

Item 4.

Lease Approval - Part Ground Floor and Part Forecourt, Customs House - 31 Alfred Street, Sydney

File No: S099079

Summary

Customs House is a Heritage Building that the City purchased from the Commonwealth Government in 2018. Customs House is not only a key income asset for the City, it is also a landmark for tourists and serves as an information centre to thousands of visitors each year.

This report seeks Council's approval to grant a lease to AVC Operations Pty Limited for Part Ground Floor and Part Portico, Customs House, 31 Alfred Street, Sydney, for a term of five years with a further lease option term of five years. Lease to commence on 1 October 2021.

In addition, this report seeks Council's approval to grant a licence for the eastern and western parts of the forecourt which have previously been licenced as outdoor dining / bar areas. Licence to commence on 1 October 2021.

As the annual rent exceeds \$500,000 per annum, Council approval is required to grant the lease and licence.

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

Recommendation

It is resolved that:

- (A) Council approve the granting of a five-year lease with a five-year option to AVC Operations Pty Limited for Part Ground Floor and Part Portico Customs House, 31 Alfred Street, Sydney;
- (B) Council approve the granting of a five-year licence to AVC Operations Pty Limited for the eastern and western parts of the Customs House Forecourt area; and
- (C) authority be delegated to the Chief Executive Officer to negotiate, execute and administer the terms of the lease and licence in accordance with the Confidential Attachment A to the subject report.

Attachments

Attachment A. Essential Lease and Licence Terms and Conditions (Confidential)

Background

1. Customs House is a Heritage Listed Building at Circular Quay which the City purchased from the Commonwealth Government in 2018.
2. The ground floor premises have previously been held under two separate lease / licence agreements. Eastern Café leased the indoor kitchen and dining area at the north east corner of Customs House along with part of the adjacent portico. Eastern Café held a licence for 144.3sqm of outdoor seating on the eastern side of the forecourt, inclusive of a Road Reserve and Crown Land. Eastern Café vacated in April 2019.
3. Quay Bar held a lease over the indoor kitchen and dining area located on the ground floor at the north western corner of Customs House along with part of the adjacent portico. Quay Bar held a licence over 189.5sqm of outdoor seating on the western side of the forecourt. Quay Bar vacated upon expiry of their lease in April 2021, having ceased trading in April 2020 at the start of the Covid-19 pandemic.
4. AVC Operations Pty Limited (AVC) is one of the largest food and beverage focused participants in the Australian pub, bar and restaurant industry with over 180 venues throughout Australia and New Zealand, employing over 3,500 staff.
5. The AVC team are renowned for the activation and management of some of Australia's leading hospitality venues such as The Winter Village, an outdoor alpine inspired activation atop of the Skyline Terrace at Federation Square which included an ice-skating rink. AVC are keen to work with the City to activate the Customs House Square all year round.
6. AVC Venue highlights include:
 - (a) Bungalow 8, King Street Wharf;
 - (b) Manly Wine, Manly;
 - (c) The Winery, Surry Hills;
 - (d) The Duke Hotel, Melbourne;
 - (e) O'Connell's Hotel, South Melbourne;
 - (f) The Smith, Prahran;
 - (g) Kingsleys, Eagle Street Pier, Brisbane; and
 - (h) The Regatta, Toowong.

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 activities.

Financial Implications

8. The rental income resulting from the new lease will exceed the amounts anticipated in the 2021/22 Operating Budget and future year forward estimates.

Relevant Legislation

9. 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.
10. 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.
11. 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 ratepayers.

Options

12. The subject property is vacant and has not been active since the start of the Covid-19 pandemic. If the City does not lease the property to AVC Operations Pty Limited, it will continue to negotiate with a second interested party. This action would prolong vacancy and loss of income and may result in an inferior tenant. There is no commercial advantage for the City to remain on the market and source an alternative lessee.

13. The City has considered the option to lease the subject property to AVC Operations Pty Limited and believes it will achieve significant commercial income for the City as well as activating the Customs House Forecourt.

AMIT CHANAN

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