and maintenance costs, which landlords must absorb, reducing net operating income and depressing valuations.

The challenge is to identify asset classes within real estate that truly hedge inflation. Mission-critical NNN investing is one of the few strategies that delivers this protection consistently.

#### What is mission-critical NNN investing?

A triple-net (NNN) lease is a contractual structure in which the tenant, not the landlord, is responsible for property taxes, insurance and maintenance, among all other operating expenses. This structure shifts virtually all operating cost risk away from the property owner.

Key features include:

- **Long-term leases:** Typically 10–20 years, these provide long-term optionality for investors.
- **Creditworthy tenants:** By focusing on investment-grade counterparties, investors can acquire assets with long-term credit protection.
- **Predictable cash flow:** Rental payments are contractual, not contingent on variable property-level expenses.

By insulating owners from operating cost volatility, NNN investments deliver a level of income predictability that other real estate sectors cannot match.

#### Why NNN works in high-inflation environments

- **Built-in rent escalations:** NNN leases typically include fixed annual increases of 2.5 percent or more, or in some cases escalations tied to CPI. These mechanisms provide a direct hedge against inflation by ensuring income grows over time. Unlike a bond coupon, which remains fixed, NNN income streams maintain or increase their real value.
- **Tenant credit quality:** Some mission-critical NNN assets are leased to investment-grade corporates or essential operators. The facilities are mission critical to the tenant's business, reducing the likelihood of default or relocation: for example, a manufacturing facility leased to a Fortune 500 operator that has invested significant capital into the facility or chose the specific location due to its proximity to consumers or suppliers.
- **Expense pass-throughs:** Property taxes, insurance premiums and maintenance costs, all of which rise during inflationary periods, are paid by tenants. This shields net operating income from erosion.
- **Resilience across cycles:** As mission-critical NNN assets are tied to operations rather than discretionary activities, tenants prioritize maintaining occupancy and lease payments

even during downturns. This operational necessity adds a layer of resilience uncommon in other sectors. This resilience was proven when PRP experienced 100 percent rent collections during the COVID-induced recession within its NNN portfolio of 20-plus investment-grade tenants.

### Sector examples of NNN resilience

- **Logistics and distribution:** The growth of ecommerce and the reconfiguration of supply chains through reshoring and nearshoring have created demand for logistics facilities and shifted demand across the United States. In inflationary environments, transportation and fuel costs rise, further increasing the importance of strategically located warehouses. NNN structures lock in tenant commitments, with inflation protection built into the lease.
- **Manufacturing:** Industrial policy in the United States and Europe, from the Inflation Reduction Act, CHIPS Act and One Big Beautiful Bill Act, has incentivized billions in reshoring and continues to provide a tailwind to mission-critical net lease investing. Manufacturers invest heavily in their facilities, embedding specialized machinery and automation that make relocation costly. NNN leases on these properties create sticky tenant relationships and long-term income security.
- **Data centers:** Digital transformation, cloud migration and artificial intelligence (AI) are driving unprecedented demand for data center capacity. Rising utility and maintenance costs, are borne by tenants in NNN structures, while landlords collect stable, escalating rents. With hyperscale tenants often committing to long-term leases, data centers under NNN structures provide one of the strongest inflation hedges in real estate.
- **Healthcare and pharmaceutical manufacturing:** Labs and pharmaceutical and biomanufacturing facilities are capital intensive, highly regulated and difficult to replicate. Even as healthcare wages and supply costs rise, landlords remain insulated through pass-through structures. For institutions, NNN healthcare manufacturing and logistics investments combine social utility with defensive income.

### Not all NNN is created equal

NNN investing spans asset classes, regions and credit quality. Assets such as hospitals, retail and office may be structured under NNN leases. Further, many NNN leases are with unrated or sub–investment-grade tenants, creating default risk and the potential for complete loss of income. In a period of high inflation and elevated interest rates, these sub–investment-grade tenants with high leverage levels are exposed to rising interest expense and refinance risk, eroding credit quality. Finally, legacy assets may be mission critical to an underlying operation, but they face significant functional obsolescence if they do not boast modern configurations with adequate power, clear heights, column spacing and truck-court depth.

By focusing on recently constructed or build-to-suit assets leased to investment-grade counterparties, a focus on mission-critical NNN

## Comparing mission-critical and legacy triple-net lease strategies

| Mission-critical NNN strategy | vs | Legacy NNN strategy |
|---|---|---|
| Tier 1 IG tenants within 'new economy' | | Sponsor-backed middle-market with hight leverage |
| Opportunistic hold period to maximize value | | Perpetual hold |
| New generation class A assets | | Class B/C tertiary product with high obsolescence risk |
| Primary markets with strong rent growth | | Tertiary and secondary markets with limited upside |
| Multiple exit strategies | | Perpetual hold creating orphaned asset risk |
| Focus on asset classes with strongest macro-tailwinds | | Asset class agnostic |

*Source: PRP Real Assets*

assets mitigates many of the risks associated with legacy NNN investments.

### Comparison to other asset classes

- **Bonds:** While bonds provide fixed coupons vulnerable to inflation erosion, NNN assets offer contractual income with built-in growth, plus the potential for capital appreciation.
- **Equities:** Public equities may deliver higher nominal growth but are subject to significant volatility during inflationary cycles. NNN returns are contractual, not dependent on market sentiment.
- **Other real assets:** Multifamily landlords absorb rising property expenses. Office owners face weak demand, capital expenditure burdens, gross leases (providing operating expense exposure) and tenant improvement costs. Industrial owners without NNN structures remain exposed to expense volatility. Mission-critical NNN stands apart as the most insulated model.

### The institutional allocation case

For global allocators, mission-critical NNN investing offers several advantages:

- **Diversification:** Exposure can be spread across industries, geographies and tenant credit profiles.
- **Scalability:** Mission-critical NNN transaction sizes often exceed $50 million, allowing for efficient deployment of institutional capital.
- **Stagflation hedge:** When both equities and bonds underperform, NNN provides stable, growing income streams.
- **Global relevance:** Global investors are increasingly pursuing strategies that deliver income with inflation protection and long-term upside. Mission-critical NNN delivers on this mandate.

By acting as an income-producing real asset investment within alternatives allocations, NNN can stabilize portfolio returns in volatile macroeconomic environments.

### Risks and mitigants

Like any strategy, NNN investing carries risks, but these can be mitigated through disciplined underwriting:

- **Tenant credit risk:** Mitigated by focusing on investment-grade tenants and essential operating assets. Further, this can be mitigated by focusing on growth sectors and avoiding potential fallen angels.

- **Sector obsolescence:** Addressed by targeting logistics, manufacturing and digital infrastructure that benefit from long-term megatrends and are recently constructed or to-be-built assets that are highly functional for today's users.
- **Illiquidity:** Reduced through portfolio diversification and exit optionality, including sales to REITs or recapitalizations.
- **Escalation limits:** Fixed escalations may trail actual inflation in extreme environments; inflation-driven rent growth may provide mark-to-market opportunities upon the renewal of the lease.

### Conclusion: mission-critical NNN as the 'inflation buster'

Inflation is once again a defining feature of global capital markets. For institutional investors navigating this environment, NNN investing provides a rare combination: bond-like stability, contractual growth and insulation from operating expense inflation. Anchored by essential, mission-critical properties, NNN assets are uniquely positioned to deliver predictable, long-term yield with upside potential.

In short, triple-net lease investing is not only an alternative allocation, it is a true "inflation buster," offering the defensive resilience institutions need in an era of persistent macroeconomic volatility. ❖

**EJ Wislar** is managing director, mission-critical assets at **PRP Real Assets.**

# The complex relationship between oil and inflation

## *Private investment perspective*

by Brad Updike

As a historic sentiment, oil/gas investments have been promoted by financial advisers as prime vehicles for hedging an investor's portfolio from inflation. In general, commodities have demonstrated a strong resilience in the face of inflation and have been a critical hedge for bonds and equities when prices and wages climb.

Based upon our experience in observing how oil/gas investments have fared over the past 15 years, we believe inflation has both positive and negative effects on oil/gas investments. This article examines the intricate relationship between oil and inflation, as well as empirical observations on the performance of private oil/gas investments during periods of inflation and deflation in the United States.

### Oil and inflation correlation (CPI/PPI)

Traditionally, the most watched inflation indicator is the consumer price index (CPI), defined by the U.S. Bureau of Labor Statistics as "a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services." Oil prices influence the CPI, though the correlation between oil prices and inflation is less direct than it was in the 1970s. The Federal Reserve Bank of St. Louis estimates a correlation of 0.27 between changes in the oil price and inflation. In other words, a sustained 10 percent rise in oil prices may cause the CPI to rise by 2.7 percent.

From a historical perspective, oil prices have shown a significantly stronger correlation with the Producer Price Index (PPI). The PPI is a

family of indexes from the U.S. Bureau of Labor Statistics that measures the average change in selling prices for domestically produced goods and services from the producer's perspective. As reported by the Federal Reserve Bank of St. Louis, the correlation between oil prices and PPI was 0.71 between 1970 and 2017, which is much higher than the 0.27 correlation with the CPI. The reasoning for this is that the PPI measures prices at the wholesale level, where the impact of oil as an input is felt directly.

### The relationship from a historical narrative

While the relationship between oil and inflation is a positive one, it is important to understand the cause and effect of oil pricing over time, and how such movements affect inflation at various times of financial crisis. While oil price movements can be a direct or indirect cause of inflation during certain periods of financial stress, inflation can sometimes drive oil prices upward, as was observed during the post-COVID years.

### 1970s

The inflation of the 1970s, or "stagflation," was caused by a combination of factors, including two major oil supply shocks in 1973 and 1979. These two shocks quadrupled oil prices and drove up costs for goods and services across the United States. The first supply shock occurred during the OPEC oil embargo (1973), when Arab oil producers banned oil exports to the United States. (which tripled oil prices overnight). The second oil shock in 1979, caused by instability in Iran, further doubled oil prices and added to U.S. consumer inflation. The effects of these supply shocks were exacerbated by loose monetary policies and large government deficits in the preceding years, which increased the money supply.

In addition, the end of the Bretton Woods system and the shift to fiat currency contributed to inflationary pressures. At the same time, powerful trade unions helped create a wage-price spiral as they negotiated higher wages in response to rising costs. As such, while oil price fundamentals clearly had a role in causing inflation in the 1970s, multiple other factors were in play.

### 2001–2008

Following many years of low inflation, the United States felt the effects of inflation at times in 2007 and 2008. This period was again affected, in part, by oil prices. However, this period of inflation was short-lived and was followed by an immediate collapse in commodity prices and a sharp increase in unemployment. The financial crisis itself was caused by the collapse of the U.S. housing market

**Oil prices and U.S. inflation rate**


*Source: St. Louis Fed — DCOILWTICO — CPIUCS_PC1 — June 20, 2022*

bubble, which was fueled by deregulation, easy credit and speculative behavior in the mortgage market.

In the six or seven years preceding the 2008 financial crisis, oil prices began a gradual upward climb. From 2000 to 2002, oil traded at approximately $20–$25 per barrel (bbl), but it gradually increased between 2003 and 2006, when the West Texas Intermediate (WTI) crude price rose from under $30 per bbl in 2003 to more than $60 per bbl by 2006. This increase was driven, in significant part, by a soaring demand from rapidly industrializing economies like China and India. While oil prices held around $60–$70 per bbl in 2006, we saw spikes in commodity prices, especially in energy and food, in 2007 and 2008. Beginning in 2007, oil started at $57 per bbl, increased to about $70 per bbl that summer, and ended at around $90 per bbl. This trend continued through July 2008, with oil reaching $140 per bbl.

During this rise in oil prices, the average CPI change over the eight-year period was 2.8 percent. This was small in comparison to the annual increases in oil prices occurring over this period, which averaged 24.04 percent. Over the years, numerous variables that may have contributed to oil price increases. Such factors include tension in the Middle East, soaring demand from China, the falling value of the U.S. dollar, reports of a decline in world petroleum reserves, and worries over peak oil. However, most claims imply financial speculation was a major cause of the 2008 oil price increase.

### Post-pandemic

Through the post-pandemic era, the United States encountered significant inflationary forces from 2021 to 2023. However, the nation has experienced a more tempered level of inflation in 2024 to 2025 as oil prices and exploration and production (E&P) development costs dropped.

In the first couple of years following COVID-19 (2021/2022), many linked the sharp rise in consumer prices in the United States and Europe to supply-chain disruptions and increasing energy costs. Others argue that it was driven by unexpectedly strong consumer product demand forces, not only in the United States but also in Europe. These forces resulted from a combination of surprisingly robust pent-up consumer product demand following the pandemic's restrictions, especially fiscal policies, and an unusually accommodative monetary stance by the Federal Reserve and the European Central Bank.

Following the end of COVID-19 restrictions in 2021, the United States experienced a sharp rise in the rate of consumer price increases. The annual inflation rate, as measured by CPI, was 1.7 percent in February 2021 but rose to more than 5 percent in June 2021. The annual inflation rate continued to rise for another year, peaking at about 9 percent in June 2022. This rise in inflation has been attributed to many factors. The U.S. response to the COVID-19 pandemic included a series of federal initiatives, notably the CARES Act and the American Rescue Plan, which collectively authorized roughly $5 trillion in government spending. These programs contributed to strong consumer and business demand that tightened labor markets and placed upward pressure on wages and prices.

During 2021–2022, E&P costs also increased at a much higher level than consumer inflation. Oil prices, which hovered at around $40–$60 per bbl from 2016 to 2020 (with the average being $51 per bbl during these years), increased to $70 per bbl in 2021 and $100 per bbl in 2022. While drilling costs bottomed out during COVID-19, these costs increased in 2021 and continued to increase more significantly in 2022 through the early part of 2023. Internet sources suggest that drilling cost increases in these years were roughly 10 percent to 20 percent in most basins. From our own due diligence, the annual cost increases were potentially as high as 30 percent or more during these years in certain highly favored basins, such as the Permian-Delaware Basin.

### Oil performance during inflation

In times of high or rising inflation, the E&P sector has historically performed well, with energy stocks often delivering positive real returns. However, this relationship is complex and has evolved over time due to various factors that can affect the industry's profitability and its influence on the broader economy. In periods of high or rising inflation between 1973 and 2024, the energy sector has beaten inflation 74 percent of the time, with an average annual real return of 12.9 percent. This pattern was evident during the inflationary surge of 2021 to 2022, when oil prices climbed significantly.

Despite its historical strength, the E&P sector's performance during inflation is not guaranteed and can be affected by other market dynamics. While energy prices and inflation are correlated — particularly in the 1970s, at times in 2007–2008, and in 2021–2022 — it is now viewed as an oversimplification to say that rising oil prices directly cause inflation.

### Retail investment perspective

So, how do investments in oil and natural gas fare during times of inflation? As a preliminary observation, inflation within commodity prices is often a blessing to E&P companies that manage well assets for older legacy investment programs, especially for mineral interests and royalty acquisition programs in which the investors do not pay for drilling and lease operating costs. With respect to older programs with an E&P development focus (e.g., new drilling, infill drilling, workovers, recompletions), oil/gas price inflation can be a welcome development based upon the much lower break-even costs that apply when an oil/gas well is placed into production. While the break-even costs to drill new horizontal shale wells have been estimated at $40–$65 per bbl within most U.S. basins, the oil price needed to cover producing/living costs is often 50 percent (or less) of the drilling/completion break-even.

The question of how oil/gas investments perform during inflationary times is tricky when it comes to programs that are engaging in new drilling. From a timing perspective, an E&P investment program sponsor will often raise its capital from investors in year one and will then deploy its capital by funding drilling, completion and facilities costs over a period of six to 18 months following the offering's termination date. It is also during this period that initial oil/gas production (the IP) is established, which is also the point at which the well's oil/gas reservoir pressures are at their highest. In turn, this high reservoir pressure during a well's early production stage is what causes most of a well's produced oil/gas to be realized within the first couple of years of production (sometimes referred to as "flush production").

We reviewed the performance of three E&P sponsors that offered drilling program investments

**E&P cost break-even**

| | Permian/ Delaware | Permian/ Midland | Eagleford Shale |
|---|---|---|---|
| New drilling | $62/bbl | $61/bbl | $61/bbl |
| Producing/lifting | $33/bbl | $35/bbl | $26/bbl |

*Source: Fed. Bank Dallas, July 2025*

to retail investors from 2010–2025 (i.e., a 15-year look-back). The companies were chosen based upon their consistency in raising capital (annual raises of $60 million to $200 million), as well as their net capital positions and operational scale (equity positions of eight to nine figures). Of these sponsors, two derive most of their production revenues from oil, whereas the other derives its revenues almost solely from natural gas sales.

When reviewing the cash-on-cash returns of these sponsors, some general observations stuck out:

- The drilling partnerships with 2019 and 2020 vintage years were unquestionably the best cash-on-cash return years recorded by all three sponsors.
- Conversely, the partnerships with 2012–2014 vintage years were unquestionably the worst-performing programs across all three sponsors.

In analyzing the programs, we note that each sponsor's operations were situated within major shale basins in which oil/gas reserves are predictable and where drilling and production methods are reasonably scalable. With respect to the 2019 and 2020 programs, we note that both 2019 and 2020 were periods in which drilling and completion costs were low. These programs were able to deploy most of their capital during a low (or generally stable) cost period (and with low oil/gas prices creating a favorable cap. ex. deployment time due to the lower demand for drilling and completion cost inputs). In addition to experiencing a favorable capital expenditure (capex) deployment period, these programs produced a significant portion of their oil/gas IP 12–24 (IP 12 refers to a well's oil/gas production within 12 months of IP, whereas IP 24 refers to the production within 24 months of IP) during a run-up in oil/natural gas prices from 2021 through 2022. As such, the capex of these programs was deployed during a period of drilling cost deflation (or relative stability), but with inflation also contributing meaningfully to the program returns by driving higher oil/gas revenues.

We also observed some contrasting fundamentals in play with respect to the 2012–2014 programs. These programs deployed capital at times when oil/gas prices were high, and the demand for drilling inputs was also high during such years. While oil/gas prices and overall E&P demand drilling input were high, U.S. consumer inflation was kept in check. This suggests that consumer inflation and oil/gas market fundamentals do not always follow in perfect correlation.

In addition, the 2012–2014 programs produced a significant portion of their oil/gas IP 12–24 following the oil price bust in the fourth quarter of 2014. As such, the capex of these programs was deployed during a period of E&P price/cost sector inflation, but with much of the oil/gas revenues constrained by substantial oil price reductions occurring in late 2014, 2015 and 2016. A chart depicting oil/gas pricing and CPI movements is provided above.

**Oil/gas pricing and CPI movements**

| | Oil price (1) | NYMEX Gas | Avg. CPI |
|---|---|---|---|
| 2010 | $74 | $4.37 | 1.6 |
| 2011 | $96 | $4.00 | 3.2 |
| 2012 | **$95** | **$2.75** | **2.1** |
| 2013 | **$96** | **$3.73** | **1.5** |
| 2014 | **$88** | **$4.37** | **0.8** |
| 2015 | $44 | $2.62 | 0.1 |
| 2016 | $43 | $2.49 | 2.1 |
| 2017 | $51 | $2.96 | 2.1 |
| 2018 | $65 | $4.03 | 1.9 |
| 2019 | **$57** | **$2.57** | **2.3** |
| 2020 | **$40** | **$2.03** | **1.4** |
| 2021 | $70 | $3.61 | 7.0 |
| 2022 | $94 | $6.45 | 8.0 |
| 2023 | $76 | $2.53 | 4.1 |
| 2024 | $75 | $2.19 | 2.9 |
| 2025 | $66 | $3.50 | 2.7 (July) |

*(1) Derived from EIA first-purchaser data*

*(2) Bold: subject vintage years*

*Source: Energy Information Administration, Bureau of Labor Statistics*

## Summary

While oil/gas investments have often been marketed by investment advisers as inflationary management tools, our experience in tracking private investments suggests that the effects of inflation can be both positive and negative depending upon (i) the periods in which capex is being deployed, and (ii) the time in which a well's initial 12–24 months of oil/gas production is being realized. Acknowledging the desire from a marketing perspective for advisers to pitch oil/gas projects in times of $90–$100 per bbl, this tendency often can lead to a lower level of return at the investor level based upon (i) the supply/demand for drilling inputs at times when oil/gas prices are high, and (ii) the higher capital costs that often come into play during oil pricing run-ups. As such, the relationship between oil and inflation, while positive, is fraught with complexities and nuances. ❖

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