

Item 5.**Lease Approval - Basement Suite 2 and Ground Floor - 546 George Street, Sydney**

File No: X026840

Summary

This report seeks Council's approval to grant a renewal of lease over the Basement Suite 2 and Ground Floor - 546 George Street, Sydney to the Commonwealth Bank of Australia for a term of four years.

Essential lease terms and conditions are shown in Confidential Attachment A.

As the rent is over \$500,000 per annum, Council approval is required in order to grant this lease to the Commonwealth Bank of Australia.

Recommendation

It is resolved that:

- (A) Council approve a lease to the Commonwealth Bank of Australia for a term of four years for Basement Suite 2 and Ground Floor - 546 George Street, Sydney in accordance with the terms and conditions contained in Confidential Attachment A to the subject report; and
- (B) authority be delegated to the Chief Executive Officer to negotiate, execute and administer the terms of the lease in accordance with the essential lease terms and conditions contained in Confidential Attachment A to the subject report.

Attachments

Attachment A. Essential Lease Terms and Conditions (Confidential)

Background

1. The City of Sydney has a diverse commercial investment portfolio consisting of approximately 41 buildings and 305 tenancies comprising Retail, Offices, Industrial and Stratum (Air Space - Bridges and Tunnels over and under Roads).
2. Some of the buildings owned by the City include the Queen Victoria Building, Customs House, Capitol Theatre, "The Woolworths Building" 540 George Street, 101 William Street and Town Hall House.
3. The revenue raised through the leasing of the commercial investment portfolio plays a significant role in supporting the community, for example, through the provision of infrastructure, sports centres and childcare centres.
4. The income derived from the commercial investment portfolio is the City's second highest revenue source and plays a vital role in contributing to the financial sustainability of Council, enabling the City to continue to support community based organisations, infrastructure projects and provide financial relief and assistance for small business recovery impacted by Covid-19.
5. The City purchased 546 George Street, Sydney, in November 2019. The building is fully occupied, with Evolution Hospitality Institute leasing the upper floors and the Commonwealth Bank leasing the Basement Suite 2 and the Ground Floor as a bank branch. Property NSW lease the Station Masters office.
6. The City has renegotiated a new lease for a term of four years, in order to provide security of tenure and to extinguish the risk of having the premises vacant.
7. Covid-19 has had an adverse impact on commercial rents and has seen a rise in vacancy rates resulting in intense competition amongst landlords to retain and attract tenants during the Covid recovery phase.
8. It is essential that the City be able to operate competitively and effectively in the commercial property market during this time and be agile in its ability to grant lease approvals.

Key Implications

Strategic Alignment - Sustainable Sydney 2030

9. 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.

Economic

10. Preston Rowe Patterson (PRP) valuers were engaged by the City to carry out an independent assessment of rental value for the premises. The report compared recent leasing transactions in the area and the proposed rent is in line with market parameters.

Financial Implications

11. The new rent commencing in March 2022 is slightly less than the amount assumed in the 2021/22 budget. The small reduction in rent reflects the current market conditions but is substantially offset by the additional two years of term certainty.

Relevant Legislation

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

Options

15. It is possible to place the property on the open market in an attempt to source an alternative lessee. This is not recommended, as it could result in a vacancy of the premises for an unquantified period of time, impacting the income generated by the building.

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