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Property Research Report:

**Capital growth
opportunities in
Wollongong's
property market**

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Introduction

The historical data on Wollongong, situated around an hour from Sydney, is promising - particularly for those are seeking more affordable investment opportunities than those available in NSW's capital.

That said, while I invite you to review this information as a starting point for your own research in Wollongong, I urge you **not to consider buying an investment property in this region simply because of this report.**

It's also crucial that you do your own due diligence and have suitable investing 'checks and balances' in place, including your team of trusted advisers (for example your property mentor, your accountant and your mortgage broker) for guidance before you take action on any potential property investment.

'Time is the new currency' - so many people swap their time for money in soul-destroying jobs, without realising that there can be an easier and more fulfilling way to experience life.

Property allows you to leverage your time in more productive, efficient and profitable ways - and a better life - so here's to finding new opportunities to grow your wealth!

To your success,

Todd Polke



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Wollongong: A regional overview

Wollongong is located around 85km from Sydney, a distance of around 90 minutes drive via the M1 or Hume Highway.

This distance makes Wollongong commutable to Sydney for work if required, although as much as three hours of commuting travel per day is certainly not for everyone.

A vibrant regional city, Wollongong is home to more than 200,000 people (ABS), a figure that is expected to swell by 17 per cent over the next 20 years, with a forecasted population of 243,000 by 2036.

The city centre of Wollongong itself is populated by young, motivated residents primarily aged 20 to 39, with single households outranking families two-to-one.

According to Domain.com.au's research centre, Wollongong's CBD is home to an extraordinarily large percentage of renters, with tenants comprising 60 per cent of the population.

Wollongong has a well-rounded economy that was built around a strong mining industry, and the largest integrated steel works in the Southern Hemisphere at Port Kembla.

More recently, growth in tertiary industries such as education, tourism and other service sectors has added depth to the local economy.

Educational facilities are also plentiful in Wollongong, with the University of Wollongong, the Illawarra Institute of TAFE, and a number of primary and high schools (both public and private).

Due to its close proximity to Sydney, appealing beachside location and diverse economic industries, Wollongong has long been considered a 'safe' investing locale.

Above-average growth forecast over the next decade

More recently, investors have begun to pay special attention to Wollongong's investment potential, particularly following its appearance in Residex's May 2015 "Prediction Report" for homes under \$500,000.

Wollongong's apartment market was featured in the top 10 NSW suburbs predicted to enjoy above-average growth over the next decade, with growth of 5 per cent per annum forecast until 2023.

Residex founder John Edwards has gone on the record to state that he believes Wollongong real estate is “grossly undervalued”; he says it’s yet to catch up and expects that it will experience strong growth in the coming years, for both houses and units.

Earlier this year, property journalist Lauren Day explained that areas such as Wollongong, located north or south of Sydney, are predicted to show strong growth over the next five years, as more buyers are priced out of Sydney’s ever-more-expensive property market.

“Wollongong, in particular, has reasonably good transport and yet surprisingly, it hasn’t seen much growth over the past decade,”

Lauren said.



What's happening in Wollongong?

Wollongong is a central regional city in the Illawarra region of New South Wales. It is well connected to Sydney's CityRail network and is located around one hour's drive of Sydney's busy international airport, which handles more than 35 million passengers annually.

The City is home to a major teaching hospital, along with a number of private hospitals and many state and private schools.

The University of Wollongong's (UOW) Innovation Campus, a \$500 million research, development and technology precinct, is a significant asset for the region, as it is where innovative businesses come together to develop collaborative relationships with leading research teams and industry partners.

Meanwhile, Port Kembla – a suburb of Wollongong, around 8km south of the CBD – is home to one of NSW's three major ports.

It has substantial road and rail transport links and is the main grain port for businesses based in southern and southwestern NSW. Each year, it contributes more than \$400 million to the regional economy.

There have been a number of private and public investments announced recently in Wollongong that will continue to support the city's diversity and sustainability over the long-term.

These include:

- The gPt Group's \$200 million expansion of Wollongong Central, which is already open and trading after launching in May 2015.
- The re-elected Baird Government has promised \$550 million to build the Albion Park Rail Bypass, the much-needed 9.8km extension of the M1 Princes Motorway between Yallah and Oak Flats. The NSW government has allocated \$3 million in its 2015-16 budget to develop an Environmental Impact Statement.
- The government's \$380 million Illawarra Infrastructure Fund is expected to deliver a \$25 million upgrade of Unanderra Railway Station and \$35 million to transform WIN Entertainment Centre into a convention centre.
- New housing estates are emerging in the Illawarra region, with projects like Calderwood Valley near Albion Park to provide 5,000 new homes over the next 20 years.

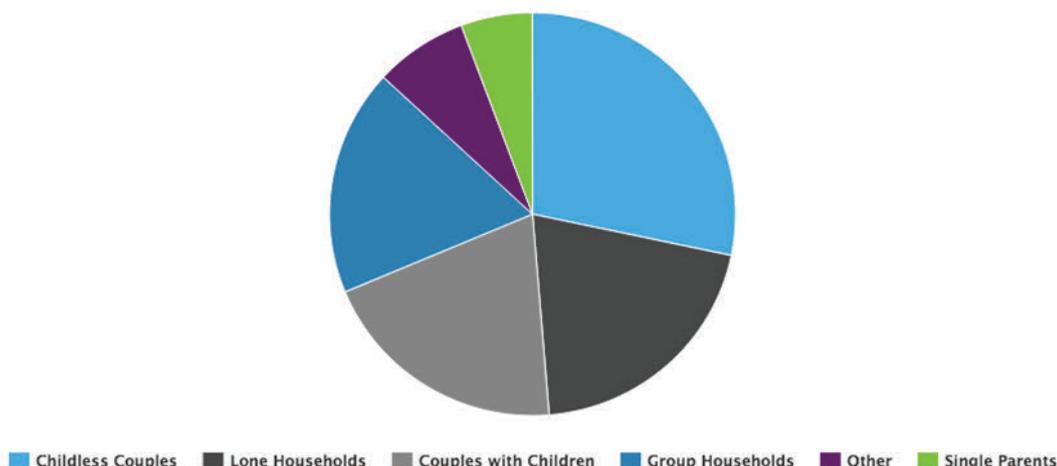
Wollongong: A suburb snapshot

Wollongong is a thriving regional city located in the Illawarra region of New South Wales. **The city is home to more than 200,000 people (ABS) while the city centre itself has a population of around 16,000.**

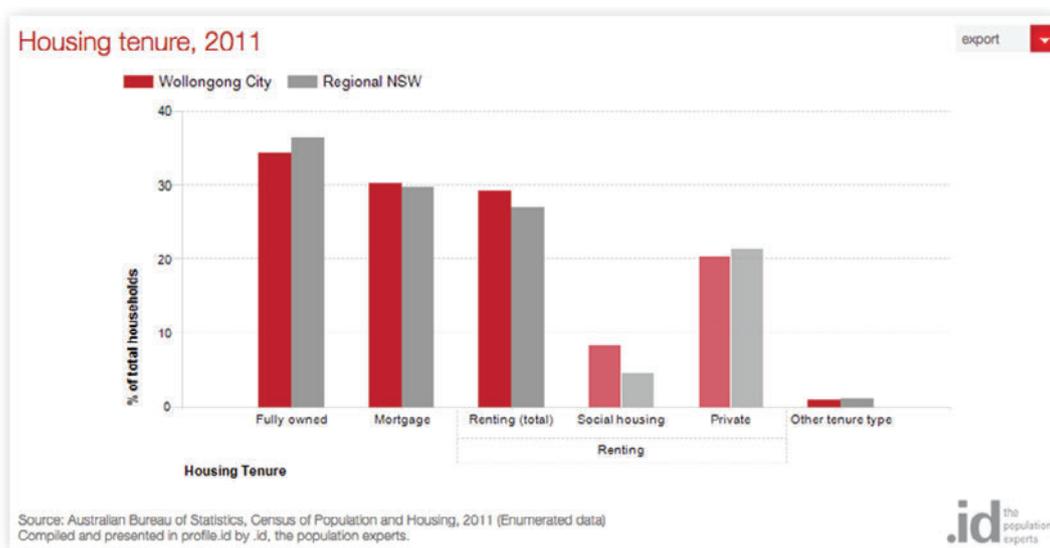
Local residents have access to plentiful shopping facilities, including the Wollongong City Centre, Westfield Figtree Shopping Centre and Westfield Warrawang Shopping Centre.

The city is home to all of the facilities and amenities you would expect in a town of that size, including educational facilities (the University of Wollongong, the TAFE NSW Illawarra Institute), sporting grounds and amenities, arts and cultural precinct (including the Illawarra Performing Arts Centre and Wollongong City Gallery) and the Wollongong Science Centre and Planetarium.

Household Structure



Source: <http://www.propertyvalue.com.au/suburb/wollongong-z500-nsw>



Source: <http://profile.id.com.au/wollongong/tenure>

Quick stats: Wollongong

- ✓ Wollongong's Gross Regional Product is \$11.4 billion annually.
- ✓ Albury's population is expected to grow by 17% in the next 20 years.
- ✓ The city's employment base covers more than 71,000 local jobs.
- ✓ Tourism output generates \$612 million per year.
- ✓ The majority of the city's workforce are employed in health care and social assistance industries, followed by manufacturing, education and retail.

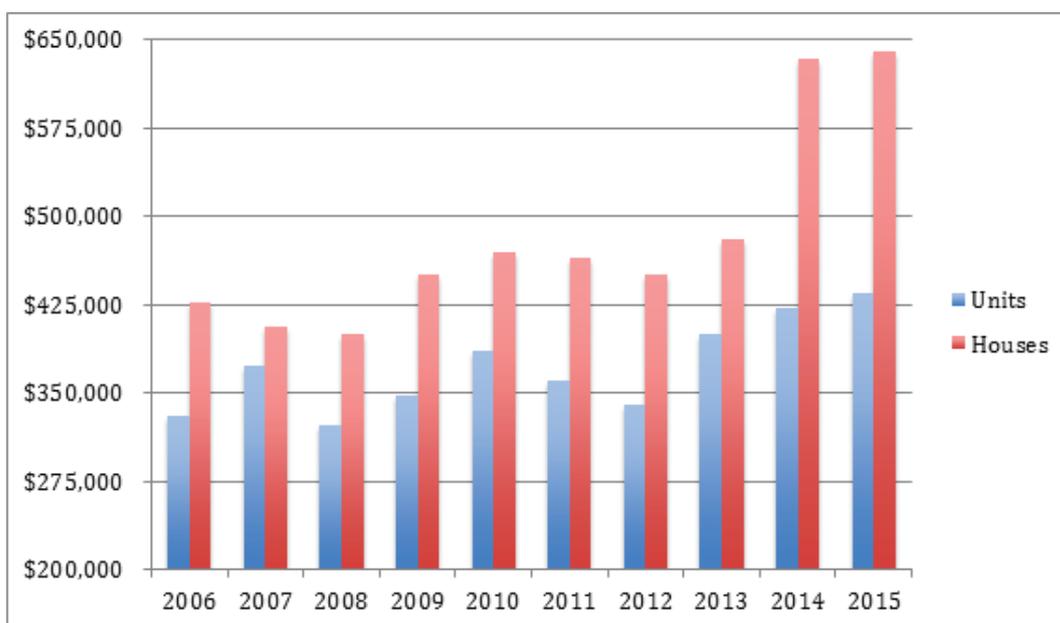
Source: Wollongong City Council.



Historical capital growth in Wollongong

Overall, Wollongong has experienced slow yet consistent capital growth over the last decade, across both the apartment and housing market.

In 2006, the median unit price was \$330,000, according to RP Data/Core Logic. By 2015, the median had grown to \$435,000, an increase of 32 per cent.



Source: RP Data/Core Logic

Future capital growth prospects:

According to Residex's May 2015 Predictions report, Wollongong's future capital growth prospects are strong for both the near-term (5 years) and the long-term (8 years):

#9

Units - Wollongong 2500

Score: *******

Growth History		Score: ***	
Last 10 Years	3 Years Ago	2 Years Ago	Last Year
3.19 % p.a. <small>May 05-Apr 15</small>	0.18 % p.a. <small>May 12-Apr 13</small>	8.28 % p.a. <small>May 13-Apr 14</small>	9.22 % p.a. <small>May 14-Apr 15</small>
Quarter ending Apr 30, 2015 Sale Count over the quarter: 120 Median Value: \$430,000 Median Rent: \$445/wk Rental Yield: 5.38% p.a.		<div style="font-size: 24px; font-weight: bold;">6% p.a.</div> <div style="font-weight: bold;">5 years</div> <small>Apr 15-Apr 20</small>	<div style="font-size: 24px; font-weight: bold;">5% p.a.</div> <div style="font-weight: bold;">8 years</div> <small>Apr 15-Apr 23</small>
		Projections	

Historical rental performance in Wollongong

In real estate terms, a property market is considered to be balanced when the vacancy rate settles between 2-3 percent.

In Wollongong, the vacancy rate (encompassing combined properties, both houses and units) has been tracking as follows:

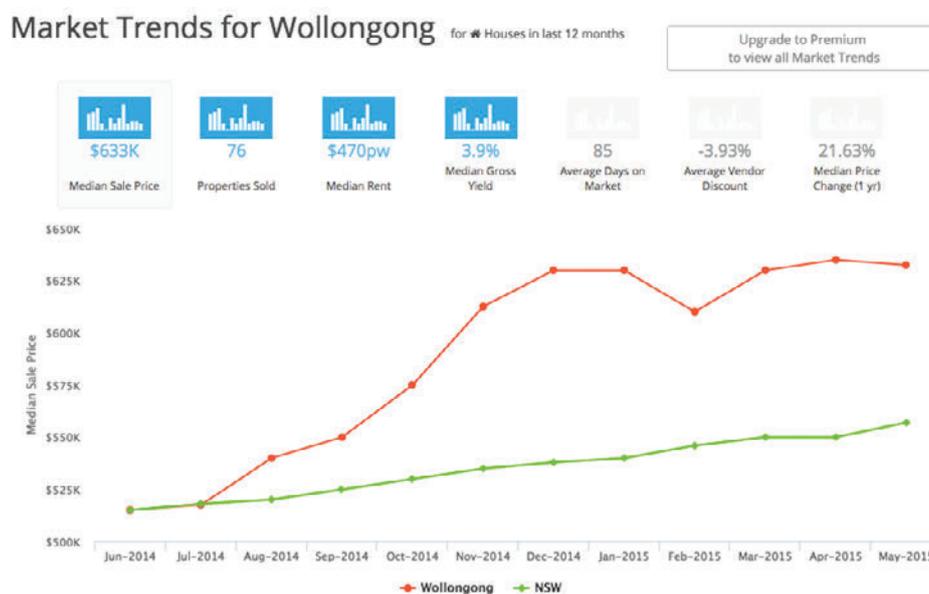
Year	Vacancy rate
2011	2.1%
2012	2.6%
2013	3.0%
2014	2.8%
2015	2.1%

Source: SQM research.com.au

These statistics imply that Wollongong’s rental market has been balanced in recent years, with a recent trend towards fewer vacant properties and an increase in the level of tenants actively renting properties in the region.

Other important factors about Wollongong’s broader rental market include:

- ✓ Around 29% of all residents live in rental accommodation (ABS).
- ✓ A sizeable 60% of Wollongong city is comprised of rental properties.
- ✓ The median rent for houses is \$470 per week (PropertyValue.com.au).
- ✓ The median rent for units is \$370 per week (PropertyValue.com.au).
- ✓ Wollongong’s rental yield trends well above average when compared to the state.



Source: <http://www.propertyvalue.com.au/suburb/wollongong-2500-nsw>

Wollongong in action: Example investment

As an investor, are you looking to add a piece of property to your portfolio that presents solid growth prospects and the opportunity to add value?

If so, Wollongong's established apartment market could present a solid buying opportunity.

At the time of compiling this report, an active listing was available for a two-bedroom, one-bathroom apartment in the suburb of West Wollongong.

The property, listed for 'offers above \$340,000', was beautifully presented internally, with a new bathroom, modern kitchen and stylish design and décor. It was listed with a rental potential of \$350 per week, demonstrating a yield 5.3% at a purchase price of \$340,000.

Now, this particular property was already renovated, and therefore would attract reasonable depreciation benefits. If you were to purchase an existing apartment in un-renovated condition, you could potentially undertake some cosmetic renovations to add value and boost your depreciation claim.

As an investor, let's assume you were able to negotiate the purchase price down to \$330,000. In this instance, the numbers would look something like this:

Purchase price	\$330,000
Deposit @ 20%	\$66,000
Loan amount	\$264,000
Loan interest rate	4.75%
Weekly interest repayment	\$241
Rental income	\$350
Income surplus	\$109

This surplus income of \$109 per week will need to cover a range of property ownership expenses, including council rates, body corporate fees and property management fees.

Assuming council rates of \$1,800 annually, body corporate fees of the same and a property management fee of 8 per cent, this would absorb the majority of the surplus income.

However, it would leave you with a small buffer of around **\$10 per week** (\$500 a year) in positive cash flow returns. Most importantly, however, is the fact that we haven't yet factored in depreciation.

Some savvy depreciation deductions could help you to potentially boost that return even higher. A renovated two-bedroom property can generate a depreciation deduction of between \$4,000 and \$10,000 annually, according to BMT Tax Depreciation.

This means a two-bedroom renovated apartment in Wollongong could help to generate a positive cashflow of up to \$2-4,000 annually (without factoring in regular increases in rent).

Coupled with strong projected capital growth rates of 5% annually (Residex Predictions Report, May 2015), and you have a property asset that is poised to deliver on both cashflow and capital growth fronts.

Wollongong's Supply and Demand: Official ranking

DSR stands for Demand to Supply Ratio, and it aims to be a predictor of capital growth potential. If a suburb has a DSR of 50, it means that supply and demand is in balance. The majority of property markets for 2014 had a DSR between 50 and 60. These markets are likely to grow at the same rate as the long-term national average.

According to DSR Data, a DSR score of between 55 and 63 is considered ABOVE AVERAGE. A DSR between 64 and 72 is considered GOOD with respect to supply and demand; sellers are in no panic and buyers are making decent offers. A DSR of between 73 and 81 is VERY GOOD, and is considered a sellers market. Buyers will need to move quickly.

Wollongong's DSR Score is: 68/100.

“This is a healthy market for investors. Demand is ahead of supply but not alarmingly. Buyers are rarely able to get away with low-ball offers. Sellers are usually getting the prices they ask for. Expect growth to exceed the national average.”

Source: www.dsrddata.com.au, September 2015



Conclusion: Is Wollongong's property market moving forward?

For investors looking to add an apartment to their investment portfolio, the Wollongong property market could offer an affordable opportunity to acquire a quality asset with strong growth potential.

Wollongong's real estate market has long been considered a 'safe' investment local from a landlord's perspective, as the region is centrally located, enjoying ongoing population growth, and supported by diverse and growing economies.

The major risk present in Wollongong's property market is its subdued and at times uneven history of capital growth.

Overall, the city's median value has increased over the last decade, however it has experienced bursts of strong growth before retracting at certain times; for instance, both houses and apartments dipped in 2008 during the GFC.

Following the Sydney property market's incredible growth run over the last two or three years, many are predicting that Wollongong will soon begin to enjoy growth based on the 'ripple effect'; that is, Sydney's property market will become so unaffordable that it will price a number of people out of the market, prompting them to look for investment opportunities in surrounding areas.

With population growth of 17 per cent expected over the next two decades and a strong employment base of more than 71,000 roles, there is much activity happening in and around Wollongong, which underpin a strong, robust and diverse economy for many years to come.

It's my hope that the information contained in this report has helped to highlight some of the opportunities available to you in Wollongong's property market. Keep in mind that the best and most suitable investment for you and your portfolio will depend on a number of factors, including your budget, your wealth creation goals and your investment strategy.

Therefore, while Wollongong may present some strong buying opportunities, it may not be ideal for you and your personal situation.

Please check in with your investment advisors for guidance before you decide to make a move on this market, or any potential next investment, so you can ensure your next investment takes you one step closer towards financial independence.

Yours in success,



Todd Polke

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