RESIDENTIAL PROPERTY – BEYOND THE REAR VIEW MIRROR

PERPETUAL PRIVATE INSIGHTS
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“Buy land, they’re not making it anymore.” Mark Twain

What would a financial adviser say if you walked into their office with plans to invest in residential property?

Tom Threlfall, an investment specialist from Perpetual, shares his views in this video interview.

Eliminate emotion

People feel more comfortable with residential property than many other asset classes. It is a tangible asset that people live in and are familiar with. And residential property has been a strong performer – particularly on Australia’s eastern seaboard. Who wants to miss out?

There’s investment risk in this sort of thinking:

- Overestimating your understanding of an asset class
- Assuming past performance will continue
- Investing for fear of missing out

Tom’s point isn’t that the Australian residential market should be avoided – rather that a decision to invest should be free from emotion.

“It’s tangible, it’s solid, it’s beautiful. It’s artistic, from my standpoint, and I just love it.” Donald Trump

Take a portfolio view

Tom’s advice is to think of residential property in the context of your broader investment portfolio. Like any asset class, being too concentrated in property may bring a level of risk that significantly outweighs the return.

Ask yourself – what purpose will an investment in residential property play in your portfolio? Is it to diversify, secure ongoing income or purely for asset growth?

Despite the current perception that residential property is a high growth asset class, Tom’s longer term assumptions are Consumer Price Index plus one or two percent. It’s tempting to look in the rear-view mirror as the basis for future asset growth – but it’s risky.

Open to alternatives

What are the alternatives to residential property? Tom cites infrastructure as an asset class worth considering – particularly in light of the infrastructure spending signalled in the Turnbull government's recent budget. On the positive side, investment earnings may be supported by government and there's a framework for understanding how returns will work with assets like toll roads. But there's also risk - interest rate rises will impact the infrastructure market as they would property.

The key is to objectively assess alternatives like infrastructure – not in isolation but as part of your structured portfolio. Focus on the balance between risk and return and be clear on the reason for the asset class to be in your portfolio.