

Item 8.**Lease Approval - Part 540 George Street, Sydney and Stratum Stair Access Town Hall**

File No: X079195.010

Summary

This report seeks Council's approval to grant new leases to Proponent A 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 an initial term of ten years, plus four five-year options.

The current leases expire on 31 December 2021.

The granting of new leases will provide Proponent A with leases over the premises at 540 George Street and below ground stratum commencing 1 January 2022 and expiring 31 December 2031. Both leases include an early termination clause available to the City from 1 January 2027.

The evaluation and comparison of the proponents is detailed in Confidential Attachment A, with responses from each proponent reproduced in Confidential Attachments B and C.

Recommendation

It is resolved that:

- (A) Council note the Evaluation – Commercial Considerations within Attachment A to the subject report;
- (B) Council approve the granting of leases to Proponent A 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 an initial ten-year period commencing 1 January 2022 and expiring 31 December 2031, with four five-year options, which allow the City at its sole discretion to give six months early termination notice from 1 January 2027 in the initial term and at any point during the option terms, in accordance with the terms in Attachment B to the subject report;
- (C) authority be delegated to the Chief Executive Officer to finalise negotiations, execute and administer the terms of the leases in clause (B), including non-substantive amendments and any option terms, generally in accordance with the terms of the leases in Attachment B to the subject report; and
- (D) authority be delegated to the Chief Executive Officer to:
 - (i) end negotiations with Proponent B if there are departures from the terms in Attachment B to the subject report, after updating Council through a CEO Update; and
 - (ii) finalise negotiations, execute and administer the terms of the leases with the next most suitable respondent, including non-substantive amendments and any option terms, generally in accordance with the terms contained in Attachment C to the subject report.

Attachments

- Attachment A.** Evaluation - Commercial Considerations (Confidential)
- Attachment B.** Proponent A - Returnable Schedule: Essential Lease Terms and Conditions (Confidential)
- Attachment C.** Proponent B - Returnable Schedule: Essential Lease Terms and Conditions (Confidential)

Background

1. 540 George Street 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 1930'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 31 December 2021.
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, which expires 31 December 2021.
5. The City undertook a best and final offer competitive process to achieve the best value for ratepayers. To ensure transparency, robustness and integrity, external probity advisors, Procure Group, oversaw the entire process. The best and final offer period ran for six weeks with a two-week evaluation process. Evaluation of submissions was based on financial outcomes.
6. This report recommends that Council give Proponent A an initial 10-year lease commencing 1 January 2022 and expiring 31 December 2031. There is an early termination clause allowing the City to terminate the leases with six months written notice from 1 January 2027.

Key Implications

Strategic Alignment - Sustainable Sydney 2030

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 - Implementation through Effective Governance and Partnerships - specifically, Action 10.5.1 - Expand revenues from commercial operations, property portfolio and other income generating assets.

Financial Implications

8. The renewal of the leases and their financial impact has been incorporated into the City's draft 2021/22 Operating Budget and future year forward estimates.
9. Financial implications are discussed further in Confidential Attachment A.

Relevant Legislation

10. 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.
11. Attachments A, B and C to the subject report contain confidential information which, if disclosed, would confer a commercial advantage on a person with whom Council is conducting (or proposes to conduct) business.
12. 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.

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