High demand for high rise: Investors set to capitalise off apartment boom

As house prices stall or go backwards, apartments continue to perform and already strong demand for rentals is set to climb. Photo: Vaida Savickaite

Apartments have never been sexier property investments, with unit prices outperforming houses for the first time in three years, and the price gap between the two hitting a record-smashing 72 per cent.

“There are certainly opportunities in this market for apartment investors,” says Murray Katz of LogiX Financial Services. “Rental yields are slowly coming back after being depressed for quite a while, and the tax benefits are more advantageous.

“As an asset class, they’ll probably be more on the rise than before and, of course, they’ve always been more affordable than houses.”

Domain data shows that unit prices have remained stable even as house prices fall. Photo: iStock

Interest rate hikes and rising inflation will also combine to make apartments even more desirable because of their relative affordability. In addition, as house prices rose spectacularly during COVID, by 34 per cent in the capital cities from trough to peak, those house prices are tending to slip by more than apartment prices now we are (hopefully) through the worst.

Domain's latest *House Price Report*, for instance, shows that apartment prices in many areas are remaining much more solid than those of houses.

While unit prices rose 4.4 per cent in Canberra, 4 per cent in Adelaide and 3 per cent in Darwin over the last quarter, in the cities where they didn't do so well, they still fared better than house prices.

In Sydney, where house prices slumped by 2.7 per cent over the second quarter of 2022, apartment prices fell by only 0.6 per cent; in Melbourne house prices dropped 0.9 per cent but units rose 0.4 per cent; and in Brisbane, house prices rose 0.2 per cent as against units' increase of 1.4 per cent.

Will Honey, director of sales and projects at The Property Collective in Canberra, says that price growth means investors should buy sooner rather than later.

“There is such a big gap now between prices of apartments and houses; apartments offer better value,” he says.

A one per cent vacancy rate for rentals is luring investors back into the property market. Photo: Alamy

“There’s also now a solid rental market and a 1 per cent vacancy rate, so we’re finally seeing investors coming back into the market in greater numbers than we’ve seen for a while.”

The prospects also look good for the future of the apartment investor market, believes Ian Bennett, director of Colliers International Residential, who’s been conducting a series of presentations to financiers about investing in apartments.

“Rents have been increasing sharply,” he says. “In the last three weeks, for example, we’ve seen rents in two-bedroom apartments in the Newmarket development in Randwick [Sydney], go up from $850 a week to $1,150, and for three beds from $1150 to $1500.

“People are bidding against each other for rents as there’s a housing crisis on the horizon.”

Katz says apartments are also good prospects for investors as they share repair and maintenance costs for common areas with other owners, and council rates are lower for units.

Demand is also rising. “When immigration starts early next year, and students have already started to come back, there’ll be even more demand for rental apartments,” Bennett says. “In a year’s time, I think a lot of people will be saying that they should have bought now!”

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