

Property Matter -Sydney

File No: X013734.001

Summary

On 7 August 2017, the Council of the City of Sydney unanimously endorsed seeking an Expression of Interest (EOI) to identify entities with the expertise and capacity to reposition the City's commercial properties at 56-76, 82-106 and 110-122 Oxford Street, Darlinghurst (Properties), on a long term ground lease.

The City undertook the Expression of Interest via a two-staged process. The City appointed an external independent probity adviser to oversee the entire Expression of Interest process.

The Properties were publically marketed via an Expression of Interest campaign (Stage 1) between 30 May and 12 July 2018, which resulted in eight submissions.

From these submissions, three highly qualified proponents were selected to progress to Stage 2 - Request for Detailed Proposals (RFDP) phase.

Stage 2 - Request for Detailed Proposal phase was conducted between 5 September and 10 October 2018. Two Detailed Proposals were received (one proponent withdrew from the RFDP process). The City invited the two proponents to submit their 'Best and Final Offer' (BAFO) on 23 October 2018.

This report seeks Council approval to endorse the preferred proponent from the Expression of Interest and Request for Detailed Proposal process. Confidential matters are contained within Attachment C.

Recommendation

It is resolved that:

- (A) Council note the outcome of the Expression of Interest for the long term ground lease of the commercial properties at 56-76 Oxford Street, 82-106 Oxford Street and 110-122 Oxford Street, Darlington (the Properties);
- (B) Council endorse Proponent A as the preferred entity to acquire, implement and manage a successful transformation of the Properties on a long term ground lease (comprising a Development Lease and an Operational Lease for a combined period of 99 years); and
- (C) authority be delegated to the Chief Executive Officer to negotiate, execute and administer the transaction documents with Proponent A for the purpose specified in (B) above on the basis of the information in Confidential Attachment C and otherwise on terms acceptable to the City.

Attachments

- Attachment A.** 7 August 2017 Resolution of Council - Property Investment Strategy - Oxford Street
- Attachment B.** Identification Plan
- Attachment C.** Oxford Street Expression of Interest Outcome (Confidential)

Background

1. The City owns three commercial buildings in Lower Oxford Street, Darlinghurst, known as 56-76, 82-106 and 110-122 Oxford Street, Darlinghurst (Properties), with a combined lettable area of approximately 12,100 square metres. Each building is in varying condition, with different tenancy mixes and overall financial performance.
2. A sizeable portion of the floor space is occupied by the cultural and creative tenancies on subsidised rents (approximately 14 per cent of the total lettable area).
3. The City's Economic Development Strategy also recognises that, as a land owner, the City can influence the quality, amenity and character of a neighbourhood. The amount of floor space and its strategic location under Council ownership means it can be a catalyst for the revitalisation of Lower Oxford Street.
4. A private sector repositioning of the Properties, on a long term ground lease has an opportunity to create a significant local and international destination while maintaining the City's commitment to an affordable cultural offering.
5. The City's Long Term Financial Plan highlighted the need to optimise commercial returns through the strategic management of its commercial/investment properties. This being a key action to ensure the City is financially sustainable over the longer term.

Resolution of Council

6. On 7 August 2017, Council unanimously endorsed seeking private sector interest via an Expression of Interest (EOI) to identify entities with the expertise and capacity to reposition the Properties on a long-term ground lease (ROC 6.10 - 7 August 2017).
7. As a key objective, the above Resolution of Council aims to integrate land use outcomes and encapsulate more efficiently the key actions from principal strategies, including the Creative City Cultural Policy, Retail Action Plan and OPEN Sydney Strategy and Action Plan, while including creative practitioners and businesses within any future redevelopment of the City's Oxford Street Properties.

Expression of Interest - Key Objectives

8. The City established seven key objectives for the Oxford Street Expression of Interest process, which formed the basis of the Expression of Interest/Request for Detailed Proposal Evaluation Criteria, with the final selection of the Preferred Proponent being based on the Respondent's:
 - (a) financial offer and financial capacity;
 - (b) development capability and experience;
 - (c) ability to reposition property in an urban revitalisation/activation context;
 - (d) capacity to delivering the highest quality of urban design, architecture and sustainability outcomes;

- (e) ability to deliver projects within a heritage context;
- (f) experience or ability to integrate develop and manage creative and cultural tenancies within a development/s; and
- (g) ability to ensure Tenancies correspond with the core urban activation concept, with the final make-up of tenancies, reflective of the intended status of Oxford Street as a significant cultural destination at the local and international level.

Key Implications

Strategic Alignment - Sustainable Sydney 2030 Vision

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 1 - A Globally Competitive and Innovative City
 - (i) The repositioning/redevelopment of the Oxford Street Properties will be the catalyst for urban activation and the revitalisation of Oxford Street as a significant cultural destination at the local and international level.
 - (b) Direction 6 - Vibrant Local Communities and Economies
 - (i) The repositioning/redevelopment and cohesive management of the Oxford Street Properties will create opportunities to ensure a dynamic business mix in the local precinct, as well as attracting new visitors and money to the area supporting and enhancing a vibrant community and increasing the local economy.
 - (ii) The redevelopment of the Properties will assist in delivering significant community and economic benefits, with the preferred scheme proposing through site links from Oxford Street to Foley Lane, allowing for greater pedestrian circulation and the urban integration, activation and economic uses of both street and laneway.
 - (iii) The mandatory creative space requirement will see the continued use by creative practitioners provide a vibrant cultural and economic benefit to the local and wider community.
 - (c) Direction 7 - A Cultural and Creative City
 - (i) The City has supported artists and creative industry practitioners by providing space for creative practice through the provision of subsidised space. The inclusion of a mandatory minimum 1600sqm of creative space within any redevelopment of the Oxford Street Properties secures the City's long term commitment to the creative sector in accordance with the Creative City Cultural Policy and OPEN Sydney Policy and Action Plan and contributes to the revitalisation of the area and the sustainability of the local economy long term.

- (d) Direction 9 - Sustainable Development, Renewal and Design
 - (i) The City have placed an inherent commitment to Ecologically Sustainable Development (ESD) principles and the minimisation of adverse impacts on surrounding ecologies and communities on the Preferred Proponent and any proposed redevelopment of the Oxford Street Properties, as well as ensuring the proposed scheme achieves design excellence with an aim for world's best practice.
 - (ii) The generation of urban activation and renewal was one of the key City objectives within the Expression of Interest. The selected Scheme's urban response provides for a focus on renewal with the addition of commercial, creative, retail, planting, public art installations and curated spaces within a development that is designed to be sympathetic to the heritage nature of the existing built form by retaining the memory and identity of the site.
- (e) Direction 10 - Implementation through Effective Governance and Partnerships
 - (i) The City's Economic Development Strategy recognises that, as a land owner, the City can influence the quality, amenity and character of a neighbourhood. The amount of floor space and its strategic location under the City's ownership means that in partnering with a private sector operator, as successfully done in the case of the Queen Victoria Building and the Capitol Theatre, the proposed development can be a catalyst to the revitalisation of Lower Oxford Street.

Organisational Impact

- 10. The successful redevelopment of the Oxford Street buildings and the revitalisation of Lower Oxford Street will have a positive reputational impact for the City.

Risks

- 11. Development of the communications plan for the next stages of the Program will play a significant role in managing expectations and ensure all stakeholders are both acknowledged and informed.

Social / Cultural / Community

- 12. The proposed scheme intends to celebrate the heritage nature of the buildings and integrate the design within the existing fabric, preserving the rich urban context and social history of the Oxford Street Properties.
- 13. The addition of a vibrant tenancy mix, planting, public art installations and curated spaces will promote commerce, community and culture in the area, as well as the creation of activated nodes for the benefit of not only workers within the Properties but the wider community as a whole.
- 14. Preserving creative space within any future redevelopment to implement initiatives arising from the Creative City Cultural Policy secures the opportunities for retail creatives and creative workplaces and ensures their place in a renowned cultural hub.
- 15. The City's proposed partnership with the private sector intends to reposition Oxford Street as a significant cultural destination at the local and international level and as an incubator for the future creative talents.

Environmental

16. The integration of sustainable initiatives is a key component of the proposed scheme. It aims for full compliance to current Building Code of Australia (BCA) standards for construction methods and materials, and targets operational efficiencies to achieve a high Green Star/NABERS rating for environmental performance.

Economic

17. The Long Term Financial Plan identified the strategic management of the City's commercial/investment portfolio as a priority. Payment of the upfront long-term lease premium will be reinvested in commercial property acquisitions to optimise commercial returns, supporting the City's future financial sustainability.
18. Council's commitment to the repositioning and successful revitalisation of its properties demonstrates its support of and future contribution to the economic revitalisation of the Oxford Street Precinct.

Budget Implications

19. The funding required to undertake the Expression of Interest has been accommodated within the City's 2018/2019 budget.
20. The City's Long Term Financial Plan highlighted the need to optimise commercial returns through the strategic management of its commercial/investment properties. This being a key action to ensure the City is financially sustainable over the longer term. The lump sum payment for the granting of the long term leasehold interest will be reserved for future investment property purchases.

Relevant Legislation

21. The Expression of Interest process has been conducted in accordance with the Local Government Act 1993, the Local Government (General) Regulation 2005 and the City's Procurement and Contract Management Policy and Code of Conduct.
22. Attachment C contains confidential information of the Proponents and details of the City's evaluation which, if disclosed, would:
 - (a) confer a commercial advantage on a person/entity with whom the City is conducting (or proposes to conduct) business; and
 - (b) prejudice the commercial position of the City.
23. 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

24. Subject to Council resolution the City will notify Proponent A on 22 November 2018.
25. Finalisation of negotiations and execution of the transaction documents has been programmed for the third quarter of the 2018/2019 Financial Year.

Options

26. The Council could determine not to proceed in partnering with the private sector on the Properties. This would set aside the opportunity to reinvest the capital (received via this arrangement) in a suitably performing asset.

Public Consultation

27. The Expression of Interest was conducted in accordance with the Oxford Street Communications Plan. The City established a dedicated email address for enquiries for tenants and the broader community. A total of seven enquiries were received between the campaign period of 30 May - 23 October 2018.
28. Retail, Commercial and Creative Tenants were contacted via phone in mid-April 2018, and letters notifying of the proposed commencement of the Expression of Interest were distributed 27 April 2018 to over 2600 local residents and all Tenants in the three Oxford Street Properties.
29. Regular updates on the Expression of Interest were also placed in Sydney Your Say newsletter, Sydney City News and on the City of Sydney website.

AMIT CHANAN

Director City Projects and Property

Kylie Mhanna, Special Projects Advisor

Attachment A

**ROC 6.10 - 7 August 2017 - Property
Investment Strategy - Oxford Street**

Resolution of Council

7 AUGUST 2017

ITEM 6.10

PROPERTY INVESTMENT STRATEGY – CITY'S INVESTMENT PROPERTIES IN OXFORD STREET, DARLINGHURST

(X009837)

It is resolved that Council:

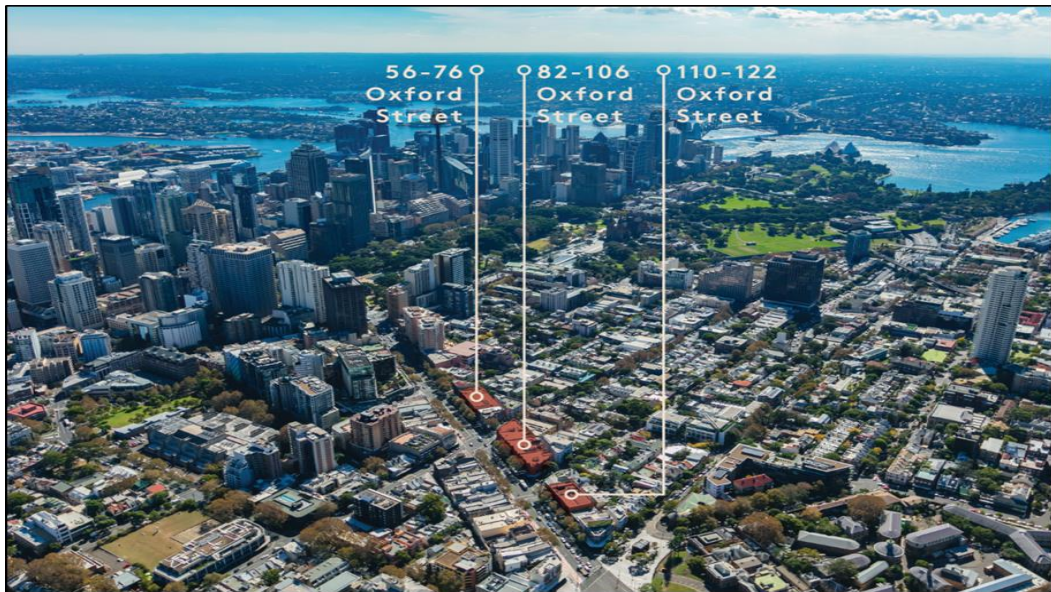
- (A) note the private sector interest received to acquire, masterplan, reposition and manage the City's three main commercial properties in Oxford Street: 56-76 Oxford Street; 82-106 Oxford Street; and 110-122 Oxford Street;
- (B) endorse an Expression of Interest to identify entities with the expertise and capacity to reposition these investment properties on a long-term ground lease; and
- (C) note that the criteria to identify suitable partners will be developed around:
 - (i) expertise, experience and resources to acquire, implement and manage a successful transformation of these properties based on a masterplan developed in collaboration with Council and the public;
 - (ii) demonstrated strong track record in successfully selecting, planning, implementing and managing redevelopment and/or adaptive re-use or refurbishment of heritage buildings and creating high quality land uses with unique destinational environments; and
 - (iii) preserving an amount of equivalent effective floor space for the 22 cultural and creative tenancies within any future redevelopment.

Carried unanimously.

Attachment B

Identification Plan

Attachment B - Identification Plan



56-76 Oxford Street, Darlinghurst



82-106 Oxford Street, Darlinghurst



110-122 Oxford Street, Darlinghurst



Document is Restricted