Announcer: Welcome to Tram Talks. A little taste of Deakin University, here in the world's first mobile lecture theatre. You've chosen to listen to podcast number six, Property Investment, in which Professor Richard Reed discusses the benefits and risks of investing in housing. Plus a few Melbourne market predictions.

Richard: This discussion is about property and real estate which itself is a term which is often misunderstood. Most people's discussion or relationship with property comes through the local real estate agent, so they're only exposed to residential real estate when they're renting. But property and real estate is a lot more than just that.

For example property and real estate is the largest wealth class if you think of all the money and assets invested in the planet. So most people have an exposure to property and real estate either directly or indirectly. For example if we look at superannuation calculations, how much money you'll need when you retire, it's assumed that you own your own house. And this has been a dilemma lately because there's been a lot of pressure about rent versus buying. So for example it's actually cheaper to rent, you have a lot more flexibility and there's in and out costs. However when you do retire you actually need long term tenure and asset, you don't have the money to pay for property tenure or rent.

So what we need to do is think about property as an asset class. So for example one of the things our grandparents and parents used to do is to look at housing as the castle, as the investment. So they would save up. They wouldn't have overseas holidays, they wouldn't have takeaway meals. They would get on the housing ladder, and then they'd build up from there. And that is something that we need to think about, if once you're on the housing ladder you're able to upscale and move upwards.

The things that will help you in property for a start is inflation. So for example every day the cost of labour and bricks and mortar goes up. So in other words investing in a house, instantly the value of the house will increase automatically as everyone's wages go up.

The other thing that really is going to help you as a property investor is the cost of land. So land is in limited supply, you can't make it anymore, the only rare examples would be reclamation from the ocean such as in Singapore or the Brisbane Airport, or finding more land such as on the moon. So standard economics underpins the property and real estate market. So if you have a limited supply such as gold, the price will increase over time.

So the advice I would give is to purchase a property where there's a land component. So for example if you purchase in the outlying suburbs there's a lot of land available, and typically a third of the value will be in the land, two-thirds of the value will be in the house. Now over time the housing capital value will decrease, and the land capital value will increase.

So if we take this discussion a bit further, if you purchase property towards the inner parts of a city, take Melbourne for example where the tram lines are. The value of the land might be something around 70%, 80% of the total value. The value of the improvement, the house, the unit might be only 10% or 20%. So over time the value of the land will exponentially increase and the property itself will decrease and be replaced. So looking at basically supply and demand economics, my advice would be purchase towards the centre of the city, towards the CBD.

Another influencing factor is traffic. And when I grew up the clearway was 7 till 9 and 4 to 6. If you've driven around Melbourne on a Saturday, it's traffic. If you've driven in a school area it is traffic between 6.30 and 10, and it probably starts again from 3 till 7. So in the outlying suburbs, even though they're nice to look at sometimes, you really need to double check where the traffic flows are. And as well as the price of oil increases, you can see people are working out that it actually costs a lot more to travel from the outlying suburbs.

The other challenge we have is this demand from Australians for big mansions. Australia has the largest area of new houses which is 264 square meters. So we've got a shrinking family size, most females have a fertility rate of 1.7 children per female. We need actually just over two children per female to have a steady state of replacement. So we actually have smaller populations, so we have a family with three children would be seen as a larger family, when I grew up it was five. We have this dilemma where we have people wanting a larger house, smaller families. So my advice again is to look at the size of the property and there'll be a lot more pressure in the future on a smaller house, say a townhouse on an inner city parcel of land where there's fewer children. So that would be my underlying approach towards the future of property investment rather than moving out towards the suburbs because again Melbourne also has an urban growth boundary which limits the amount of property.

So I hope these insights have been helpful. This is the importance of property as a wealth creation and asset creation scheme. And most people now look at the family home as an asset rather than just a place to live.

Announcer: Thanks to Professor Richard Reed. This has been another tram talk from the world's first mobile lecture theatre. Just a small sample at what's available at Deakin University. Visit study.deakin.edu.au to learn more.