FINANCIAL REVIEW

# What to buy if you can’t afford a house

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When Emilio Martinez and his wife Demi decided to buy an investment property, they knew what they wanted: a unit in a blue-chip suburb in Brisbane.

Last year, they found a two-bedder 12 kilometres north of the CBD in the suburb of in Clayfield for $510,000.

“A lot of people think that if they can’t buy a house, they can’t buy anything,” says Martinez, 25. “But because units are severely undervalued, there’s a lot of potential for growth – especially in an Olympic city such as Brisbane.”

The couple plan to eventually sell and upgrade to a house, but for now they’re happy to have a place to call their own. “It’s a walk-before-you run mentality,” Martinez says. “And there’s nothing wrong with that because it’s important to start somewhere.”

Some buyers’ agents, including Arjun Paliwal, of InvestorKit in Sydney, believes apartments are never a smart investment. He goes so far as to describe them as “money pits”.

But unit values are now rising at a faster rate than houses in more than half of all suburbs nationwide, as a growing number of buyers take advantage of the sector’s cheaper price points after years of sluggish growth.

There are other structural factors at play, too. Post-pandemic, people are keen to live close to CBDs again, and thousands of new migrants are looking for homes.

With the price of freestanding homes inexorably on the rise, would-be first home buyers, downsizers and property investors have two options: wait until they have enough saved to afford a house but risk the market running even further out of their reach, or buy an apartment.

Martinez is a buyer's agent with Brisbane firm Setlr, so he knows better than most about the property market.

Analysis by Oxford Economics found price growth in Australia is set to accelerate in 2025 and beyond, pushing the median house price across the combined capitals to $1.34 million by 2027. In Sydney, it will hit $1.9 million.

Units offer a cheaper entry point. Median prices are expected to reach $868,000 nationally by 2027. Sydney will remain the most expensive, reaching $1.09 million.

"Everyone's dream is to be in a big, beautiful house, but realistically it's so hard right now," Martinez says. "I always say to my clients, 'just because you can't buy a house now, doesn't mean you do nothing'

"What else can you do? You're not going to save quicker than the market [grows], so you buy an investment that's well-valued and has that X-factor, because at some point, that will deliver true value."

The trick is to buy a property that is a cut above the rest, and the best bets are boutique complexes in blue-chip suburbs rather than suburbs packed with apartment towers, according to agents, economists and valuers.

These complexes tend to be older, which means the rooms are more generous and the construction is of better quality. They appeal to both first home buyers planning to start families, and downsizers reluctant to leave their area. Another name for these apartments? The missing middle.

"When you look at the last few years of our housing market, many of our capital cities have got record price gaps between houses and units, and in Sydney, a house is twice the price of a unit," says Nicola Powell, the chief of research and economics at real estate advertiser Domain. "That tells us that houses are either overvalued, or units are undervalued."

She suspects that gap can't continue to grow, and will eventually normalise.

David Easterbrook, managing director of Melbourne's Elite Buyer agency, says apartments are undervalued, but adds that it's "not an easy call" to make. In any area, apartment prices have a natural ceiling. "Houses are the price makers, apartments are the price followers."

Part of the reason that houses are so expensive is that there aren't many properties in between them and the dime-a-dozen shoebox developments. The ladder homes, such as terraces, villas and boutique units in small blocks, don't exist in sufficient numbers. Until they do, that's where there is money to be made, agents say.

## Location

Sydney buyer's agent Michelle May says a dud house that's far from amenities will find it hard to compete with a great, decent-sized apartment in a vibrant area.

For example, buying a house in poor condition with a bad floor plan on Parramatta Rd in Sydney would be an inferior option to buying an apartment in a tightly held building in the affluent inner-city suburb of Potts Point.

Melbourne's seemingly ever-expanding urban sprawl is infamous, but in the face of a choice between a three-bedroom house 50 kilometres from the CBD, or an apartment within 10km of the city, the apartment may have better capital growth prospects, Easterbrook says.

In Melbourne, increasing numbers of buyers are taking a third option: buying a house close to a regional city such as Geelong or Ballarat.

## Embrace NIMBYs

Simon Clarke, also of Setlr, delineates between apartments and units, and thinks buyers should too.

"A unit for me, is one of those '70s or '80s, four, six or eight-dwelling buildings, usually in really wealthy suburbs in the inner-city," he says. By contrast, an apartment is a property in a high-density building, in a high-density suburb.

If you can, opt for the unit over the high-rise apartment, Clarke says. There are fewer of them, they're generally better-built and bigger, and this means that when it comes time to sell, they have that "X-factor".

"There's a great opportunity in certain suburbs, where the difference between the median house and a unit is about $1 million," he says. "That suburb is worth targeting because clearly there's wealth in that suburb."

And often – and to the frustration of developers, state and national governments and housing affordability advocates – well-heeled locals are against new developments.

"You might find a street where houses are $3 million and units are $600,000. Particularly in Brisbane, there are certain suburbs that have those dynamics, and they make sense to invest in or owner-occupy," Clarke says.

In Brisbane, he gives the examples of Morningside, Bulimba and Hawthorne as blue-chip suburbs where a unit will perform well.

"If you had to relocate for work, that'd be a very good investment because the body corporate [fees] are low in those little six- or eight-packs, they're well-sized, you're always getting a good, professional tenant," he says.

"Buying a unit in a good location will perform well, and it's a good stepping stone to go, 'OK, we're now ready to buy a house. We've got $200,000 equity, and we can sell this'."

## Size and quality

"It's a fallacy that a house will always perform better than an apartment because of the land component," says May, who specialises in properties within 10kms of Sydney's CBD, and works predominantly with owner-occupiers.

And while people still "overwhelmingly" prefer houses, she says she is seeing increasing interest in apartments, driven by two main cohorts – downsizing Baby Boomers, and young families who have outgrown a small apartment but still can't afford a house.

Both types of buyers are competing for three-bed, two-bath apartments which are in undersupply as they are not as profitable for developers to build as two-bed, two-bath apartments.

"Those two brackets are competing," May says. "We've never seen that before to the same extent, but the Boomers have deeper pockets and prices for larger apartments are going up."

## Age and history

May says the age of development is a big factor. The privatisation of building certifications in NSW in 1998 has played a major role in the quality of apartment developments, she says, with a number of buildings since then being of “questionable quality”.

The Sugarcube and Honeycomb developments in Sydney offer lessons here, she says. In this instance, the developer failed to properly remediate contaminated land, leaving buyers in limbo for years. Fires fuelled by combustible cladding in Melbourne high-rises Neo200 and the Lacrosse building provide similar cautionary tales.

As a rule, May recommends clients avoid buying apartments off the plan or those less than five years old – there are simply too many unknowns.

## Investor green flags and red flags

Valuer Kevin Brogan of Herron Todd White says it’s often said that the best property to buy is the worst house on the best street because you have the opportunity to develop it.

You can rent it out, you can perhaps subdivide it. But currently, construction costs are elevated, and there’s a degree of uncertainty how quickly you can improve or build.

Powell says units tend to offer greater rental yields because they’re cheaper: “You’re probably more likely to find a positively geared unit than a house.”

But again, it comes down to the right apartment.

For example, the latest Herron Todd White property report notes that local buyers are turning their noses up at inner-city Melbourne apartments, which lack parking spaces and offer poor storage.

While investors may be able to rent these types of properties out to short-term stayers and students, the number of interested parties when it comes time to sell may be lower.

And Simon Pressley, managing director of investor-focused buyer’s agency Propertyology, says he flat-out doesn’t connect investors to apartments as he’s just not convinced about resale value.“There’s a difference between, ‘will someone want to buy it?’ and ‘what will they buy it for?’” he says.

"Let's say it's a two-bedroom, two-bathroom apartment ... depending on the size of the complex we're visualising, there will be lots of other apartments that are on the market today."

Pressley says there's so much competition, and so many similar properties on the market, that most apartments don't have that X-factor required to make buyers fall in love. To him, it doesn't make sense as an investor.

The story is different for owner-occupiers, although he still believes that if would-be buyers can nearly afford a standalone house in a good area, it may be worth pausing and trying to save just a bit more to buy that instead.

## Strata

May recommends apartment buyers really interrogate the strata report to see how well-built, run and maintained a building is. "The number of times we have to walk away due to issues is very high.

"You can renovate the apartment, but you can't change a really badly run body corporate," adds Sam Green, the director of Sydney-based Advantage Buyers Agents.

When it comes to picking an apartment, he says special levies charged by a body corporate aren't necessarily a bad thing because it shows the building is being improved.

But he warns buyers to ensure buildings are compliant with fire codes – this is an area local councils are cracking down on, and can cost thousands to rectify if non-compliant.

The 2023 NSW Strata survey found that fire safety systems were the second most common most defect after waterproofing issues in NSW strata buildings, and trending upwards.

Sam Green's building and strata checklist.

- Check that the 10-year strata scheme plan is detailed. Look at what work is planned, and what has been done in recent years.
- Check that the strata report pays particular attention to the financials of the building.
- Check for harmony in the building among residents and a lack of disputes in the body corporate.
- Check the track record of the developer – have buildings they've built been in the news for the wrong reasons?
- Written reports can only tell you so much, if you can, it's also useful to talk to current owners in the building.