



Capital Recovery Fees: An Inflation-Protected Income Stream

Capital Recovery Fees provide long-term inflation-protected income, backed by a transparent asset with no meaningful credit risk.

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Unison Investment Management

One of the challenges many investors face is how to maintain purchasing power relative to inflation. This can be particularly challenging for pension funds, which face long-term obligations.

Traditionally, ownership of Mortgage Backed Securities (MBS) was a component of many investment strategies that focused on inflation. However, when interest rates fall, mortgages are often refinanced at lower rates, yet when interest rates rise the lower-rate mortgages are kept intact as long as possible. In addition, the financial

meltdown showed the significant risk of holding an investment with an income stream that requires the payor to have both the willingness and the ability to make the payment. [Capital recovery fees](#) have no such challenges.

A real estate assessment is type of deed restriction recorded against title to the real estate. One common type of assessment is a Capital Recovery Fee, popularized by [Freehold Capital Partners](#) over a decade ago. Capital Recovery Fees originated by Freehold Capital Partners consists of one percent of the gross sales price, paid each time the real estate sells, for ninety-nine years.

Real estate prices have historically correlated well with inflation. A recent (Jan. 2018) research report titled “Inflation and Its Impact on Real Estate” commissioned by Unison Investment Management, concluded that “[o]ver the long term, housing and inflation are cointegrated... [and] [t]his means that investments in residential real estate are likely to track inflation over the long-term.” However, transaction costs and carrying costs reduce total returns. In contrast, ownership of Capital Recovery Fees means ownership of an income stream based on the gross sales price at the time of each sale, allowing full capture of appreciation with no commensurate carrying costs or transaction costs. No vacancies, no insurance, no maintenance – just gross income tied to the value of the real estate asset.

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More information:

1. Capital recovery fees relieve burden on cities; reduce homeownership costs (Feb. 17, 2017). <https://www.prnewswire.com/news-releases/capital-recovery-fees-relieve-burden-on-cities-reduce-homeownership-costs-300409752.html>
2. Wikipedia: https://en.wikipedia.org/wiki/Private_transfer_fee

Source: Freehold Capital Partners <http://www.freeholdcapitalpartners.com>

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