

PPB CAPITAL PARTNERS

The Bridge to Alternative Investments

PPB Capital Partners



300

Cumulative Yrs. of Experience

300+

Investments Made

\$2.0B+

Total Capital Committed

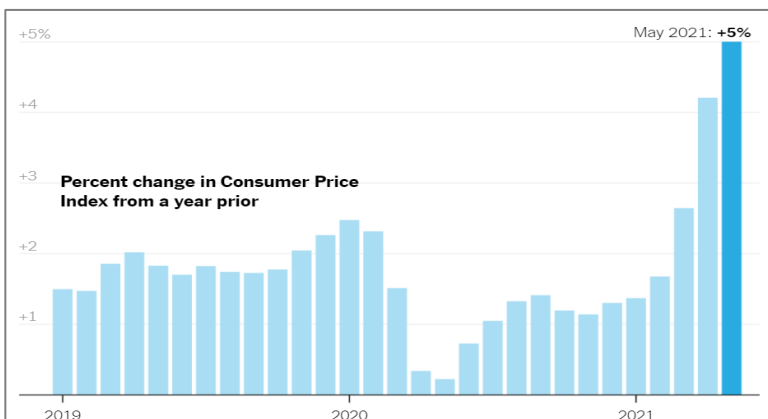


National Footprint

Alternative Strategies for Inflation

Conshohocken, PA, June 21, 2021 - The latest announcement from the Labor Department on June 12, 2021 indicating that the CPI had jumped over 5% from since May 2020¹ has further fueled the main topic of many of our meetings with wealth advisors: the impact of inflation. While many have argued that the price jump is a short-term and expected blip as the economy continues to recover from the depths of the global shutdown last May, the level of increase was a shock to many economists, leaving wealth advisors looking for strategies to protect their clients' portfolios.

Percent Change in Consumer Price Index from a Year Prior¹



A common question stemming from such news is, 'where should advisors look to allocate client assets?' A dramatic spike in inflation could prompt the Fed to reverse course and begin to raise rates much quicker. Such a move, while not likely just yet, could significantly impact stock prices. Much of the rampant growth in risk asset prices can be directly tied to the historically low interest rate environment that we have

today. In the private markets, a focus on infrastructure, real assets and real estate remains key. One area that has proven long-term inflation protection characteristics is in multi-family, workforce housing.

For taxable investors multi-family housing already offers key depreciation benefits to help shield taxable income in the early years of the investment. At a time when most people are expecting an increase in tax rates in the United States, multi-family real estate is a key asset class to consider. Making the strategy even more timely today, however, is its inflation protection ability. Take an even deeper dive into multi-family investing and we notice a clear bifurcation of the market. While Class-A properties have suffered during the pandemic due to oversupply and expensive rents, the workforce housing segment of Class-B properties has thrived. Workforce housing is particularly attractive due to the high turnover present with the average leaser. As these leases' turnover, the property managers can increase rents and keep up with inflation.

A study conducted at MIT titled *Has Real Estate been a good Hedge against Inflation? Will it be in the future?*² showed that while property income is only a partial inflation hedge (likely limited by the amount of turnover in the units), the valuations of these properties provide complete inflation hedges. In today's markets, we are seeing the values of workforce housing continuing to rise as there remains a significant supply/demand imbalance for workforce housing properties. As such, even in an environment of compressed capitalization rates, workforce housing remains an excellent investment with occupancy rates near all-time highs, which also allowed property owners to grow revenue even during the thick of the pandemic last year. Accordingly, our workforce housing manager, Peak Capital Partners saw revenues grow at 5% last year³. If we do see a spike in inflation moving forward, we believe rent renewals will rise in parallel and investors will be protected with rising income streams.

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In addition, and by their very nature, real assets have traditionally been excellent inflation hedge and as such, we are starting to look more into farmland and other commodities as wealth advisors ask for more inflation protection ideas. Infrastructure is also a main point of emphasis as income stemming from infrastructure projects will also rise with inflation.

In the interim, we believe workforce housing should be a core component of investor portfolios. The strategy has proven its worth both during booming economic times as an inflation hedge and as a stabilizer during times of economic stress when renters start to flee more expensive properties. Accordingly, real estate and workforce housing are excellent strategies to consider as investors consider a spike in inflation.

For more information on PPB's fund platform, please contact Frank Burke, CFA, CAIA, Chief Investment Officer, PPB Capital Partners, 484.278.4017 Ext. 108 or at fab@ppbadvisors.com.

About PPB Capital Partners, LLC

Launched in 2008, PPB Capital Partners, LLC (or "PPB" or "the Firm") brings premier alternative investment solutions and streamlined processing to the wealth advisor community. PPB Capital Partners provides a roster of alternative investment managers, as well as builds and operates feeder funds and customized fund of funds for wealth advisory firms.

Important Footnotes and Disclosures

1: Source: NY Times, <https://www.nytimes.com/2021/06/10/business/consumer-price-index-may-2021.html>.

Please contact PPB for a copy of the article if unable to access.

2 <https://economics.mit.edu/files/14673>

3 Peak Capital Partners

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