Bain Capital

REAL ESTATE INSIGHTS / SEPTEMBER 2025

Real Estate and Stagflation: Lessons from the 1970s for the Modern Investor

Contents

Understanding stagflation

Many economic observers are familiar with the cyclical nature of markets: expansion, peak, contraction, and recovery. In 'typical' downturns, governments apply time-tested remedies, such as fiscal stimulus or loose monetary policy, to reignite demand and restore growth. However, there is one rare environment that has historically resisted these tools: stagflation.

Stagflation is defined by the coexistence of high inflation, stagnant or negative economic growth, and rising unemployment. It is an anomaly in the macroeconomic landscape, typically born from a supply-side shock, such as the rigid U.S. labor contracts and oil embargo of the 1970s, which pushes costs upward, even as output declines. Stagflation presents a dilemma to policymakers; tighter monetary policies may control inflation but deepen economic weakness, while policy easing can reignite inflation without stimulating growth.

While we are not suggesting that the U.S. is likely to experience true stagflation in the near term, the macroeconomic fan of outcomes remains wide and volatile. Calling any specific outcome at this moment is difficult and investors need to be mindful of the full range of possible outcomes. Nevertheless, discussion of stagflation has decidedly entered the conversation and is worthy of meaningful consideration.

There are parallels to the 1970s worth considering: the reversal of globalism in favor of higher-cost domestic production, persistent supply chain disruptions, rising labor costs, tariff related pressures, and energy market volatility. These challenges could be compounded by foreign capital flows away from the U.S. in response to concerns with potential capital controls and / or politicization of monetary policy. Should these forces exert upward pressure on long-term yields, we would expect a dampening of future real growth rates. In this context, stagflation cannot be dismissed as an unlikely outcome. As such, revisiting how real estate performed during the last major stagflationary period (1970 – 1982) may offer valuable insight for investors navigating today's uncertain macroeconomic landscape.

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A historical parallel: 1970–1982

The 1970s remains the most thoroughly analyzed period of stagflation in modern U.S. economic history. During that decade-plus period, the economy experienced three distinct recessions, each driven by significant external shocks, including rigid labor contracts, the OPEC (the Organization of the Petroleum Exporting Countries) oil embargo, and sustained monetary policy tightening.

Despite policy efforts, inflation remained stubbornly high, largely due to unresolved supply-side constraints. This created an environment where conventional fiscal and monetary tools were rendered ineffective. Because of this inherent tension, stagflation led to a prolonged period of uncertainty, and it ultimately took more than a decade (12 years) to fully rein in inflation and stabilize the broader economy.

EXHIBIT 1 U.S. Inflation vs. Federal Funds Effective Rate (1970-1982)[1,2]

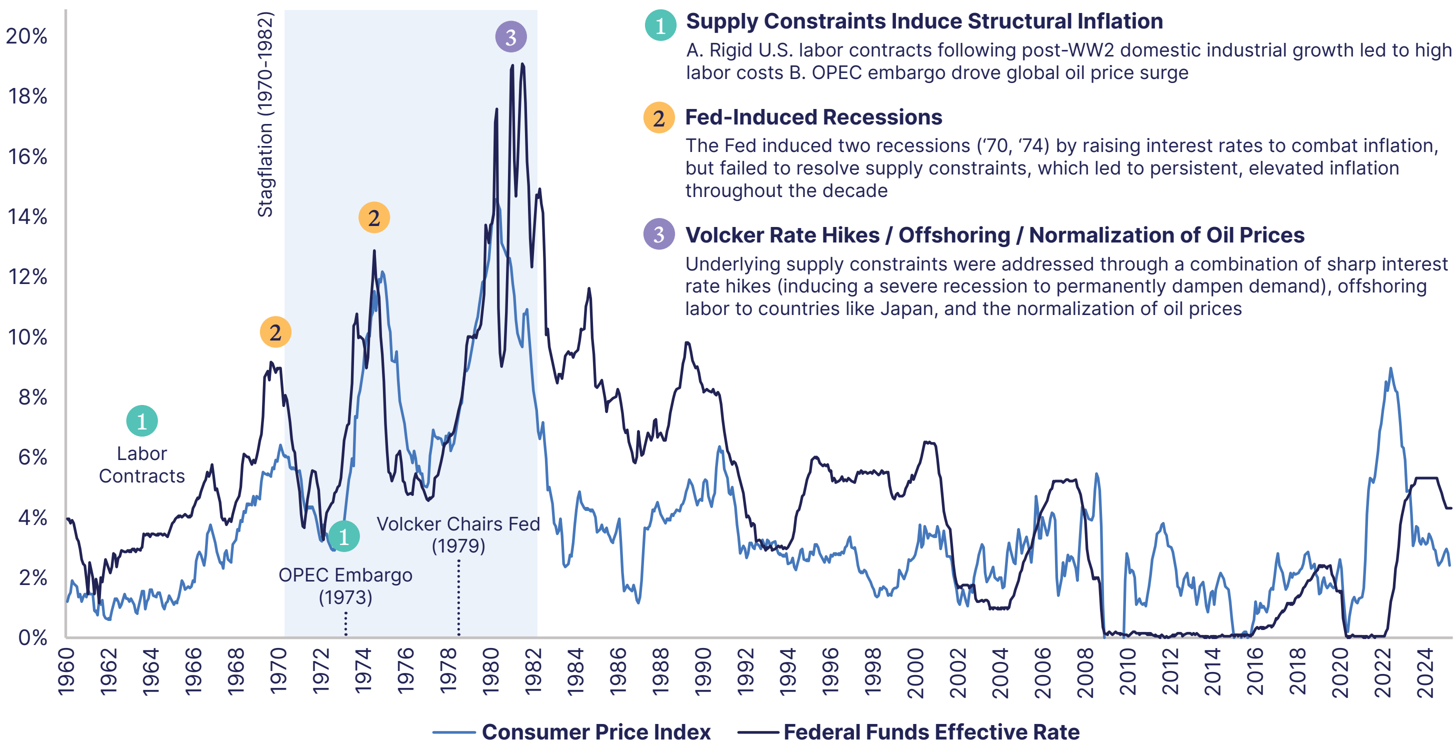


EXHIBIT 2 U.S. Unemployment Rate (1970-1982)[3]

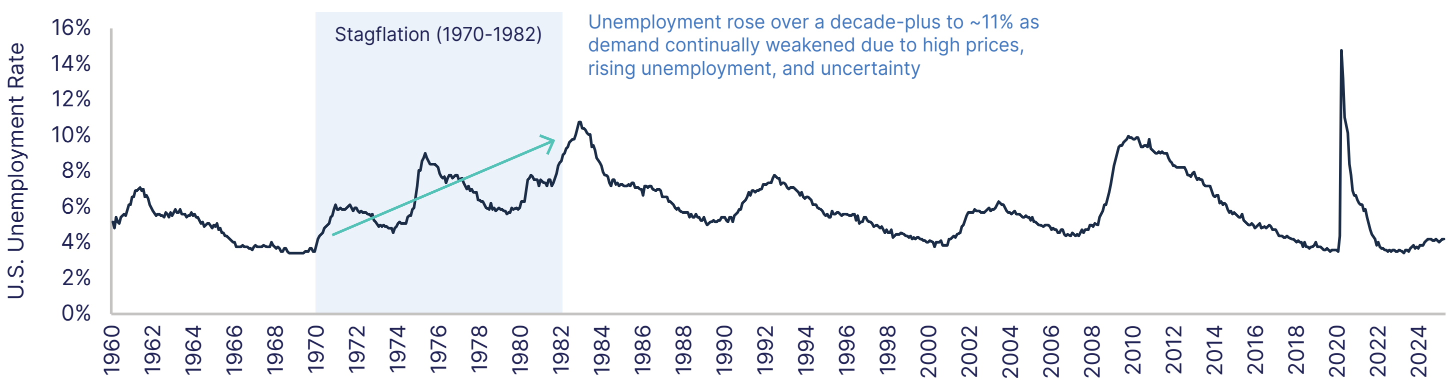
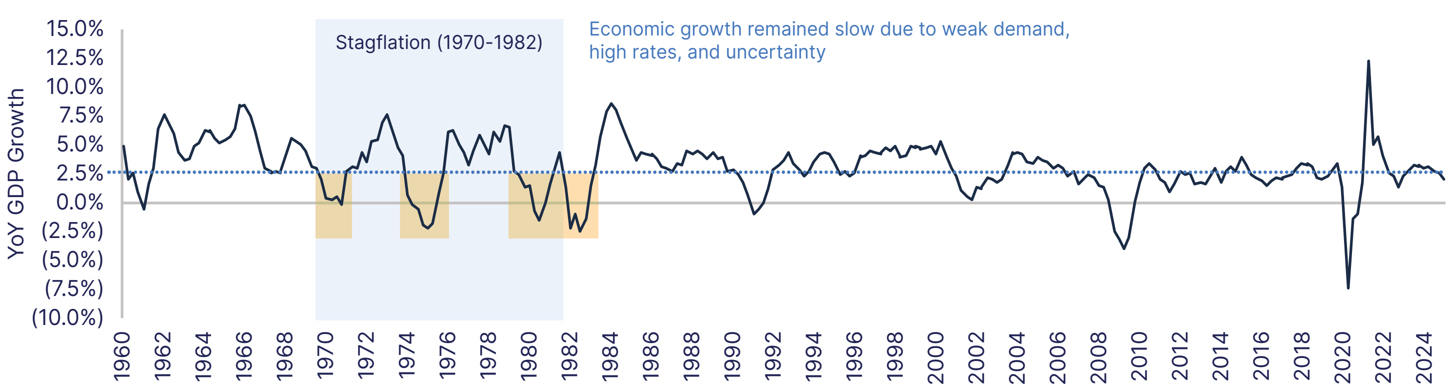


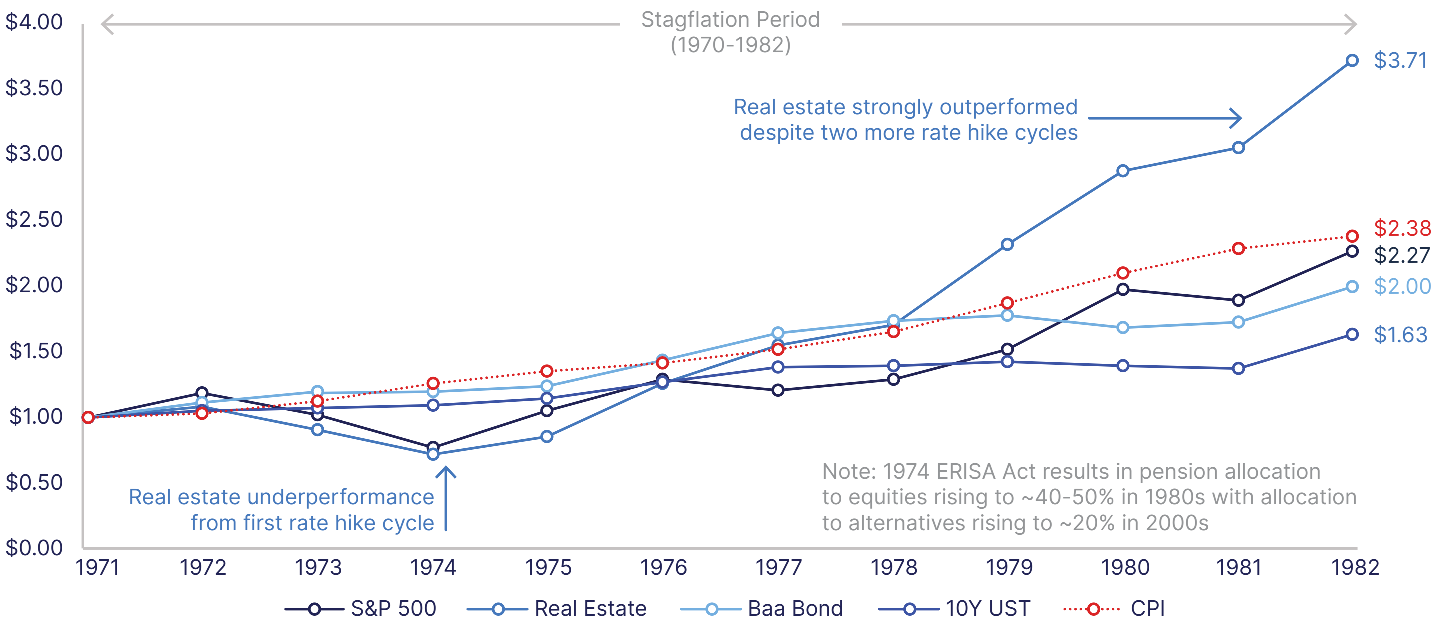
EXHIBIT 3 U.S. GDP Growth Rate (1970-1982)[4]



Real estate performance during stagflation

Despite the macroeconomic backdrop, commercial real estate delivered what we believe to be impressive long-term performance throughout the 1970s and early 1980s. Between 1972 and 1982, real estate generated total returns that were 62% and 85% higher than equities and bonds, respectively.[5]

EXHIBIT 4 **Real Estate vs. Other Asset Classes - Total Returns (1972-1982)**[5]



Bond/UST returns assume annual re-purchase at market yields

This outperformance was largely driven by strong income growth, as rents kept pace with inflation and essential demand remained resilient. We believe several forces underpinned this resilience:

- Restricted Supply: Elevated interest rates and construction costs curtailed new development, limiting competitive inventory.
- Stable Demand: While consumers reduced discretionary spending, demand for essential real estate (e.g., housing, logistics, and storage) held firm.
- Inflation Hedge: Sectors with short lease durations (e.g., multifamily, hotels, storage) were able to re-price more frequently and better 'capture' inflation. Long-term leases, common in office and industrial assets, often lagged unless they included CPI-linked rent escalations.
- Margin Protection: Many real estate sectors used triple-net (NNN) lease structures that allowed landlords to pass inflationary operating expenses directly through to tenants.

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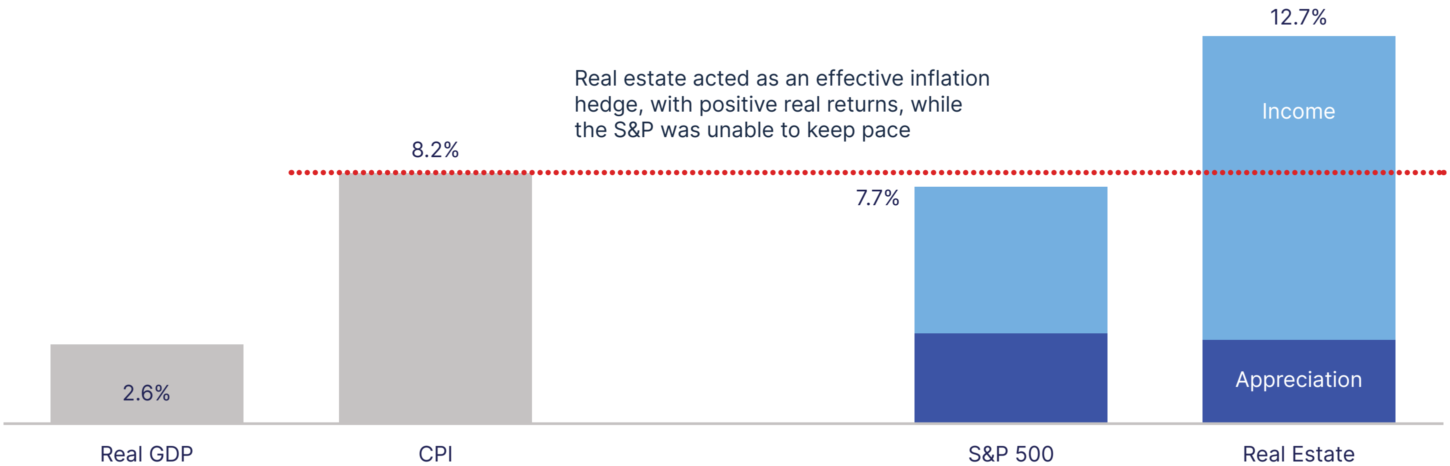
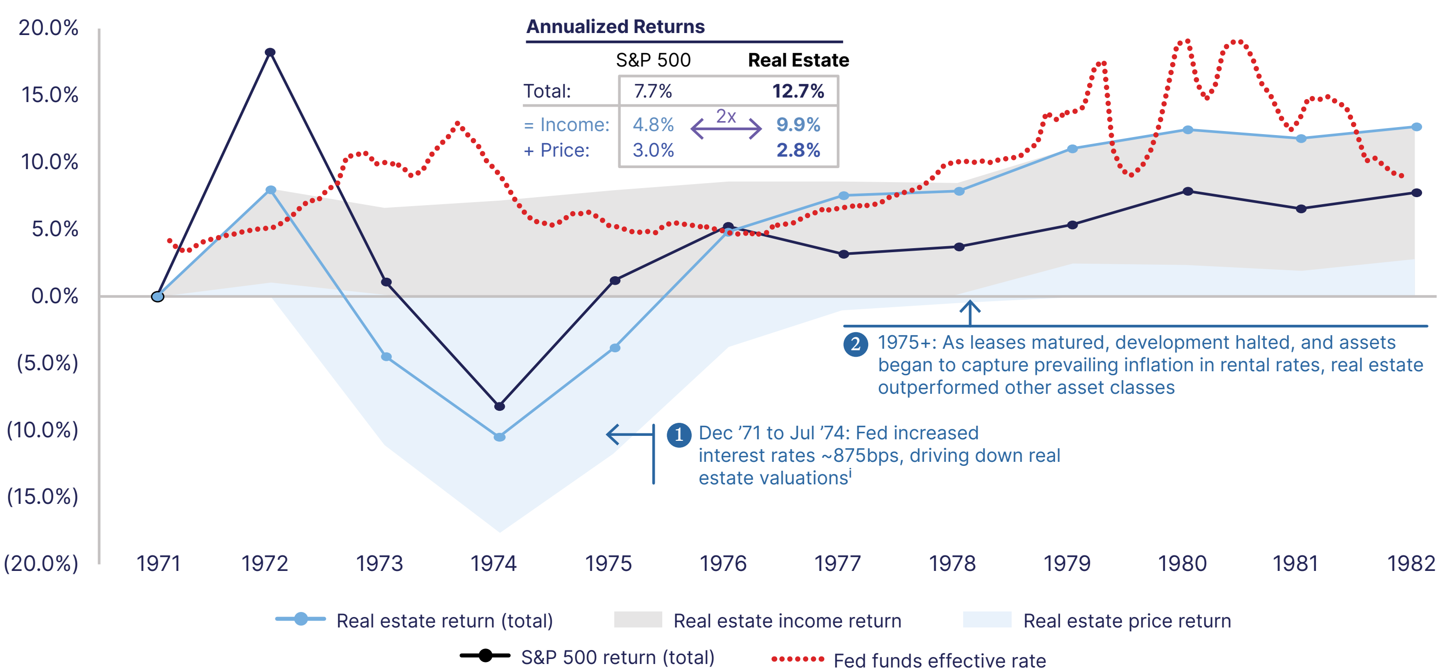
EXHIBIT 5 **Commercial Property Returns vs. S&P 500 and CPI (1970-1982)**[6]



That said, outperformance was not immediate. Early in the cycle, real estate values declined in tandem with rising interest rates and broader financial market stress, impacted by longer weighted average lease terms that made income growth more difficult to access. However, as leases matured, development halted, and assets began to capture prevailing inflation in rental rates, performance rebounded. The patient investor was rewarded.

EXHIBIT 6 **Cumulative Real Estate Returns by Source, Annualized (1972-1982)**[7]



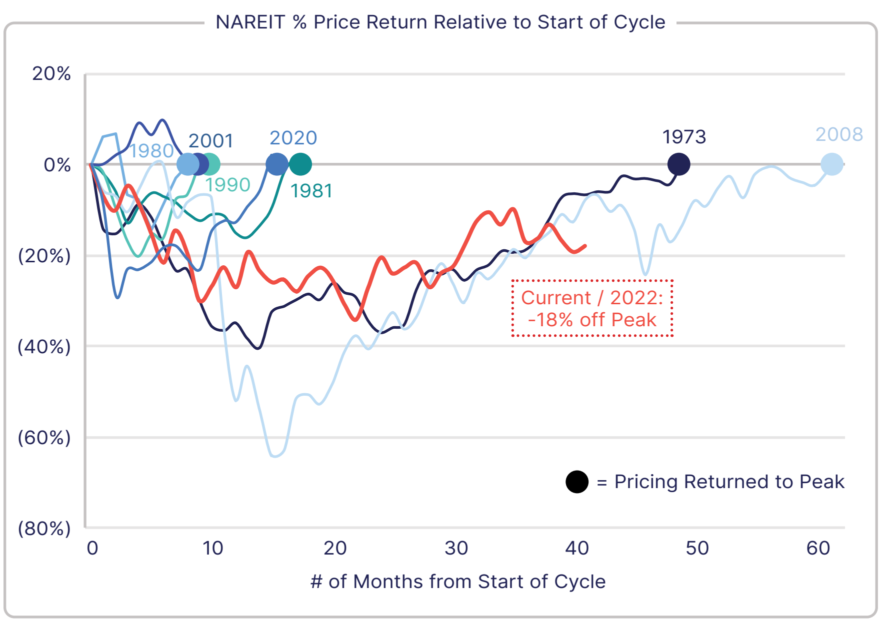
Parallels to today’s market

Many of the building blocks that drove real estate outperformance in the 1970s and early 1980s exist today. Construction activity has slowed due to cost increases and financing constraints, new supply remains modest in many sectors, and essential demand has proven durable. Moreover, asset classes with shorter leases and CPI-indexed escalations are again showing resilience. For example, the last three quarters ranked among the top five periods for multifamily absorption on record.[8] Encouragingly, there are early signs of rental rate growth, as new units are being absorbed efficiently, and the pipeline of future supply remains limited.

However, we believe caution is warranted. The current real estate cycle, which many mark as beginning in January 2022, has already extended to 40+ months without recovering to its prior peak.[9] For comparison, the 1973 real estate downturn took 62 months to accomplish this bounce back. Investors should be mindful of capital discipline, structure, and duration, and that while historically real estate has been a powerful inflation hedge, it is not immune to volatility and illiquidity in the near term.

Many of the building blocks that drove real estate outperformance in the 1970s exist today: slowed construction activity, modest new supply, and durable essential demand.

EXHIBIT 7 **U.S. NAREIT Index Performance During Cycles (1971-2025)**[9]



Time to Recover to Peak Pricing

Time in # of Months

Cycle	Start Date	Time of Cycle[i]	Time of Recovery[ii]	Max Decline[iii]
1973	Nov-73	16	49	(40%)
1980	Jan-80	6	7	(14%)
1981	Jul-81	16	16	(16%)
1990	Jul-90	8	8	(20%)
2001	Mar-01	1	--	--[iv]
2008	Dec-07	18	62	(64%)
2020	Feb-20	2	14	(29%)
Current / 2022	Jan-22	40+	40+	(34%) or less

Alternative macro paths

While the prospect of stagflation remains, the range of potential outcomes is wide. It is entirely possible that the demise of globalism is overstated, or that the U.S. federal government embraces a more financially disciplined policy framework. Either scenario could help keep inflation in check, while preserving a path for stable, long-term growth. Additionally, if economic conditions soften and the U.S. enters a recession, the Federal Reserve may be compelled to lower its federal funds rate. In such a scenario, real estate sectors with balanced near-term fundamentals and strong long-term thematic tailwinds could stand to benefit. A decline in capitalization rates under these conditions could provide meaningful support to real estate values, particularly for high-quality assets positioned to capture both cyclical recovery and secular demand.

Success in a stagflation environment will depend on disciplined asset selection, thoughtful lease structuring, and prudent capital management.

Conclusion: The enduring role of real assets

We believe stagflation remains one of the most complex macroeconomic environments for investors to navigate. While no asset class is entirely insulated from its challenges, the enduring virtues of real estate - a long-duration, tangible asset with the potential for inflation pass-through - position it as a potential relative bright spot. We anticipate success in such an environment will depend on disciplined asset selection, thoughtful lease structuring, and prudent capital management. With many of the structural conditions of the 1970s reemerging today, the lessons of that era should inform investment strategies, offering both caution and conviction to the thoughtful investor.

Disclosures and sources

Past performance is not indicative of future results. Actual results may vary. Certain information contained herein are not purely historical in nature, but are "forward-looking statements," which can be identified by the use of terms such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe" (or negatives thereof) or other variations thereof. These statements are based on certain assumptions and are intended to illustrate hypothetical results under those assumptions (not all of which are specified herein). Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking statements. As a result, investors should not rely on such forward-looking statements.

1. FRED as of April 10, 2025. Consumer Price Index for All Urban Consumers: All Items in U.S. City Average.
2. FRED as of May 1, 2025. Federal Funds Effective Rate, Percent, Monthly, Not Seasonally Adjusted.
3. FRED as of May 2, 2025. Unemployment Rate, Percent, Monthly, Seasonally Adjusted.
4. FRED as of April 30, 2025. Real Gross Domestic Product, Percent Change YoY.
5. Sources: CapIQ, Macrobond, NAREIT, St. Louis FRED as of May 2025. Includes returns from price appreciation and income. S&P 500 returns reflect YoY change in stock price plus average dividend yield. Real estate returns reflect YoY change in FTSE NAREIT Equity REITs total return index. 10Y UST and Baa Bond returns assume annual repricing; return is equal to YoY price change plus implied coupon earned on a bond purchased at par one year prior. CPI return reflects YoY change in CPI for All Urban Consumers, seasonally adjusted. Study Period: 12/31/1971-12/31/1982.
6. Sources: CapIQ, Macrobond, NAREIT, St. Louis Fed as of May 2025. Includes returns from price appreciation and income. S&P 500 returns reflect change in stock price plus average dividend yield. Real estate returns reflect change in FTSE NAREIT Equity REITs total return index. CPI return reflects change in CPI for All Urban Consumers, seasonally adjusted. Study Period: 12/31/1971-12/31/1982.
7. Sources: NAREIT, St. Louis Fed, CapIQ, Macrobond as of June 2025. Real estate returns reflect change in FTSE NAREIT Equity REITs total return index, annual; returns are quoted on a cumulative, annualized basis from 12/31/1971. S&P 500 returns reflect YoY change in stock price plus average dividend yield; returns are quoted on a cumulative, annualized basis from 12/31/1971. Fed funds effective rate reflects federal funds effective rate, not seasonally adjusted; quoted monthly. i. Reflects change in the federal funds effective rate from Dec-1971 to Jul-1974. Study Period: 12/31/1971-12/31/1982.
8. Source: JLL Capital Markets Overview and BCRE analysis, Q2 2025.
9. Source: FTSE NAREIT U.S. Real Estate Index. National Bureau of Economic Research. Data as of June 2025. Note: NAREIT data only available after 1970. i. Represents the number of months from the technical beginning of the recession to the end of the cycle. ii. Represents the number of months that the NAREIT index price took to return to pricing before the cycle. iii. The largest decline in value from peak pricing during the "recovery" period. iv. The 2001 cycle did not experience a decline in real estate price following the cycle beginning.

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