

Lease Approval and Exemption from Tender - 343 George Street, Sydney

File No: X126219

Summary

This report seeks approval from Council to grant two new leases within levels 8, 9 and 10 at 343 George Street, Sydney (Premises) to a provider of flexible working space.

343 George Street is a state and local heritage-listed commercial office building located in the heart of the CBD. It comprises multiple upper levels of office accommodation and forms part of the City's commercial property portfolio. As a prominent and historically significant asset, 343 George Street contributes to both the financial sustainability of the portfolio and the activation of the central business district.

It is proposed that the tenant undertake works related to their premises and key service offering while the City progresses essential building services upgrades. Given the timing of the lease commencement and the associated risks, it is considered more appropriate for the tenant to deliver their tenancy works directly.

Due to the scope and value of the works, it is recommended that Council grant an exemption from the prescribed Local Government Act 1993 tender process, allowing the tenant to utilise their own procurement processes. This will be subject to City validation of all works, with clear milestones in place to ensure delivery alignment. To enable the premises to be fit for the proposed long-term use by the tenant, it is recommended that Council enter into an agreement for lease supported by a tender exemption, with conditions governing the delivery and oversight of works.

Under the agreement for lease, the tenant will undertake the necessary upgrade and renewal works to the premises on behalf of the City of Sydney, in accordance with the proposal contained in Confidential Attachment A. This report recommends that, in accordance with section 55(3)(i) of the Local Government Act 1993, Council grant an exemption from tender for the proposed works to be undertaken by the tenant, including fit-out, some base building elements, and services works.

Details of the lease proposal and essential lease terms and conditions are provided in Confidential Attachment A

Recommendation

It is resolved that:

- (A) Council approve entry into an agreement for lease with The Tajon Luxury Offices Pty Ltd (ABN 22 690 017 826) in relation to 343 George Street for the purpose of undertaking necessary works in accordance with the essential terms of the agreement for lease outlined in Confidential Attachment A to the subject report;
- (B) Council approve the grant of 2 leases for the 3 upper floors of 343 George Street, Sydney to The Tajon Luxury Offices Pty Ltd (ABN 22 690 017 826) for a period of 10 years (for Levels 9 and 10) and 9 years and 3 months for Level 8 , with an additional option for 10 years for all 3 floors, in accordance with the essential lease terms and conditions contained within Confidential Attachment A to the subject report;
- (C) Council note that The Tajon Luxury Offices Pty Ltd (ABN 22 690 017 826) will also be granted a non-exclusive licence for the rooftop area of 343 George Street for a 10 year period with an additional option for 10 years for use in conjunction with the leased area;
- (D) Council approve that The Tajon Luxury Offices Pty Ltd (ABN 22 690 017 826) be appointed to undertake works as generally outlined in Confidential Attachment A to the subject report, subject to the City's approval processes and heritage considerations;
- (E) Council approve an exemption from tender in accordance with section 55(3)(i) of the Local Government Act 1993 in order for the proposed works to be undertaken The Tajon Luxury Offices Pty Ltd (ABN 22 690 017 826) including fit-out and some base building and services works as set out in Confidential Attachment A to the subject report as a satisfactory result would not be achieved by inviting tenders;
- (F) Council note that a satisfactory result would not be achieved by inviting tenders for these works because:
 - (i) the proposed works are directly linked to the tenant's specific operational and service delivery requirements, which are integral to the long-term use and activation of the premises; and
 - (ii) the alignment of the tenant's fit-out, base building integration, and service upgrades with the City's renewal program is critical to meeting the lease commencement timeline and mitigating delivery risks, which would be significantly increased if works were separately procured;
- (G) authority be delegated to the Chief Executive Officer to negotiate, execute and administer the terms of the lease and associated documents in accordance with the essential terms and conditions and other matters contained within Confidential Attachment A to the subject report; and

- (H) note the risks and mitigation strategies developed by staff associated with this transaction as detailed in Confidential Attachment A to the subject report.

Attachments

- Attachment A.** Lease Proposal and Essential Lease Terms and Conditions (including Agreement for Lease) (Confidential)

Background

1. The City of Sydney's property portfolio spans a wide range of assets, including offices, retail tenancies, community facilities, and heritage buildings. These assets not only generate revenue but also play a critical role in supporting civic, cultural, and community outcomes, aligning with the City's long-term objectives of place activation, sustainability, and heritage preservation.
2. Among these assets is 343 George Street, a heritage commercial office building situated in the heart of Sydney's central business district. Constructed in 1927 for the Commercial Banking Company of Sydney, the building is an essential example of interwar commercial palazzo architecture and is listed on the local heritage register.
3. On 18 December 2009, the City of Sydney acquired the freehold interest in 343 George Street. This acquisition has ensured the long-term stewardship of a significant heritage asset while enabling its repositioning to deliver both commercial and civic value. The property is legally described as Lot 2 in Deposited Plan 771947 and is zoned SP5Metropolitan Centre under the Sydney Local Environmental Plan.
4. The building comprises multiple floors of premium office accommodation. The City has undertaken significant façade remediation work and, within its long-term financial plan, is committed to further upgrading base building services and amenities to meet contemporary tenant expectations and in accordance with responsible management requirements for this significant asset. A Development Application has recently been approved by the Central Sydney Planning Committee and a project has been established to deliver these works, which include lift modernisation, improved end-of-trip facilities, and essential building services upgrades. As part of this approval, the building will also generate heritage floor space (HFS) credits through heritage-sensitive conservation works.
5. The broader property leasing market continues to present challenges, with economic conditions and changing work patterns making it difficult to secure long-term tenants that align with the City's values and strategic objectives. Rental yields across the sector have been declining, while vacancies in office accommodation are increasing, creating a competitive leasing environment that requires careful positioning of assets like 343 George Street.
6. The City has been actively seeking a suitable tenant for 343 George Street and engaged a leasing agent to identify prospective occupiers. The focus has been on securing tenants aligned with the strategic vision for the building, including professional services, financial institutions, and creative industries. This approach ensures that the tenancy mix complements the property's heritage character and central CBD location.
7. Confidential Attachment A outlines the outcomes of this process. The proposed tenant is a provider of short-term, flexible working space, a sector that has been expanding in response to changing workplace practices.
8. This offering provides an adaptable model suited to current market demand and ensures the continued activation of the building. The proposed tenant has requested an initial 10-year lease term over multiple office floors with a 10-year option, reflecting the significant investment required to establish operations while providing long-term stability for both the tenant and the City.

9. It is proposed that the tenant undertake works related to their premises and key service offering while the City progresses essential building services and base building upgrades. Given the timing of the lease commencement and the associated risks, it is considered more appropriate for the tenant to deliver works related to their premises directly.
10. Works undertaken by the tenant will be subject to City validation, with clear milestones in place to ensure delivery alignment. To enable the premises to be fit for the proposed long-term use by the tenant, it is recommended that Council enter into an agreement for lease supported by a tender exemption, with conditions governing the delivery and oversight of works.
11. Under the agreement for lease, the tenant will undertake the necessary upgrade and renewal works to the premises on behalf of the City of Sydney, in accordance with the proposal contained in Confidential Attachment A. This report recommends that, in accordance with section 55(3)(i) of the Local Government Act 1993, Council grant an exemption from tender for the proposed works to be undertaken by the tenant, including fit-out, some base building elements, and services works.

Key Implications

Strategic Alignment - Sustainable Sydney 2030-2050 Continuing the Vision

12. Sustainable Sydney 2030-2050 Continuing the Vision renews the communities' vision for the sustainable development of the city to 2050. 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 1 - Responsible governance and stewardship - specifically expanding revenue from commercial operations and the property portfolio.

Risks

13. We recognise the intrinsic value of culture and heritage assets and the importance of their preservation. We adopt a cautious approach to risk taking, focusing on the protection, conservation and restoration of significant cultural and heritage resources to ensure their long-term viability and integrity. We have minimal appetite for change that detrimentally impacts on the cultural or heritage properties of significant items, structures or buildings.
14. We have an open risk appetite and will accept some level of risk to enhance our infrastructure, assets or property.
15. We aim to strike a balance between achieving our strategic objectives and ensuring the long-term sustainability of infrastructure assets; and preserving and promoting culture and heritage, embracing innovation, and ensuring the long-term sustainability and accessibility of cultural/heritage assets.
16. The proposed arrangements include significant capital works (fit-out, services and other base building works) on a State Heritage item. The assessed risks and mitigation measures are contained with Confidential Attachment A.

Financial Implications

17. The proposed lease will provide significant rental income to the City over the 10-year initial lease period, and option period (if exercised).
18. Financial implications are outlined in Confidential Attachment A.

Relevant Legislation

19. The exemption from tender process has been conducted in accordance with the Local Government Act 1993 and the Local Government (General) Regulation 2021.
20. Local Government Act 1993 - Section 10A provide 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 and if discussion of the information in an open meeting would, on balance be contrary to public interest.
21. 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.
22. 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

23. Critical dates are outlined in Confidential Attachment A.

KIM WOODBURY

Chief Operating Officer

Neil Palagedara, Executive Manager Property Services

Document is Restricted