

Lease Approval - Levels 4 and 5 - 540 George Street, Sydney

File No: S098637

Summary

This report seeks approval from Council to grant a new lease to IH Sydney Training Services Pty Ltd for Level 4 and Level 5, 540 George Street, Sydney.

540 George Street is occupied by Woolworths on the Lower Ground, Ground Floor, Level 1, and Level 2, with corporate offices on Level 3. Other tenancies are in place or proposed to be in place on Levels 4 to 9.

Essential Lease Terms and Conditions are contained within Confidential Attachment A.

Council approval is required to grant this lease. As this building is earmarked for redevelopment, the City may give no less than 12 months notice at any time from 31 December 2025 to terminate the lease if the land is required for redevelopment.

Recommendation

It is resolved that:

- (A) Council approve a lease to IH Sydney Training Services Pty Ltd for Level 4 and Level 5, 540 George Street, Sydney, in accordance with the essential lease terms and conditions contained within 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, including in relation to the exercise of the option, in accordance with the essential terms and conditions contained within Confidential Attachment A to the subject report.

Attachments

Attachment A. Essential Terms and Conditions (Confidential)

Background

1. The City has a diverse commercial portfolio consisting of approximately 41 buildings and 305 tenancies comprising Offices, Retail, 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, 540 George Street, 101 William Street and Town Hall House.
3. The income derived from the commercial portfolio is the City's second highest revenue source and provides a vital role in contributing to the financial sustainability of Council, enabling the City to continue to support community based organisations, infrastructure projects and financial relief and assistance for small business recovery impacted by Covid-19.
4. 540 George Street is occupied by Woolworths on the Lower Ground, Ground Floor, Level 1, and Level 2, with corporate offices on Level 3. Levels 6 and 7 are occupied by ILSC (Brisbane) Pty Ltd with a proposal for renewal in place. There is a proposal in place for Level 8 with the the Queensland Institute of Higher Education Pty Ltd. Level 9 is occupied by the Australian Technical and Management College (ATMC).
5. This lease proposal is an excellent result for the City, providing security of tenure and extinguishing the risk of vacancy in the building.
6. 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 try to retain and attract tenants during the Covid recovery phase.
7. It is essential that the City be able to operate competitively and effectively in the commercial property market during this time and to be agile in its ability to grant approvals.

Key Implications

Strategic Alignment - Sustainable Sydney 2030

8. 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 10.5.1 Expand revenues from commercial operations, property portfolio and other income generating assets.

Economic

9. Rawlinsons Corporate Real Estate Pty Ltd valuers were engaged by the City to carry out an independent market rental valuation of the premises. The report compared recent leasing transactions in the area and the proposed rent is in line with the market parameters.

Financial Implications

10. The rental income from the new lease, commencing 1 September 2022, is significantly above the amount included in the draft 2022/23 Operating Budget as it was anticipated that it would take several months longer to lease due to current market conditions.

Relevant Legislation

11. 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.
12. Attachment A to the subject report contains confidential commercial information which, if disclosed, would confer a commercial advantage on a person with whom Council is conducting (or proposes to conduct) business.
13. 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 its ratepayers.

Options

14. The City could wait, in an attempt to source an alternative lessee. This is not recommended, as it may result in a long-term vacancy of the premises, impacting the income generated by the building.

KIM WOODBURY

Chief Operating Officer

Matthew Woodroffe, Acting Executive Manager, Property Services