

Lease Approval - Part Suite 1 Whole Suite 2 Ground Floor Wilcox Mofflin Building 46-52 Mountain Street, Ultimo

File No: S099550

Summary

The City of Sydney owns the property known as "Wilcox Mofflin", 46-52 Mountain Street, Ultimo.

The building is a heritage listed former Wool Store which has been converted into commercial offices. It forms part of the City's Commercial Investment Portfolio and has been a key income asset for the City.

The City has a diverse commercial investment portfolio comprising retail, industrial, offices and various stratum. Revenue from the investment portfolio plays an important role in contributing to the financial stability of Council. This enables the City to fund a broad array of local public services and infrastructure.

This report seeks approval from Council to grant a new lease to Harbourside Institute of Australia Pty Ltd for Part Suite 1 and Whole of Suite 2, Ground Floor, Wilcox Mofflin Building, 46-52 Mountain Street, Ultimo.

46-52 Mountain Street is occupied by Think Education on Levels 1 and 2, and DDB on Levels 3, 4 and 5. The total building size is 8773 square metres. There is currently vacant space of approximately 1,170 square metres within the building (13.3 per cent). This proposed lease reduces the unoccupied space in the building to 380 square metres (4.3 per cent).

Essential lease terms and conditions are contained within Confidential Attachment A.

Council approval is required to grant this lease.

Recommendation

It is resolved that:

- (A) Council approve a lease to Harbourside Institute of Australia Pty Ltd for Part Suite 1 and Whole of Suite 2, Ground Floor, Wilcox Mofflin Building, 46-52 Mountain Street, Ultimo, in accordance with the essential lease terms and conditions contained with 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 option, in accordance with the essential terms and conditions contained within Confidential Attachment A to the subject report.

Attachments

Attachment A. Essential Lease Terms and Conditions (Confidential)

Background

1. The City has a diverse commercial portfolio 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 Queen Victoria Building, Customs House, Capitol Theatre, 540 George Street, 343 George 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 and infrastructure projects.
4. The property known as "Wilcox Mofflin" at 46-52 Mountain Street, Ultimo, forms part of the City's commercial investment portfolio. Wilcox Mofflin is a six-storey commercial building with a total net lettable area of approximately 8,773 square metres plus underground parking.
5. The Wilcox Mofflin Building at 46-52 Mountain Street, Ultimo is occupied by Think Education on Levels 1 and 2 with DDB on Levels 3, 4 and 5 with the ground floor being vacant.
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. The ground floor tenancies have been vacant for approximately six years and so this lease proposal is an excellent result for the City, providing security of tenure and reducing the level of vacancy within the building whilst simultaneously, creating a more attractive space for the remaining vacancy to potential applicants.
8. 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 2030-2050 Continuing the Vision

9. Sustainable Sydney 2030-2050 Continuing the Vision renews the communities' vision for the sustainable development of the city to 2050. 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 1 - Responsible governance and stewardship - specifically expanding revenue from commercial operations and the property portfolio.

Economic

10. Rawlinsons Corporate Real Estate Pty Ltd valuers were engaged by the City to carry out 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

11. The draft 2023/24 budget did not include an amount for these premises due to the lack of interest over the previous years, therefore, the anticipated rental income from the new lease commencing 1 January 2024, will be beneficial to the overall budget.

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 of information 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 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 Council's ability to negotiate fairly and commercially to achieve the best outcome for its' ratepayers.

Critical Dates / Time Frames

15. Critical Dates are outlined in Confidential Attachment A.

Options

16. The Council could wait, in an attempt to source an alternative lessee for the entire ground floor. This is not recommended given the length of time the premises have been vacant to date. Delaying further would risk a longer-term vacancy. In addition, it is believed that by leasing this larger area, it will make the smaller remaining vacant area more attractive to further potential tenants.

KIM WOODBURY

Chief Operating Officer

David Graham, Commercial Property Manager