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Apartments begin shrinking

They may not be tiny, 28-square-metre “krash pads” that are all the rage in London; nor the sleeping capsules little bigger than a coffin in Japanese hotels. But Australian cities have a new generation of projects for buyers who regard their home as a place to sleep and nothing more.

Developers are redrawing project designs in slash floor space and remove second bathrooms and parking spaces, because buyers don't want to pay for the extras. Three-bedroom apartments aren't selling, while one-bedroom apartments as small as 34 sqm show good capital growth.

Global apartment company Frasers Property Group will soon launch the first stage of its Sydney development on the former Carlton Brewery site in Broadway, in which apartments will be two bedrooms or smaller.

Managing director and chief executive Stanley Quek said there was demand for affordable homes from buyer concerned about budgets and interest rate rises.

“I think what's happening is there are lots of buyers, I think investors are coming back, and owner-occupiers, but we're not seeing the super rich,” Dr Quek Said.

Sydney based Nettleton Tribe Architects are reworking the approved plans of several Sydney projects, some of them large, multi-stage developments of up to 600 apartments. Design director Jeremy Bishop said it involved reducing bedroom space, removing second bathrooms, and getting rid of three-bedroom apartments all together, while keeping quality fittings and spacious living areas.

Councils were usually happy to approve them as long as the building didn't change shape, albeit with an extra six to nine months' wait.

“Developers are saying, ‘how much can we spend to deliver this apartment?’, which is much less than it was during the boom,” Mr Bishop said. “What people are finding now is there is a ceiling on what people can afford to spend.” He said two-bedroom apartments are decreasing from 100 sqm to 85 sqm or 90 sqm, while one-bedroom apartments are shrinking from 60 sqm to about 50 sqm.

The trick was to be clever about spatial design so buyers didn't feel they were losing anything. “Although there could be one bathroom, it could be a two-way bathroom where you have access from the bedroom and the corridor, and there could be a separate toilet.”

In Melbourne, Hamton Property Group took the concept further with Society, South Yarra, a development on Chapel Street. The apartments came on to the market in mid-2008, none bigger than 65 sqm, with fold-down beds and a kitchen table that pulls out of the wall. The smallest was 34 sqm, and prices started at \$260,000. The entire 242-unit project sold within two months.

Joint managing director Paul Hameister said the key was a high-amenity location and common areas such as a rooftop lounge and dining areas, spas, gym and a cinema that can be booked. “Its about making sure every single part of the apartment does something,” Mr Hameister said.

“There was a bit of a mental taboo for developers doing anything smaller than 50 sqm for apartments and that's well and truly changed now.” His next development, in Coburg, Melbourne, is “a little more conservative”, the smallest apartments are 41 sqm.

The banks weren't convinced that they would sell, so Mr Hameister had to do a “road trip”, armed with a Charter Keck Cramer report. This found capital growth from 2000 to 2007 was inversely related to unit size, with median growth of 7.5 per cent a year for sub-40 sqm apartments compared with 5.3 per cent a year for those over 80 sqm. The banks agreed to lend, and now other developers are following his lead.

Charter Keck Cramer director of strategic research Robert Papaleo said climbing prices and falling rental yields had driven investors to seek out cheaper price points. “We’ve seen a definite move towards small apartments, particularly off the back of the success of Society and other projects in South Yarra,” he said.

Mr Papaleo said councils were happy to approve developments without parking spaces and investors were happy to buy them, but the key to good capital growth is a convenient location.

“A lot of developers jumped on the bandwagon with that approach but the developments didn’t have the same location attributes, and in due course capital appreciation might not be as strong,” he said.

Brisbane buyer’s agent Scott McGeever said young buyers were more concerned about location than size. “A lot of gen Ys are wanting to maintain their lifestyle and still buy property, so they will buy a smaller property close to the city rather than move to the “burbs”, he said.

“It needs to be assessed on what market they are pitching it at,” Mr McGeever said. “If its an investment, it could have an impact because people still tend to want their own bathrooms. You can ask more money for two bathrooms.”

Advisory service Archicentre’s Angus Kell said smaller units wouldn’t be perceived as a great loss, if they were well designed. “My experience of apartments over the years is they got too big,” he said. “The average house size in the UK is 76 sqm, and in Australia its about 315. We’re starting from a very generous base.”

KPMG demographer Bernard Salt said many were looking for a hotel-style apartment, with most living and socialising taking place elsewhere - in restaurants, the gym or the workplace. “I think this is something town planners have struggled with,” Mr Salt said. “They think everyone wants to be part of a village or community. There is a requirement for precincts, even whole suburbs, where people simply want a bolt-hole.”