

Item 8.**Lease Renewal - Level 8, 540 George Street, Sydney****File No: S099079.010****Summary**

Kaplan Australia Pty Limited currently lease 1,154.90 square metres on Level 8 of 540 George Street, Sydney, for an educational training institute with associated facilities and administrative offices. The current lease commenced on 1 May 2016 and expires 30 June 2018, with no option.

The City and Kaplan Australia Pty Limited have now completed commercial negotiations for a new lease term of two years commencing 1 July 2018, and the parties have entered into a non-binding Heads of Agreement setting out essential terms and conditions of the proposed lease. The Heads of Agreement are subject to a formal resolution of council approval.

Recommendation

It is resolved that:

- (A) Council approve the granting of a lease to Kaplan Australia Pty Ltd, 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 and any ancillary documentation on behalf of the Council.

Attachments

Attachment A. Essential Lease Terms and Conditions (Confidential)

Background

1. Kaplan Australia Pty Limited lease 1,154.90 square metres on Level 8, 540 George Street, Sydney, as an educational training institute with associated facilities and administrative offices.
2. The current lease commenced on 1 May 2016 and expires 30 June 2018, with no option to renew.
3. The City of Sydney and Kaplan Australia Pty Limited have now completed commercial negotiations for a new two year lease term commencing 1 July 2018 and concluding 30 June 2020, with an option to renew for two years and two months. The parties have entered into a non-binding Heads of Agreement setting out the essential terms and conditions.
4. The premises are located within the Woolworths building that is earmarked for the development of the City's Civic Square project, and the proposed development includes other adjacent City-owned buildings such as the Coronation Hotel, the Lowes building on the corner of Pitt and Park Streets, and several Strata lots within the building located at 309 Pitt Street.
5. A demolition clause enabling the Lessor (The City) to terminate the lease (at its sole discretion) by giving 12 months written notice to the Lessee is included in the lease. This is only permissible where the City requires the building to be demolished for the construction for the planned Town Hall Square.
6. The City's independent valuer, Rawlinsons, has confirmed that the essential terms and conditions, including the rental provisions, represent a fair and reasonable market rental return, noting the impact of the demolition clause.

Key Implication

Strategic Alignment - Sustainable Sydney 2030 Vision

7. 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 10.5.1 - Expand revenues from commercial operations, property portfolio and other income generating assets.

Budget Implications

8. The 2018/19 property revenue budget has included this transaction as income for the pre-agreed amount of \$585,000 per annum (plus GST). Approval of this lease transaction will see Property Services meet budgetary requirements.

Relevant Legislation

9. The Local Government Act 1993.
10. Attachment A contains confidential commercial information and details of Council's valuation and contingencies which, if disclosed, would:
 - (a) confer a commercial advantage on a person with whom Council is conducting (or proposes to conduct) business; and
 - (b) prejudice the commercial position of the person who supplied it.
11. 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

12. The existing lease expires on 30 June 2018 and the terms of the new lease are required to be approved before the critical lease expiry date.

Options

13. The premises are not required for any of the City's corporate or community activities.
14. The City considered going to the market to lease the premises. However, the existing tenant Kaplan Australia Pty Ltd, has been in occupation of the premises since 2013. The Lessee has paid rent on time and adheres to the lease agreement. The proposed direct lease transaction would save the City leasing fees and costs whilst achieving a market rental return.

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