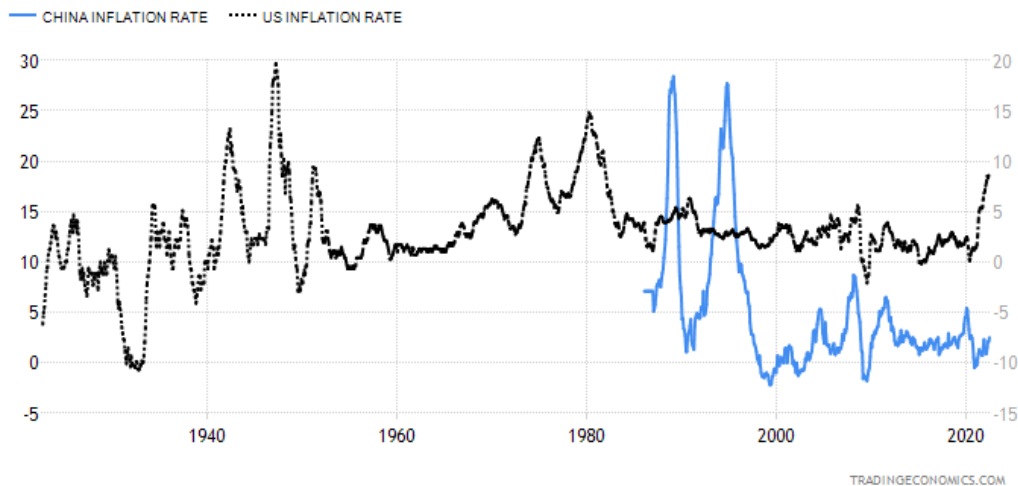


“Hairy” Inflation

Date: July 14, 2022

It feels déjà vu again when people suddenly want to talk to me about inflation. This is something I have thought I would never need to worry again in my lifetime. Well, it is what it is and the question now is what we should do about it.

As I have been pondering the question, I couldn't help but to remember my first real life experience with hyperinflation, and how my mom had dealt with it using my family's meager means. Back then none of us knew it was called “inflation”, but I remembered grown-ups constantly complaining “Money becomes hairy” (“钱毛了”). A better translation might be “Dollar is like nickel-and-dime”. I still prefer the first translation as “hairy” is a good telling word about how millions of Chinese families have felt in the late 1980s.



Knowing even the nickels and dimes our family had today would be worth less tomorrow, my mom had decided to spend it all on the rice and grains she could find in the market. Although her decision was more driven by her instinct of survival rather than some sophisticated economic models, I think I could still take a page or two from my mom's playbook.

Firstly, she did not want to hold onto cash, but instead wanted to buy. In today's world, it means that we should continue investing rather than hoarding cash. Cash usually gives us a sense of safety in turbulent times, but in a time of staggering inflation, cash is actually working against us. Think about how Japanese parents are feeling now about paying their sons or daughters' tuition in American universities.

Secondly, what should we buy if we invest? My mom back then bought something tangible, basic, and critically important for our families to live on, and easy to store as well. I am certainly not suggesting we should all stack up cereal boxes in our homes these days, but we should invest in assets that possess similar attributes, something physical we can put our hands on, something people can't live without, something that would not lose value just because of time-passing, and something that does not require high maintenance - better yet if it is income producing.

In my mind, real estate falls into this category. Well, to be exact, I mean residential and logistics real estates, not hotel or office ones. Real estate, unlike some high-flying tech stocks or crypto currencies, is not valued based on people's future expectation, but on the current earnings that we could put our hands on. Residential and logistics real estate would always be in demand as long as people need a roof over their heads, or rely on Amazon or Walmart for their food and clothes. In the worst case, if left vacant, unlike cars or airplanes, residential and logistics real estate would neither be obsolete nor require astronomical carrying costs. Most importantly, unlike cash, real estate is not something that any government can just print out of thin air, or borrow ferociously like there's no tomorrow, which means by nature it is inflation-protective.

In full disclosure, we have been investing in logistics real estate assets, but not residential ones. In our portfolio, nearly all of our warehouses in Europe are leased out on a multi-year basis. Their rents are subject to annual increase linked with local inflation indexes, further protecting our investments from inflation shocks.

We did not have the wisdom to foresee current rise of inflation when we started investing in logistics real estate years ago. In fact, inflation might be the last reason for us to invest back then. We are pleased with the stable income and steady appreciation that the assets have been generating year over year, but now with eye-popping inflation occurring globally, the inflation-protective nature of our investments is the icing on the cake that we are very happy to have. This time I am not feeling “hairy” anymore.

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