Three Things You Can Do to Protect Yourself During Times of Inflation

Inflation has roared back – now what?

I had to go back to my economics textbooks from business school to refresh my working knowledge of inflation. It's been so long, I'd almost forgotten. Now that we've hit a 40 year high, what is the property owner to do?

Review your existing leases and determine what annual increases you can pass through.
For new leases or extensions, negotiate a flat rate increases as a floor and add a CPI component.

Residential leases, be sure to pass through the maximum increase since you can no longer recover lost increases in future years.
The GOOD NEWS is that Real Estate has always been a hedge to inflation. Like gold or other commodities, real estate tends to hold its real value.

Generally, market rents will raise with inflation. Leased rents instead, are restricted by pre-established adjustments that are written in the lease. Some leases call for flat rate increases, some increases are pegged to a regional index (ie the Bay Area Annual Consumer Price index), and some leases combine the two, by having a flat rate floor and a CPI component.

Rent for commercial spaces are generally dictated by the market and are not regulated; instead, residential apartment rents are regulated in California. CA assembly Bill-1482 limits annual increases to 5% above the CPI, not to exceed 10%. Some municipalities, like San Francisco or Oakland have reams and stacks of regulation, so beware.

What to expect:
Cost of ownership will increase: Utilities, repairs, materials, and financing. It is important to lock into financing early and to control your operating expenses. Required capital improvements will require more capital than ever before. They could be best passed on to a new owner that can amortize the investment over a longer time horizon.

Rents will continue to grow - which in turn will drive value. CRE is still a sound investment.

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Testimonial
"I would recommend Ces to anyone that is making a commercial real estate acquisition that is looking for full transparency, decision support, and great CRE advice."

Nancy Dow Moody,
President & CEO,
Lifehouse Inc.

What do I do?
My primary focus is real estate investment sales and leasing. I have extensive experience brokering property sales and leases in the San Francisco bay area. I am inquisitive, analytical and strategic, I enjoy learning about your CRE goals, and helping you develop and implement your strategic plan.

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