

ITEM 10. DARLING SQUARE – THE DARLING EXCHANGE COMMERCIAL SUB-LEASE TERMS AND CONDITIONS**FILE NO: S127331****SUMMARY**

On 18 May 2015, Councillors were briefed on a proposal for the City to lease two floors of a future iconic building centred within the public domain at Darling Square North within the new Darling Exchange precinct for a public library and 'Makerspace' (a space comprising creative, project and DIY spaces where people can gather to create, invent, and learn).

Lend Lease is proposing to develop what it believes to be a landmark building on the north plot of Darling Square. The building, designed by Japanese architects Kengo Kuma & Associates, is proposed to be over six levels, including mezzanine and an active rooftop, adjacent to the main north/south pedestrian thoroughfare and centrally positioned within key areas of public space to the north and south.

The City's proposed leased area of approximately 2,225 square metres will comprise two interconnected floors for a contemporary public library with more traditional library functions on Level 2 and a technology focused 'Makerspace' area on Level 1 - that will include space for creative start-up businesses, seminars and workshops, with technology to support entrepreneurs and innovators.

The 'Makerspace' will be complemented by the inclusion of an IQHub ('Innovation Exchange Program') - Lend Lease has a development consent requirement to deliver space for an IQHub.

The City and Lend Lease have reached an in-principle Heads of Terms agreement substantively in accordance with the briefing to Councillors on 18 May 2015. A CEO Update of 14 March 2016 confirmed this agreement to be consistent with the May 2015 briefing and that both parties would execute the agreement conditional upon Council resolution and Lend Lease Board approval.

Subject to Council endorsement, Lend Lease will prepare and lodge a development application for the building with the NSW Government for approval.

The City's Library and Makerspace is anticipated to be delivered by end 2018.

RECOMMENDATION

It is resolved that:

- (A) Council endorse entering into a lease for the proposed Darling Square Library, including the Makerspace with an IQHub ('Innovation Exchange Program'); and
- (B) authority be delegated to the Chief Executive Officer to finalise these negotiations during the 90 day Exclusive Negotiation Period generally in accordance with the Commercial Sub-Lease Terms and Conditions ("Heads of Agreement") dated 14 March 2016 (as shown at confidential Attachment B to the subject report) and enter into an Agreement to Sub Lease and any required documentation necessary to deliver the future City facility.

ATTACHMENTS

Attachment A: Indicative Floor Plans

Attachment B: Commercial Sub-Lease Terms and Conditions (Confidential)

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

BACKGROUND

1. The City of Sydney Library (the Library) has been part of Sydney's historical landscape for almost 200 years, providing valued library services to residents, workers and visitors.
2. During these years, the Library has undergone major transformations from its humble beginnings in a city basement to its current network of nine branches (Customs House, Kings Cross, Surry Hills, Glebe, Waterloo, Haymarket, Ultimo, Newtown and Green Square) and two library links (Town Hall and Pyrmont).
3. The Library is a key front line service for 180,000 residents, as well as the 1 million people who come to the city every day, including nearly 400,000 workers. The Library is an important part of the City of Sydney's vision for a green, global and connected city while maintaining local community villages.
4. While each library branch caters to the unique culture and specific needs of its local community, visitors find a similar sense of welcome, community and peace of mind within each of the City's Library branches as well as reading material, programs, working space and access to free technology.
5. Collectively, the Library provides its members and visitors access to:
 - (a) a \$10 million collection of books, ebooks, newspapers, magazines, films, music and special interests such as Asian, Russian and local history;
 - (b) a wide range of free programs to promote life-long learning, social connections and cultural experiences (1,593 free programs and events were held during 2013-14, including the award winning 'Late Night Library' – a trend setter in library programs for adults; and story-time and rhyme-time for families with young children);
 - (c) the innovative pop up Lawn Library – the Library's custom made portable outdoor Library structure which has featured at events such as the Sydney Festival, NAIDOC and Sydney Children's Festival;
 - (d) WiFi access to the internet and 227 Public PCs and laptops for research and personal use and training and 30 mobile devices (tablets and eReaders); and
 - (e) a Home Library Service for individuals unable to travel to their local library.
6. City communities have demonstrated increasing reliance on the Library, with growing usage of the Library and its resources.
7. Memberships have increased by 10,000 to over 36,000 members since the removal of the membership fee for NSW residents on 1 July 2014 and visitations are running at over 1.2 million visits annually (2013/14). The total number of loans is 1.2 million loans on average per year.
8. Total attendance at Library programs has increased from 4,000 in 2005 to more than 45,000 in 2013/14. Since 2004, internet usage (public PCs) has increased from approximately 63,000 hours in 2004 to over 933,000 hours in 2013/14 and WiFi usage has increased from 58,000 sessions in 2011/12 to over 538,000 in 2013/14.

Demand and Growth

9. The proposed new Darling Square Library is to replace the existing 500 square metre, three level, heritage-listed Haymarket Library, and is a timely addition to the City of Sydney Library Network given the need for a larger, accessible, welcoming and high-tech facility to meet the growing needs of an expanding residential, worker and visitor population in the Darling Harbour precinct and surrounding City South, North and CBD areas.
10. In a broader geographic context, the building is located in the City North Area (one of four designated City Areas for community facilities planning purposes). This area includes Chinatown and CBD South Village (including the localities of Haymarket, Chinatown and CBD South), along with CBD and Harbour Village (including the localities of Millers Point, The Rocks, Barangaroo, Dawes Point, and CBD North).
11. There is a strong need for the Darling Square Library facility in this high density locality, which has a comparatively low level of facilities provision and a high and fast-growing population living in apartments.
12. The location of the new proposed Library within the brand new precinct that includes the Darling Harbour Live entertainment development, the Darling Quarter community precinct and a major hub in the Goods Line pedestrian and cycle network, will make this library a vibrant hub amongst major educational, cultural and entertainment institutions.

Lend Lease: The Building

13. Lend Lease is proposing to develop what it believes to be a landmark building on the North Plot of Darling Square. The building, designed by Japanese architects Kengo Kuma & Associates, is proposed to be over six levels, adjacent to the main North/South pedestrian thoroughfare and centrally positioned within key areas of public space to the north and south.
14. The proposed 6,600 square metre, six level building will include basement, retail/market at ground and mezzanine, the City's Library including 'Makerspace' and IQHub "Innovation Exchange Program" on Level 1, Library on Level 2, child care on Levels 3 and 4 and a restaurant on Level 5.
15. The child care facility is likely to be for a major corporate tenant in the precinct. The provision meets Council's requirement for increased child care in area and as part of the community benefits arising from the development.

Proposed Library

16. The proposed Darling Exchange Library will, on completion, be one of the City's largest libraries, being four times larger than the current Haymarket Library and will cater for 600-1,200 people per day. The future library will be an important community resource for residents, shoppers, students, and visitors to not only relax, but to connect and knowledge share. Adjoining a public square, the library will be a place for families to take a break and enjoy books and technology in a welcoming atmosphere.

17. The Library will be a place for individuals and groups to connect and learn. The Library will provide the spaces and resources for entrepreneurs and DIY enthusiasts to meet like-minded people and share their knowledge with the community, with flexible work spaces. The Library will also provide formal and informal learning opportunities to meet the needs of its different visitors, ranging from learning programs for children to digital technology classes for all ages.
18. The proposed Darling Exchange Library will be a local branch library, one of nine in the City of Sydney. This particular library will continue to hold one of the largest Chinese-language collections in an Australian public library, but will continue to draw resources of the entire City of Sydney Library Network for borrowers, and items from other branches will be transported daily to and from this branch. This branch will maintain its Asian language collections, while providing opportunities to immediately access Australian and international magazines and newspapers from large easy-to-use/easy-to-read devices in the library and on their own devices at home.

Proposed Lease

19. The City is proposing to take a lease of premises within the building, totalling 2,225 square metres of lettable area over two floors, including outdoor terrace area, for use as a public library with more traditional library functions on Level 2 and a technology focused space on Level 1.
20. It is proposed that the library will be publicly accessible, interconnected over the two levels and operated and managed by the City.
21. Level 1 is envisioned to be an open-plan floor 'Makerspace' and "Innovation Exchange" with flexible sound-proofed mobile meeting room dividers, sound-proofed study and group pods, and an IT training. The 'Makerspace' will be for creative start-up businesses, seminars and workshops, with technology to support entrepreneurs and innovators – young and old. Level 2 is envisioned to hold all collections plus staff offices, children's area, circulation pod and kiosks, and plenty of flexible seating.
22. The library design includes access to the terrace areas with seating including power and USB ports. This area is envisaged to be a place for resting, reading and a social space.
23. The Darling Square Library will be:
 - (a) the centre of an educational, cultural and entertainment precinct and integrate well with neighbouring retail, dining and children's facilities;
 - (b) a place of learning – informal, formal, technology and digital learning in a variety of formats;
 - (c) a place of making – building on the DIY and makerspace movements to support individuals, groups, start-ups and students;
 - (d) a place of connecting – residents, entrepreneurs, students and visitors with technology, space and learning opportunities;
 - (e) a place where Asian-language speakers and overseas students can enjoy innovative physical and digital collections in a variety of languages and from different countries; and

- (f) a flexible workspace for office-less workers and entrepreneurs as well as neighbouring and visiting students.
24. The City has undertaken extensive work to establish a functional layout, performance brief and detailed specifications including for furniture and equipment. The functional area schedule represents a current assessment of future user needs and a detailed breakdown of the spaces and areas required by the library.
25. Lend Lease has a development consent requirement to deliver space for an IQHub. Moreover, the City and Lend Lease have concluded the substantial benefit to the sector through integrating this function within the City's Makerspace. These principles have been developed into a Charter for the 'Innovation Exchange' (IQHub) as part of the Heads of Agreement. The Charter is included in Attachment B.
26. The functional space for the new Library and Makerspace has been designed to include a Digital Lounge Area for library members to read and download/stream library digital resources with large touch screen computers and tablets. There will be standing height desks/benches to view digital magazines/newspapers/books/audio/film using touch screens.
27. Also included will be:
- (a) comfortable seating surrounding the area so visitors can download to their own devices;
 - (b) a printing area and a Monitor Business Management machine for print payments;
 - (c) gaming space providing an area with comfortable couches/cushions/bean bags to play interactive console games
28. The Digital Makerspace will provide a flexible area with desks, comfortable chairs and power points for digital equipment such as industrial 3D printers, 3D scanners, graphic station, a music mixing station, and digitising and media stations.
29. Sound-proof music labs will be provided that can be used to record, play and mix music. This is a space to experiment with sound recording without any previous experience, with the help of staff.
30. There will be an IT Training and Presentation area with separated rooms that opens up into the library and an area divided by movable sound proof wall/curtain with movable modular desks and ergonomic chairs. The area is equipped with quality speakers and LED screens. This area will be used to give presentations of up to 50 people with PCs moved away, with trainer pod doubling as a speaker podium.
31. Level 2 will provide the library area with mobile low modular shelving and the bay end of each shelving unit will be used for display or library catalogue through fixed touch screen tablets. This floor also includes children's shelving which has special design features, with built-in seatings such as the one used for Green Square Library.

32. A Children's Space with flexible modular furniture and AV enabled will be separated from the rest of the library. This floor also provides a staff room and two small meeting rooms with sound-proof partitions that can open back into the library.
33. Level 2 also includes an open terrace which has been designed to provide seating with power outlets and USB ports.

Due Diligence

34. In order to inform the design process and cost report, the City engaged Nordon Jago Architects in May 2015 to prepare concept layouts for the Makerspace and Library. These plans are at Attachment A.
35. The City also engaged valuers, Preston Rowe, to provide valuation advice and specialist acoustic consultants, Acoustic Studio, and Audio Visual consultants, Gilfillan Soundworks, to provide technical advice to inform the floor layout and performance brief and preparation of the Order of Cost plan.
36. In July 2015, the City engaged Lend Lease Building to prepare an Order of Cost for the Integrated fit out. The Order of Cost Report is dated 7 August 2015.
37. In August 2015, the City engaged Altus Page Kirkland as QS Consultants to undertake an independent review of the Lend Lease Building Order of Cost Plan and to benchmark the cost against comparable projects. The report dated 17 August 2015 confirms the Order of Cost as comparable to other recent developments.
38. The City is proposing to engage Lend Lease as the builder to undertake the integrated base build and fitout works subject to the satisfactory agreement of scope, costs and terms.
39. The City will be responsible for lodging the fitout development application and the cost of the fitout of the premises. LLH is responsible for the base building costs.

KEY IMPLICATIONS

Strategic Alignment

40. Sustainable Sydney 2030 is a vision for the sustainable development of the City to 2030 and beyond.
 - (a) Direction 6 – Vibrant Local Communities and Economies - Building the sense of community and local economy by attracting and clustering innovative enterprises in our villages is an important part of Sustainable Sydney 2030. In particular, this proposal will enhance the distinctive character of the village, provide spaces for small and local businesses, and ensure *all communities have opportunities to participate*.
 - (b) Direction 7 - A Cultural and Creative City – This proposal aligns with the City's aims under this direction, specifically the desire to strengthen cultural partnerships locally and internationally and with the cultural and creative sectors. Another key objective under this direction is to 'Support the Development of Creative Industries', which is relevant to this proposal due to training and employment opportunities provided by this project.

BUDGET IMPLICATIONS

41. The Long Term Financial Plan includes a budget provision over two years for the fitout of the City's future Library, including Makespace and IQHub and the ongoing operational costs, including the City's contribution as sub-lessee to outgoings. These costs are specified in confidential Attachment B.

RELEVANT LEGISLATION

42. Local Government Act 1993 and the Local Government (General) Regulation 2005.
43. Under section 10A (2)(d) of the Local Government Act 1993, Attachment B contains confidential commercial information, which, if disclosed, would prejudice the commercial position of the person who supplied it.
44. 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 negotiate fairly and commercially to achieve the best outcome for its ratepayers.

CRITICAL DATES / TIME FRAMES

45. The conditional Heads of Agreement were signed on Monday 14 March 2016, being consistent with the verbal agreement from Council on 18 May 2015 and as advised by the CEO on 14 March 2016.
46. The Heads of Agreement is conditional on Council approval and Lend Lease Board approval.
47. The Heads of Agreement is conditional on NSW Government approval for the building.
48. The 90 day Exclusive Negotiation Period commenced upon execution of the Heads of Agreement on 14 March 2016 during which Agreement for Sub-Lease (and Sub-Lease), will be prepared.
49. Lend Lease has advised that the proposed building is scheduled to be completed in 2018.

PUBLIC CONSULTATION

50. Following the media launch on 14 March 2016, Lend Lease is holding pre-development application community consultation sessions, briefing the community on the proposal. City staff have attended these on behalf of the City.

AMIT CHANAN

Director City Projects and Property

Graham Thompson, Manager Property Projects
Nicholas Male-Perkins, Senior Development Manager