

Item 12.

Lease Approval - 437-441 Bourke Street, Surry Hills - Woolworths Metro

File No: X104524

Summary

This report seeks approval from Council to grant a new lease to Woolworths Group Limited (ACN 000 014 675) for part 437-441 Bourke Street, Surry Hills.

Woolworths Metro is located within the 2004 master-planned, mixed-use redevelopment of the former St Margaret's Hospital site in Surry Hills. The redevelopment comprises four residential buildings with 216 apartments, basement parking, and a ground-floor retail component anchored by the Woolworths Metro supermarket.

In October 2005, The Council of the City of Sydney entered into a lease agreement with Zone Developments Pty Ltd ACN 091 586 560 (now under external administration) for the supermarket premises. The lease was for an initial term of 10 years, with 2 additional 5-year options. This lease remains current and is due to expire on 29 September 2025.

Zone Developments Pty Ltd entered receivership in mid-2024. The Receiver is currently managing the site throughout the sale process to a proposed investor and continues to administer commercial lease payments to the City of Sydney under the existing agreement with Zone Developments Pty Ltd. The proposed investor is in the process of acquiring Lot 14 SP 91401 and settlement is anticipated between August and September 2025.

To ensure continuity of retail operations and ongoing activation of the site, the City has worked with the incoming owner to negotiate a new long-term lease agreement for the Woolworths Metro tenancy.

The proposed new lease spans 30 years, comprising an initial term of 10 years with 4 further options of 5 years (4 x 5 years).

Details of the lease proposal are outlined in Confidential Attachment A.

This report recommends that Council approve the granting of a new lease to Woolworths Group Limited (ACN 000 014 675) for 437-441 Bourke Street, Surry Hills in accordance with the essential lease term and conditions in Confidential Attachment A.

Recommendation

It is resolved that:

- (A) Council approve the grant of a new lease to Woolworths Group Limited (ACN 000 014 675) for part 437-441 Bourke Street, Surry Hills (being Lot 2 in DP1063190) in accordance with the essential lease terms and conditions contained within Confidential Attachment A to the subject report;
- (B) Council approve the granting of an initial term of 10 years plus 4 further options of 5 years (4 x 5) as per the terms outlined in Confidential Attachment A to the subject report; and
- (C) authority be delegated to the Chief Executive Officer to negotiate, execute and administer the terms of the lease and associated agreements, 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 of Sydney has a diverse commercial property portfolio comprising offices, retail, industrial assets, and strata, including air space bridges and tunnels constructed over and under public roads.
2. Within our portfolio are significant public buildings with integrated civic and commercial uses, including the former St. Margaret's Hospital, which has been redeveloped into residential buildings (216 apartments), retail space and basement parking. The Woolworths Supermarket at Surry Hills currently occupies a high-exposure retail space in this location.
3. The leased site is situated within the 2004 redeveloped master-planned, mixed-use redevelopment of the former St Margaret's Hospital site.
4. The City of Sydney previously entered a 10-year lease agreement with Zone Developments Pty Limited ACN 091 586 560 (now under external administration) in October 2005 with 2 x 5-year options, who then leased the site to Woolworths.
5. Zone Developments Pty Ltd entered receivership in mid-2024. The Receiver is currently managing the site throughout the sale process to a proposed investor and continues to administer commercial lease payments to the City of Sydney under the existing agreement with Zone Developments Pty Ltd.
6. The proposed investor is in the process of acquiring Lot 14 SP 91401 and settlement is anticipated between August and September 2025.
7. To extract better value, it is proposed to enter into a long-term lease agreement. A long-term lease secures a reliable revenue stream with a strong covenant tenant like Woolworths, supporting the City's financial sustainability while reducing exposure to market fluctuations, short-term vacancies, and complexities related to future ownership changes. The City retains ownership of the land, preserving long-term flexibility while benefiting from consistent income. Leasing to a tenant of this calibre also ensures continued site activation and access to essential services for the local community.

Key Implications

Strategic Alignment - Sustainable Sydney 2030-2050 Continuing the Vision

8. 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.

Risks

9. The decision is within the City's risk tolerance and represents a well-considered opportunity that delivers on commercial, operational, and civic priorities while maintaining appropriate safeguards.

Financial Implications

10. Financial implications are outlined in Confidential Attachment A.

Relevant Legislation

11. Local Government Act 1993 - Sections 10A and 10B 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, and if discussion of the matter in an open meeting would, on balance, be contrary to the public interest.
12. Attachment A contains confidential commercial information 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.
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.

Critical Dates / Time Frames

14. The current lease is due to expire on 29 September 2025.

Options

15. Current proposal - Renewal with term greater than 10 years with existing tenant:
 - (a) The lease proposal presents a positive financial return, delivering a clear increase over the previous rental agreement and demonstrating strong financial stewardship by the City. It reflects a proactive response to current market conditions, ensuring the asset is being leveraged efficiently to maximise value.
 - (b) Importantly, the agreement also secures a high-quality covenant with a trusted national retailer, Woolworths, further strengthening the long-term security and reliability of income. This combination of improved rental terms and retaining tenant quality reinforces the City's strategic approach to sustainable asset management and portfolio resilience.

15. Enter a new lease with alternative tenant:

- (a) Not proceeding with the new lease presents several clear downsides. These include the immediate loss of rental income and the likelihood of a significant vacancy period, which would impact the financial performance of the asset. Re-leasing the site to another tenant would also require substantial capital investment to support a new tenancy, alongside potentially high 'make good' costs and the risk of necessary structural or remediation works.
- (b) Furthermore, a vacant or underutilised site would result in the deactivation of a key location within a residential precinct, reducing community amenity and vibrancy. Collectively, these risks strongly support the case for a new lease.

KIM WOODBURY

Chief Operating Officer

Michelle Abbey, Property Portfolio Manager