

**March 2010**

## **Houses versus Apartments – where should you invest?**

When is the right time to invest? Where should I put my money? These are typical challenges facing the property investor or home buyer. Another property conundrum is the House vs. Apartment conundrum. Owning an apartment is usually an easier entry into property ownership than a house. The obligations of owning a property, that is, all the things that come with owning a house – repairing of gutters, painting and general maintenance of the property – are managed by an owner's corporation in the case of an apartment.

Further, the rental yield is generally higher than a house in the same area due to the lower capital outlay. With affordability becoming the single most important driver in the residential property market, it is hardly surprising that twice as many people are buying apartments today as were buying 10 years ago. Moreover, the future is looking like more of the same: population increases in all Australia's capital cities is surging, with Brisbane, Melbourne and Perth exhibiting very high growth and Sydney set to be a mega city in years to come.

All government planning authorities are running the 'slide rule' over available land resources and saying: "Let's increase densification. The equation is simple: build more on less land. This leads to high rise – apartments as well as densification in the form of small lot sizes and strata development into duplexes, town houses and villas. With Australians' propensity to live along a few kilometre strip of the coastline, this trend spreads to regional centres, well evidenced across Australia especially in South East Queensland, Northern Rivers NSW, and Central Coast NSW.

### **What goes up?**

Property prices increase over time. But it is not the bricks and mortar that necessarily increases in value; it is land. Land is a scarce resource and therefore rises in value according to a corresponding rise in demand.

The value of a \$500k house might be split between \$200k for the land and \$300k for the value of the building. Whereas in a \$500k unit the land size is obviously smaller and so usually wouldn't rise as much.

Logic then suggests to always buying a house. But this logic, due to the factors noted earlier is no longer always valid.

Data coming out of Brisbane's inner suburbs, Melbourne suburbs less than 5km from central city and Sydney's inner suburbs, show that apartment prices have equalled and in some cases exceeded house price gains over the past three years. The entry level factor for first home buyers is a factor: many buy an

apartment as their first home, but there is a strong desire too to buy the 'lifestyle'. Many people don't want to live 30-km from city centre; they want to live in dense, crowded centres where their friends, the amenities, the lifestyle and the beaches are located.

Some of the more relevant issues when comparing houses and units include:

### **Houses**

- Consistent growth and you own the land
- Control over the property but higher level of maintenance
- You have options - easier to 'value add' and modify use
- Lower rental yield

### **Apartments**

- A trend toward strong growth in built up areas
- Meeting population trends to downsize
- Less control over the property but a lower level of maintenance
- Higher rental yield
- Body corporate fees

Given that the value of property is its land component, our philosophy has always been and remains primarily in favour of houses. There are however two emerging issues that require further consideration of unit investment: (i) population trends toward smaller family size and the increasing popularity of proximity to city centres AND (ii) units in small blocks (say up to 12 units), do offer significant capital growth opportunities. BUT the message is always the same . . . 'Buyer Beware'

Have a great month and please let us know if we can help you build that property portfolio you've always dreamed about.