

Circle of life for Wollongong CBD hotels

Matt Davidson, Tourism Property

4 minute read

When the 150 room Hotel Ibis in Wollongong opened in late 2006, the city was on a path to rapid growth in hotel room supply.

Recent hotel openings at the time had proven extremely successful with the 42 key Quest Wollongong and the 20 key Best Western City Sands both opening in mid 2005.

The 54 key Best Western (now Mantra) and the 70 key Medina (now Adina) both opened in 2008, followed by the 45 key Quality Suites and the 176 room Chifley (now Sage) swinging open their doors in mid 2010.

This 5 year development surge saw an almost doubling of available hotel rooms in Wollongong, a very rapid change to supply by any measure.

Then things changed.

Motivated by a severe shortage of student accommodation at the time, the University of Wollongong acquired the just 5 year old Ibis Hotel in 2011, with their re-named "Marketview" becoming a bustling CBD hub for mainly international students ever since.

The 70 room Rydges hotel then also closed permanently in 2012 and with a total of 220 hotel rooms disappearing, the city instantly moved from a fairly balanced supply of hotel rooms, back to a dramatic under-supply once again.

In the 10 years to now, the city has had no major investment in hotel accommodation and in fact has seen it's stock of aging motels either closing entirely, or increasingly being used for much needed emergency housing.

So what happens next for Wollongong's hotel market?

Fast forward to January 2023 and it's a case of everything old is new again – we've just announced our sale of the University of Wollongong's Marketview, seeing the opening of "Hotel Tutto", after an extensive renovation. The hotel is managed by EVT Group, who are behind such hotel brands as Rydges, QT and Atura, in addition to Thredbo, Event cinemas and more.

Returning 150 quality hotel rooms to the Wollongong market is fantastic news, particularly in the heart of the CBD. Even with this re-opening though, Wollongong still has less hotel rooms than it had 12 years ago.

One of the biggest challenges to growing hotel room stock is the land input cost. The fact is that Wollongong CBD land values are extraordinarily high - well in excess of most capital cities. Quite simply, it's far too expensive to build a new hotel in Wollongong and as we've seen with numerous recent major hotel proposals (even those DA approved as hotels), the market reverts to safer and more profitable forms of development.

Compounding this problem is the fact that aging Wollongong motels occupy extremely valuable land. Many such motels are already owned by developers, who have wisely identified the future development potential – but this certainly won't see new hotel rooms built.

Wollongong residential real estate is running red hot.

Where you've got old motels with residential zonings in premium locations, you can be absolutely certain that the future re-development of those motels will be entirely residential. It doesn't make any sense to knock down an old motel to build a new hotel, when you're permitted to build residential apartments and sell them for up to \$20,000 per square metre.

Rejuvenation is fantastic for a city and nobody really mourns the loss of a daggy old motel, but when large numbers of lost motel rooms are not being replaced, this spells trouble.

Having audited and analysed the Wollongong hotel market for more than 20 years, we estimate close to 350 of Wollongong's 1,000 existing motel and hotel rooms will be lost to re-development and there's just no pipeline for new hotel development.

In itself, that reduction in motel room supply and extremely limited development pipeline would normally assist the feasibility for a new hotel development – as the probability of successful and profitable trading looks very strong. Unfortunately, this is not nearly enough to combat the “highest and best use” phenomenon – developers can and will make more money, taking far less risk building anything but a hotel.

There is some light at the end of the tunnel. Currently we're discreetly offering for sale what I'd call the very last chance for Wollongong to see a new hotel developed in the CBD. The zoning is restricted to Tourism uses only, which thankfully keeps it's value from skyrocketing. We're in discussions with numerous parties hoping to deliver Wollongong's next CBD hotel.

Now and into the future, Wollongong needs many more hotel rooms, but is very much on a pathway to having many less.

TLDR:

- “Marketview” student accommodation in Wollongong CBD returned to it's former use, re-opening as the 150 room “Hotel Tutto”
- Wollongong remains severely under-supplied for hotel rooms. Many aging motels are set for residential re-development.
- Prohibitive Wollongong CBD land values means no hotel development pipeline.
- Tourism Property discreetly offering “final chance” for Wollongong CBD hotel development; a beachside development site with restricted Tourism zoning keeping the land value affordable.

Media enquiries:

Matt Davidson
Managing Director
TOURISM PROPERTY
0400 200 139

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