

Why do we need to adjust leases for inflation?

by Mark Walter, CCIM

In last weeks article we talked about using the Consumer Price Index (CPI) to adjust leases for inflation. Why do we need to adjust leases for inflation? It could be argued that during periods of inflation, real estate values appreciate as fast or faster than increase in the general price level. Why does the landlord need price protection if the value of his property goes up?

There are two counter arguments to that position. **First**, the property will not appreciate if rents do not keep up with inflation. **Secondly**, if for some reason the property did increase in value in spite of constant rental rate, the appreciation is unrealized until the property is sold. In the interim, a fixed rental rate would cause him to experience a relative decline in the purchasing power of the rents. In theory, the landlord, as a consumer, would be burdened with a fixed income while his cost of living was on the rise.

On the other hand, the tenant who uses the commercial property to generate income may off-set the rising price level by increasing the price of his goods and services.

Editor's Note: Mark Walter, CCIM, has been active in real estate in Southern Utah for the past twenty-nine years. He is the principle broker/owner of NAI Utah Commercial Real Estate. Visit him at www.markwalter.com