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Apartment crisis means unit owners should cut their losses now: Propertyology

For immediate release

New research has found that people who bought a new unit within the past two decades should consider cutting their losses now before prices fall even further.

The analysis from respected property market research firm Propertyology said unit owners who were patiently waiting for prices to rebound were playing Russian Roulette with their financial futures amid a looming apartment crisis.

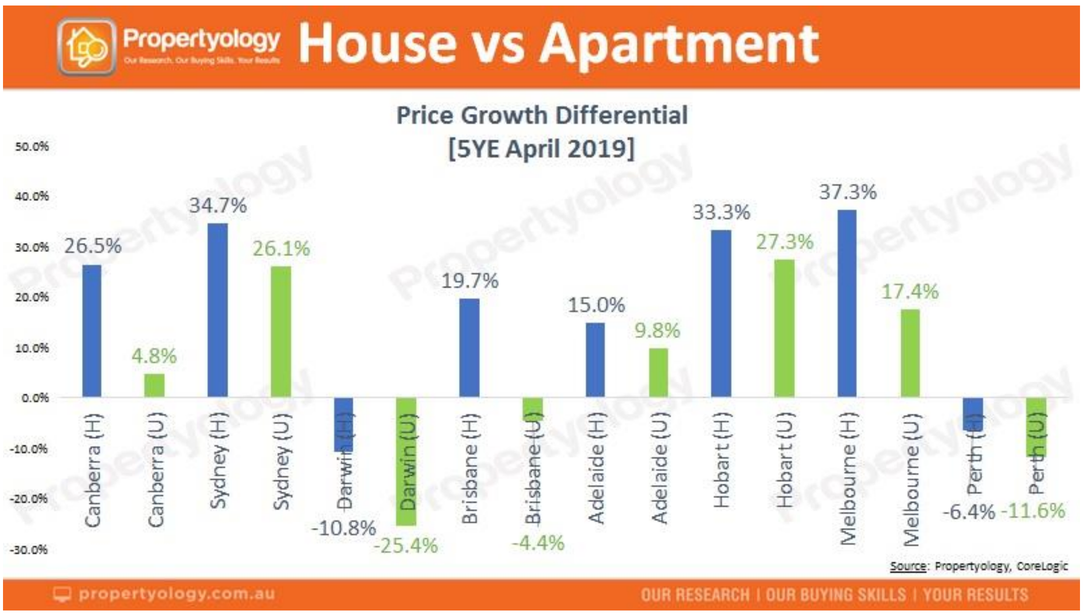
Propertyology Head of Research Simon Pressley said that the mass production of inferior units since the start of the century had created a tidal wave of woe for unit owners.

“The Australian construction industry is critically ill and if you’re the owner of an apartment within a medium- to high-density building that was constructed within the past 20 years, you’ve contracted Australian real estate’s equivalent of the bubonic plague,” Mr Pressley said.

“There’s no vaccine for this horrible disease and the best treatment is most likely to sell sooner rather than later.

“Same-same, mass-produced Lego buildings, appalling governance within the Australian construction industry, embarrassingly poor-quality workmanship, and approximately 40 per cent of the purchase price of a new property representing assorted taxes is a toxic combination.”

The research confirmed that even during periods of strong market conditions such as the past five years, unit price growth significantly underperformed houses, including prices falling below 2014 levels in three capital cities.



Mr Pressley said the research confirmed that the differential between median house price and median apartment price growth in Australia's biggest cities was between 20 per cent to 30 per cent in the five years to April this year.

"Propertyology expects this price growth differential will continue to widen for an indefinite period of time," Mr Pressley said.

"What this means going forward is that if the median house price within a specific location increases by, say, 20 per cent over a five-year period, the value of an apartment is likely to decline.

"In fact, for the owner of a medium- to high-density apartment to achieve even a modest amount of growth in asset value, their local market would need to produce a property boom – and such a possibility currently seems many years off for most Australian capital cities."

In addition to the concerning financial performance, most of these dwellings are laced with repair bills worth millions of dollars due to extreme structural integrity concerns, he said.

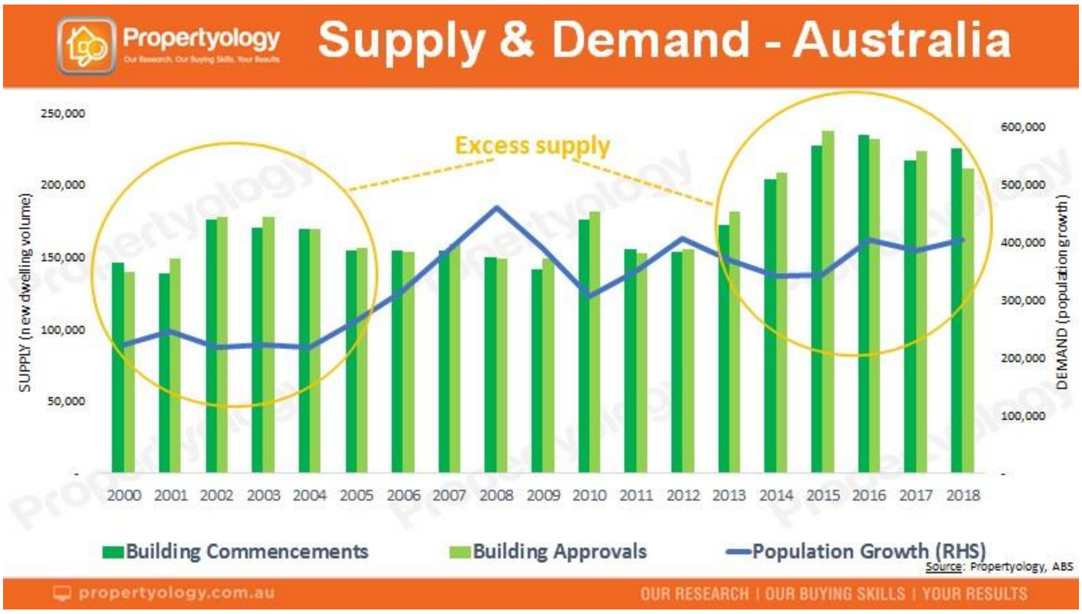
"The absence of good hygiene within the construction sector – that is, prudent quality control – over the past two decades has resulted in a deplorable quality of workmanship, primarily within Australia's mass-produced dwellings in our biggest cities," he said.

"The governance within Australia's construction industry is as poor as what the Banking Royal Commission exposed for the financial services sector with an entire generation of housing supply corrupted by greed, vested interests, and little regard for quality control, safety and consumer best interests.

"The sector has totally lost the trust of the buying public with state and local governments as much to blame as any stakeholder within the construction industry."

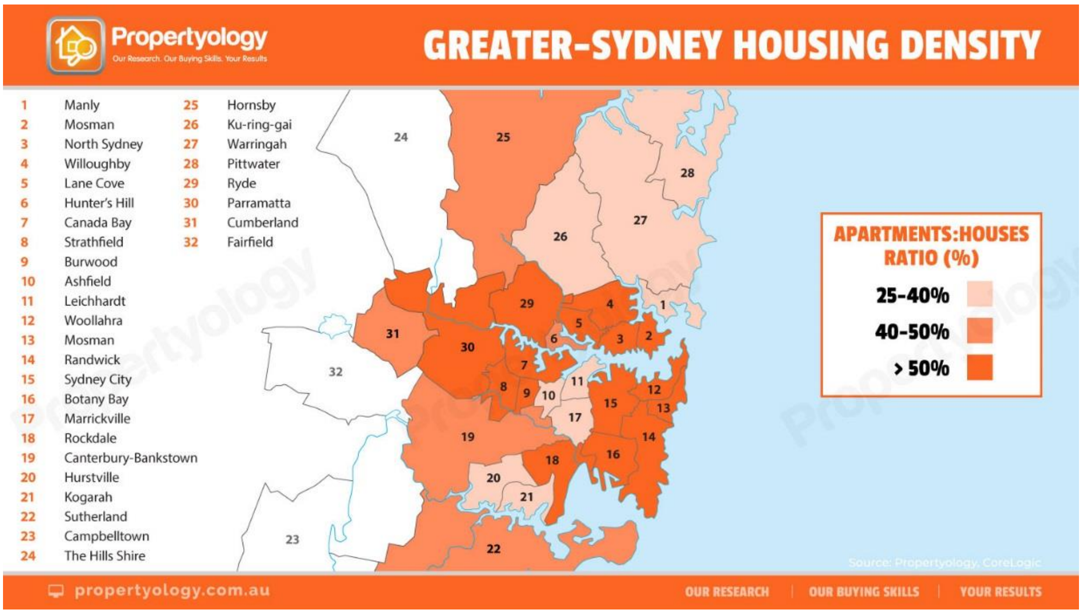
The evolution of Australia's high density

Mr Pressley said Australia's 25 million population are housed within 10 million dwellings with the sector now in the middle of the second period this century where the total national volume of new housing supply exceeded base-level demand or population growth.



However, more important than how many new dwellings have been built are the type of dwellings because over the 16 years of to December 2018, Australia added 1,005,786 'attached dwellings' within just eight capital cities, according to Australian Bureau of Statistics.

The data shows that 10 per cent of Australia's total dwelling stock is now medium- to high-density apartments with the bulk of that built in Sydney and Melbourne since the turn of this century.



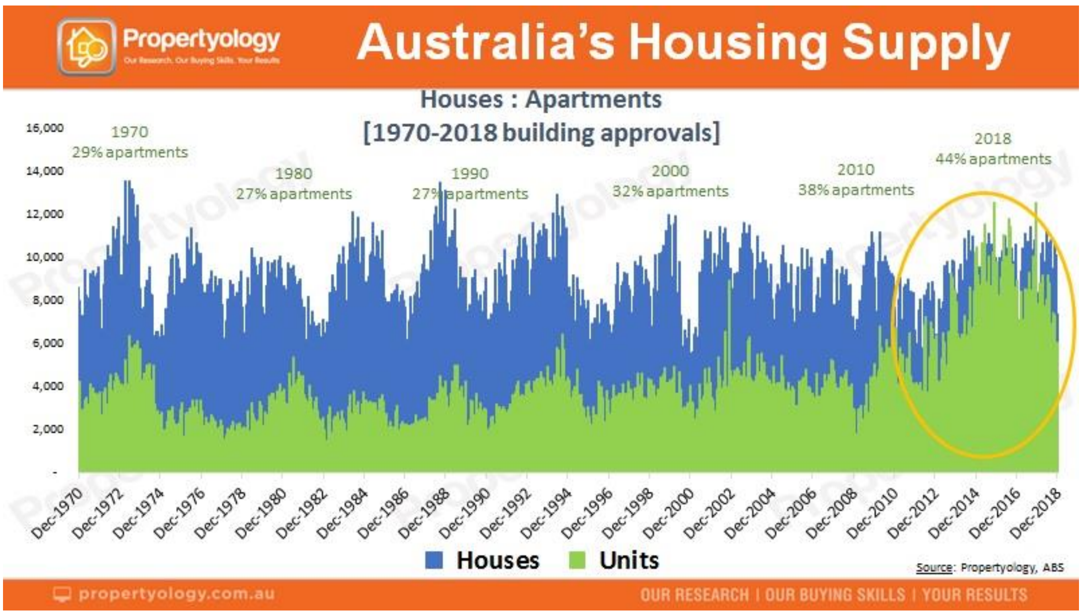
Mr Pressley said apartments will continue to play an important role within Australia's housing supply, particularly so in our biggest and most expensive cities.

Higher density residential development reduces pressure on the national infrastructure budget, reduces commute times, and provides the community with a more affordable option to live centrally, he said.

However, the main issue is the quality of the construction of new units as well as the drastic oversupply of a singular inferior dwelling type, he said.

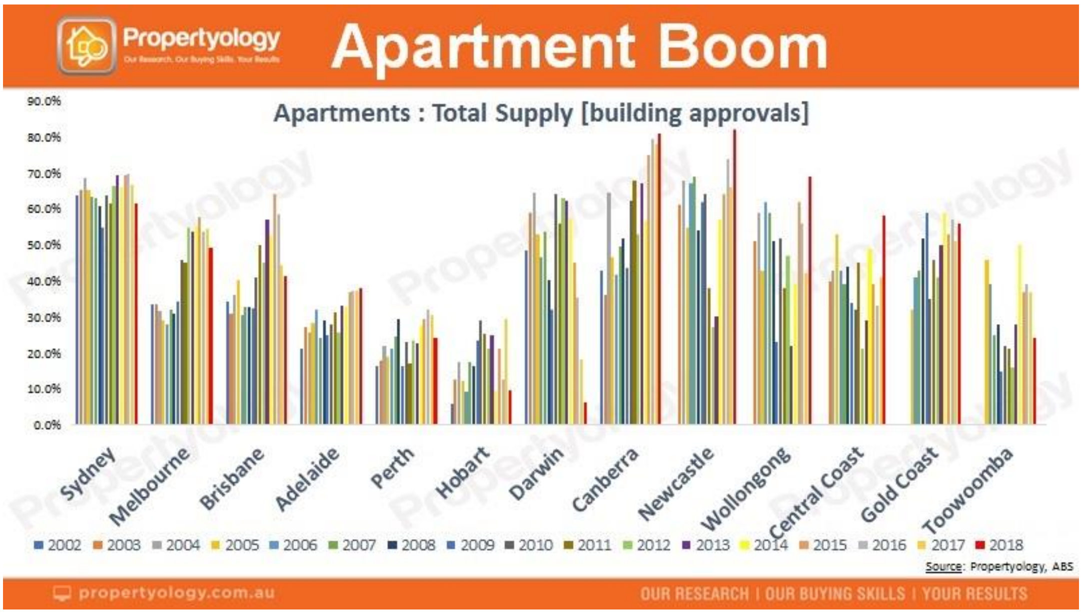
"In the 1970s, there was a surge in construction of low density four to 10-pack apartment blocks," Mr Pressley said.

"Twenty-nine per cent of new dwellings approved during the 1970s were for attached dwellings. Those rock-solid, yellow and red brick apartment complexes continue to live the test of time!"



The Propertyology research found that Sydney (65.7 per cent), Canberra (62.9 per cent) and Darwin (51.2 per cent) have constructed more apartments than houses over the past 16 years.

The cities with the next highest ratio of new apartments to new houses were Wollongong and Gold Coast (both 48 per cent) followed by Melbourne and Brisbane (44 per cent each), while the NSW Central Coast had 41 per cent.



Proof reflected in poor performance

For several years now, Propertyology has issued warnings about housing over-supply concerns, particularly in respect to the apartment markets in our big cities, he said.

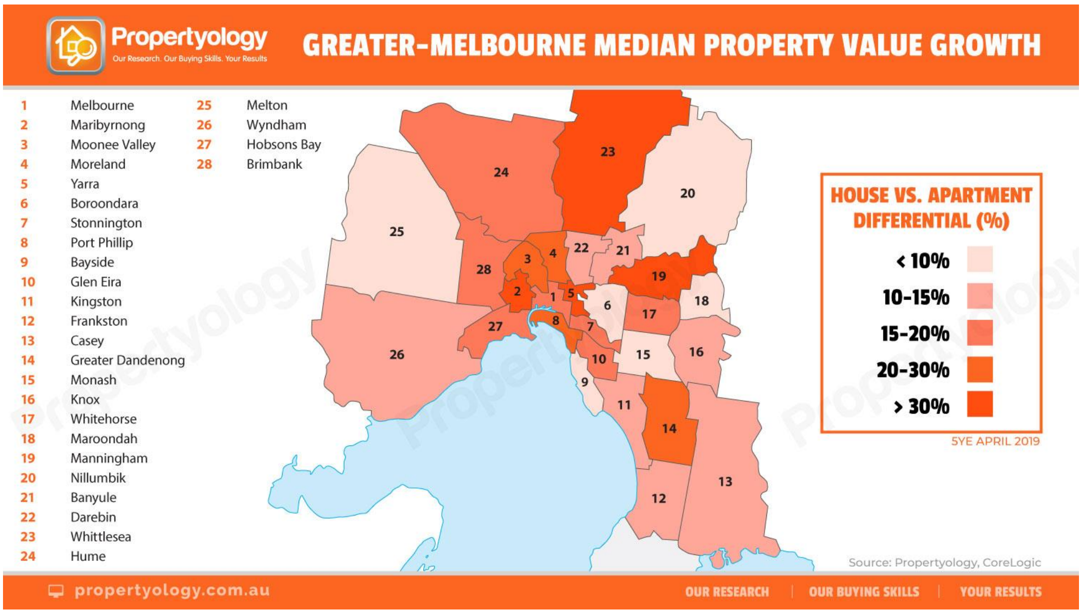
"The headline rate used in media reports to communicate change in median dwelling prices disguises how poorly apartments have really performed over the past five years," Mr Pressley said.

"The performance of Sydney's apartment market was significantly inferior to detached houses over the five years to April.

"At a time when Greater-Sydney's median house price increased by 35 per cent, 11 municipalities produced a change in median apartment value of less than 25 per cent. Ryde (14 per cent), Lane Cove (16 per cent), Georges River (18 per cent), Rockdale (21 per cent), Parramatta and Hornsby (both 22 per cent), Strathfield (23 per cent) and Inner-West (24 per cent) all were significant under-performers."

Greater-Melbourne's median house price increased by 37 per cent over the last five years, however, only six out of Melbourne's 27 municipalities produced an increase in median apartment values of more than 25 per cent.

The research found that the biggest under-performing apartment markets in Greater-Melbourne over the five years ending April 2019 were Melbourne City (minus 1 per cent), Stonnington and Yarra (both 4 per cent), Maribyrnong and Manningham (6 per cent), Moorabool (7 per cent), Moonee Valley and Port Phillip (both 9 per cent), Moreland (14 per cent), Boroondara (17 per cent), and Glen Eira (18 per cent).



In Brisbane, a city which hasn't seen a property boom since way back in 2007, the median house price increased by 20 per cent over the past five years but apartment values in Brisbane City Council declined by 4.4 per cent – that's a 24 per cent price growth differential.

"The trend is consistent across the four other municipalities which make up Greater-Brisbane," Mr Pressley said. "Logan, Ipswich, Moreton Bay and Redland all produced a differential between median value growth for houses compared to apartments of about 20 per cent."

In Adelaide, the median house price increased by 15 per cent over the last five years. Adelaide's CBD has produced a surge in medium density apartment construction over the last five to 10 years, to the extent that 76 per cent of all residential dwellings within Adelaide City Council are now apartments, according to the Propertyology research.

"Of Greater-Adelaide's 18 municipalities, the biggest under-performing apartment markets were in Salisbury (4 per cent decline over the last five years), Port Adelaide and Mitcham (both 6 per cent growth), Burnside (7 per cent) and Onkaparinga (9 per cent)," Mr Pressley said.

Greater-Perth's median house price declined by six per cent over the five years ending April 2019.

While large parts of Perth consist of detached housing stock, pockets of significantly increased density include Perth City (14,300 dwellings are now apartments, or 96 per cent), Subiaco (52 per cent), South Perth (45 per cent) and Vincent (45 per cent).

"The apartment market in Australia's fourth largest city has also been susceptible to some horrendous results with the highest rates of decline over the five years being in Swan (28 per cent price decline), Canning and Cockburn (both 25 per cent decline), Perth City, Belmont and Bayswater (each with a 23 per cent price decline). There's more apartment pain to come, too," Mr Pressley said.

"From 2002 to 2016, Darwin consistently built more new apartments than detached houses each year. So, while Darwin's persistently weakly economy created a 10 per cent decline in median house prices over the last five years, the high concentration of apartment construction has, so far, created a 25 per cent decline in median apartment values."

In Canberra, the research found that a staggering 70 per cent of all new dwellings approved over the nine years ending 2018 were apartments. While the nation's capital saw a strong 26 per cent increase in median house prices over the last 5 years, apartments only produced five per cent growth.

More pain to come

Mr Pressley said that right across Australia, thousands of individual apartments will have performed well below the median value change for their own location.

The common denominator among the poorest performing assets is newer buildings, primarily because roughly 40 per cent of the purchase price for that first owner are taxes associated with new builds, he said.

He said the Federal Government needs to step in and commission a new independent department with the responsibility of designing a comprehensive building star-rating system.

"Regardless of when it was built, every Australian apartment complex should be issued with its own rating and these made available to the public via an online register. This is critical in restoring confidence among future real estate buyers," Mr Pressley said.

"As for any Australian contemplating buying a property now or in future years, be absolutely crystal clear that your structural integrity risk and financial performance risk are exponentially higher should you chose to purchase any medium- to high-density apartment that was built during the past 20 years."

Propertyology is Australia's premier property market analyst and award-winning buyer's agency. Every capital city, every non-capital city, they analyse fundamentals in every market, every day.

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To organise an interview with Propertyology Head of Research Simon Pressley or to receive further analysis or graphs, please contact:

Bricks & Mortar Media | media@bricksandmortarmedia.com.au | 0405 801 979