

Landlording (Buy and Hold)

M: Does investing in income property protect you against inflation?

An incorrect theory promulgated by many real estate promoters is that rents will increase alongside of inflation. Further, this theory rationalizes that these rental increases will increase the value of the property at rates comparable to the rate of inflation.

Rents that increase at the same rate of inflation are nothing more than a coincidence. Supply and demand relationships are what change rents. Rents will increase when the supply/demand ratio favors the lessor. As an example, given any rate of inflation, if you have excess supply, high vacancy, and jobs declining, rents will not increase. Quite the contrary, they will decrease.

Inflation is an advantage when real estate is leveraged, the reason being that you are borrowing money today and paying back the mortgage and mortgage cost (interest) with future (cheaper) dollars.

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