



Shift in housing landscape

Units have appeal across the market, writes **Ben Hurley**.

By almost any measure, apartments are playing a growing role in the future of Australian cities. According to RP Data research, almost half of all housing sold in Sydney is now apartments. In Melbourne it is about 30 per cent and Brisbane 25 per cent.

The building pipeline of apartments is expanding while houses are declining. Approvals to build apartments were up by half in the year to June, according to the Australian Bureau of Statistics, while approvals for detached homes were down 7.7 per cent.

A big part of the reason is affordability. In Australia's most expensive city of Sydney, the median apartment price is \$480,000, while the median house price is \$595,000.

"What's really become a dominant feature is this growing conservatism in the market, where people are buying well within their means," says Michael McNamara, managing director of valuation group Herron Todd White.

Another driver is the strong demand for rental homes close to the city, which is driving up rents. McNamara points to a 50 per cent increase in rents over the five years to 2011, according to census data. That's making apartments, with their relatively higher yields, look

more appealing for investors.

June quarter figures by Australian Property Monitors showed the sharpest rental increases were for apartments, not houses.

"Rents have been appreciating at a compound annual rate of 8.45 per cent," McNamara says. "To put that in perspective, annual growth of household incomes over the same five-year period sat at a more insipid 3.5 per cent per annum. It has been unequivocally a landlord's market over the last five years."

There is a lingering perception that apartments don't weather downfalls as well as houses, after developments in holiday areas such as Mandurah in Western Australia and the Gold Coast in Queensland plunged in value in recent years.

But investors are realising that in capital cities there is evidence apartments are actually holding their value better than houses.

"If you look at the long-term trends over the last few years, apartments haven't seen as large a fall as houses," says RP Data head of research Tim Lawless. "You could probably tie that back to the lower price point. Affordability is such a concern, particularly in Sydney, it makes a lot of sense potential buyers are doing the sums and prepared to sacrifice the backyard to live close to the city."

Apartments are also often the choice for overseas investors, whose purchase options are limited by foreign ownership laws.

Changing social preferences are also playing a role as people marry



Melbourne is heading into oversupply but Sydney is likely to remain strong.

later and delay having children for a range of reasons. The relative low-maintenance of apartments can appeal to families with both parents working.

Figures from the 2011 Census show how the nation's 1.17 million apartments, or 14.3 per cent of the total housing stock, are finding a greater role in our urban fabric.

In the 10 years covered by three census reports, the percentage of

the total stock of apartments occupied by lone person households actually fell, from 46 per cent to 42 per cent.

This was due to a greater take-up of apartments by families. Families occupied 41 per cent of the nation's apartments in 2011, up from 35 per cent in 2001. There was a two percentage point increase in families with children living in apartments.

But there are a range of troublesome aspects to apartment living that are still being ironed out. In NSW the Office of Fair Trading is completely overhauling the state's dated strata legislation to deal with issues ranging from lack of clarity over who should fix building

Haven apartments, by Melbourne developer Hampton, Hampton are targeting the luxury market with multi-million dollar units.

defects, how to get owners to agree when it's time to demolish a building that is past its use-by date, and the minimum qualifications for strata managers.

In NSW the Supreme Court is swamped with expensive court actions by apartment owners trying to get developers to foot multi-million dollar defect repair bills.

Expensive strata fees can partially make up for the money saved on buying an apartment instead of a house, and in the worst cases the politics and stress of dealing with a dysfunctional owners corporation can surprise new owners looking for a low maintenance lifestyle.

In the near term, demand for apartments will vary across the capitals. Unit rents actually fell in Brisbane over the June quarter, according to APM, suggesting there is still stock to be cleared after a building boom leading up to the financial crisis.

And forecasters such as BIS Shrapnel believe Melbourne is heading into oversupply, which will weaken the demand for apartments until excess stock is cleared.

However, demand for apartments in Sydney is likely to remain strong due to low vacancy rates and a shortage of affordable housing.