

**ITEM 6. LEASE – RENEWAL OF LEASE TO WOOLWORTHS, 540 GEORGE STREET, SYDNEY**

**FILE NO: S098632**

**SUMMARY**

Woolworths Limited leases six levels (two basement levels, ground floor and three floors above) of the “Woolworths” building at 540 George Street, Sydney, for its major city retail outlet and associated administrative offices and storage space.

The current lease commenced on 9 October 2005, and will terminate on 8 October 2015, with no option to renew.

The City and Woolworths have now completed commercial negotiations for an extension of the current lease term to 31 December 2021, and the parties have now entered into a non-binding Heads of Agreement setting out the essential terms and conditions of the proposed lease.

The Woolworths building is located on land that is earmarked for development of the Council’s Civic Square project. The Council resolved in 2011 that the Civic Square project would not commence before 2021, and that these commercial buildings could be leased on fixed term leases which could not run past 2021.

The City has negotiated a break clause provision in the lease that entitles the City to terminate the lease (at its sole discretion) by giving 12 months’ written notice to Woolworths. Such notice cannot be issued prior to 30 June 2017.

**RECOMMENDATION**

It is resolved that:

- (A) Council approve the granting of a lease to Woolworths Limited, on the essential terms and conditions set out in confidential Attachment A to the subject report; and
- (B) authority be delegated to the Chief Executive Officer to finalise the terms of the lease, and authorise its execution on behalf of the Council.

**ATTACHMENTS**

**Attachment A:** Essential Lease Terms and Conditions (Confidential)

**(As Attachment A is confidential, it will be circulated separately from the agenda paper and to Councillors and relevant senior staff only.)**

**BACKGROUND**

1. Woolworths Limited leases six levels (two basement levels, ground floor and three floors above) of the “Woolworths” building at 540 George Street, Sydney, for its major city retail outlet and associated administrative offices and storage space.
2. The current lease commenced on 9 October 2005, and will terminate on 8 October 2015, with no option to renew.
3. The Woolworths building is located on land that is earmarked for development of the Council’s Civic Square project, and the proposed development includes other adjacent City-owned buildings, including the Coronation Hotel, the Lowes building on the corner of Pitt and Park Streets, 307 Pitt street, and some strata lots in 309 Pitt Street.
4. Council resolved in 2011 that the Civic Square project would not commence before 2021, and that these commercial buildings could be leased on fixed term leases which could not run past 2021.
5. The City and Woolworths have now completed commercial negotiations for an extension of the current lease term to 2021, and the parties have now entered into a non-binding Heads of Agreement setting out the essential terms and conditions.
6. Council’s current intention is not to develop the Civic Square before 2021, however, site development could be brought forward due to other factors such as Transport for NSW’s Sydney Rapid Transit project.
7. To accommodate this, the City has negotiated a break clause provision in the lease, which entitles the City to terminate the lease (at its sole discretion) by giving 12 months’ written notice to Woolworths. Such notice cannot be issued prior to 30 June 2017
8. The City’s independent valuer, Preston Rowe Patterson, Property Consultants, has confirmed that the essential terms and conditions, including the rental provisions, represent a fair and reasonable market related return.

**KEY IMPLICATIONS**

**Organisational Impact**

9. The proposal will not have any detrimental effects on the service levels, staffing, facilities, processes or other internal impacts on the organisation.

**BUDGET IMPLICATIONS**

10. An estimate of the potential revenue from the leasing of this space has been provided for in the 2015/16 operating budget, with a favourable variance of \$54,568.

**RELEVANT LEGISLATION**

11. Local Government Act 1993, s10A(2)(d)(i).
12. Attachment A contains confidential commercial information which, if disclosed, would prejudice the commercial position of the person who supplied it.

13. Discussion of the matter in an open meeting would, on balance, be contrary to the public interest because it would compromise Council's ability to achieve the best outcome for its ratepayers.

**OPTIONS**

14. The premises are not required for any of the City's corporate or community activities.
15. The City considered going to the market to lease these premises; however, due to the short lease term, ie, six years, it was considered not commercially viable to go to the market to source an alternative tenant.

**AMIT CHANAN**

Director City Projects and Property.

David C White, Commercial Property Manager