10.11.New Lease on Council Property - Suite 5.01, 1 James Place, North Sydney

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ATTACHMENTS	1. Colliers Australian Metro Office Research Snapshot Q4 2024 2. Suite 5 01 1 James Place (CONFIDENTIAL) 3. Colliers Advice - 1 James Place Suite 5.01 (CONFIDENTIAL)
CSP LINK	3. Our Innovative City 3.1 Our commercial centres are prosperous and vibrant

PURPOSE:

The purpose of this report is to seek Council's endorsement to enter the proposed new lease over Suite 5.01, Level 5, 1 James Place, North Sydney on the terms and conditions contained in this report.

EXECUTIVE SUMMARY:

- Council has received a lease proposal for Suite 5.01, Level 5, 1 James Place, North Sydney which requires a rental abatement to be considered.

- 1 James Place is an office building forming part of Council's property portfolio which is held as investments for income purposes, and to diversify and spread the risk of Council's revenue streams.

- The confidential attachments include monetary information relating to property income, as well as leasing transactions. Should Council wish to discuss this report it is noted that the attached confidential document includes information that would, if disclosed, confer a commercial advantage on a competitor of the Council. Further, release of the information would, on balance, be contrary to the public interest as it would affect Council's ability to obtain value for money services.

- If Council wishes to discuss the report, the meeting should be closed to the public to do in accordance with Section 10A(2)(a) of the Local Government Act (LGA).

RECOMMENDATION:
1. THAT Council resolves to enter the proposed lease over Suite 5.01, Level 5, 1 James Place, North Sydney on the terms and conditions detailed in the confidential report.
2. THAT Council authorise the Chief Executive Officer (or their delegate) to sign all necessary legal documents in relation to this matter.
3. THAT Council resolves that the identified attachment to this report is to be treated as confidential in accordance with section 11(3) of the Local Government Act for the following reason under Section 10A (2) of the Local Government Act:

(d) commercial information of a confidential nature that would, if disclosed
(ii) confer a commercial advantage on a competitor of the Council. It is further noted that the release of this information would, on balance, be contrary to the public interest as it would affect Council's ability to obtain value for money services.

Background

Council has a significant portfolio of commercial properties, with a total replacement cost in the order of $53.7m. The portfolio comprises office space, retail, food premises, and outdoor dining spaces.

Report

Council's Property Portfolio incorporates a diversified portfolio, consisting of office, retail, community centres, outdoor seating arrangements, and other assets. Council's Property Managing Agents, Colliers International, are responsible for the lease negotiations and management of Council's properties under lease.

With Council's current financial situation and the focus on the potential of commercial property as a source of revenue, all new leases will go to Council for approval, pending the creation of a commercial property policy.

Incentives such as rental abatements are common to commercial property, are a long-standing feature of the market and are utilised to attract tenants. The commercial property policy will address financial incentives such as rental abatements and will be developed to provide guidance and relevant delegations in relation to future property leasing transactions.

Under Council's adopted Governance Strategy, a review of commercial property will be undertaken to consider the steps to be taken for it to best align with Council's strategic direction.

Proposed Lease Transaction

Proposed Transaction	Subject Property & Lessee/ Tenant	Term	Permitted Use	Lettable Area
New Lease	**Address:** - Suite 5.01, Level 5, 1 James Place, North Sydney **Lessee:** The Gap Partnership Australia Pty Ltd	**Period:** 01/11/2025 – 31/10/2028 **Term:** 3 years **Option:** Nil	Offices	273.2 sqm

Consultation requirements

Community engagement is not required.

Financial/Resource Implications

Council's property portfolio generates an annual income of $6.35 million from leases of commercial property (retail and office), recreational facilities, community centres, public land, roads, private residential properties, and outdoor dining licences.

The subject office suite has been vacant for over two years. This lease proposal will grow the income generated by the property portfolio.

Legislation

The management of leases within Council's Property Portfolio is governed by the provisions of the Retail Leases Act 1994 and the Local Government Act 1993. These legislations set out the legal framework and requirements for handling retail leases and property management in Local Government, NSW.

Australian Metro Office Snapshot

Q4 2024

Q4 2024 Key Findings

Vacancy declines across the metro markets throughout H1 2024 with more than half of the tracked markets recording a decrease in vacancy. The metro markets are showing varying fundamentals that underpin vacancy and demand movements in each respective market, some are seeing landlords take opportunity of elevated vacancy to refurbish assets whilst others experiencing an undersupply of office space are seeing strong take up of existing stock. Parramatta and Brisbane Fringe were the largest movers, with vacancy declining 2.6pps and 1.9pps respectively.

Leasing activity remains robust across the metro markets with an uptick in gross leasing activity over Q4. During the quarter, there was a 14% increase in gross leasing activity in the sub-1,000sqm segment across the metro markets. Overall leasing activity increased 11% in Q4, reaching over 998,000sqm across the National metro markets with SMEs continuing to be the main driving force behind take up. Strong take up and below average supply additions are leading to healthy rental growth in metro locations.

Lowering vacancy and an active SME market are allowing rent stabilisation to occur across the metro markets. Q4 saw a weighted average net effective rent increase of 0.8%, with West Perth and Brisbane Metro being the largest movers, increasing 2.19% and 1.72% respectively. Although a moderate increase was recorded over the quarter, average rents are still below the 5-year historical average.

Investment volumes in Australia's metro continue to carry momentum through to Q4 with over $750 million worth of assets transacting. Throughout the year transaction activity in 2024 increased 25% from 2023 levels reaching $2.6 billion. Colliers Research has reported further yield softening of between 2-27bps in metro office markets over Q4. The market is starting to enter a period of yield stabilisation with further softening expected to be minimal.

Australian Metro Office Snapshot

Q4 2024 Key Findings

National Metro Office Key Indicators

64,400
Sqm of total **net absorption** over H1 2024*
*Melbourne Metro as at Sep-24

0.8%
National weighted **average prime net effective rental growth** in Q4 2024

7.69%
National weighted **average prime yield** Q4 2024

Supply

Supply across Australia's metro markets remain below historical average levels as sticky vacancy and elevated construction costs pose a challenge to developers. Metro supply totalled 19,000sqm over Q4, the Melbourne metro (15,500sqm) and Sydney CBD Fringe (3,500sqm) were the only markets to record new supply additions.

The pipeline is moderate for the metro market with over 216,000sqm currently under construction across 20 projects that are due for completion throughout 2025 & 2026. All projects currently under construction are new developments, almost 60% (126,900sqm) of which are in the Melbourne metro market. The strong supply pipeline is likely to put upward pressure on vacancy within the markets, further impacting feasibilities on future projects and slowing down further construction activity.

Demand & Vacancy

Vacancy decreased across six of the eleven tracked markets in H1 2024 (latest data), although mainly driven by positive net absorption, differing fundamentals in each market drove unique movements in each market. Parramatta was the largest mover, declining by 2.6 pps mainly driven by withdrawals of vacant stock for refurbishment. Closely followed by Brisbane Fringe which declined 1.9pps due to strong absorption and an active SME occupier market.

Positive net absorption was concentrated in Melbourne Metro (44,381sqm), Brisbane Metro (16,065sqm) and Macquarie Park (15,484sqm), despite the positive absorption in Melbourne metro vacancy still increased to 15.4% as a result of significant completions over H1 2024 outweighing the positive absorption.

Rent & Incentives

Rent normalisation is occurring across Australia's metro markets with quarterly growth averaging 0.8%, mainly driven by upticks in net rents and incentive stabilisation. Conditions seem to be more aligned after a large divergence across the markets in previous quarters.

Tightening vacancy in West Perth drove effective rents up 2.2%, the largest QoQ increase across the nation. Brisbane metro continued its climb, albeit at a more sustainable rate of 1.7% in Q4, the market saw double digit growth YoY. Market dynamics are now more aligned as a national undersupply of prime stock in the metro markets drives increases in face rents and stabilisation and decreases of incentives.

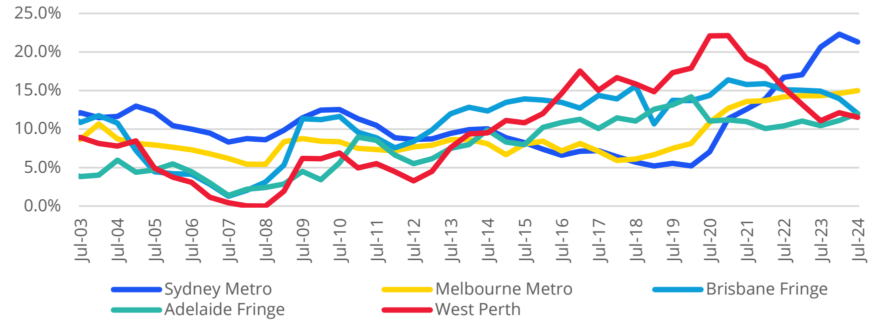
Investment Activity/Yields

Investment volumes in Australia's metro remain healthy in Q4, recording over $750 million of transactions across 18 sales. Institutional investors account for over 66% of all metro asset sales as they continue divesting non-core and metro assets to rebalance portfolios and adjust exposure. Private investors through unlisted funds/syndicates and developers remain the most active purchasers, taking advantage of soft yields in counter cyclical purchase strategies. National weighted average yields softened a further 7bps in Q4, with each market showing softening between 2-27bps. Adelaide Fringe recorded no change in yields at 7.13% with Sydney metro and Melbourne metro showing minimal softening of 2bps and 5bps.

Australian Metro Office Market

Q4 2024 National Snapshot

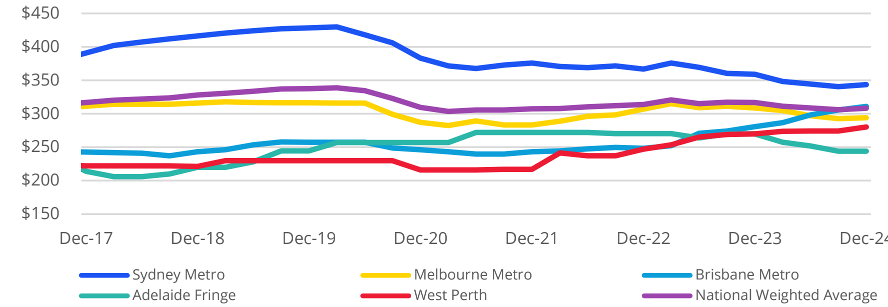
Total Vacancy by Market



Source: Colliers Research

Average total national metro office vacancy has decreased over H1 2024, from 14.8% to 14.4%, underpinned mainly by a 1.9 percentage point decrease to Brisbane Fringe vacancy.

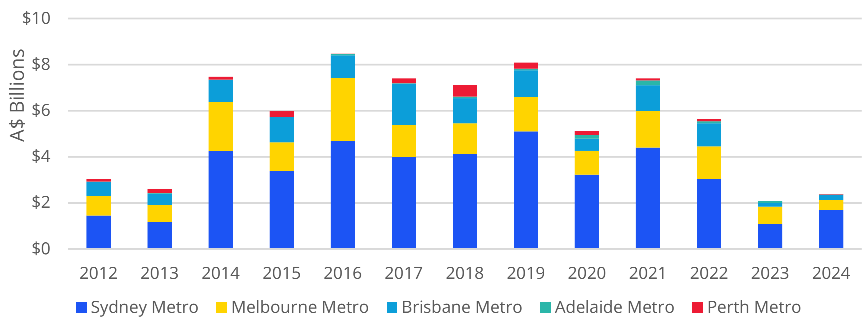
Average Prime Net Effective Rents ($psm p.a.) by Market



Source: Colliers Research

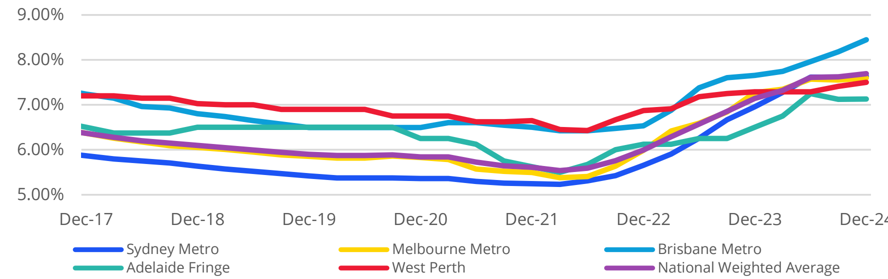
Average weighted prime net effective rents increased by 0.8% in Q4. West Perth recorded the strongest quarterly growth, increasing by 2.2%.

Sales Volumes



Over $2.3 billion worth of sales have been recorded over 2024, with volumes increasing 14% from 2023. Sydney metro was the most active market over Q3, accounting for 71% of metro transactions.

Average Prime Yields by Market



Source: Colliers Research

Yields have reported further softening with the prime average weighted yield for metro office markets increasing by 7 basis points over the quarter.

Australian Metro Office Market

Economic Snapshot

Gross Domestic Product (GDP) data released to September 2024 showed that the economy growth continued to moderate, with data reporting real growth of +0.3% over the quarter (0.8% for the year). While government spending, primarily driven by energy rebates, supported economic growth, private demand remained subdued, making no contribution to GDP growth. The benefits of the Stage 3 tax cuts were partially saved, as evidenced by an increase in the household saving ratio from 2.4% in June to 3.2% in September.

The labour market continues to remain extremely tight, with an additional 97,000 jobs created over the last quarter of 2024. The unemployment rate edged up slightly to 4.0%, while participation levels remained high at 67.1%. The strength of the jobs market may influence the RBA's decision regarding a potential rate cut in February 2025.

Population growth rate continues to normalise, reaching 2.07% over the 12 months to June 2024. Net overseas migration remains the primary driver, contributing 445,600 people and accounting for 81% of the total population increase during this period.

Inflation continues to maintain a downward course, with the latest data for December 2024 showing a price increase of +2.4%, down from 2.8% in September. While goods inflation fell to a decade-low of 0.8%, services inflation remains elevated at 4.3%, driven by higher costs in the rental, medical, and insurance sectors. The trimmed mean inflation rose 3.2% over the year, slightly better than the RBA's expectations, which may provide some support for a potential rate cut in February.

Consumer sentiment has continued to recover through the last quarter of 2024, reaching 92.77 index points by December, up from 84.63 in September and above the 2023 average of 80.94. With the Australian economy stabilising and market expectations shifting towards rate cuts in the first half of 2025, sentiment is expected to improve further over the next 12 months.

Business Conditions have continued to normalise since the post-reopening high, now sitting at 5.7 index points, below the long-term average of 6.6. Conditions are expected to remain soft over the next six months. However, with improving consumer sentiment, the recovery in trading conditions is likely to support business conditions, keeping them in positive territory.

0.84%
GDP Growth
YoY to Sep-24

2.4%
Inflation Rate
YoY to Dec-24

4.35%
Cash Rate
As at Dec-24

2.07%
Population Growth
YoY to Jun-24

3.98%
Unemployment Rate
As at Dec-24

+5.7pt
Business Conditions
As at Dec-24

Australian Metro Office Market

Q4 2024 Data Snapshot

Submarket	Average Net Face ($/sqm p.a.)		Average Incentive (%) **		Average Net Effective Rent ($/sqm p.a.)		Average Yield (%)		Net Absorption (sqm)		Net Supply (sqm)		Vacancy (%)	
Prime Grade	**Current (QoQ)**	**Previous (QoQ)**	**Current**	**Previous**	**Current (QoQ)**	**Previous (QoQ)**	**Average New-A**	**Average A-grade**	**Current (H1 2024)**	**Previous (H2 2023)**	**Current (H1 2024)**	**Previous (H2 2023)**	**Current (H1 2024)**	**Previous (H2 2023)**
Sydney Metro	$645 (0.4%)	$642 (0.3%)	40%	40%	$343 (-0.9%)	$340 (-1.2%)	7.34%	7.93%	24,173	2,566	-16,804	67,633	17.1%	19.0%
Melbourne Metro	$481 (0.6%)	$478 (0.7%)	39%	39%	$294 (0.4%)	$293 (-1.4%)	7.25%	7.95%	44,381*	75,939*	70,858*	95,520*	15.4%*	14.5%*
Brisbane Metro	$564 (0.9%)	$559 (1.4%)	37%	37%	$311 (1.7%)	$306 (2.5%)	N.A.	8.30%	12,673	40,081	-8,700	30,630	11.3%	14.1%
Adelaide Fringe	$343 (0.0%)	$343 (-2.2%)	21%	21%	$244 (0.0%)	$244 (-3.0%)	N.A.	7.25%	-833	1,965	0	0	1.7%	0.0%
West Perth	$420 (0.5%)	$418 (0.0%)	33%	34%	$280 (2.2%)	$274 (0.0%)	N.A.	7.50%	-2,983	3,866	0	3,706	8.0%	5.0%
Secondary Grade	**Current (QoQ)**	**Previous (QoQ)**	**Current**	**Previous**	**Current (QoQ)**	**Previous (QoQ)**	**Average B-grade**		**Current**	**Previous**	**Current**	**Previous**	**Current**	**Previous**
Sydney Metro	$548 (0.1%)	$547 (0.4%)	37%	37%	$285 (0.0%)	$285 (-1.7%)	8.32%		-41,179	-32,976	-25,80	-25,679	20.4%	18.7%
Melbourne Metro	$350 (0.3%)	$349 (0.0%)	34%	35%	$226 (-0.2%)	$227 (0.4%)	9.15%		NA	NA	NA	NA	NA	NA
Brisbane Metro	$485 (0.7%)	$482 (1.5%)	37%	37%	$262 (1.3%)	$258 (2.4%)	8.90%		3,392	-1,160	-2,299	0	23.9%	22.1%
Adelaide Fringe	$255 (0.0%)	$255 (-1.0%)	28%	28%	$159 (0.0%)	$159 (-1.6%)	8.00%		-1,121	-1,793	0	1,843	15.0%	14.3%
West Perth	$305 (0.0%)	$305 (0.0%)	34%	34%	$201 (0.0%)	$201 (0.5%)	8.00%		5,298	-5,274	0	4,304	13.1%	15.6%

Source: Colliers Research, PCA
*Reflecting Melbourne metro across all grades.
All Melbourne Metro numbers do not include St Kilda Road and Southbank.
**Incentives - Sydney, Brisbane and Adelaide are gross incentives and Melbourne and Perth are net incentives.

Sydney – North Sydney

Q4 2024 Market Snapshot

Supply

Below historical average supply levels continued in North Sydney, with no new stock added to the market. Currently, Victoria Cross OSD is the only office development under construction, with all other projects mooted or still in the planning stages as landlords continue to rethink development strategies. Delivery of the OSD in Q3 2025 will be the largest and only premium development since the completion of 1 Denison Street in 2020, the tight premium market and limited supply options are driving positive enquiry from the market for the development. Future withdrawals of office assets for mixed use or residential developments are expected to further drive take up in prime stock, Colliers Research is estimating that approximately 30,000sqm of office stock could be withdrawn by 2027 to make way for residential and mixed-use developments.

Demand & Vacancy

Vacancy in North Sydney was recorded at 23.5% as at July 2024 (latest data) with 9,994sqm of net absorption. Elevated market vacancy was driven by secondary stock which recorded a vacancy rate of 28.5%, well above the 5-year average of 17.3% mainly due to structural vacancy within the secondary market. Prime vacancy was recorded at 16.5%, slightly above the 5-year average of 14.0%, the Premium market only accounting for 2.9% vacancy. Prime vacancy is forecast to continue its downward trend in the long term with a supply driven uptick in H2 2025 due to the completion of the OSD. However, as seen with previous developments in the North Shore, it is expected that uptake of the new stock will be strong upon completion once occupiers can physically inspect the premium amenity and finishes of the asset.

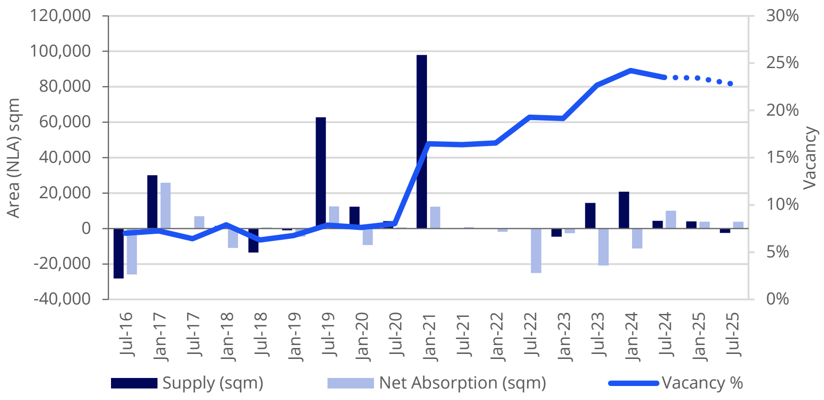
Rents & Incentives

Rental growth continues to moderate to more sustainable levels with no movement was recorded in Q4, previous quarters of strong growth have underpinned YoY increases in average face rents. YoY New-A grade and B grade stock both recorded net rent increases, shifting 3.4% to $1,125 psm p.a. and 3.0% to $785 psm p.a. respectively. Limited options and low vacancy in premium stock drove a 1.6% increase in average net effective rents YoY, reaching $623 psm p.a.. The increase was mainly a result of strong face rent growth and incentives remaining stable, increasing by 1 percentage point to 39%.

Investment /Yields

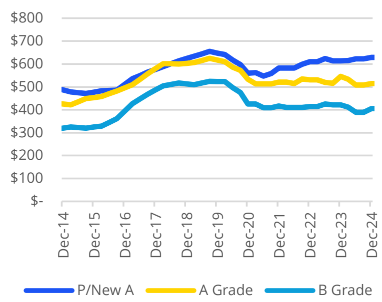
Investment volumes increased by over 150% in Q4 with two major transactions totalling $58.1 million, bringing the 2024 total sales volume to $75.1 million, its highest level since 2021. Based these transactions and current market conditions Colliers Research is reporting 12.5bps softening in average New-A grade yields to 6.63%. Existing A and B grade average yields remain stable at 7.38% and 8.00% respectively, the first quarter since June 2022 that no change was recorded. Colliers Research is forecasting that current yields are close to their peak but further expansion is possible as certainty around market pricing & interest rates become clearer throughout 2025.

Net Supply, Net Absorption & Vacancy



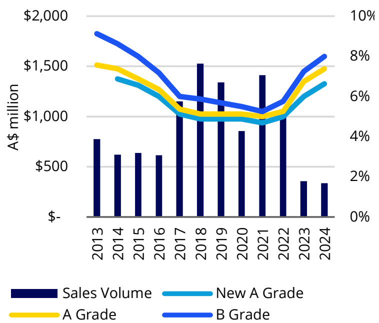
Source: PCA, Colliers Research

Average Net Effective Rents ($/p.a.)



Source: Colliers Research

Sales Volumes (AUD) & Yields (%)



Source: Colliers Research

Sydney – St Leonards

Q4 2024 Market Snapshot

Supply

The Crows Nest/ St Leonards office market is facing a structural shift since it was identified as a priority transport hub under the NSW Government's TOD program which was passed in November. As a result, it is likely that the hiatus in new office supply will continue and withdrawals of office stock for residential or mixed-use development will be exacerbated. Colliers research is estimating that over 25,000sqm of office space could be withdrawn by the end of 2027 with the potential for more as changes from the TOD program play out. Future office supply is scarce with only three projects in the pipeline, all of which are mooted.

Demand & Vacancy

Total market vacancy in St Leonards increased slightly to 26.5% (latest data) from 26.3% in the six months to July 2024, driven by -2,362sqm of net absorption. Prime stock recorded strong take up over the period with 6,117sqm of net absorption driving a 4.4% vacancy decrease to 20.7% as occupiers exercise a flight to quality. The lack of future supply, paired with withdrawals is expected to allow prime vacancy to continue trending down as occupiers relocate from withdrawn secondary assets and absorb some vacancies within prime assets.

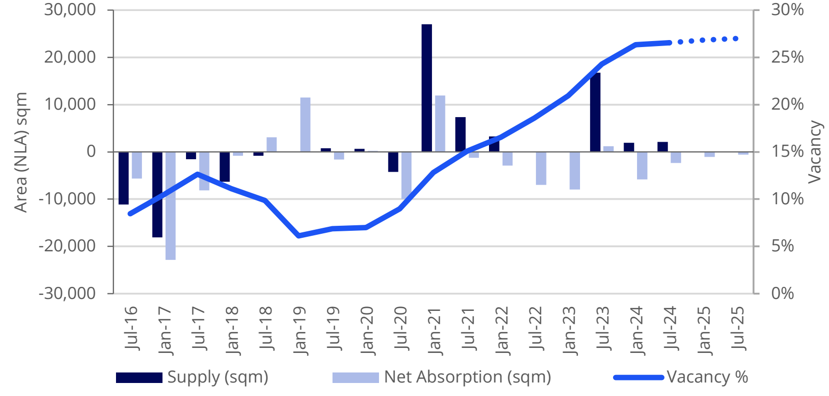
Rents & Incentives

Elevated vacancy across both grades of stock continued to weigh on rental growth in St Leonards, average net face rents recorded no change across all grades with A grade recorded at $700 psm p.a. and B grade at $600 psm p.a. Despite elevated vacancy rates, incentives also remained unchanged over Q4, holding stable at an average of 45% for A & B grade stock. St Leonards has seen landlords remain firm on net rents and continue to push increases but being more flexible on incentive ranges to attract and retain tenants. YoY average A grade net rents have shown moderate growth increasing 2.9%, however this growth was offset by incentives increasing by 4 percentage points over the same period. This led to average A grade net effective rents falling 6.2% from $335 psm p.a. to $314 psm p.a.

Investment /Yields

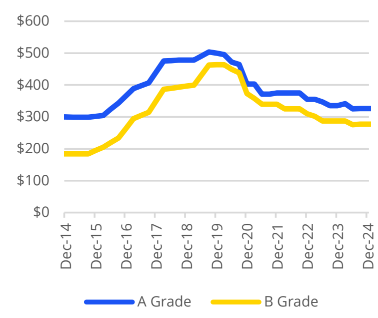
Investment volumes continue to be underpinned by development transactions, with 46-48 and 50 Nicholson Street being picked up by residential developer Coronation property as part of a development site acquisition. The site currently has an SSD application under assessment for the construction of 350 build to rent apartments. Looking ahead, sales for repurposing and redevelopment are expected to increase as the TOD program approval shifts the asset's highest and best use. Although there is no transactional evidence for investment transactions in Q4, based on market conditions Colliers Research is reporting average yields to hold stable at 8.13% in A grade and 8.75% in B grade assets.

Net Supply, Net Absorption & Vacancy



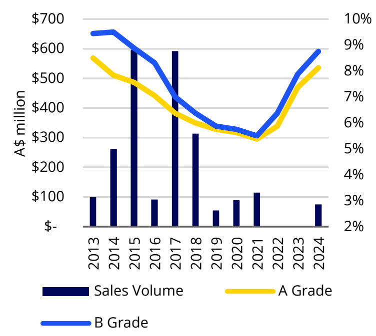
Source: PCA, Colliers Research

Average Net Effective Rents ($/p.a.)



Source: Colliers Research

Sales Volumes (AUD) & Yields (%)



Source: Colliers Research