



Domain

Price per
square metre

The density puzzle of
housing affordability

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Embracing density can work wonders for affordability

This report reveals a trend of shrinking land sizes attributed to densification and rising land premiums. While this may seem counterintuitive, it actually creates more opportunities for home ownership. Higher density translates to increased affordability. Without the shift towards greater density and smaller land sizes over the past two decades, house prices would be vastly higher than they are today (higher by 44% in Perth, 16% in Adelaide, and 14% in Melbourne). In contrast to house land sizes, unit floor sizes have remained relatively unchanged over the past decade. This stable unit footprint amid declining land sizes underscores the affordability benefits that density brings to home ownership.

Executive Summary

We must confront the reality – Australians are becoming increasingly vulnerable to the cost-of-living crisis that is deeply intertwined with the deterioration in housing affordability. Wages have grown incrementally over the past decade, up 27%, with a fall in household gross disposable income. Over the same time, house and unit prices have soared much more across the combined capitals, up 83% and 38%, respectively. The deterioration in housing affordability and home ownership rates highlights the importance of reviewing existing land-use policies and their efficiency and focusing on the essential objective of meeting all Australians' housing needs.

That's why the price per square metre is an essential tool for both buyers and the government. It shows the relationship between density and pricing trends over time, offering insights into variations within sub-regions across Australia.

What does this mean?

Urban density is a crucial aspect of city planning and can work in favour of improving housing affordability. Australia has some of the world's least densely populated cities and is home to some of the most expensive property markets – these two aspects are linked. With the Australian housing market facing escalating challenges, from high purchasing prices and a housing undersupply, increasing urban density is a way to make housing more affordable and accessible for more Australians. Land is finite and we need to ensure it is provided at low cost and utilised efficiently. This will require a change in mindset among buyers, including reimagining the Australian dream, and a well-defined development plan from our government to ensure land-use policies meet housing needs. The rising value of land inflates home prices, and while accelerating zoning reforms will help to increase housing density, it will do little to influence land prices without boosting land release or accessing urban sprawl. Estimates suggest a 10% increase in housing stock lowers prices between 15% and 30%.¹

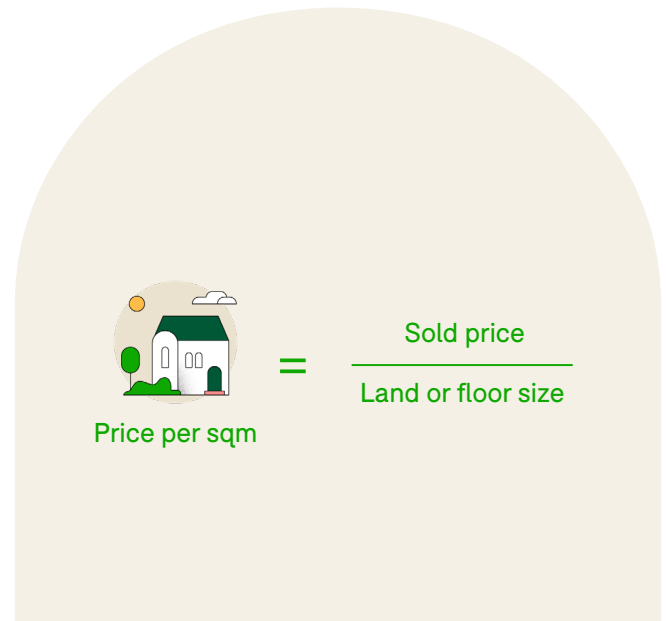
Introduction

Housing affordability discussions typically focus on price. However, many features factor into a home's price, and vary widely throughout Australia. One of these features is land or floor size, which changes significantly depending on location. Land size is the square metres of the parcel of land on which the house sits, while floor size is the square metres of space within a unit or apartment.

Urban density is a crucial aspect of city planning and can work in favour of improving housing affordability. Typically, urban density rises in areas closer to the city centre. This trend is driven by population pressure and affordability. Land is finite and comes at a premium the closer to a city centre. This creates the need for smaller blocks and higher-density housing. However, outer suburbs, where the price is generally lower, still require efficient land use to ensure it remains accessible to Australians on a budget. Without it, large land sizes in cheaper regions may be just as expensive as smaller properties in inner-city areas.

The importance of measuring price per sqm

Price per square metre considers both the price and property size to standardise the cost of housing, making it easier to compare different sizes geographically. The price per square metre is the sold price divided by the land size or floor size, with the value calculated from the relevant region and time period. It's an important tool to be able to help understand the changes in density and interaction with price over time, and within sub-regions across Australia. This report will refer to the price per square metre as "price per sqm". Implied house and unit price is calculated by multiplying the median land size (or floor size for units) and the median price per sqm, this will be referred to as house or unit price.



Unlocking the drivers of change in price per sqm

The relationship between land size and price per sqm is inversely proportional:

- As land size decreases, the price per sqm will increase.
- As house prices increase, the price per sqm will increase.

Both of these seem counterintuitive to driving affordability. However, combined, these two factors can offset each other or work together to double the effect of any individual change to price or land size. In other words, they can be drivers to improve housing affordability.

- If land size decreases as prices rise, it helps offset and contain the overall price paid (and therefore the home-loan amount needed, making housing more financially accessible).
- If land sizes remain stagnant as prices rise, the overall price will be significantly higher.

House price per sqm

The price a buyer pays per sqm varies across our major capital cities as buyer demand, housing supply, land release, housing policies, construction costs, zoning practices (plus the subsequent speed of rezoning), and rates of urban sprawl and densification collide at differing speeds.

Sydney has the significant price lead, remaining the most expensive capital at \$2,590 per sqm (table 1). It is the only city commanding over \$2,000 per sqm and is 41% more expensive than Melbourne, which is second (at \$1,838). Geographically, Sydney is a contained city, with urban sprawl restricted by the Blue Mountains to the west, the ocean to the east, and national parks north and south, a topography that doesn't hinder Melbourne's seemingly endless ability to sprawl. This difference alone elevates Sydney's land premium, which has become more prominent over time.

Canberra has the third-highest price per sqm, at \$1,485, despite the city's house price edging higher than Melbourne's. However, looking at this in isolation doesn't paint the complete picture of bang for your buck offered. Canberra still has a lower price per sqm than Melbourne because its land sizes are 39% larger than the Victorian capital's. In other words, Canberra buyers receive greater value for money.

Darwin and Hobart triumph in the affordability stakes with the lowest price per sqm. Darwin is more than three times cheaper than the most expensive city, Sydney, and is one-third cheaper than the second most affordable city, Hobart, demonstrating the vast value offered.

Perth has been the only mover in affordability ranking across the capitals over the past year. It is the only city to record double-digit growth, accelerating the price per sqm to the fourth most expensive (overtaking Brisbane). This is despite Perth having one of the more accessible house prices, a real showcase of the benefits a smaller land size can have on affordability. Shrinking land helps to contain the overall price paid.

Houses in Sydney, Melbourne, Brisbane, Adelaide and Perth have witnessed record-high prices per sqm while all other cities are below previous records (table 1). Melbourne had one of the lower annual growth rates per sqm, while Perth, Adelaide and Brisbane led the pack.

However, weaker conditions are evident among the smaller capital cities of Canberra, Hobart and Darwin. This continues Darwin's long-term trend as the slowest-growing city over the last five years. Hobart and Canberra each had slight decreases in price per sqm. However, with growth of 59.1% and 48.3% in the previous five years, respectively, they have still been some of the fastest-growing cities over the longer term.

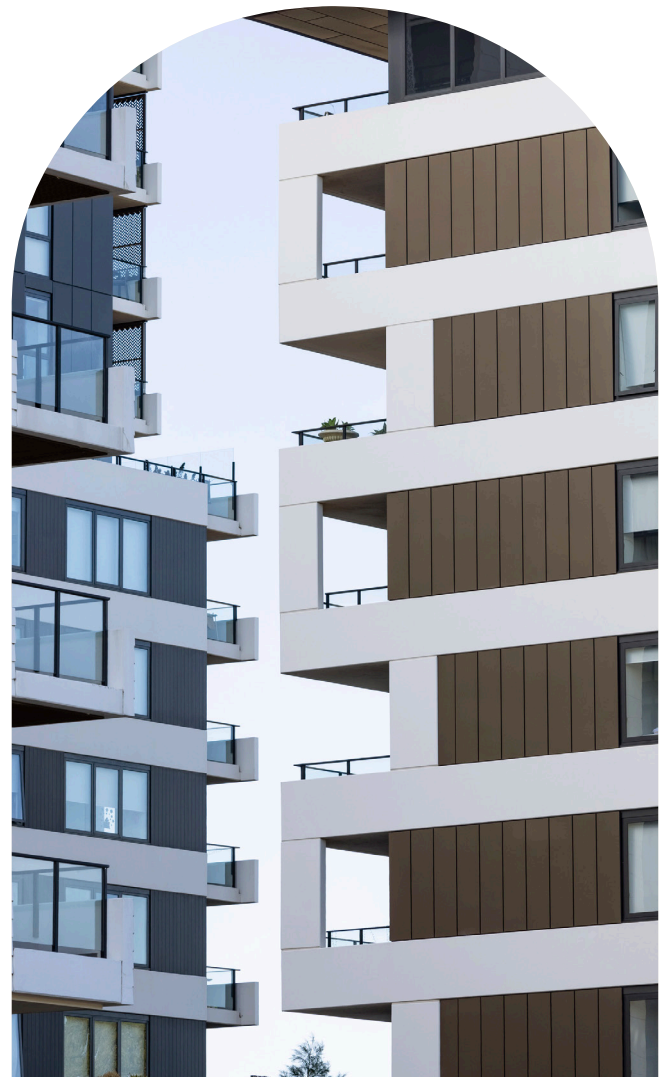


Table 1. House price per sqm, land size and affordability change across the capital cities.

Cities ranked from highest price per sqm to lowest					
City	House price	Land size (sqm)	Price per sqm	Price per sqm 1-year change	Price per sqm 5-year change
Sydney	\$1,458,170	563	\$2,590	5.1%	49.5%
Melbourne	\$981,492	534	\$1,838	0.8%	32.8%
Canberra	\$1,103,355	743	\$1,485	-2.0%	48.3%
Perth	\$676,800	480	\$1,410	14.0%	40.1%
Brisbane	\$819,351	611	\$1,341	7.5%	58.1%
Adelaide	\$768,528	593	\$1,296	9.6%	57.1%
Hobart	\$695,304	648	\$1,073	-2.7%	59.1%
Darwin	\$571,024	802	\$712	-2.3%	21.5%



The widening gap in house sqm affordability among cities

The affordability gap between our major cities is worsening over time. This speaks volumes, providing insights into where Australians want to live, housing density (or lack of), restrictive planning and regulations on land use, and housing undersupply.



Sydney's housing affordability is rapidly diminishing



The value gap between Sydney and Melbourne has grown to 41%, up from 35% a year ago

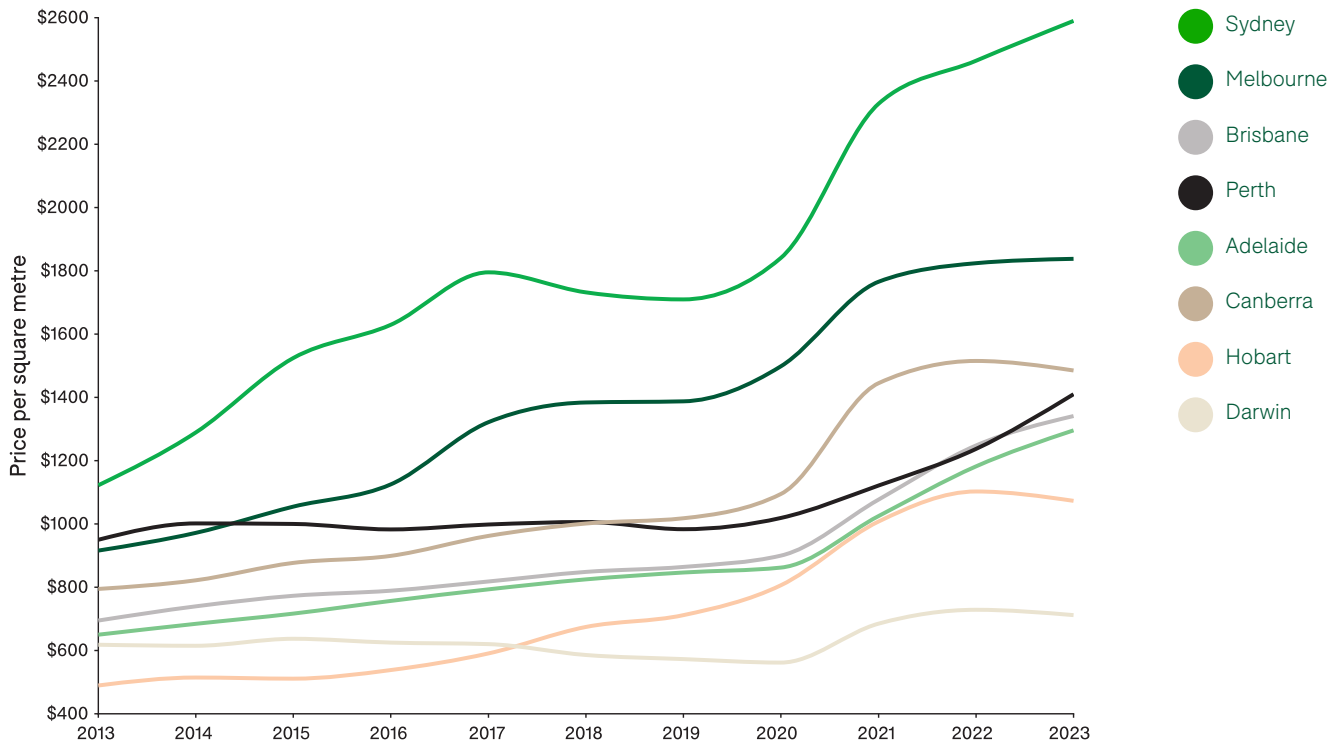
Why Sydney's price per sqm is getting more expensive

Sydney's population and high cost of housing reflect its desirability. Career opportunities, education, lifestyle, climate and proximity to beaches attract domestic and overseas residents despite the high financial costs and often lengthy commutes. Sydney's housing affordability is rapidly diminishing as the price per sqm gap between the harbour city and the next priciest, Melbourne and Canberra, widens further (figure 1). A decade ago, the value gap between Sydney and Melbourne was 22%, and Sydney was 129% more expensive than Hobart, the most affordable city. Fast-forward to today, and the gap between Sydney and Melbourne has grown to 41%, up from 35% a year ago. Against the current most affordable capital city, Darwin, Sydney buyers are paying 264% more, up from 238% a year ago.

Across the more affordable cities, the value gap between Canberra and Perth/Brisbane/Adelaide has shrunk significantly, falling to 5% from 21% the year before. This has created a bunching of affordability among the four cities, reversing a three-year trend of a widening starting in 2021.

Hobart, on the other hand, has slightly fallen away from this group, with its value gap between the next highest price per sqm city growing from 7% 12 months ago to 21% today. Despite this fall in price per sqm, extreme growth in Hobart over the last decade has seen it morph from the most affordable city in Australia to one that is in the same range as Adelaide, Brisbane and Perth.

Figure 1. The historical price per sqm by capital city, houses.



Top and tail: The most affordable and expensive suburbs

Unsurprisingly, Sydney leads the way with the most expensive suburbs in Australia – Paddington (\$27,440), Darlinghurst (\$25,065), Surry Hills (\$24,352), Woollahra (\$23,043) and Birchgrove (\$18,739). In fact, only one suburb in the top 25 sits in another city – Melbourne’s Albert Park. The priciest suburbs share similar qualities, either being a tight inner-city area where land is at its greatest premium or close to water where highly sought-after views are accessed.

All but one suburb in the top 10 saw an annual increase in price per sqm, highlighting the strength of buyer demand and the rising premium associated with the highly desirable locations over time. Sydney’s Surry Hills and Woollahra saw some of the most significant increases, at 20.3% and 16.3% respectively, and look set to challenge Paddington’s status as Australia’s most-expensive-per-sqm suburb.

The escalating premium is the product of a lack of densification and provision of “new” homes in these inner-city locations (and a diverse array of medium and higher density), hindered by the not-in-my-backyard movement, the stronghold local governments have over development applications, the red tape and the costly hoops developers need to jump through. All these place significant upward pressure on land values – given land is finite. Expanding housing near the CBD in more expensive locations can improve affordability for all, a principle called “filtering”. These homes may attract higher-income households, but as they move, they free up quality housing for middle-income families, who in turn make room for lower-income households.²

Looking at each city’s most expensive suburb (figure 2), Melbourne’s Albert Park is half the cost of Paddington, at \$14,419. Despite this, Albert Park is still significantly more expensive than any suburb outside Sydney, showing just how much of a premium market Australia’s largest two cities command.

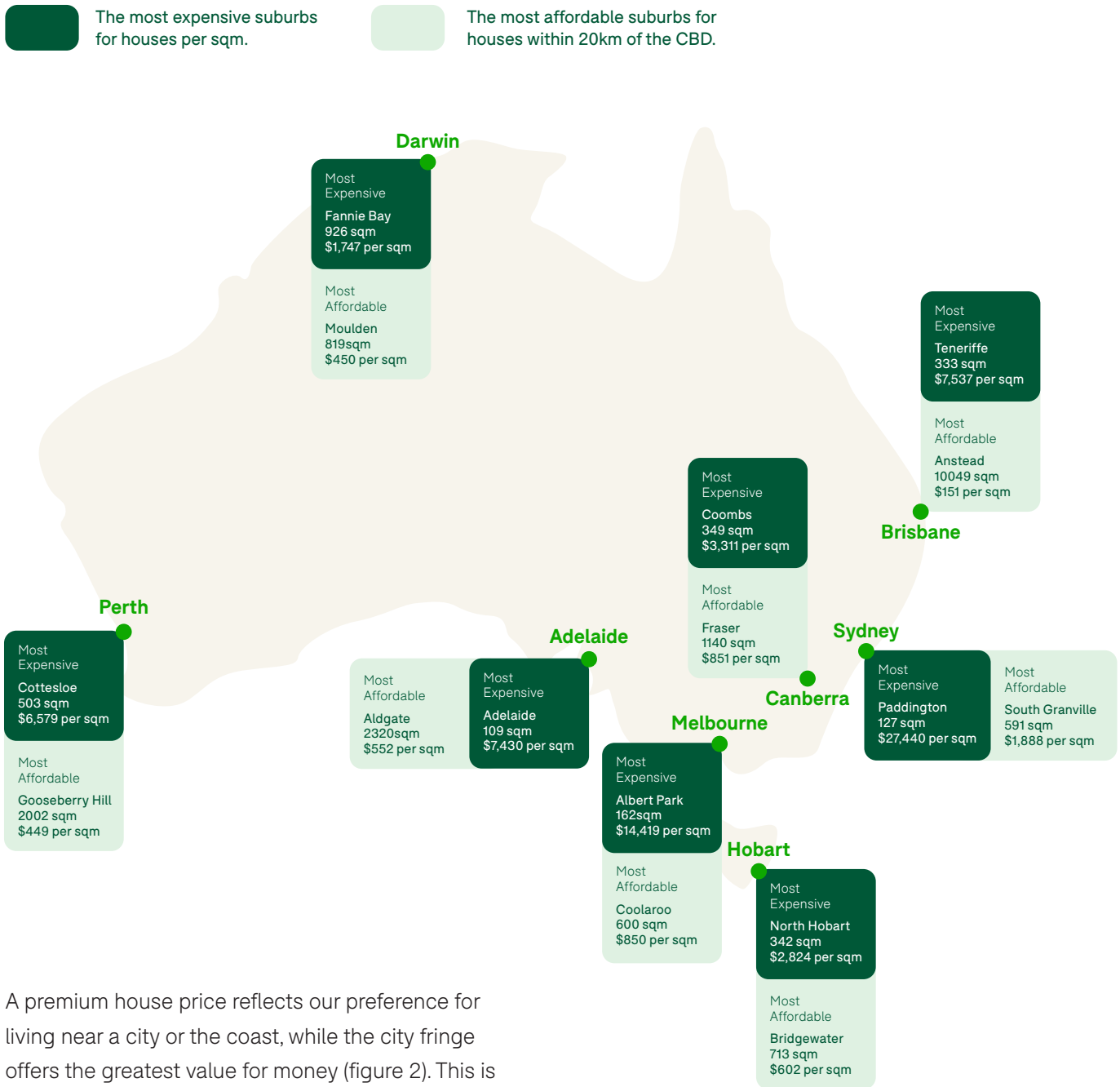
The inner-city suburb of Adelaide is Adelaide’s most expensive suburb. Despite having a more modest

house price of \$809,870, the land size for buyers in this suburb is only 109 sqm as land-efficient terraces and townhomes drive down the size, resulting in a price per sqm of \$7,430. Cottesloe, in Perth, has the opposite effect – a large house price of \$3.3 million and a high land size of 503 sqm. Despite having a house price four times the size of Adelaide, buyers in Cottesloe get more bang for their buck, with a price per sqm (\$6,579) that is \$1,000 cheaper.

Unsurprisingly, Sydney leads the way with the most expensive suburbs in Australia



Figure 2. The most affordable and expensive suburbs per sqm metre, houses.



A premium house price reflects our preference for living near a city or the coast, while the city fringe offers the greatest value for money (figure 2). This is evident across all of our capital cities, although the differences are starker for some.

Even neighbouring suburbs can have vastly different prices per sqm influenced by liveability aspects, and the housing landscape having an impact and suppressing their prices. However, reputations change, and as cities grow, location becomes king. Finding a property in these more affordable areas now can pay huge dividends in the future – the bridesmaid suburbs and gentrifying ones.

The current drivers of change in house price per sqm

Land sizes are shrinking due to densification, land premiums and the need for better affordability. Over the past year, all cities had a decrease in the land size of sold houses, except for a marginal increase in Hobart (table 2). Changes in house prices were mixed, with Sydney, Perth, Brisbane and Adelaide increasing but Melbourne, Canberra, Hobart and Darwin decreasing. However, without the decline in land size, the change in price would be far greater.

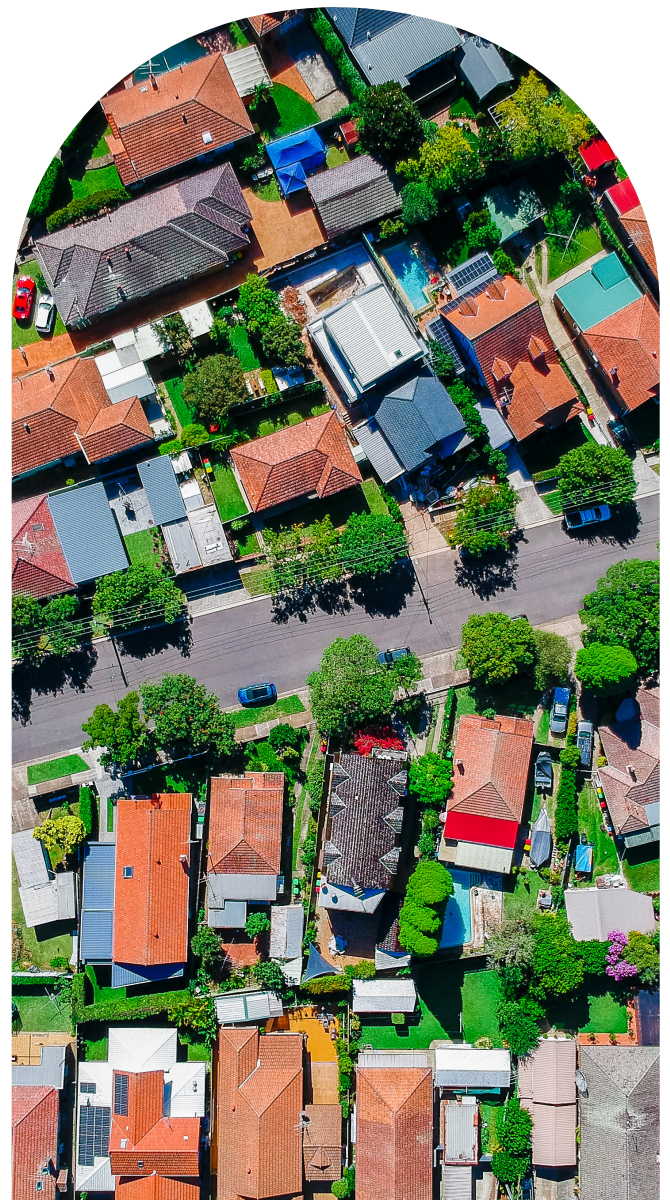
Perth notably had one of the largest increases in house price and the largest decrease in land size, leading to its 14% increase in price per sqm (the highest across Australia). Its land size reached a record low of 480sqm. Just six years ago, Perth had a land size slightly larger than Sydney's and Melbourne's. Since then, its rapid decline has now positioned it 10% lower than Melbourne. The smaller land size has contained the house price – if the shrinkage hadn't occurred, the affordability landscape would look vastly different (worse off).

Among other cities, the declines in land size were less pronounced but followed the long-term trend of smaller properties. Brisbane saw a decline of 1.5%, while Sydney and Melbourne experienced declines of 1.4% and 1.3%, respectively. Adelaide had the smallest decline of the major capital cities at 1.2%. In addition, each of these cities saw large increases in their house price (except Melbourne), which, combined with land size, fuelled significant gains in price per sqm.

Smaller cities experienced marginal changes in land size, with Darwin and Canberra declining 0.6% and 0.7%, respectively, and Hobart increasing 0.2%. However, the small reduction in land size was not enough to offset the decline in house prices, with each city having a decrease in price per sqm.

Table 2. Annual change in house price and land size.

City	House Price	Land size (sqm)
Sydney	3.6%	-1.4%
Melbourne	-0.5%	-1.3%
Brisbane	5.9%	-1.5%
Adelaide	8.4%	-1.2%
Perth	8.3%	-5.0%
Canberra	-2.6%	-0.7%
Darwin	-2.9%	-0.6%
Hobart	-2.6%	0.2%



Unit price per sqm

Australia has some of the world's least densely populated cities and is home to some of the most expensive property markets. Despite this, the desire of people to live in the capital cities has meant that more are trying to squeeze into them and are competing for housing. This housing demand needs to be countered with the growth of dwellings to slow the overall growth in price and price per sqm.

Higher-density residences (units and apartments) are an excellent resource – they are less limited by the geographic scarcity of land, and many dwellings can be constructed on a plot of land. However, an increase in high-density housing means less space for traditional houses, making them even more expensive due to the preference for this type, highlighting the concurrent need to release low-cost land that supports sustainable urban sprawl alongside densification.

Units account for roughly 14% of all residential property – higher in our larger capital cities – and this figure is expected to rise as population growth pressures continue to compel policymakers to increase the number of dwellings available within a limited land area. Locating new homes in existing inner- and middle-ring suburbs is more cost effective, allowing the utilisation of already built infrastructure and amenities, placing residents close to job opportunities, and helping to improve affordability elsewhere.

While the house price per sqm is calculated from land size, the internal floor size is used for units. This distinction can create an imbalance when comparing figures, yet it remains useful considering that either the land or floor size represents the total space the buyer is acquiring.

Sydney and Melbourne are the most expensive units per sqm

Sydney leads among all capital cities for price per sqm in units, at \$8,510, and is 16% more expensive than Melbourne in second place (at \$7,333, table 3). However, the unit make-up varies significantly across these cities. Sydney boasts a high unit price of \$825,470 for a relatively spacious size of 97sqm. In contrast, Melbourne's unit price is more modest at \$557,308, yet it features one of the smallest unit sizes across all capital cities, measuring only 76sqm. This results in price per sqm figures that are surprisingly similar between Sydney and Melbourne despite their noticeably different overall unit prices – that's because units are much bigger in Sydney.

Canberra closely trails Melbourne with a price per sqm of \$6,754. Following closely behind, the next four highest price-per-sqm figures hover within \$1,000 of each other: Hobart at \$6,200, Brisbane at \$5,597, Adelaide at \$5,515, and Perth at \$5,395. Conversely, Darwin has the lowest unit price per sqm, at \$3,074—over \$2,000 lower than Perth's figure.



Table 3. Floor size, price per sqm and affordability change across the capital cities, units.

Cities ranked from highest price per sqm to lowest						
City	Unit price	Floor size (sqm)	Price per sqm	Price per sqm 1-year change	Price per sqm 5-year change	
Sydney	\$825,470	97	\$8,510	1.4%	-0.6%	
Melbourne	\$557,308	76	\$7,333	0.7%	1.3%	
Canberra	\$594,352	88	\$6,754	0.0%	39.5%	
Hobart	\$520,800	84	\$6,200	-3.8%	46.7%	
Brisbane	\$570,894	102	\$5,597	9.1%	34.0%	
Adelaide	\$452,230	82	\$5,515	10.6%	37.9%	
Perth	\$383,045	71	\$5,395	3.1%	10.6%	
Darwin	\$408,842	133	\$3,074	2.9%	20.0%	



The unit price per sqm value gap is closing between cities

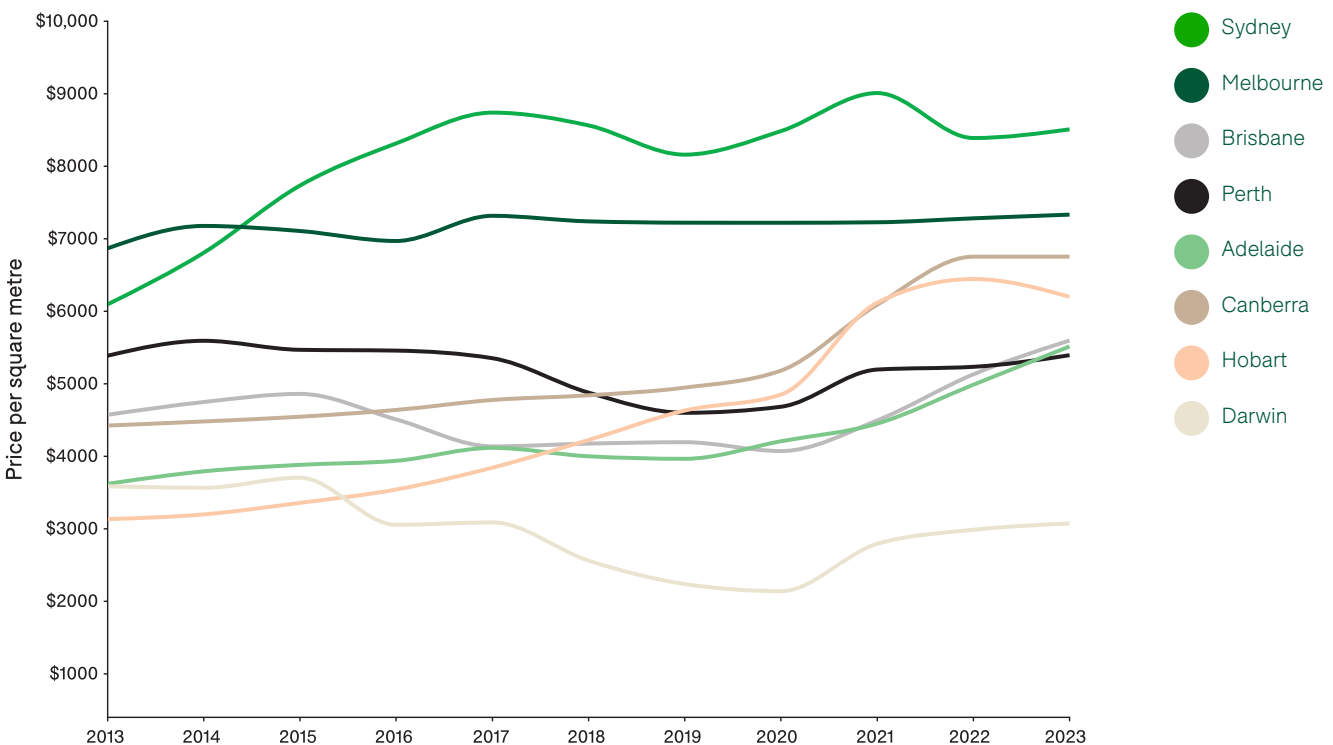
The disparity in unit price per sqm between cities is notably less pronounced than in houses (figure 3). For instance, Sydney’s unit price per sqm is only 16% higher than Melbourne’s, in contrast to the 41% difference for houses. Smaller cities also exhibit much closer proximity to Sydney. Canberra shows a value gap of 26% (compared to 74% for houses), Hobart 37% (versus 141% for houses), and Darwin 177% (versus 264% for houses).

The demand and supply of land in Sydney largely contributes to its significant premium per sqm over other cities for houses. In contrast, units offer a solution to the supply constraint, utilising land efficiently by accommodating more properties compared to houses, and therefore helping to drive a smaller premium difference. Importantly, buyer preference for houses also drives the wider value gap in Sydney compared to other cities.

Moreover, this value gap has steadily shrunk over the past five years. Canberra, Hobart, Brisbane and Adelaide have all experienced growth exceeding 30% during this period, while Darwin’s growth stood at 20% and Perth’s at 10.6%. Sydney and Melbourne (the most expensive) have seen significantly lower changes in price per sqm, at -0.6% and 1.3% over five years, respectively. However, it’s important to consider that Canberra and Hobart experienced a notable slowdown in growth in the last year, with no change and a 3.8% decline, respectively.

Despite these fluctuations, other cities are rapidly narrowing the gap with Sydney and Melbourne to the extent that it’s conceivable that one of them may surpass Melbourne as the second most expensive city by unit price per sqm in the near future.

Figure 3. The historical unit price per sqm by capital city.



Stagnant unit size

Unlike house land sizes, unit floor sizes have shown little change over the past decade (table 4). Units in Sydney, Melbourne, Brisbane, Adelaide and Hobart have either experienced no change or slight deviations in their footprint over the past ten years. Melbourne, despite a 1.3% increase in floor size, still maintains one of the smallest floor sizes among capital cities, standing at 76sqm.

Conversely, Canberra and Perth have witnessed consistent declines in floor size over the decade, with decreases of 11.1% and 7.8%, respectively, during this period. The decline in floor size in Canberra is perhaps unsurprising, given the construction of the nation’s smallest new unit builds over the past decade.³ However, the continued decrease in floor size in Perth may raise eyebrows, especially considering it already had one of the nation’s smallest a decade ago.

Table 4. Change in unit floor size over a decade.

City	10 years ago (sqm)	Today (sqm)	10-year change
Sydney	97	97	0%
Melbourne	75	76	1.3%
Brisbane	100	102	2.0%
Adelaide	82	82	0%
Perth	77	71	-7.8%
Canberra	99	88	-11.1%
Hobart	85	84	-1.2%

Darwin removed due to volatility

The net effect of a stagnant floor size is that price per sqm figures are primarily driven by unit price, meaning that an increase in unit price is the primary reason for the growth in price per sqm.

The concept of a steady unit footprint compared to the decline in house land sizes also speaks volumes to affordability and demographics. More Australians are opting for apartment living, and more families and downsizers are embracing it. While traditionally apartments may have been viewed as a stepping stone to a first home (single or young couple), they are now home to more families.

Cities such as Hobart, Brisbane and Adelaide have experienced rapid increases in unit price, consequently fueling growth in their price per sqm figures. Canberra, on the other hand, has witnessed both substantial price growth and a decline in floor size, resulting in one of the highest growth in price per sqm over the last five years.

The largest and most expensive cities, Sydney and Melbourne, both have had stagnating unit prices and unchanging unit sizes, resulting in their low growth of unit price per sqm over recent years.



3. <https://www.domain.com.au/news/canberra-apartments-half-the-size-of-those-in-nsw-20131113-2xfw>

Embracing density can work wonders for affordability

Price per sqm is a crucial tool for buyers to understand how much they're paying for space. Not all properties are equal, and variations in land and floor size can significantly impact the perceived value of property. However, it's important to note that affordability and value don't always align perfectly.

In theory, regions with lower price per sqm figures offer better value. However, in cities where affordability concerns loom, a low price per sqm may result from a larger land size, which can still command a hefty price tag.

For example, a house in the suburb of Adelaide has a price per sqm over \$1,000 higher than one in Cottesloe, Perth. However, this difference arises from Adelaide's significantly smaller land size, as the house price in Cottesloe is over four times higher. While the value per sqm may be higher in Cottesloe, the total price point in Adelaide is much more affordable. Similar dynamics apply to units – although their price per sqm is higher than houses, their lower total price translates to a more accessible price point.

The impact of increasing urban density is already evident, as land sizes have gradually declined over the past two decades across all major capital cities. Estimates show that prices would be notably higher without the effects of urban density (table 5).⁴

The impact of increasing urban density is already evident.

Table 5. If land size remained the same as 20 years ago house prices would be this much higher.

City	\$	%
Sydney	\$80,286	5.5%
Melbourne	\$136,006	13.9%
Brisbane	\$59,679	7.3%
Adelaide	\$124,396	16.2%
Perth	\$300,343	44.4%
Canberra	\$28,215	2.6%
Darwin	\$16,372	2.9%
Hobart	\$41,847	6.0%

Perth, experiencing the fastest reduction in land size over the last 20 years, has seen significant affordability gains through urban density. Otherwise, house prices would have been \$300,343 higher today than what it otherwise would be (or 44.4% higher).

Similarly, Melbourne house prices would be \$136,006 more expensive today if land size remained the same as 20 years ago (or 13.9% higher).

Despite having the highest house price and largest population, Sydney has experienced relatively smaller differences in prices. Sydney has had the smallest reduction in land size of the five major capital cities, and that means that house prices would only be \$80,286 more expensive (or 5.5% higher) than what it is today.

The decline in land sizes due to increased urban density plays a crucial role in maintaining housing affordability. Without this trend, buyers would find themselves paying more for each house, underscoring the importance of increasing urban density in cities grappling with housing affordability issues. Price per sqm is a vital tool to indicate where space is cheaper, but urban density is what will ensure that this space is accessible.

4. Today's price per sqm multiplied by the median land size 20 years ago to estimate today's house price without the effects of shrinking land sizes in that timespan. This analysis doesn't take into account the effects of the increase in the number of units, which would also have an effect on suppressing the house price.

Methodology

The price per square metre is the sold price divided by the land size or floor size, with the median value calculated from the relevant region and time period. House sales include individual standalone houses, townhouses, terraces and semi-attached properties. Unit sales include apartments, units and studios. Floor size and price per sqm are based on medians. For a property to be included, it must have a sale price and land/floor size. There are a minimum of 25 sales in each geographic boundary. Implied house and unit price is calculated by multiplying the median land size (or floor size for units) and the median price per sqm.



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Domain

Know what we know