

Item 9.**Lease Approval - Part 540 George Street, Sydney and Stratum Stair Access
Town Hall - Woolworths Group Limited****File No: S098632****Summary**

This report seeks Council's approval to grant new leases to Woolworths Group Limited for:

1. the basement, lower ground, ground, first, second and third floors at 540 George Street, Sydney; and
2. the Stratum Stairs at Town Hall Station;

for terms of ten years, plus four five-year options.

The current leases expire on 8 October 2020, with the subsequent leases expiring on 31 December 2021. The subsequent leases will need to be surrendered before the new leases commence. The granting of new leases will provide Woolworths Group Limited with a term certain to 31 December 2030. However, during the option terms, the City will be entitled to terminate the leases (at its sole discretion) by giving 12 months written notice to Woolworths Group Limited.

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

Recommendation

It is resolved that:

(A) Council approve the surrender of the leases to Woolworths Group Limited for:

- (i) the basement, lower ground, ground, first, second and third floors at 540 George Street, Sydney; and
- (ii) the Stratum Stairs at Town Hall Station;

both of which are due to expire on 31 December 2021, subject to the leases referred to in clause (C) being executed;

(B) authority be delegated to the Chief Executive Officer to negotiate the surrenders and enter into all documentation in relation to the surrender of the leases to Woolworths Group Limited contemplated by clause (A);

(C) Council approve the granting of leases to Woolworths Group Limited for:

- (i) the basement, lower ground, ground, first, second and third floors at 540 George Street, Sydney; and
- (ii) the Stratum Stairs at Town Hall Station;

both for ten-year initial terms to 31 December 2030, with four five-year options, which allow the City at its sole discretion to give 12 months early termination notice during the option terms, in accordance with the terms in Attachment A to the subject report; and

(D) authority be delegated to the Chief Executive Officer to negotiate, execute and administer the terms of the leases in clause (C) in accordance with the terms of the leases in Attachment A to the subject report.

Attachments

Attachment A. Essential Lease Terms and Conditions (Confidential)

Background

1. The Woolworths Building is a landmark, 10-level, Sydney CBD Commercial and Retail building located on the corner of George and Park Streets, opposite the Sydney Town Hall.
2. Originally constructed in the 1940's, Woolworths Group Limited held a 40-year leasehold interest from 1965, occupying the lower levels as Woolworths Variety Store. Two floors were added in 1967 and it became the Woolworths Head Office. The City of Sydney purchased the building in May 1985 with the long term lease agreement to Woolworths Group Limited which expired in October 2005. Major refurbishments took place in 1997 and 2005, with Woolworths Group Limited reducing their occupancy to the current six levels.
3. Woolworths Group Limited currently has a lease for the basement, lower ground, ground, first, second and third floors at 540 George Street, Sydney, for five years, which expires 8 October 2020.
4. In conjunction with its lease over the above premises, Woolworths Group Limited also hold a separate lease for the Stratum Stairs between 540 George Street and Town Hall Station for a term of five years, which expires 8 October 2020.
5. The current leases have a 12-month early termination where notice can be given at the City's discretion.
6. The subsequent leases for the basement, lower ground, ground, first, second and third floors at 540 George Street, Sydney, and the Stratum Stairs at Town Hall Station, both have a term of one year, two months and twenty-three days, commencing 9 October 2020 and expiring 31 December 2021, and are on the same terms and conditions as the current leases.
7. The new leases propose to give Woolworths Group Limited a term certain to 31 December 2030. However, during the option terms, the City will be entitled to terminate the leases (at its sole discretion) by giving 12 months written notice to Woolworths Group Limited.
8. Woolworths Group Limited have been model tenants during the period of their tenure with their rent being paid on time, keeping their tenanted area well maintained and co-operating with the City at all times.

Rental Determination

9. Colliers International were engaged to undertake an independent assessment of the rental value of the tenancy of the basement, lower ground, ground, first, second and third floors at 540 George Street, Sydney, and the Stratum Stairs at Town Hall Station for leasing purposes for a lease commencement date of 1 January 2021.

Key Implications

Strategic Alignment - Sustainable Sydney 2030

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 item 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. The renewal of the leases will have a positive impact on the 2020/21 budget due to the capital works being amortised over the life of the lease.
12. Financial implications are discussed further in Confidential Attachment A.

Relevant Legislation

13. Local Government Act 1993 - Section 10A provides that a Council may close to the public so much of its meeting as comprises the discussion of information that would, if disclosed, confer a commercial advantage on a person with whom the council is conducting (or proposes to conduct) business.
14. Attachment A to the subject report contains confidential information which, if disclosed, would confer a commercial advantage on a person with whom Council is conducting (or proposes to conduct) business.
15. Discussion of the matter in an open meeting would, on balance, be contrary to public interest because it would compromise Councils ability to negotiate fairly and commercially to achieve the best outcome to ratepayers.

Public Consultation

16. There is no requirement for public consultation for this commercial lease.

AMIT CHANAN

Director City Projects and Property

Roisin O' Sullivan, Commercial Property Manager, Property Services