

Item 12.**Lease Approval - Levels 8, 9 and 10 - 343 George Street, Sydney****File No: S096167****Summary**

This report seeks Council's approval to grant a new lease to the existing occupant Atlassian Pty Ltd ("Atlassian") for Levels 8, 9 and 10, 343 George Street, Sydney. The new lease proposes a three-year and four-month term, with a further lease option of two one-year terms. The current lease expires 28 February 2020.

Essential lease terms and conditions of the proposed lease term of three years and four months are outlined in Confidential Attachment A.

Recommendation

It is resolved that:

- (A) Council approve the grant of a lease to Atlassian Pty Ltd for Levels 8, 9 and 10, 343 George Street, Sydney. The proposed new lease is for a three-year and four-month term, with an additional option term of two one-year options, which would extend Atlassian's tenure to 30 June 2025; and
- (B) authority be delegated to the Chief Executive Officer to negotiate, execute and administer the lease in accordance with the terms contained in Confidential Attachment A to the subject report.

Attachments

Attachment A. Essential Lease Terms and Conditions (Confidential)

Background

1. 343 George Street is a 10-storey retail/commercial office building located on the north western corner of George and Barrack Streets, immediately facing Martin Place. It is one of Sydney's heritage landmark buildings, originally completed in 1925 as the headquarters for the Commercial Banking Company in Sydney. The City of Sydney purchased the building in 2010 as part of its commercial investment portfolio.
2. The ground floor retail is occupied by upmarket fashion retailer Burberry, with the remaining nine levels being commercial office accommodation.
3. Atlassian currently occupy the top three levels of 343 George Street. Atlassian also occupy the top three levels of 341 George Street. The current lease expires on 28 February 2020 and has an additional option term of three years and two months. Atlassian have requested that the new lease include a three-year and four-month term, with an additional option term of two one-year options.
4. Prior to the City of Sydney purchasing this building, Atlassian were granted permission to create a doorway on each of these levels connecting the two buildings on these top three floors. Atlassian carried out extensive fitout over these three floors, including the installation of a fully stocked kitchen.
5. Atlassian Pty Ltd is an Australian enterprise software company that develops products geared towards software developers and project managers. Atlassian serves over 35,000 customers globally, and its clients include Audi, NASA, Twitter, Infor, and Cisco.
6. There are no plans afoot to make any major changes to the existing fitout.
7. The new terms have been negotiated to include the Green Lease Clauses now required by Council in all leases within this group of buildings. The additional clauses will provide a commitment from both parties to proactively improve the sustainable performance of the building.
8. The City's independent valuer, Rawlinsons, has undertaken an assessment of the market rent for this tenancy. The agreed terms of the proposed lease are in line with the market rental valuation, as detailed at Confidential Attachment A.

Option Lease Term

9. Atlassian submitted a request to the City for a new lease of three years and four months and two one-year options. Should this lease with the option periods be exercised by Atlassian, this would extend the tenure for Levels 8, 9 and 10 to 30 June 2025.
10. The City is supportive of extending the term of this lease, given the new lease would offer no vacancy and therefore no adverse impact on of the 2019/20 budget. This recommendation is also in conjunction with the tenant's excellent payment history.
11. Atlassian have executed a Heads of Agreement and the key terms are summarised as per Confidential Attachment A. The agreed terms are subject to approval by Council.

Key Implications

Strategic Alignment - Sustainable Sydney 2030 Vision

12. 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 – specifically, Action 10.5.1: Expand revenues from commercial operations, property portfolio and other income generating assets.

Budget Implications

13. The proposed lease commencement date is 1 March 2020. The rental income has been included in the draft 2019/20 operating budget.

Relevant Legislation

14. Local Government Act 1993.
15. 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.
16. 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

17. Option 1 – reject Atlassian proposal and maintain the current lease which will expire April 2023, should the current option be exercised. This option is not recommended as it yields lower revenue for the City due to the relatively short remaining lease term.

18. Option 2 – approve the newly negotiated lease to commence March 2020 which will expire June 2025 should all options be exercised. This option is recommended as it results in an extended period of revenue for the City.

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