

Item 9.**Proposed New Lease - International Grammar School, 4-8 Kelly Street, Ultimo****File No: S099518****Summary**

The property at 4-8 Kelly Street Ultimo is a significant asset forming part of the City's Investment Portfolio, which generates revenue that supports the City's corporate and community buildings and service delivery programs.

The International Grammar School Sydney Limited has occupied the property for over 20 years since 1 August 1997. The former woolstore site was redeveloped following a tender process targeting a passive investment profile and secure commercial investment return around a single tenant on a long-term lease.

Prior to the expiry of the lease on 30 June 2018, both parties had agreed to commence negotiations and agree terms for a new 20-year lease with a 10-year option commencing 1 July 2019.

The complexities of the previous lease are modernised to current practices around facilities management and asset renewal. This includes clear accountability for operational and statutory responsibilities. Reporting requirements ensure integration between the asset management and the International Grammar School's masterplan building improvements for the benefit of its students and long-term growth.

It is recommended that Council endorse granting a new lease to the International Grammar School for a 20-year term with a 10-year option commencing 1 July 2019.

Recommendation

It is resolved that:

- (A) Council endorse granting a 20-year lease with a 10-year option to The International Grammar School Sydney Limited over the City's investment property at 4-8 Kelly Street Ultimo commencing 1 July 2019 generally in accordance with the Heads of Agreement tabled within Confidential Attachment B to the subject report; and
- (B) authority be delegated to the Chief Executive Officer to continue negotiations on the lease documentation generally in accordance with the Heads of Agreement tabled within Confidential Attachment B to the subject report to achieve the commercial outcomes required, and to administer and manage the lease including any variations throughout the term of the lease and to execute all documentation for the aforementioned.

Attachments

Attachment A. Identification Plan

Attachment B. Heads of Agreement (Confidential)

Background

1. Established in 1984, the International Grammar School is a unique independent, co-educational, secular school offering quality teaching for early learning, primary and high school students.
2. The school provides an alternative to traditional private school with an educational objective to provide bilingual education from preschool onwards, and to promote internationalism, music and racial tolerance.
3. Erected on the former Dalgety Woolstore site at 4-8 Kelly Street is a five-level modern building with lettable area of 6,721 square metres with rooftop recreational facilities, open courtyard and secure basement parking for 34 vehicles. Funded by Council and completed at a cost of \$12.1 million the Peddle Thorpe designed building supports environmentally sustainable principles and adaptability.
4. International Grammar School consolidated from its owned facilities at Surry Hills and leased facilities in Balmain to the current building in 1997. Over the years, with student numbers increasing, the school has expanded to create a Kelly Street Campus and the Mountain Street Campus comprising five buildings that the school has either acquired and redeveloped or leased.
5. After three decades of growth, the school is currently at maximum capacity with 1,275 students spread over the two campuses. In 2016, the school adopted a 20-year masterplan to improve standards to meet curriculum requirements under the Education Act, including an initial budget of \$18 million for initiatives and upgrades across all buildings within its two campuses.

Proposed New Lease

6. Entering into a new lease on commercial market terms with the International Grammar School maintains a secure growing income stream for the City over the lease period.
7. The inclusion of a lessee contributed renewal fund linked to an asset management plan and condition audit with lessee reporting responsibilities embedded into the lease ensures the City has oversight of its asset's condition during the term.
8. The proposed lease is a triple net lease, which means the Lessee is responsible for the ongoing expenses of the property, including taxes, building insurance, and maintenance, in addition to paying the rent and utilities.
9. The financial aspects of the proposed lease, including investment returns and the heads of agreement between the parties, is set out in Confidential Attachment B and will be further refined as the lease documentation is drafted, negotiated and finalised.

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 revenues and other income producing assets.

Risks

11. Risks have been identified and mitigated within the draft Heads of Agreement in Confidential Attachment B.

Environmental

12. There are no impacts on the City's Environmental Management Plan.

Budget Implications

13. The proposed lease has been included in the draft 2019/20 operational budget.

Relevant Legislation

14. Local Government Act 1993.
15. Attachment B contains confidential commercial information which, if disclosed, would:
 - (a) confer a commercial advantage on a person with whom the City 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 the City's ability to negotiate fairly and commercially to achieve the best outcome for its ratepayers.

Critical Dates / Time Frames

17. Both parties have targeted 1 July 2019 as the commencement date of the proposed new lease.

Options

18. No substantially different options are identified that would provide a commensurate commercial investment return to Council.

Public Consultation

19. There is no public consultation required for this proposed lease.

AMIT CHANAN

Director, City Projects and Property

Nicholas Male-Perkins, Commercial Manager