

## 10.8. New Lease on Council Property - 56 Alfred Street, Milsons Point

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<b>ATTACHMENTS</b>	<ol style="list-style-type: none"><li>1. Colliers North Sydney and St Leonards Office Market Snapshot Q 2 2025 [<b>10.8.1</b> - 2 pages]</li><li>2. CONFIDENTIAL - 56 Alfred Street Milsons Point [<b>10.8.2</b> - 3 pages]</li><li>3. CONFIDENTIAL - Colliers Advice -56 Alfred St - 24.09.2025 [<b>10.8.3</b> - 1 page]</li></ol>
<b>CSP LINK</b>	<b>Outcome 8 – An effective, accountable and sustainable Council that serves the community</b> G8. Manage Council’s finances through robust long-term planning and ongoing financial management

### PURPOSE:

The purpose of this report is to seek Council’s endorsement to enter a proposed new lease over 56 Alfred Street, Milsons Point on the terms and conditions contained in this report.

### EXECUTIVE SUMMARY:

- Council previously approved a lease proposal for 56 Alfred Street, Milsons Point which Council resolved to enter into at the meeting 11 August 2025. The proposed Lessee has decided not to proceed with the lease. Lease proposals are not binding on either party only the lease document.
- Council has received a new lease proposal for a new Lessee for 56 Alfred Street, Milsons Point which requires a lease incentive (to be taken as a rental abatement) to be considered.
- 56 Alfred Street 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 to this report 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.

### RECOMMENDATION:

**1. THAT** Council resolves to enter the proposed lease over 56 Alfred Street, Milsons Point on the terms and conditions detailed in the confidential attachments to this 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 attachments to this report are 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, comprising 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 Manager and Leasing Agents, Colliers, 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 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	<b>Address:</b> - 56 Alfred Street, Milsons Point  <b>Lessee:</b> Physio Inq Pty Ltd	<b>Period:</b> 01/10/2025 – 30/09/2030  <b>Term:</b> 5 years  <b>Option:</b> 3 years	Offices	168 sqm

## Recommendation

Council has the following options in relation to this matter:

1. Do nothing/take no action
2. The recommended option

These options are assessed in the table on the next page.

Option	Finance/Resourcing	Risk/Opportunity	Consultation
1.	Loss of potential rental revenue.  Impact of vacancy on future valuations.	High risk of ongoing vacancy and further loss of potential revenue.	Not applicable
2.	Increased revenue to the property portfolio.  Uplift in value due to reduction in vacancies.	The income provided by the tenant will assist in growing the revenue generated by the property portfolio and lead to an uplift in valuations due to reduced vacancy levels.	Not applicable

Option 2, is recommended for the following reasons:

- Increased revenue to the property portfolio, and potential uplift in the value of the property.
- Community consultation is not required.

### **Consultation requirements**

Community engagement is not required.

### **Financial/Resource Implications**

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

The previous tenant vacated the premises at the end of June 2025. Council previously approved a lease proposal for 56 Alfred Street, Milsons Point which Council resolved to enter into at the meeting 11 August 2025. The proposed Lessee has decided not to proceed with the lease.

This new lease proposal will grow the income generated by the property portfolio and assist with improving the property value.

### **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.

# Sydney – North Sydney

## Q2 2025 Market Snapshot

### Demand & Vacancy

Structural vacancy in lower-quality assets continues to skew overall the market vacancy in North Sydney, which rose to 23.7% over the second half of 2024 (latest data). The divergence between grades continues to widen, with premium vacancy falling to just 2.3% (3,158 sqm), the lowest premium vacancy rate nationally, supported by annual net absorption of 6,222 sqm. The upcoming delivery of Victoria Cross in Q4 2025 is expected to temporarily spike the prime vacancy rate vacancy, however as prime space is taken up and withdrawals moderate secondary vacancy, we expect this rate to return to normalised levels after over the next few years.

Leasing activity recorded a strong uptick in Q2 with volumes reaching their highest level since 2023, driven by the re-entrance of occupiers in the 1,000sqm to 2,000sqm size range. This quarter saw three deals within this size range totalling over 5,500 sqm, well above the quarterly 10-year average for this segment of the market.

### Supply

Victoria Cross continues target the larger tenant briefs in the North Shore, securing a 26% pre-commitment rate to date. The project is expected to be the only new office development delivered this cycle as development strategies shift towards alternate use projects. Looking ahead, net supply is forecast to trend negative as the newly established Housing Development Authority (HDA) accelerates the withdrawal of office stock for alternate use development strategies, helping to alleviate structural vacancy. Historically, complex planning controls in North Sydney's commercial core have challenged developers seeking to repurpose office assets. In response, the HDA is now accepting applications for residential development within commercial zones, a move expected to reduce red tape and support future conversions, especially for assets located on the fringe of the commercial core.

### Rent & Incentives

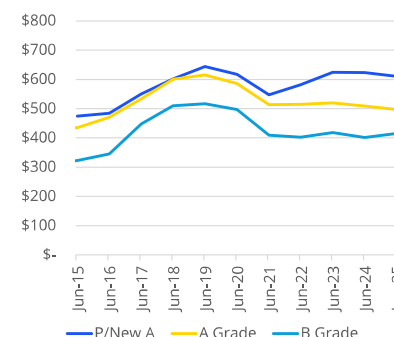
The market is continuing to see a flight to value by tenants as occupiers take advantage of a range of availabilities within the market to secure attractive lease terms. Elevated market vacancy, especially within A grade stock continues to place upward pressure on incentives, with average levels increasing by one percentage point to 41%, all other grades remained stable. Although no change over Q2, strong growth earlier in the year has maintained healthy 3.2% YoY growth in average B grade face rents to \$810 psm p.a, this growth was driven by assets that present high quality fit outs, amenity and that have had recent CAPEX, competing with higher grade assets.

### Investment & Yields

Transaction volumes to date in 2025 remain muted with no sales recorded, this is expected to shift over the second half of the year with the active sale campaign of 100 Pacific Highway. The sale should evidence of yield stabilisation and has the potential to kick start investment activity. Reported yields have continued their stabilisation trend, recording no change over the quarter, it is expected that yields could remain at current levels through to the end of 2025 with some signs of compression possible from 2026.

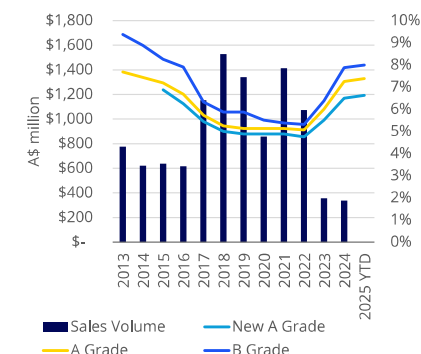
Average Net Effective Rents (\$/p.a.)

Source: Colliers Research



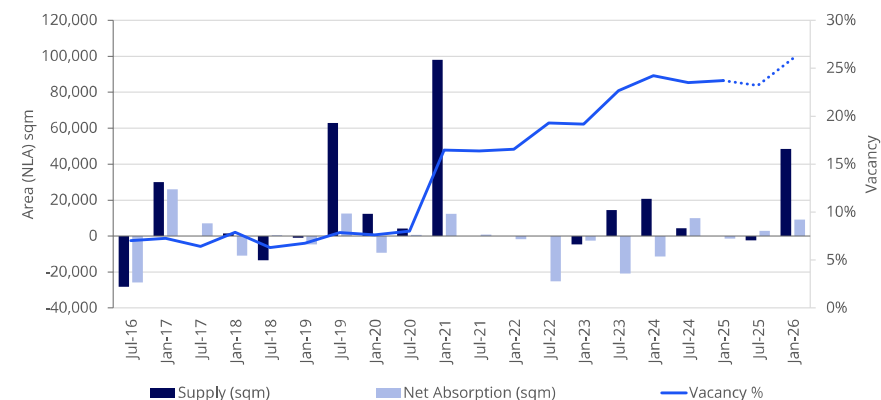
Sales Volumes (AUD) & Yields (%)

Source: Colliers Research



Net Supply, Net Absorption & Vacancy

Source: PCA, Colliers Research



# Sydney – St Leonards

## Q2 2025 Market Snapshot

### Demand & Vacancy

Vacancy continued its upward trend in St Leonards, increasing by 4 percentage points to 30.5% over the second half of 2024 (latest data). The increase in vacancy was driven by -14,037sqm of net absorption, which was mainly focused in A-grade stock, accounting for -7,494sqm, driving vacancy up to 26.1%. Tenants contracting and relocating to smaller office spaces within the market or moving to other markets was the largest contributors to the negative absorption, with tenant relocations both accounting for -6,614sqm and tenant contractions leading at -7,782sqm. Stock withdrawals across the Crows Nest/St Leonards office market are set to be an important part of moderating future vacancy and underpinning the performance of high-quality assets.

### Supply

The hiatus of office supply continued in St Leonards with no change to overall office stock, there are no office developments in the pipeline as markets rents remain below the economic rents required to make office feasibilities stack. Additionally, recent government initiatives such as establishment of the Housing Development Authority (HDA) and Transport Orientated Development (TOD) program are fast tracking residential development sites across the area. Withdrawals and no future supply of office stock is expected to underpin the performance of good quality existing assets as tenants reabsorb from withdrawn assets into the market, this process may take time for the benefits to come to fruition for such assets.

### Rent & Incentives

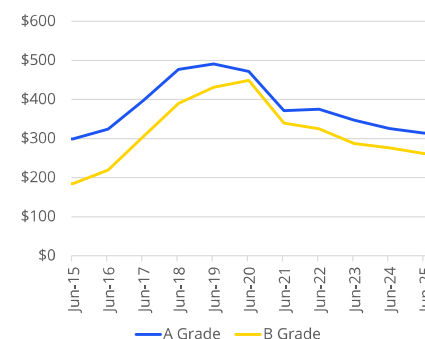
Rising vacancy is placing downward pressure on rental growth, with average net face rents holding steady for the third consecutive quarter at \$700/sqm p.a. for A-grade assets and \$600/sqm p.a. for B-grade. Despite the uptick in vacancy, incentive levels remained unchanged at an average of 45% across both grades, resulting in no effective rental growth over the quarter. In the near term, we anticipate effective rents will remain flat, with no material changes in face rents or incentives. However, potential future withdrawals from the market may help ease vacancy pressures, allowing face rents to edge higher.

### Investment & Yields

YTD Investment volumes in St Leonards are starting to regain momentum with two sales recorded over the half year, 205 Pacific Highway and 106-110 Pacific Highway both sold in the first half of the year, bolstering investment volumes to their highest point since 2021. To further these sales, 154 Pacific Highway and 40 Oxley street are also for sale via an active campaign, targeting value add or development investors. These sales are expected to underpin H2 volumes and are a sign of broader optimism across the NSW metro markets, especially the North Shore.

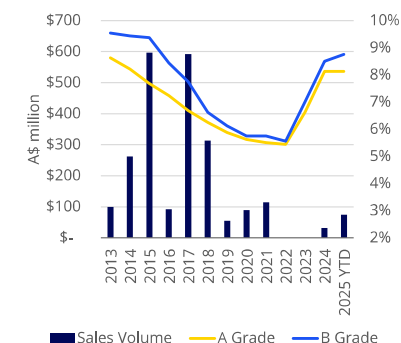
Average Net Effective Rents (\$/p.a.)

Source: Colliers Research



Sales Volumes (AUD) & Yields (%)

Source: Colliers Research



Net Supply, Net Absorption & Vacancy

Source: PCA, Colliers Research

