

Lenders think smaller

Michelle Singer

A growing number of lenders are providing finance on smaller apartments as buyers and investors seek affordable inner-city housing options and developers look to meet the demand.

Australia and New Zealand Banking Group last week joined a growing number of lenders that offer finance on small properties, announcing it would lower its lending standard on residential units from 50 square metres to 40 sq m.

Analysts speculate that the competitive mortgage market for smaller units could help stimulate inner-city apartment sales, bringing forward developments.

To be considered for finance, ANZ requires that properties be residential (excluding serviced apartments and student accommodation); on a strata title and have living space (excluding balconies) of 40 sq m or more.

The unit must have one bedroom, a functioning kitchen, bathroom and its own laundry.

Intelligent Finance director Justin Doobov said buyers of such apartments presented less risk of defaulting and the units often gave positive cash flow and higher than average yields of 6 to 7 per cent.

"The ANZ was losing market share in this space to Westpac [Banking Corp], St George [Bank] and the [Commonwealth Bank of Australia]. They had to relax their policy to allow for this growing side of the market," he said.

"I always check that a new



Lenders are easing size restrictions on apartments they will finance.

50 sq m property or smaller is acceptable security for the majority of the lenders, even if the client is not intending to borrow money, so it's not a struggle to on-sell the unit in the future."

BankSA and St George will finance units as small as 25 sq m but approval is on a case-by-case basis and can't be rent reliant.

BankWest lends on 35 sq m properties, but they must be one-bedroom units, not studios. CBA does not have size restrictions but the property must have one bedroom.

"The ANZ revised criteria is nothing new but there are definitely more properties on the market that are smaller and there has been a trend towards lenders reducing the unit size they will finance as they want to tap into that market," Mortgage Choice senior corporate affairs manager Kristy Sheppard said.

"Given the changing demographics of borrowers, such as more people living alone and

doing so for longer, more overseas students and immigrants, plus an ageing population with many looking to downsize, I would think more developers will take these factors into account and build residences to suit."

RP Data valuation manager Michael McNamara said: "Discretionary buyers, first-home buyers and investors had been inactive for 12 months. Given these buyers are the most likely to purchase inner-city apartments, a more competitive mortgage market in the space will probably stimulate those markets and may encourage developers to bring forward projects."

Developer Hamton found success earlier this year with Society South Yarra, a building of 242 one- and two-bedroom apartments, and plans more of a similar nature. Society sold out in May, within two months of its release. Units were priced from \$275,000 and sized from 38 sq m to 123 sq m.