

Grand Paris Residential Real Estate as an Effective Hedge against Inflation

Authors : Yasmine Essafi Zouari, Aya Nasreddine

Abstract : Following a long inflationary period from the post-war era to the mid-1980s (+10.1% annually), France went through a moderate inflation period between 1986 and 2001 (+2.1% annually) and even lower inflation between 2002 and 2016 (+1.4% annually). In 2022, inflation in France increased rapidly and reached 4.5% over one year in March, according to INSEE estimates. Over a long period, even low inflation has an impact on portfolio value and households' purchasing power. In such a context, inflation hedging should remain an important issue for investors. In particular, long-term investors, who are concerned with the protection of their wealth, seek to hold effective hedging assets. Considering a mixed-asset portfolio composed of housing assets (residential real estate in 150 Grand Paris communes) as well as financial assets, and using both correlation and regression analysis, results confirm the attribute of the direct housing investment as an inflation hedge especially particularly against its unexpected component. Further, cash and bonds were found to provide respectively a partial and an over hedge against unexpected inflation. Stocks act as a perverse hedge against unexpected inflation and provide no significant positive hedge against expected inflation.

Keywords : direct housing, inflation, hedging ability, optimal portfolio, Grand Paris metropolis

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