EXECUTIVE SUMMARY

The impact of inflation on the value of assets is considered one of the primary financial concerns of long-term investors. Assets, which are inflation-hedgers, have the ability to protect investors from the effects of inflation. Compared to all other forms of investment, property is traditionally seen as a hedge against inflation as property prices appreciate at a sufficiently rapid rate to keep pace with the changing value of money.

Various studies have tested the relationship between property and other financial assets and inflation. They include Fama and Schwert 1977, Brueggeman et al. 1992, Hartzell et al. 1987, Rubens et al. 1989, Newell 1995 and a host of others. The results of these studies vary with respect to differing time frames, property types, data and statistical techniques.

This paper empirically investigates the relationship between property and property stock against inflation using the Fama and Schwert (1977) framework during the period from 1988 to 2001 in Malaysia. Regression analyses are performed using the ordinary least squares method to ascertain the relationship between the property assets and inflation, and also with respect to the components of inflation; expected and unexpected inflation.

The regression results produce statistically significant results, which suggest that residential property except for the high rise category provide complete positive

hedges against both expected and unexpected inflation. With regard to the high rise houses, the results show that it is a complete positive hedge against unexpected inflation only. Property stock also provided a complete positive hedge against expected and unexpected inflation during the same period.

In conclusion, it can be inferred that both property and property stock during the study period prove to be a good hedge against inflation. This means that a direct investment in property or an indirect investment in the form of property stock provides a hedge against both expected and unexpected inflation. Therefore investing in property will not only lower the risk-return profile of an investment but will also provide a greater degree of inflation protection.