

## **George Street Business Innovation Space – Award of Accommodation Grant and Recommended Operator**

**File No: X004710**

### **Summary**

The City of Sydney's Business Innovation Space is located at 180 George Street, Sydney. It is being delivered under a Voluntary Planning Agreement (VPA) with Lendlease as part of the construction of a new 56-storey commercial tower, new public plaza fronting George Street and new public laneways.

Central Sydney plays a critical role in the continued growth and economic success of wider Sydney and the national economy. The City of Sydney's Tech Startups Action Plan, adopted by Council in June 2016, identifies access to space as one of the key initiatives the City can deliver in order to support technology entrepreneurs and grow the startup ecosystem.

The Business Innovation Space at 180 George Street is an exciting step forward for the City's innovation economy. It consists of approximately 3,800sqm of net lettable area contained within the first three floors of the commercial tower above ground level. The intended use of the Business Innovation Space is for "use by technology entrepreneurs and business promoting business innovation and economic development and any ancillary or supporting uses." Under the terms of the Voluntary Planning Agreement, the Business Innovation Space will be leased to the City from Lendlease for a rent-free period of 20 years commencing in mid-2022. The terms of the Voluntary Planning Agreement also provides that Lendlease make a monetary contribution to the City to offset the cost of the fit-out of the Business Innovation Space. The City is passing the monetary contribution of \$7 million onto the selected operator to assist in the cost of the final fit-out of the three floors.

In October 2019, the City commenced a two-stage procurement process to select a preferred operator for the management of the Business Innovation Space. Seven submissions were received to the first stage Expression of Interest. Four submissions from suitably qualified shortlisted participants progressed to the second stage Request for Proposals. One of the four participants withdrew from the process during the second stage.

This report recommends that an Accommodation Grant for the George Street Business Innovation Space be awarded to Innovillage Pty Ltd (Greenhouse).

## Recommendation

It is resolved that:

- (A) Council note the outcome of the Expression of Interest and Request for Proposals for the sublease of the Business Innovation Space (BIS) at 180 George Street, Sydney (the Property);
- (B) Council approve Innovillage Pty Ltd as the selected operator and award an Accommodation Grant to lease the Property for a ten (10) year period generally on the terms contained in Confidential Attachment B to the subject report and the draft Heads of Agreement contained at Confidential Attachment D to the subject report, noting the recommended subsidy rates in (C) below;
- (C) Council approve an Accommodation Grant to Innovillage Pty Ltd for the Property:
  - (i) at 100 per cent subsidy (as detailed in Confidential Attachment B to the subject report) for a four (4) year period subject to a four per cent annual increase, commencing on the completion of fit-out construction works and at a 50 per cent subsidy (valued at 50 per cent of the market rental to be determined at the commencement of year five of the sublease and subject to a four per cent annual increase) for a further six (6) year period; and
  - (ii) otherwise generally on the terms contained in the draft Heads of Agreement contained at Confidential Attachment D to the subject report;
- (D) authority be delegated to the Chief Executive Officer to negotiate, execute and administer relevant agreements with Innovillage Pty Ltd in accordance with the Grants and Sponsorship Policy, including a Heads of Agreement and sublease; and
- (E) authority be delegated to the Chief Executive Officer to make a payment of \$7 million to Innovillage Pty Ltd being the monies received by the City of Sydney from Lendlease for the fit-out of the Business Innovation Space (BIS) as part of the approved Voluntary Planning Agreement for 180 George Street, Sydney and note that a ten per cent payment will be paid immediately to Innovillage Pty Ltd to offset design costs for the fit-out of the Business Innovation Space (BIS) and then equal monthly progress payments will be made until the balance of the monies remaining of the \$7 million are exhausted; and
- (F) Council note that all grants are awarded on the condition that any required approvals, permits and development consents are obtained by the applicant.

**Attachments**

- Attachment A.** Consultation Report on Business Innovation Space Theme and Priority Focus
- Attachment B.** Expression of Interest and Request for Proposals Evaluation Summary (Confidential).
- Attachment C.** Application Summary (Confidential)
- Attachment D.** Draft Heads of Agreement (Confidential)
- Attachment E.** Summary of Innovillage Operating Model (Confidential)

## Background

1. In December 2013, Council adopted the Economic Development Strategy – a ten year strategy which aims to strengthen the city economy and support business. The Tech Startups Action Plan (endorsed by Council in June 2016) is consistent with this strategy. It identifies how the City can support entrepreneurs, with a focus on innovative, new businesses - tech startups, centred on technology and designed for fast growth.
2. The Tech Startups Action Plan focuses on creating an ecosystem that enables knowledge based, innovation-driven businesses to flourish and highlights the importance to Sydney’s entrepreneurs of access to entrepreneurship information, mentors and investors.
3. The Tech Startups Action Plan recognises that supporting entrepreneurs is integral to the vision for the city's economy and outlines the City's commitment to exploring opportunities to influence the success of entrepreneurs and small business operators.
4. A key action of the Tech Startups Action Plan is for the City to assist in the delivery of an “entrepreneurship centre”, to provide a critical mass of office and event space for entrepreneurs in tech startups and the organisations that support them. The Business Innovation Space aims to deliver on this key action.
5. Lendlease’s Circular Quay precinct sits between George and Pitt Streets and includes a 56-storey premium grade commercial tower including an end of trip facility, a public plaza building, generous public open spaces, retail-lined laneways, a public cycle facility, and a new hospitality venue on the former Jacksons on George site.
6. On 25 July 2016, a Voluntary Planning Agreement was executed between Lendlease and the City. The agreement provides for the transfer of land from the City to Lendlease, the payment of a monetary contribution by Lendlease, the transfer of land in stratum to the City, and the completion of works by Lendlease including:
  - (a) George St Plaza;
  - (b) George St Public Cycle Facility;
  - (c) Plaza Building;
  - (d) Laneway Level Public Plaza;
  - (e) Laneways;
  - (f) Public Artwork;
  - (g) Business Innovation Space (Base Building Works), in the podium of the commercial tower to be leased to the City from Lendlease for a rent-free period of 20 years commencing in mid-2022 ; and
  - (h) A monetary contribution from Lendlease to the City to offset the cost of the fitout of the Business Innovation Space. (Note that the City is passing the monetary contribution of \$7 million onto the selected operator to assist in the cost of the final fitout of the three floors).

7. The Business Innovation Space (BIS) will occupy levels 1, 2 and 3 of the 56-storey commercial tower. The net lettable area of the Business Innovation Space is 3801m<sup>2</sup> (including the interconnecting stair voids) equally spread out over three floors.
8. Some features of the Business Innovation Space include:
  - ceiling heights of approximately 5m to the underside of the slab;
  - base building design to accommodate an interconnecting central stair across all three levels;
  - maximum capacity of 495 person across the three floors;
  - male, female and unisex accessible bathroom facilities on each floor;
  - 24/7 access for Business Innovation Space members; and
  - access to the shared commercial end of trip facilities.

### **Purpose of the Business Innovation Space**

9. The Business Innovation Space will be a future-focused innovation hub that supports and enables Australian tech startups to expand into global markets, with a focus on Asia. It is expected the Business Innovation Space will play an important role as a commercial hub for tech startups that are in the growth and scale up stage and are Australian IP based.
10. The Business Innovation Space will leverage its visibility and premium location in Sydney's Circular Quay to act as a showcase of Sydney's tech startup ecosystem to Australia and the world.
11. The Business Innovation Space will support scaleups in future focused sectors commercialising technology developed in Australia and provide below market rental desk and office space to such scaleups.
12. The Business Innovation Space seeks to improve the success rates of tech startups and help them access international markets and share the benefits of economic growth with targeted demographic groups.
13. Through an Expression of Interest (EOI) and Request for Proposals (RFP) process, the City described seven goals for the Business Innovation Space :
  - (a) To support the commercialisation of innovation in Australia;
  - (b) To increase the success rates of tech startups with Australian based IP;
  - (c) To assist tech startups in reaching overseas markets and attracting investment;
  - (d) To provide a suite of programs relevant to the needs of scaleups;
  - (e) To complement other existing tech startup hubs and to provide a key networking hub for the ecosystem;

- (f) To encourage economic inclusion within the Business Innovation Space (e.g. women, First Nations People, culturally and linguistically diverse communities and people with a disability); and
  - (g) For the operational expenses of the Business Innovation Space to the City to be cost neutral.
14. The purpose of the Expression of Interest and Request for Proposals process was to identify a preferred operator who will manage and operate the Business Innovation Space for a 10-year period and receive a rental subsidy via the Accommodation Grant Program providing they demonstrate an ongoing community benefit to the tech startup ecosystem.

### **Accommodation Grant Program**

15. Through the Accommodation Grant application process, community, cultural or economic organisations apply to occupy a specific City-owned property at a reduced rental rate. The City offers this grant in the form of a value-in-kind rental subsidy of up to 100 per cent of the market rental rate.
16. The City will sublease the Business Innovation Space to the preferred operator, who will be responsible for the running of the Business Innovation Space and associated programs supporting tech startups under a co-working model. Under this model, affordable desk space and office space will be sub-let to 'residents' - startup owners and staff - that operate within the Business Innovation Space.
17. Through the procurement process, the City considered the required quantum of annual rental subsidies to enable the provision of affordable space for startups, delivery of quality programming and events for resident startups and Sydney's startup ecosystem, and providing the relevant support to resident startups to grow into global markets.
18. The procurement process for the Business Innovation Space detailed that the City would support the preferred operator by way of an accommodation grant. A rental subsidy of up to 100 per cent of the market rental was offered for the first four years of a 10-year sublease, the remaining years capped at 50 per cent of market rental value.
19. The preferred operator has developed their model in direct response to maximising delivery of the City's outcomes. The model presented is in line with the subsidy opportunity identified by the City as part of the Expression of Interest and Request for Proposals process.
20. The selected operator will act as a subtenant over the three levels of the property. They will be responsible for the day-to-day operational management of the building, and sub-letting/licencing of space for aligned uses.

21. The sublease term will be ten (10) years and is subject to compliance against agreed critical performance criteria. The sublease will include specific performance criteria that align to the selected operator's proposed operating model and key performance indicators to ensure they meet the required City and Business Innovation Space community outcomes. These critical performance criteria will be assessed annually and the City will work with the operator to address any non-compliances. If not successfully resolved, a non-compliance may result in termination of the sub-lease.
22. The operator will be responsible for outgoings as per the details provided in the EOI and the RFP.
23. The selected operator will be required to undertake, manage and complete the fitout of the Business Innovation Space. The City will provide a monetary contribution capped at a maximum of \$7 million to the fitout costs. This monetary contribution comprises the funds received by the City from Lend Lease as part of the Voluntary Planning Agreement.
24. This report also recommends that authority be delegated to the Chief Executive Officer in order to make a 10 per cent upfront payment from the \$7 million allocation to offset design costs for the operator and then equal monthly progress payments during the construction of the fitout.
25. All grants are recommended on the condition that any required approvals, permits and development consents are obtained by the applicant.

### **Procurement Process**

26. On 14 October 2019, the City called for Expressions of Interest for the lease of the Business Innovation Space at 180 George Street Sydney (EOI 1419).
27. A total of seven submissions were received in response to the Expression of Interest from the following organisations:
  - Stone & Chalk
  - Hub Australia
  - Tank Stream Labs
  - Cambridge Innovation
  - Innovillage Pty Ltd
  - The Studio
  - Creative Cubes
28. Following the Expression of Interest process, the City sought Proposals via a Request for Proposals (RFP 2038) process from four of the seven Expression of Interest Participants.

29. The Request for Proposals opened on 11 June 2020 and closed on 6 August 2020. Four participants were invited to make a submission:
  - Hub Australia
  - Innovillage Pty Ltd
  - Stone & Chalk
  - Cambridge Innovation
30. During this second stage, Cambridge Innovation advised the City of their withdrawal from the Request for Proposals process.
31. The submissions were assessed between 11 August 2020 and 22 October 2020 by an Evaluation Panel that was overseen by an independent Probity Advisor. An independent Probity Advisor was engaged to oversee the RFP process to ensure transparency and provide assurance of a fair and ethical selection process.
32. Applications were assessed against the following mandatory evaluation criteria:
  - (a) Financial and commercial trading integrity including insurances
  - (b) Proposed Operating Model including:
    - (i) Rental subsidy request over 10 years as a percentage taking into account the 4 per cent rental increase per annum and the market review at year 5;
    - (ii) Financially sustainable business plan for the 10 years of operation (including occupancy rate goals, desk and office rent income, the average rental subsidy to be provided to Residents event space hire, other revenue streams)
    - (iii) A statement outlining the core theme and focus industry/ies (if any) of the space;
    - (iv) An itemised cost breakdown and description of the benefits (desk space subsidy, subsidised programming, free events, etc) that the subsidy will allow the operator to offer. The breakdown is aligned with the level of subsidy requested and allows the City to understand how the subsidy will be used to deliver the proposed programming and benefits nominated in the operator's proposal. Note that the rental subsidy will be capped at 50 per cent in year 5 and the subsequent years (6 to 10) of the lease;
    - (v) Work Health and Safety planning;
    - (vi) A statement outlining how the Participant will market the Business Innovation Space to the startup industry to achieve occupancy goals;
    - (vii) Sustainability focused practices (i.e. in terms of water, energy, waste etc.);
    - (viii) Commitment to social inclusion practices (including detailed policy/programming that fulfils the commitment and measurable indicators); and

- (ix) An operating model in line with Sustainable Sydney 2030, the City's Tech Startup Action Plan and the City's overall Economic and Social Strategies.
- (c) Proposed Program and Outcomes including:
- (i) Delivery of outcomes in line with Sustainable Sydney 2030, the City's Tech Startup Action Plan and the City's overall Economic and Social Strategies;
  - (ii) Proposed programming and activities that build global connections, community, partnerships, skills, knowledge and capability within the startup ecosystem;
  - (iii) Support Residents to launch into global markets, with a focus on Asia;
  - (iv) Activation of the event space as well as engagement and contribution to the local startup community through the use of the building;
  - (v) Integration with the existing tech startup ecosystem in Sydney;
  - (vi) Complementarity to other tech startup hubs and details of any support from other government programs;
  - (vii) Tenant graduation policy that ensures healthy dynamics in the BIS and passes opportunities to new entrants; and
  - (viii) Measurable community benefits commensurate with the rental subsidy requested.
- (d) Relevant experience and capabilities including:
- (i) Organisational history, experience and objectives;
  - (ii) Professional experience and expertise of the team;
  - (iii) Connection and reputation within the entrepreneurial and startup ecosystem and in potential target sectors identified by the respondent (i.e. Deep Tech, AI and Clean Tech);
  - (iv) Strong connections to Asia and other parts of the world to enable strong pathways for startups to grow globally;
  - (v) Experience in working within agreed building management practices when considering undertaking or assigning works within Leased Premises, including any experience in accessible and inclusive building management;
  - (vi) Tenancy management capability; and
  - (vii) Demonstrated capacity to:
    - a. Support the commercialisation of startups based on Australian IP
    - b. Deliver a globally competitive proposition that will attract talent from all over the world
    - c. Provide startups with strong pathways to launch and grow into Asia and the world
    - d. Contribute to the international positioning of Sydney as an innovative city.

33. The terms and conditions of the sublease agreement between the City and the selected operator will set out specific Key Performance Indicators (KPIs) and performance measures that the operator's activity will be measured against.
34. A copy of the Expression of Interest and Request for Proposals Evaluation Summary is provided in Confidential Attachment B.
35. A summary of all applications received to the Expression of Interest and Request for Proposals is provided in Confidential Attachment C.
36. Following that evaluation process, one Participant was nominated as the preferred operator and negotiation meetings commenced.
37. A copy of the draft Heads of Agreement reached as a result of those negotiation meetings is provided in Confidential Attachment D.

### **The Recommended Operator: Innovillage Pty Ltd**

38. Innovillage Pty Ltd is an incorporated for-profit company owned by Investible Pty Ltd, an early stage global investment group whose mission is to de-risk angel investment globally. Angel investors invest in early stage or startup companies usually in exchange for an equity ownership interest.
39. The City of Sydney has previously supported Investible Pty Ltd to deliver programs such as the Retail Innovation Program. Investible Pty Ltd has also acted as the auspice organisation for IndigiSpace, an Indigenous-led business, to deliver the 12-months Indigenous Business Development Program via a Knowledge Exchange Grant sponsorship.
40. Innovillage Pty Ltd are proposing to run the Business Innovation Space under the name of Greenhouse. Greenhouse will be a collaborative, purpose-built community that leverages the strengths of leading startup development, investment, talent, technology and social impact organisations to solve many of the key challenges climate tech scaleups face as they grow.
41. Greenhouse will be a unique coworking space for scaleups that combines capital investment, access to on-demand talent and other critical, scaleup-specific growth support. It is designed to accelerate and de-risk the commercialisation of emerging scaleup businesses.
42. Greenhouse will be a climate tech scaleup focussed on high-impact commercialisation to empower founders with the skills and talent they need to scale globally and connect investors, corporates and businesses with the next generation of technology leaders.
43. For the purposes of the Business Innovation Space, Innovillage Pty Ltd defines scaleups as businesses that have achieved and validated a product or service in market and that are ready to grow their revenue and scale into new markets.
44. With a strategy designed to support scaleups in critical areas and ensure a steady flow of top businesses moving in and graduating out of the community, Greenhouse expects to support 117 high-performing scaleups and support the creation of more than 1,500 jobs over ten years.

45. A summary of the proposed operating model developed by Innovillage Pty Ltd for the Business Innovation Space is provided in Confidential Attachment E.

## Key Implications

### Strategic Alignment - Sustainable Sydney 2030

46. 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 grant is aligned with the following strategic directions and objectives:
- (a) Direction 1 - A Globally Competitive and Innovative City - supporting entrepreneurs to start and to grow innovative businesses will potentially create more employment, boost Sydney's economy, strengthen global connections and make the City a more desirable place to live, work and visit.
  - (b) Direction 6 - Vibrant Local Communities and Economies - innovative businesses can grow into global businesses, resulting in swift economic and employment benefits locally.
  - (c) Direction 7 - A Cultural and Creative City - supporting entrepreneurs is supporting the expression of innovation and creativity, which in turn contributes to a cosmopolitan, vibrant and active city.
  - (d) Direction 10 - Implementation through Effective Governance and Partnerships - A key approach of the Innovillage model is to work in partnership with the City of Sydney as well as leading investors and venture capitalists, corporates, not-for-profit organisations, universities, subject-matter experts, coworking providers, established accelerators and diversity and talent leaders to build an ecosystem that supports scaleups in key areas of focus.

## Financial Implications

47. The subsidy for the Business Innovation Space will be included in the Accommodation Grant Program that will be included in the City's operational plan and budget for the 2022/23 financial year (the first year of the allocation of the grant) and future year forward estimates.
48. The monetary contribution of \$7 million to the operator to offset the cost of the fitout has been included in the City's Capital Works budgets and future year forward estimates largely offset by the funding contribution from Lendlease under the terms of the Voluntary Planning Agreement.
49. The terms of the Voluntary Planning Agreement for the Business Innovation Space means that the space cannot be leased by the City for commercial purposes. The Voluntary Planning Agreement defines the use of the Business Innovation Space for "use by technology entrepreneurs and business promoting business innovation and economic development and any ancillary or supporting uses."
50. The sublease will be managed as part of the City's Community Property portfolio.

## Relevant Legislation

51. The Expression of Interest and Request for Proposals process has been conducted in accordance with the Local Government Act 1993, the Local Government (General) Regulation 2005 and the City's Contracts Policy and that an independent probity advisor has been involved for oversight of the process.
52. Attachments B, C, D and E contain confidential commercial information of the respondents and details of Council's evaluation 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; and
53. Discussion of the matters contained in Attachments B, C, D and E 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.
54. Section 356 of the Local Government Act 1993 provides that a council may, in accordance with a resolution of the Council, contribute money or otherwise grant financial assistance to persons for the purpose of exercising its functions.
55. Section 356(3)(a) - (d) is satisfied for the purpose of providing grant funding to for profit organisations because:
  - (a) the funding is part of the Accommodation Grant Program;
  - (b) the details of these programs will be included in Council's operational plan for financial year 2022/23 (being the first year of operation for the Business Innovation Space);
  - (c) the program's proposed budget does not exceed 5 per cent of Council's proposed income from ordinary rates for financial year 2020/21; and
  - (d) this program applies to a significant group of persons within the local government area.

## Critical Dates and Public Consultation

56. In late 2018, the City undertook extensive engagement with the ecosystem to discuss how the City could best support them through the delivery of access to space. This engagement informed the preparation of the Expression of Interest documentation.
57. The engagement included interviews with nine operators of coworking spaces, accelerators and incubators, nine corporate/ industry/ government organisations, five startup founders, a venture capital firm and a leading university.
58. A copy of the engagement report is provided at Attachment A.
59. The Expression of Interest was open from 14 October to 19 November 2019. It was promoted on the City's website, via direct notification to stakeholders in the tech ecosystem and on the City's Tenderlink platform.

60. An industry briefing was held at Town Hall House on 24 October 2019 during the Expression of Interest process.
61. The sublease will commence 16 weeks after the practical completion of the building.
62. The main tower and associated public plaza are due for practical completion by 6 July 2022. The operator will commence fitout works for the Business Innovation Space immediately after that date and is estimated to take 16 weeks to complete.
63. The Business Innovation Space is expected to commence operating in November 2022.

**AMIT CHANAN**

Director City Projects and Property

Francesca O'Brien, City of Sydney Strategic Advisor - Colliers