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Domain INVESTMENT CHRIS TOLHURST

Apartments on up and up

Inner-city units are experiencing increased demand and capital growth.

IF YOU think a house always makes a better investment than an apartment, it's time you took a good look at demographic changes. Apartments are now fulfilling the Australian dream of home ownership for millions of people — and if the housing-affordability crisis deepens, the trend towards apartment living is certain to pick up speed.

Lifestyle changes are also helping to sharply push up the rate of capital price growth for apartments. In most capital cities, apartments are at least level-pegging with houses in price growth. Recent reports from RP Data and other data agencies show apartments and units have slightly outperformed houses across the nation in the past 18 months.

But how can an apartment — without its own land — outperform the national dream of owning a house with a backyard?

The managing director of Wakelin Property Advisory, Monique Sasson Wakelin, says traffic congestion is a key factor that is making inner-urban apartments more attractive.

Ms Wakelin says an increasing number of Australians of all ages, including renters and home buyers, are opting for an inner-urban lifestyle. In part, she says, this is a rejection of the long commute to work and the lack of services and recreation facilities in outer-suburban areas.

Members of Generation Y are marrying and raising children later than previous generations. Ms Wakelin says this means the lure of the backyard and estate living is not as powerful as it once was. At the same time, the attraction of a low-maintenance, secure "lock up and leave" property is rising.

Younger buyers are also in tight competition with members of their parents' generation. Older downsizers are drawn to the same shopping and entertainment precincts as younger buyers but they come to the market with bigger budgets.

Ms Wakelin says this increased demand means young buyers are now constrained in their capacity to buy houses.

"After years of above-market growth, many detached inner-urban houses are now beyond the



Apartments are catering to those who can't afford houses or prefer an inner-urban lifestyle.

PICTURE: JESSICA SHAPIRO

budget of first-time buyers," she says. "Apartments have therefore come under heavier demand and this, to some extent, accounts for their high price growth."

Paul Osborne, the head of property advisory firm Secret Agent, says a house in inner-city Melbourne is still likely to outperform an apartment in achieving capital growth but apartments deliver greater rental yields.

Mr Osborne says an investor with \$500,000 must typically choose between buying a house on land in outer Melbourne or an inner-city flat.

"Under those two scenarios, the recommendation would definitely be to get in as close as you can," he says. "If you were going to spend \$800,000, you'd be looking at a good-quality single-fronted house."

Ms Wakelin also favours a house when you have an \$800,000 budget because a house tends to have a greater average annual capital gain than a flat in this price range. At \$700,000 to \$800,000, either an apartment or a house could be a wise investment, she says, but under \$700,000, apartments are often the winning pick.

The units-versus-houses debate

is likely to heat up, too. RP Data has found value growth for units has been outstripping houses since April 2008. In the 12 months to June last year, unit values increased by 11.4 per cent nationally, compared with growth of 10.2 per cent for houses.

Investors still need to tread carefully when buying inner-city flats in Melbourne, especially new ones. More than 2000 apartments are under construction and thousands more have planning approval. This will give tenants more choice and dissuade some landlords from putting up rents — at least for a while.

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