

Lease Approval and Variation - 343 George Street Sydney - Atlassian Pty Limited

File No: S096173.046

Summary

This report details a lease proposal for the City's investment property at 343 George Street, Sydney, with the building's major tenant, Atlassian Pty Limited.

Atlassian is progressing with a proposed \$1billion, 80,000 square metre office tower at Central Station of which Atlassian will occupy around 70 per cent. The building, currently anticipated to be completed in 2025, will be the largest single timber framed building in the southern hemisphere and the centrepiece of a modern and innovative technology hub.

The proposal to extend the lease at 343 George Street capitalises on Atlassian's growth and preparation for its relocation to its new premises through the take up of current and future vacant space within 343 George Street in the short term, and alignment of its existing lease and the new proposed leases to the completion of its new facilities.

This tactical approach reduces vacancy risk within the building and ensures revenue stability for the City over the short to medium term.

This report seeks Council's endorsement to grant Atlassian two new leases and vary the terms of their existing lease.

The first proposed new lease is for premises known as Suites 1.01, 1.03, 1.04 to 1.08, Level 1, and Suites 2.02 and 2.03, Level 2, 343 George Street, Sydney.

The second proposed new lease is for premises known as Level 6 and Level 7, 343 George Street, Sydney.

The term of the current lease for premises known as Levels 8, 9 and 10, 343 George Street, Sydney, is proposed to be extended.

If these proposals are accepted, all three leases will expire 30 June 2027, with a further two lease options, each of one year.

Commercial considerations, including financial assessment and market commentary, together with the essential lease terms and conditions of the leases are shown in Confidential Attachment A.

As the annual rent is over \$500,000 and the lease term exceeds five years, Council approval is required to grant these leases.

Recommendation

It is resolved that:

- (A) Council approve a new lease with Atlassian Pty Ltd for Level 1 Suites 1.01, 1.03, 1.04 - 1.08 and Level 2, Suites 2.02 and 2.03, 343 George Street Sydney, to be progressively occupied as the suites become available;
- (B) Council approve a new lease with Atlassian Pty Ltd for Level 6 and Level 7, 343 George Street, Sydney, commencing on 1 April 2022;
- (C) Council approve the variation of the existing lease to Atlassian Pty Ltd for Levels 8, 9 and 10, 343 George Street, Sydney, extending the lease expiry date from 30 June 2023 to 30 June 2027 with a further two options, each being one year. This would extend the Atlassian Pty Ltd tenure to 30 June 2029 should they exercise both options; and
- (D) authority be delegated to the Chief Executive Officer to finalise the terms of the new leases and variation of lease, including for the lease option terms in accordance with terms and conditions set out in Confidential Attachment A to the subject report.

Attachments

- Attachment A.** Commercial Considerations and Essential Lease Terms and Conditions (Confidential)

Background

1. 343 George Street, Sydney is an eleven-storey commercial B grade State Heritage Listed sandstone building commanding a prime location at George and Barrack Streets.
2. The building has net lettable area of 10,584 square metres comprising:
 - (a) 8,762.1 square metres of office space with a typical floor plate of approximately 938 square metres; and
 - (b) 1,529 square metres of retail space.
3. Atlassian Pty Limited (Atlassian) is a listed Australian technology company with over 3,000 employees and a global presence.
4. Atlassian is progressing with its 80,000 square metre headquarters at Central Station, of which Atlassian will occupy around 70 per cent. The building, to be completed around late 2025, will be the largest single timber framed building in the southern hemisphere and the centrepiece of a modern and innovative technology hub.
5. Atlassian currently occupies Levels 8, 9 and 10, 343 George Street, commencing their occupation in 2015. Atlassian also occupy a substantial portion of the adjoining privately owned building at 341 George Street.
6. The leasing proposal addresses Atlassian's need for additional space during the period until their headquarters are anticipated to be available for occupation in late 2025.
7. The leasing proposal for 343 George Street comprises:
 - (a) new leases over vacant space;
 - (b) options to lease currently occupied space when it becomes vacant due to the existing tenant not exercising their option; and
 - (c) variations to Atlassian's current lease over levels 8-10.
8. The new terms have been negotiated to include the Green Lease Clause now required by the City in all leases within this group of buildings.

Key Implications

Strategic Alignment - Sustainable Sydney 2030

9. Sustainable Sydney 2030 is a vision for the sustainable development of the City to 2030 and beyond. It includes 10 strategic directions to guide the future of the City, as well as 10 targets against which to measure progress. This report is aligned with the following strategic directions and objectives:

- (a) Direction 10 - Implementation through Effective Governance and Partnerships - 10.3.3 Strategic Property Management - Manage the investment property portfolio to realise commercial returns and contribute to a diverse income base.

The provision of a new lease that will expire 30 June 2027 with two options, each option period of one year negotiated with Atlassian, is consistent with what City's Property Services needs to achieve to meet Action 10.3.3.

The commercial terms negotiated with Atlassian are consistent with the above action.

Financial Implications

10. The proposed leases are financially favourable to the budget over the life of the leases.

Rental Determination

11. The City appointed independent valuers, Rawlinson's Corporate Real Estate, to undertake an assessment of the rental value of all the various suites and floors for leasing purposes.
12. The proposed lease terms are in line with the independent valuation.

Relevant Legislation

13. Local Government Act 1993 - Section 10A provides that a council may close to the public so much of its meeting as comprises the discussion of information that would, if disclosed, confer a commercial advantage on a person with whom the council is conducting (or proposes to conduct) business.
14. Attachment A to the subject report contains confidential commercial information which, if disclosed, would confer a commercial advantage on a person with whom Council is conducting (or proposes to conduct) business.
15. 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.

Options

16. The City has the option not to proceed with the lease to Atlassian and to go to the open market which may result in a significant loss of potential commercial revenue due to the uncertainty of the property market during the Covid-19 pandemic period.
17. The City has considered the option to grant leases to Atlassian and believes it will achieve significant commercial income for the City of Sydney Council.

Public Consultation

18. There is no requirement for public consultation for this commercial lease.

AMIT CHANAN

Director, City Projects and Property

Matthew Woodroffe, Commercial Portfolio Manager

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