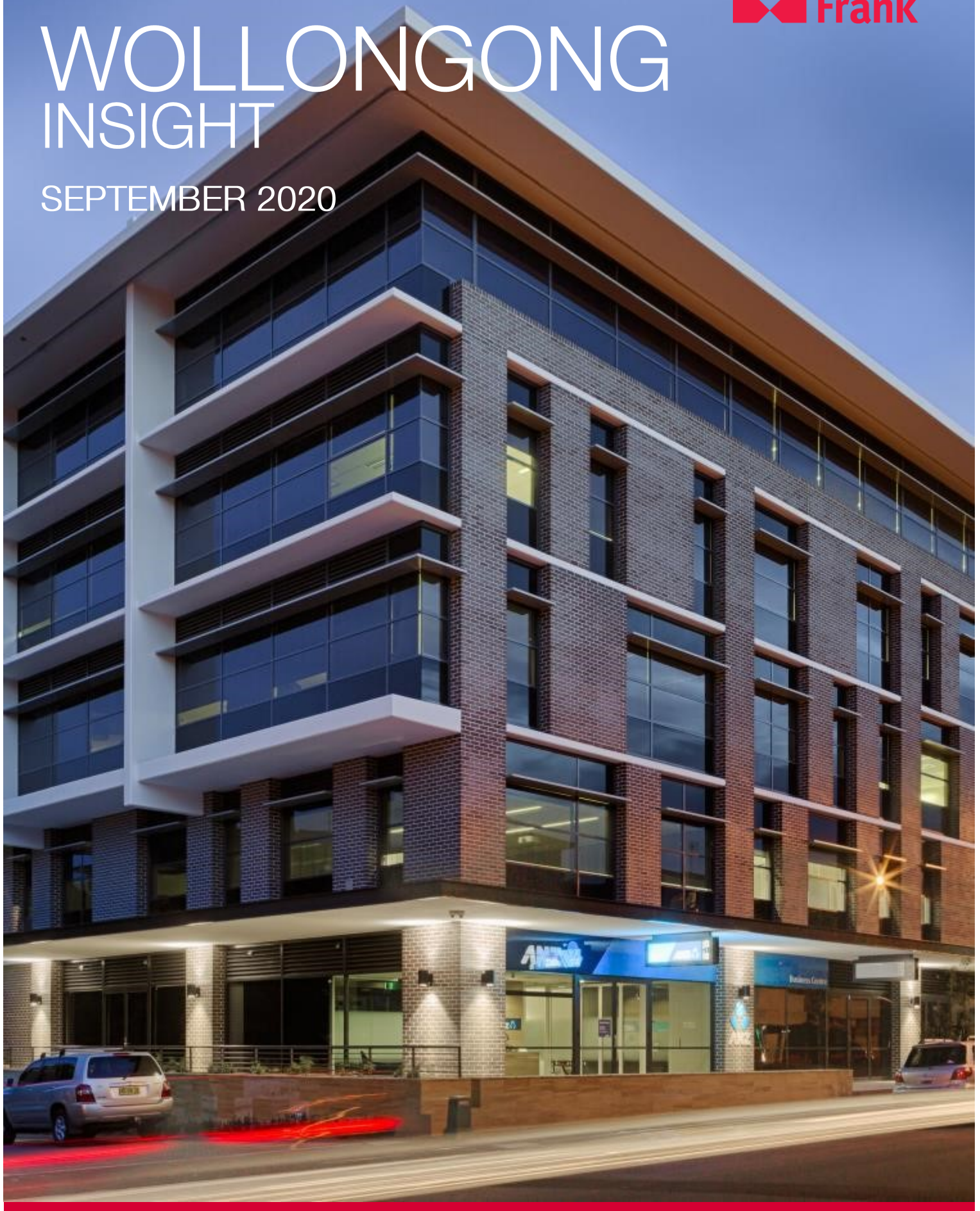


RESEARCH & CONSULTING



WOLLONGONG INSIGHT

SEPTEMBER 2020



GROWTH DRIVERS

DEMOGRAPHIC TRENDS

MARKET OUTLOOK

KEY FACTS

With a current population of 218,114 persons, the Wollongong LGA is expected to **grow to 257,443 persons by 2036**, an increase of 18% compared with June 2019.

The Wollongong LGA produces **\$12.2B (60%) of the Illawarra Shoalhaven region's \$20.4B Gross Regional Product (GRP)**.

Wollongong CBD supports **26,000 jobs**, almost one third of all jobs in Wollongong LGA.

Wollongong is up to **33% more cost effective than Sydney**, Melbourne or Parramatta CBDs.

Office market conditions continue to improve, owing to the **rise of the shared services sector** with tenants seeing Wollongong as an attractive place to do business. However, a lack of large contiguous A-grade leasing options in the market has placed a cap on demand. **Limited leasing options are causing rents to rise.**

Yield disparity between Sydney's metro markets and Wollongong is driving demand for quality stock across the office and industrial sectors.

Tenant migration from Sydney and increased demand from port related industries has seen a large improvement in Wollongong's industrial market.

WOLLONGONG IN CONTEXT

With \$1.4 billion of investment over the last six years, alongside recent and planned broader infrastructure enhancements and its large highly educated workforce, Wollongong is set to continue its economic transformation as the economic and cultural heart of the Illawarra.

Strategically located 80 kilometres south of the Sydney CBD, Wollongong is continuing to show signs of a transition away from its historic heavy industrial roots, highlighted by increasing interest from national and international investors.

In recent years the City has benefitted from significant investment in infrastructure projects including the \$20 million revitalisation works of Crown Street Mall, the new \$120 million Wollongong Private Hospital, operated by Ramsay Health Care, and the \$134 million expansion of the Wollongong Public Hospital.

In addition to public investment, Wollongong has attracted over \$1.4 billion in private investment in city centre projects since 2012, including the \$268 million recent upgrade to Wollongong Central Shopping Centre by GPT Group, which was considered to an impetus for further private capital investment into Wollongong.

An uplift in the region's key employing industries of health care and education has meant that population growth has stemmed from incoming skilled workers. At the same time, resilient demand from domestic and overseas students attending The University of Wollongong (UOW) has propelled population growth in younger

age cohorts. As the UOW continues to maintain its upward performance within the annual ranking of the world's universities, sitting in the top 1% for the quality of graduates in the 2019 QS Graduate Employability Rankings, demand and enrolments are projected to grow.

At a regional level, the NSW Government has committed \$101 million for the construction of the Berry to Bomaderry Princes Highway upgrade and \$65.6 million for construction of the Albion Park Rail bypass. It has also allocated \$648.2 million towards the modernisation of rail infrastructure to deliver improvements on the T4 Eastern Suburbs and Illawarra Line amongst others, positioning Wollongong to benefit from improving accessibility.

For real estate markets, these projects coupled with Wollongong's supportive demographic profile will be key influences on the shape and magnitude of occupier demand across a number of sectors.

For the Wollongong CBD office market, they will help catalyse its emergence as regional hub for local businesses and also a fast-growing location that can attract occupiers looking for an alternative to the Sydney markets, but still within close proximity and rich amenity.

FIGURE 1
Data Dashboard
Wollongong in Context



ECONOMY
\$12.2 Billion



POPULATION
218,114 Persons



JOBS
96,000

REGIONAL CAPITAL AND EMPLOYMENT CENTRE

\$1.4 billion

Of predominantly private investment since 2012



Regional business hub for knowledge service jobs

15 cranes

Record number of cranes in the CBD

1,100 units

Demand for inner city living, with over 1,100 residential units under construction in the CBD



28,000sqm of A-Grade office under construction



Cultural renaissance underway with 110 new bars, cafes and restaurants opening since 2012

Economic powerhouse

With a Gross Regional Product (GRP) of \$12.2 billion in 2019, Wollongong is one of the largest economic contributors to regional growth in NSW. Health care and education are two of the largest contributors to regional output, contributing over \$2.0 billion and employing more than 20% to local jobs. While knowledge services is one of the fastest growing sectors, construction, mining, financial services, professional services and manufacturing remain critical industries in Wollongong, helping to build its competitive advantage as the economic and cultural heart of the Illawarra region.

Commitment to target 10,500 new jobs

In September 2019, Wollongong City Council endorsed a jobs target of 10,500 new jobs over the next 10 years. While this is almost double the amount achieved over the past decade, the strategy is underwritten by growth in knowledge service based jobs to capitalise on the highly skilled talent pool available in these areas. It is likely that Wollongong CBD will capture much of this growth, given the ambition to drive growth in knowledge services that will support demand in the office market.

Access to 23,000+ commuter pool

Wollongong has a large commuter pool of skilled workers, with around 23,000

residents across the wider Illawarra region travelling to Greater Sydney for work each day. More than 60% of these commuters work in white-collar occupations predominantly professional services, technology and ICT, construction and finance.

Large talent pool

Supported by the growth and reputation of UOW, businesses based in Wollongong have access to a large and highly skilled talent pool, providing a constant flow of graduates who are looking for opportunities to work locally. The university is known for its research excellence, with 57 disciplines at, above or well above world standard and over 270 academic and research collaborations worldwide.

Competitive location to setup business

Wollongong has a well-established knowledge services sector. Wollongong is the least expensive location with the lowest salary and real estate costs at a total of \$7,886,923 for an indicative 150 seat Knowledge Service centre operation delivering a savings in the range of 28-33% relative to comparable locations, according to a Fifth Quadrant report commissioned by Advantage Wollongong in 2018. In addition, the study found staff turnover rates are only 8% in Wollongong compared to 19% throughout Australia.

TABLE 1

Comparative operating costs for a 150 seat shared services facility

	Wollongong	Sydney	Melbourne	Parramatta
Total Salaries	\$7,090,000	\$9,640,000	\$9,635,000	\$9,640,000
Cost of Staff Turnover	\$96,923	\$316,514	\$316,514	\$316,514
Real Estate @ 1,750sqm	\$700,000	\$1,750,000	\$1,225,000	\$962,500
Total	\$7,886,923	\$11,706,514	\$11,176,514	\$10,919,014
Being located in Wollongong would result in a saving to companies		33%	29%	28%

Source: Fifth Quadrant Wollongong Location Analysis 2018 / FY18-19 Hays Salary Guide

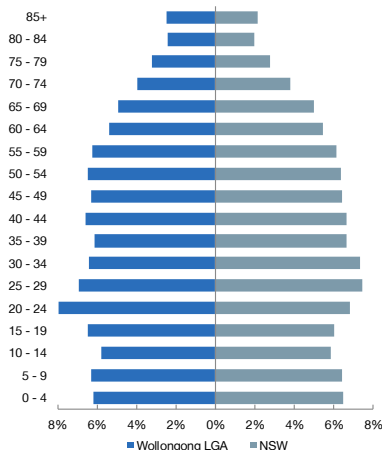
LOCAL MARKET DEMOGRAPHICS

In response to strong local economic conditions and Wollongong's attractiveness as a place to live, population growth in the Wollongong LGA is currently running at its highest level since 2010. Over the 12 months to June 2019, population growth across the Wollongong LGA measured 1.0%, above the 0.8% recorded for Regional NSW (NSW excluding Sydney) over the same period. As a result of recent growth, the Wollongong LGA has a total population of 218,114 persons, making it one of the most populous LGA in NSW outside of Sydney.

Given a strong labour market and its affordability, population growth has been aided by Sydney residents relocating south to Wollongong. Over the two most recent Census periods (2011-2016), 10,909 persons moved to the Wollongong LGA from Sydney, up from 8,342 persons over the five years prior (2006-2011).

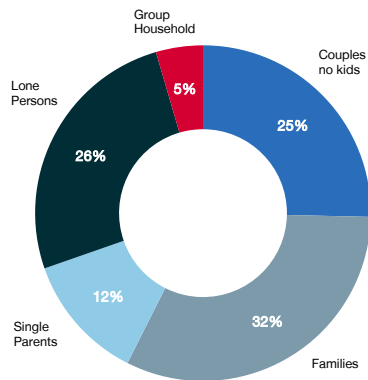
By area, population growth in the Wollongong LGA has been concentrated in a select few pockets, underpinned by land subdivisions in the West Dapto/ Horsley precinct. Elsewhere, solid population growth has been recorded at Haywards Bay (land subdivisions) and the Wollongong CBD where numerous apartment projects have been launched in recent years.

FIGURE 5
Population by Age, 2019
Wollongong LGA v NSW



Source: Knight Frank Research, ABS

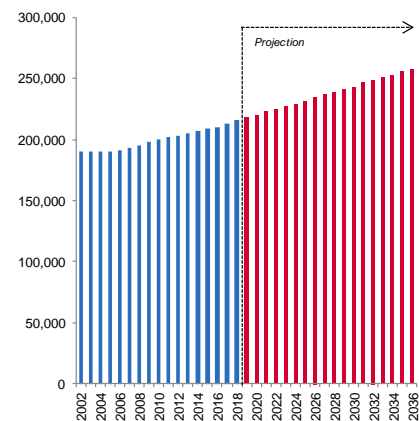
FIGURE 6
Household Composition
2016, Wollongong LGA



Source: Knight Frank Research, ABS

Looking ahead, strong population growth is expected to continue. Although house price growth in Sydney is showing signs of moderation, wages growth nationally has been weak and it is expected that a greater volume of Sydneysiders will relocate to Wollongong driven by its affordability and proximity to Sydney.

FIGURE 7
Wollongong LGA Population
Growth Projections 2002-2036

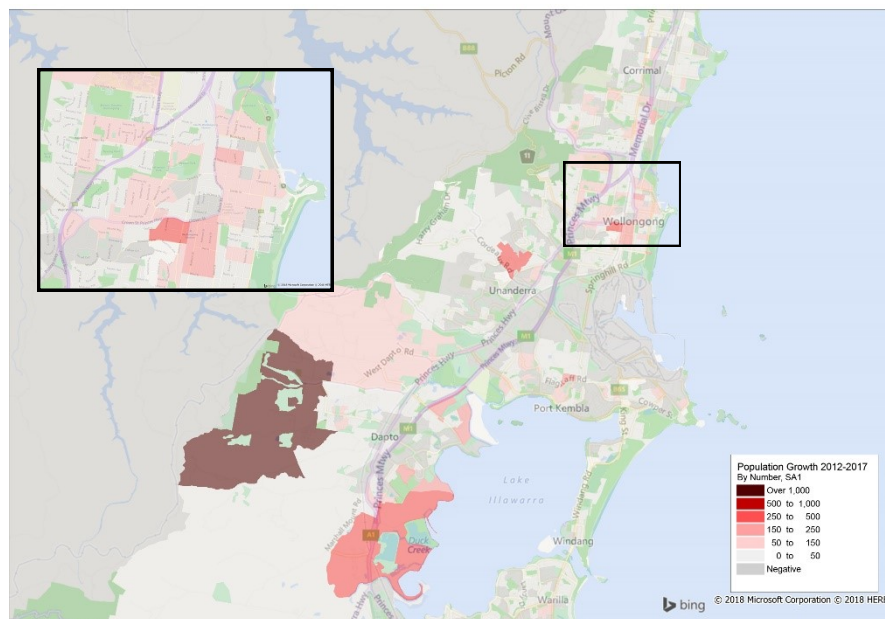


Source: Knight Frank Research, NSW DP&E, ABS

Drawing upon NSW Government projections, the population of Wollongong is expected to grow by 18% between 2019 and 2036, at which point 257,443 persons are expected to reside in the Wollongong LGA.

MAP 2
Illawarra Population Growth, 2012-2017

By SA1 Region



Source: Knight Frank Research, ABS

OFFICE MARKET

Positive office market fundamentals

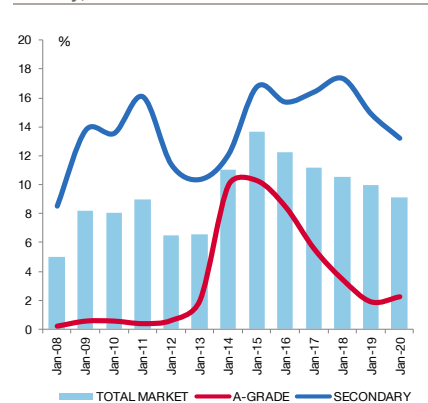
The Wollongong office market is supported by solid local economic fundamentals, which has elevated both business and employment growth. Over the two years to June 2019 there was a 7.5% rise in the number of businesses across all industries and 6.1% in white collar industry businesses (Wollongong East & West SA2 regions).

The metro Wollongong market currently accounts for 29% of employment in the LGA, emphasising its importance to the region. Outlined in the draft Economic Development strategy by Wollongong Council it was identified that there is a need for more quality office space in the Wollongong CBD in order to build its reputation as a nationally significant city to do business and invest. The positive growth in employment levels in conjunction with a local government supportive and identifying the need to enhance and grow the Wollongong CBD, the outlook is positive for the local office market.

Vacancy hits six year low

As at January 2020, the office vacancy rate in Wollongong measured 9.1%, tightening from 10% a year prior and reaching a six year low. The withdrawal of two buildings 120 Smith Street (1,400 sq m) and 31-41 Crown Street (950 sq m) have been the catalyst for the tightening vacancy rate. For the prime market, vacancy measured 2.2% as at January 2020, a slight uptick from the 1.9% recorded 12 months prior.

FIGURE 8
Wollongong Vacancy
by Grade & Total Vacancy, 12 months to January, 2008-2020



Source: Knight Frank Research, PCA

Historically, the A-grade vacancy rate has been extremely tight, averaging 3.5% since January 2008.

The limited options for occupiers seeking prime space, especially requirements of 500+ sq m of contiguous floor space has meant they have had to seek alternative options in the secondary market. As a result secondary vacancy has tightened to 13.2%, down from 14.9% over the year, this being demand driven with 407 sq m of positive absorption recorded over the period.

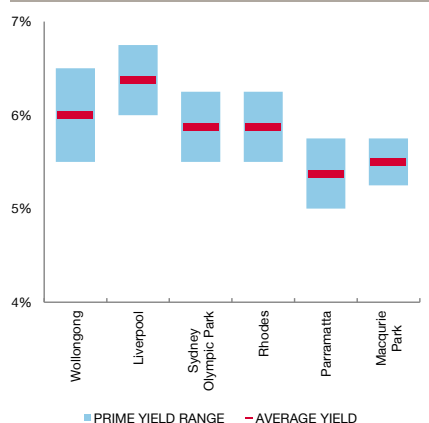
Tight A grade market aids rental growth

The lack of available leasing options in the Wollongong prime market is beginning to flow through to rents with a select basket of buildings achieving rents in excess of \$520/ sq m gross. More broadly however, prime gross face rents in Wollongong are averaging between \$425-\$500/sq m. For secondary grade buildings, gross face rents currently range from \$300-\$400/sq m.

New developments to ease prime vacancy pressure

Over the past 12 months there has been no new office supply added to the Wollongong office market. However 2020 looks to bring the largest addition of new supply in a single year on record, with over 17,000 sq m expected to be delivered. Currently under construction is the new HQ for IMB bank at 47 Burelli Street, this will see IMB relocate from 205 Crown Street into an A –grade office building of 6,695 sq m, due for completion in late 2020.

FIGURE 9
Average A-Grade Yields
Wollongong Vs Selected Major Non-CBD Sydney Office Markets, September 2020



Source: Knight Frank Research

Whilst 47 Burelli Street is fully pre-committed, the A grade market will welcome a further two developments at 140 Keira Street (5,259 sq m) and 3-5 Rawson Street (5,489 sq m) by end of the year. The development at 140 Keira Street is a speculative A-grade office development which will offer large open plan floor plates surrounded by quality retail and lifestyle amenity. The building currently has interest across over 90% of its space with completion at the end of August. At 3-5 Rawson Street (Avante) a major mixed use development will encompass 5,500 sq m of office space. Additionally, 101 Crown Street (Lang’s Corner) commenced construction in July and will deliver 13,000 sq m by 2022 of which 5,000 sqm has already been pre-committed.

Relative value driving investment

With an increasing number of buyers becoming priced out of the Sydney and major metro markets, a growing number have turned their attention towards non-metro and large regional markets, attracted by the higher yields metrics on offer. Investor demand in the Wollongong office market remains strong both from domestic and offshore, albeit volumes have been restricted as a result of assets being tightly held. Since 2018, investment volumes (\$5 million +) totaled \$87.3 million.

The recent transaction of 45-53 Kembla Street for \$58.4 million to Castlerock is the largest office transaction on record in Wollongong. Sold by Black Opal Bay Pty Ltd, the 6,761 sq m building was sold with a 7.1 year WALE (fully occupied) with major tenant the ATO, the transaction reflected a core market yield of 5.26%.

Following the recent sale of 45-53 Kembla Street, average yields are now estimated to range between 5.50% to 6.50% for upper A grade assets. In the secondary market means investors continue to require an elevated risk premium where average core market yields currently range from 7.5% to 8.5%. Given yield disparity between Sydney’s metro markets, there remains headroom for further yield compression in Wollongong. A reduction in incentive levels, coupled with growth in face rents will aid the compression story for well located and quality assets.

INDUSTRIAL MARKET

The regional NSW industrial market, in particular the Illawarra region is experiencing a period of strong growth and demand. Heightened by the positive market fundamentals and conditions across the industrial sector as a whole that are benefiting from growth in e-commerce and the ongoing evolution of the supply-chain.

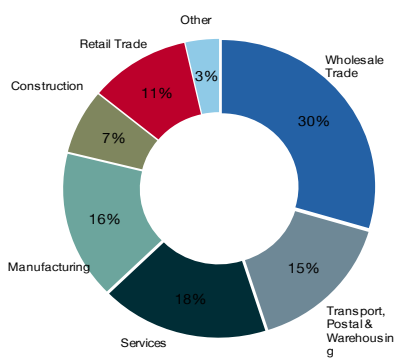
With industrial take-up and locational preferences for businesses heavily influenced by port related activities, industrial space in the Wollongong region is primarily located around Port Kembla, Unanderra and Wollongong (see Map 2). Outside of these areas, industrial activity is scattered, although with a focus along the Princes Highway, to the west and south west of Lake Illawarra.

Wholesale trade dominate sector in warehousing

To provide perspective on the types of industrial based businesses that are located in Wollongong, we have looked into the businesses that have amalgamated within the industrial precinct at Unanderra, immediately north-west of Port Kembla.

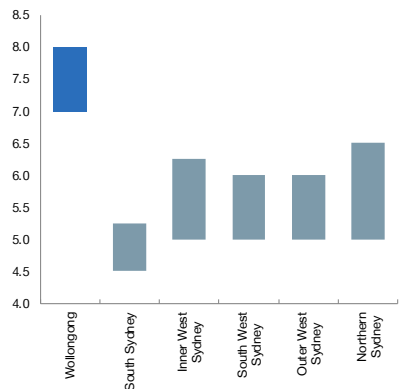
The largest share of businesses within the Unanderra industrial precinct (by number) falls under wholesale trade and services at 30% and 18% respectively, with manufacturing and Transport, Postal

FIGURE 10
Unanderra Industrial Business Profile
 By Number, Jan 2020



Source: Knight Frank Research

FIGURE 11
Average A-Grade Industrial Core Market Yields (%)
 Wollongong Vs Sydney Regions, July 2020



Source: Knight Frank Research

& warehousing close behind at 16% and 15%. Major businesses and logistics operators have established themselves within the Unanderra industrial precinct to position themselves as the focal point to service the greater Illawarra region. Global and national logistics operators such as Star Track Express, TNT Express, Toll Priority and Fastway Couriers are all well established businesses within the precinct.

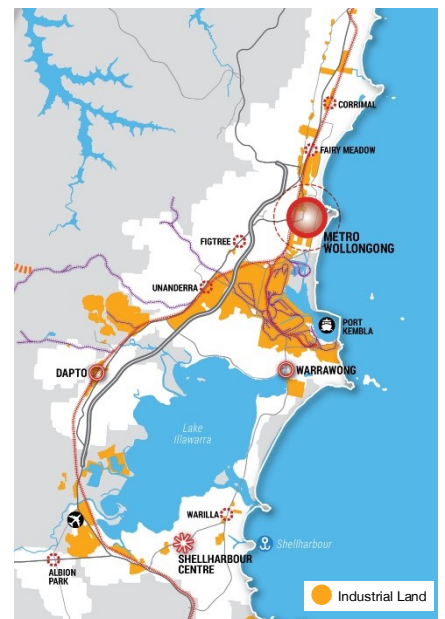
Undeveloped zoned land presents opportunity

According to the latest DPIE Employment Lands Development Monitor, Wollongong LGA, there is currently 298.5Ha of undeveloped employment land of which 86% is zoned industrial. The majority of this land is located around Port Kembla, Unanderra and West Dapto. With Sydney industrial land prices at record levels, there is significant opportunity for the region to capitalise on attracting industrial based occupiers to the market that have been squeezed out of the Sydney market.

Steady rental growth

Over the past 12 months the rise of online retailing has boosted demand for warehousing, transport and logistics facilities across Sydney and in other pockets of NSW with the flow on effects felt in the Wollongong market, leasing

MAP 3
Wollongong Major Industrial Precincts



Source: Illawarra-Shoalhaven Regional Plan 2015

demand has increased and has resulted in steady rental growth. At present, industrial net rents in Wollongong broadly range between \$110-\$150/sq m for A-Grade premises and \$80-\$110/sq m for secondary options.

High yield metrics attracts investors

Investor demand for industrial assets across the Wollongong region has remained strong, with the low interest rate environment, positive market fundamentals and high yield metrics on offer in comparison to Sydney has made Wollongong an attractive investment option specifically for owner occupiers and Self Managed Super Funds (SMSF). Due to the dynamic of the investor market and the select number of assets, the market is tightly held which has hindered investment volumes over the past year.

At present, average core market yields range from 7.0% to 8.0% for A-Grade assets, however, upper prime assets with long WALEs are trading below this range as investors are still principally focused on assets with long term rental security and by strong lease covenants. Secondary assets present an elevated risk and are trading on average between 8.0% to 9.0%.

RESIDENTIAL MARKET

Housing market holds firm

Given the current Covid-19 pandemic and economic recession and high uncertainty around the nature and speed of economic recovery, housing prices across most cities have remained steady. The shallow number of listings and pent up demand carrying over from a restricted lending phase over the last few months in conjunction with monetary and fiscal support from the Australia Government have been the catalyst for housing prices remaining firm at this point in time.

Outperformed Greater Sydney market

Strong population growth and historically low interest rates in conjunction with its relative affordability and improved infrastructure and amenity has fuelled the Wollongong housing market over the past five years. Dwelling prices (house and apartments) across Wollongong have increased by 5.5% per annum on average over the last five years in comparison to Greater Sydney at 4%. The median dwelling price in Wollongong is \$664,000, a 44% discount to the Greater Sydney median price of \$957,000, the discount has narrowed significantly over the last five years with a discount as high as 62% in mid 2015.

Land market demand

Wollongong's land market has performed strongly in recent years, buoyed by a rise in first home buyer demand and improved

IMAGE 1
Wollongong Lifestyle



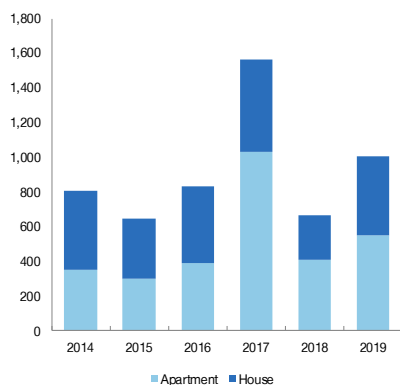
lot affordability relative to local house prices.

The bulk of Wollongong's land estates are located within the West Dapto Urban Release Area with pockets elsewhere at Howards Bay, Figtree and further north at Bulli. Further south there are significant land releases and developments in Albion Park and Shell Cove. With median house prices approaching \$1 million in Sydney, residents moving to Wollongong from Sydney have provided a key source of demand for new housing and has added to the region's population growth.

Apartment market remains steady

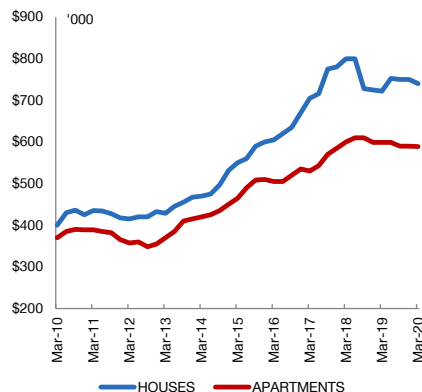
Over the past five years, apartment price growth has averaged 4.8% per annum across Wollongong with a current median value of \$589,000, underpinned by solid investor demand that have been priced out of the Sydney market and the record low interest rates. Despite the record level of apartment completions in 2017, the market has been well placed to absorb this and developer confidence remains strong with 2019 recording its second strongest year of apartment completions.

FIGURE 12
Wollongong Dwelling Completions
House & Apartments, Wollongong LGA



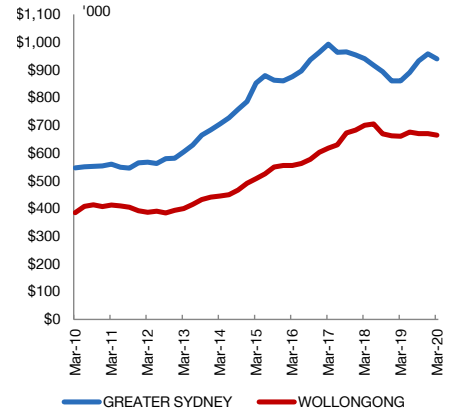
Source: Knight Frank Research, ABS
Year to February - latest available data

FIGURE 13
Wollongong Houses v Apartments
Wollongong Suburb (2500)



Source: Knight Frank Research, APM

FIGURE 14
Wollongong vs Greater Sydney
Median Dwelling prices



Source: Knight Frank Research, APM

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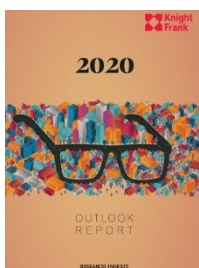
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The Illawarra region includes the four local government areas (LGAs) of Kiama, Shellharbour, Shoalhaven and Wollongong.

Abbreviations & Glossary:

Core Market Yield: The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc.)

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