

Item 13.**Lease Approval - Part Ground Floor, Levels 1 and 2, 101 William Street, Darlinghurst**

File No: S099737

Summary

This report seeks Council's approval to grant a new lease to City Gym Sydney Pty Ltd for Part Ground Floor, Level 1 and Level 2, 101 William Street, Darlinghurst, for a term of 10 years with a further lease option term of five years commencing 1 June 2019.

Essential lease terms and conditions of the proposed lease are shown in Confidential Attachment A.

Recommendation

It is resolved that:

- (A) Council approve the grant of a 10-year lease to City Gym Sydney Pty Ltd for Part Ground Floor, Level 1 and Level 2, 101 William Street, Darlinghurst, which includes an option of five years; and
- (B) authority be delegated to the Chief Executive Officer to negotiate, execute and administer the terms of the lease in accordance with Confidential Attachment A to the subject report.

Attachments

Attachment A. Essential Lease Terms and Conditions (Confidential)

Background

1. The property has been occupied by HUB Sydney Pty Ltd since 1 April 2014. HUB vacated the property as at 31 March 2019 due to expanding their current operations to a larger site at Customs House.
2. City Gym has been a fitness industry icon since 1978. Internationally recognised as the place for known weight lifters and celebrities to visit, it has been an integral part of Sydney's social evolution. City Gym is a draw card for a diverse range of community groups: world class athletes, seniors and younger groups – providing a friendly, safe and welcoming environment.
3. City Gym is currently spread across three floors, offering heavy weights, cardio and classes. It also offers personal training, as well as a corporate studio with a running club, yoga, and supported programs for beginners.
4. City Gym has been operating since 1978, its first location being at 100 William Street, Darlinghurst. It then moved to its current property at 107 Crown Street, Surry Hills, which has been its location for the last 35 years.
5. City Gym's lease at the current site, 107 Crown Street, Surry Hills, expires at the end of August 2019. City Gym are taking this as an opportunity to re-locate the gym back onto the original street where City Gym built its name, and into a building that offers better floor plates for improved gym layout.
6. Proposed gym set-up:
 - (a) Ground floor: reception with café, offering health foods and coffee;
 - (b) Level 1: Bathrooms with showers, spa, sauna, group fitness, classes, boxing, cardio; and
 - (c) Level 2 – Weights area – to be whole floor.
7. The total of the proposed tenancy area is 1127.3 square metres.
8. The City's independent valuer, BEM Property Consultants and Valuers, 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.
9. 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 Vision

10. 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

11. Revenue for the 2018/2019 budget will not be impacted. HUB Sydney Pty Ltd have vacated as at 31 March 19 and the income budget reflects the reduced income due to assumed vacancy. The proposed lease is due to commence 1 June 2019.

Relevant Legislation

12. Local Government Act 1993.
13. Attachment A contains confidential commercial information and details which, if disclosed, would confer a commercial advantage on a person with whom Council is conducting (or proposes to conduct) business.
14. 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

15. At this time, the subject property is vacant. If the City does not lease the property to City Gym, it will have to continue to source a new tenant. This action would prolong vacancy and loss of income. There is no commercial advantage for the City to remain on the market and source an alternative lessee.
16. The City has considered the option to lease the subject property to City Gym Sydney Pty Ltd and believes it will achieve significant commercial income for the City and an uplift in rent received.

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