

10.1. 4th Quarterly Property Portfolio Report 2020 2021 Public

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ATTACHMENTS: Nil

PURPOSE:

The purpose of this report is to provide Council with information on Council's Property Portfolio for the quarter ending 30 June 2021.

EXECUTIVE SUMMARY:

This report provides Council with information on the Property Portfolio for the 4th Quarter of 20/21 – 1 April 2021 to 30 June 2021. The report addresses the following matters:

- Consolidated summary of income received through the Property Portfolio
- Property Portfolio Vacancy Rates
- Leasing Transactions for the quarter
- Acquisitions and Disposals for the quarter
- Major Property Projects (Maintenance and Capital works) for the quarter
- Update on Councils Car Parking Stations
- Impact of COVID-19 on Councils Property Portfolio
- *Outdoor Dining License fee waiver*

FINANCIAL IMPLICATIONS:

Council's budgeted income from its entire Property Portfolio for 2020/21 was originally forecast at \$7,235,387. However due to COVID-19, the income forecast was revised down to \$5,726,505. For more detail on the impacts of COVID-19 on Councils Property Portfolio refer to the detail section of this report.

The Year-to-Date total actual income for the 4th quarter of 20/21 which was received on a cash basis through Colliers International was \$5,824,204 as at 30 June 2021, which is \$97,699 above than the revised forecast of \$5,726,505 for the quarter, 102% of the projected budgeted income for the quarter.

The Year-to-Date income which is received on an accrual basis is \$6,477,771 as at 30 June 2021.

The waiving of all the Outdoor Dining Footpath Licence Fees payable on the 171 current Licences effective as of 1 July 2021 will cost Council an estimated \$52,020 per month in revenue foregone.

RECOMMENDATION:

- 1. THAT** the Quarterly Property Portfolio Report for the 4th Quarter of 20/21 (April to June 2021), be received.
- 2. THAT** *Council notes the impact that the State governments COVID-19 restrictions are having on Councils Property Portfolio revenue.*

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

2. Our Built Infrastructure

2.1 Infrastructure and assets meet community needs

BACKGROUND

This Quarterly Property Portfolio report is designed to give Council and the Community a detailed overview of the performance of Council Property Portfolio for the quarter. In this report on the 4th Quarter a more detailed overview of the financial performance of the Property Portfolio is outlined and specifically the impacts that the State governments COVID-19 restrictions is having on the portfolio.

To effectively manage Council's large and varied Property Portfolio, Council engages Property Management Consultants. The current Property Management Services Contract was awarded to Colliers International (NSW) Pty Ltd in 2019, with options to extend the contract based on performance on a 2+ 2-year basis up to a total of 6 years.

In July 2021 Council undertook a performance management review of the Colliers Contract and after the outcome of that review mutually agreed to exercise a further 2 year option on the Contract based on the performance of Colliers.

Colliers fees are based on a percentage of Councils property portfolio revenue. The restrictions that have been introduced by the State Government in relation to stopping the spread of COVID-19 has had a significant impact on the property portfolio revenue and hence the % revenue share with Colliers has also been adversely impacted. Colliers to their credit have maintained the level of services required under the contract while operating on significantly reduced revenues. This aspect of their services and the management of the contract and Councils overall property portfolio was considered carefully in the performance review undertaken in July.

CONSULTATION REQUIREMENTS

Community engagement is not required.

DETAIL

The following information provides Council and the Community with a detailed overview of the performance of Council's Property Portfolio for the quarter ending 31 March 2021:

Financial Position of North Sydney Council's Property Portfolio – Q4 -2020/2021

The following information is a consolidated summary of North Sydney Council's Property Portfolio financial performance for Q4, for the period commencing 1 April 2021 and ending 30 June 2021.

Commercial Leases and Outdoor Dining Licences

Total number of leases: 316 including 171 Outdoor Dining Licences

Note: There has been a slight increase from 170 to 171 Outdoor Dining Licences in the 4th quarter of 20/21.

Overall vacancy rate across the portfolio: 2.79% this is same as the vacancy rate reported to Council in May 2021 – details are shown in Table 1 and Table 1(a). There have been no movement of tenants in this quarter.

The total quarterly income received through Council's Property Portfolio for this Q4 period was \$1,574,449, making the year-to-date total income to \$5,824,204 as at 30 June 2021.

The total arrears for Council's Property Portfolio for this quarter forms part of the Confidential Memorandum.

It should be noted that the short-term leases relating to the four (4) Hume Street Properties in Crows Nest that were acquired between 2013 and 2017 were removed from the portfolio as these properties were handed over to Council's OSES Division for demolition as part of the Hume Street Park project. These properties have now been demolished as part of that project.

Council acquired four (4) commercial properties in Crows Nest for the purposes of creating a Public Park and increasing the amount of Public Open Space in Crows Nest as part of Crows Nest / St Leonards Planning Study that was adopted by Council in 2013.

Vacancy Position of the North Sydney Council's Property Portfolio

The following Properties are currently listed as vacant in North Sydney Council's Property Portfolio. Council's Property Managing Agents, Colliers International manage all of Council's leasing transactions and are responsible for all aspects of lease negotiation and management of Council's Properties that are under lease.

Overall the vacancy rate of Council's Property Portfolio is 2.79%.

Table 1. Current Vacancies within the North Sydney Council Property Portfolio

<u>Building</u>	<u>Unit</u>	<u>Area (m2)</u>	<u>Comments</u>
52 Alfred Street South, Milsons Point	Car Park Spaces	2 car spaces	Colliers are currently marketing the car spaces for Lease
36 Hume Street, Crows Nest	Shop 1	83.8	Colliers have found a new tenant. Lease has been issued but not signed.
36 Hume Street, Crows Nest	Shop 3	83.1	Colliers are currently marketing the property.
1 James Place, North Sydney	Suite 5.01	273.2	Council and the Electoral Commission have now signed the Licence Agreement for a short-term tenancy on Council Election.
242 Miller Street, North Sydney	Retail Shop	93	Pre-approval has been granted by the General Manager, however, the lease is on hold pending a Development Application
246 Miller Street, North Sydney	Shop	63	Premises not on market due to extensive structural repairs required.
Munro Street, Shed McMahons Point	Shed	21.2	Council is now utilising this space to store the NS Pool equipment whilst the pool is being redeveloped.
80 Pacific Highway, North Sydney	Retail Shop	45.8	Colliers are currently marketing the property.
80 Pacific Highway, North Sydney	Basement Car Space	1	Colliers are marketing the property for Lease

Table 1(a): Summary of Vacancies as an overall area (m²) and % of the total property portfolio

MONTH	January	February	March	Comments
Total Vacant Areas (m2)	663.10	663.10	663.10	
Portfolio NLA (m2)	23,778	23,778	23,778	
Vacancy % of Portfolio NLA	2.79%	2.79%	2.79%	

Table 1(b): Parking Spaces for lease in the Property portfolio

MONTH	April	May	June	Comments
Total Vacant Parking Spaces	2	2	2	Colliers are currently marketing the Property for Lease
Total Parking Spaces under Portfolio	11.00	11.00	11.00	Most parking spaces are at 52 Alfred Street.

Leasing Transactions for the Quarter

The following information is provided to Council in relation to the leasing transactions for Council's owned and leased properties for the period ending 30 June 2021.

Table 2. Council's Leasing Transactions for the Period Ending 30 June 2021

Proposed Transaction	Subject Property & Lessee/ Tenant	Term	Permitted Use	Lettable Area	Terms of Lease / Remarks
Exercise of Option	Address: 43 Ridge Street, North Sydney	Period: In the quarter commencing February 2021 to the period ending February 2025 04/02/2021 – 03/02/2025 Term: 4 years Option: N/A	Cognitive enhancement facility	155.6 m ²	The lessor will be responsible for the preparation of the lease documentation. Each party is responsible for their own costs to review the lease.
Renewal of Lease	Address: Suite 201, Level 3 Crows Nest Community Centre, 2-20 Ernest Place, Crows Nest	Period: In the quarter commencing May 2021 to the period ending May 2026	Offices for the provision of Community Transport activities and information	90m ²	The lessor will be responsible for the preparation of the lease documentation. Each party is responsible for their own costs

		25/05/2021 to 24/05/2026 Term: 5 years Option: 5 years			to review the lease
Renewal of Lease	Address: Part level 2, 2- 20 Ernest Place Crows Nest	Period: In the quarter commencing July 2021 to the period ending June 2022 01/07/2021 – 30/06/2022 Term: 1year Option: Nil	Childcare Centre.	219.1m ²	The lessor will be responsible for the preparation of the lease documentation. Each party is responsible for their own costs to review the lease
Renewal of Lease	Address: Suite 4.01, level 4 Crows Nest Communitie Centre, 2-20 Ernest Place, Crows Nest	Period: Period: In the quarter commencing July 2021 to the period ending June 2022 01/07/2021 – 30/06/2022 Term: 1year Option: Nil	Community Uses	152.28m ²	The lessee is responsible for all costs associated with the lease.
Renewal of Lease	Address: 40A McDougall Street, Kirribilli	Period: In the quarter commencing July 2021 to the period ending June 2026 01/07/2021 – 30/06/2026 Term:	Retail shop	90m ²	The lessor will be responsible for the preparation of the lease documentation. Each party is responsible for their own costs to review the lease

		5 years Option: 5 years			
Exercise of Option	Address: Shop 1, 283A Miller Street, North Sydney	Period: In the quarter commencing November 2021 to the period ending October 2024	Retail sale of home brewing supplies	43.5m ²	The lessor will be responsible for the preparation of the lease documentation. Each party is responsible for their own costs to review the lease.
Renewal of Lease	Address: 39 Ridge Street, North Sydney	In the quarter commencing November 2020 to the period ending October 2023 01/11/2021 – 31/10/2024 Option:	Sandwich Shop/Cafe	52m ²	The tenant is responsible for the payment of all costs associated with the lease.
Exercise of option	Address: Suite 3.04, Level 3, 1 James Place North Sydney	Period: In the quarter commencing July 2021 to the period ending June 2024 01/05/2021 – 30/06/2024 Term: 3 years Option: Nil	Office	185.2m ²	The lessor will be responsible for the preparation of the lease documentation. Each party is responsible for their own costs to review the lease. The Lessee is responsible for the cost of the registration of the lease
Renewal of Lease	Address: Airspace Lease, Elliott Street	Period: In the quarter commencing July 2020 to the period ending July 2040 10/07/2020 - 09/07/2040 Term: 20 years Option:	Airspace for pedestrian overpass		The lessor will be responsible for the preparation of the lease documentation. Each party is responsible for their own costs to review the lease

		20 years			
New Lease	Address: Pacific Highway, 80	Period: In the quarter commencing July 2021 to the period ending July 2024 Practical Completion to 30 June 2024 Term: 5 years Option: 5 years subject to further DA	Skysign	9m ²	The lessor will be responsible for the preparation of the lease documentation. Each party is responsible for their own costs to review the lease
New Retail Lease	Address: Shop 1, 36 Hume Street	Period: In the quarter commencing July 2021 to the period ending February 2023 09/08/2021-08/02/2023 Term: 18 Months Option: Nil	Retail	83.8 m ²	The lessor will be responsible for the preparation of the lease documentation. Each party is responsible for their own costs to review the lease

Outdoor Dining Licences:

The total Outdoor Dining Licences are slightly up from 170 in the January to March 2021 quarter to 171 in the April to June 2021 quarter.

Details of Council's Outdoor Dining Licences revenue resulting from the effects of COVID-19 is provided for in the Confidential Memorandum to this report.

Update on Hygiene Measures put in place to manage COVID-19 at Council Properties

Specialist deep COVID-19 cleaning is undertaken at sites where anyone has been present and tested positive, as and when required. All hygiene measures put in place since the commencement of COVID-19 continue to be maintained.

Table 3: Acquisitions and Disposals within the North Sydney Council Property Portfolio for Q4 20/21

	Address	Reason	Date	Remarks
Acquisition	Nil			

	Address	Reason	Date	Remarks
Disposal	Nil			

List of Property Projects for the Quarter (Major Periodic maintenance and Upgrades)

Apart from routine maintenance for Council properties, the Property Asset Management Plan has identified major periodic maintenance and capital works upgrades for properties throughout Council’s Property portfolio. These essential works need to be carried out in each financial year. These works are funded from the annual Property Capital Works program which is essential to avoid asset deterioration that would result in operational and functional degradation of the buildings.

Table 4: Major Maintenance and Capital Works to Council Properties for the fourth quarter 2020/21

Property	Project Description	Commencement Date	Completion Date
Council Chambers Wyllie Wing	End of Trip Facilities – male and female shower rooms	29/12/2020	23/4/2021
Ward Street Car Park	Ceiling repainting	5/4/2021	30/4/2021
Ward Street Car Park	Amenities signage graphics & P1 signage	24/5/2021	18/6/2021
North Sydney Indoor Sports Centre	New fire panel and fire alarm system	15/2/2021	In progress
Neutral Bay Community Centre	New carpet	02/06/2021	06/06/2021
Neutral Bay Community Centre	Internal repainting	12/06/2021	In progress

Council Chambers End of trip facilities - Female



Council Chambers End of Trip facilities – Male shower



Ward Street Car Park – ceiling repainting



Ward Street Car Park – amenities signage graphics



Ward Street Car Park – P1 level signage



North Sydney Indoor Sports Centre – new fire panel and fire alarm system

Neutral Bay Community Centre – new carpet



Neutral Bay Community Centre – internal repainting in progress



Car Parking Stations Update

As can be seen in the Tables below, Council's Carparking Stations revenue has been significantly impacted by COVID-19. A good recovery was seen in late 2020 and early 2021 as people come back to work. However, Q4 revenue was again impacted by COVID19 restrictions followed by a second lockdown, commencing in June 2021.

The full year income is markedly higher than the original budget estimate, reflecting the impact of Ward Street carpark coming into Council's parking stations portfolio. However, there continues to be a variable COVID19 impact.

It is noted that as the additional income from Ward Street carpark became apparent, budget estimates were adjusted on a running basis in arrears through the year: these tables have been adjusted to represent the budget estimates that were in place at the end of the financial year. Even with the budget estimates increased markedly through the year, income from the parking stations still finished \$98,970 ahead of the revised budget targets.

The total number of carparking spaces in Council's network of Parking Stations is now 1696.

Table 5. Council's Carparking Stations Revenue for Full Year 2020/21

Carpark	Full Year 20/21 - Actual	Full Year 20/21 - Target	Full Year 20/21 - Net Position
Alexander St - Permanent	\$81,359	\$64,000	\$17,359
Holtermann St - Permanent	\$78,614	\$102,375	-\$23,761
Hume St - Permanent	\$262,444	\$308,000	-\$45,556
Nicholson St - Permanent	\$113,064	\$114,000	-\$936
Parraween St - Permanent	\$10,223	\$10,000	\$223
Ridge St - Permanent	\$467,737	\$473,500	-\$5,763
Ward St - Permanent	\$129,514	\$62,660	\$66,854
Casual Parking Income	\$2,874,615	\$2,742,000	\$132,615
Discount Parking Income	\$177,173	\$219,238	-\$42,065
TOTAL	\$4,194,743	\$4,095,773	\$98,970

Table 6. Council's Carparking Stations Revenue for Q4 2020/21

Carpark	Q4 20/21 - Actual	Q4 20/21 - Target	Q4 20/21 - Net Position
Alexander St - Permanent	\$29,258	\$16,000	\$13,258
Holtermann St - Permanent	\$19,098	\$25,875	-\$6,777
Hume St - Permanent	\$75,987	\$77,000	-\$1,013
Nicholson St - Permanent	\$27,211	\$28,500	-\$1,289
Parraween St - Permanent	\$816	\$2,500	-\$1,684
Ridge St - Permanent	\$115,796	\$123,000	-\$7,204
Ward St - Permanent	\$63,786	\$21,600	\$42,186
Casual Parking Income	\$940,264	\$980,000	-\$39,736
Discount Parking Income	\$48,704	\$57,702	-\$8,998
TOTAL	\$1,320,920	\$1,332,177	-\$11,257

Note: For a full breakdown of Carparking revenue refer to Confidential Report.

Impact of COVID-19 on Councils Property Portfolio

The impact of COVID-19 on Councils Property Portfolio over the last 18 months has been substantial. In summary the impacts are as follows:

Property Revenue

Council's budgeted income from its entire Property Portfolio for 2020/21 was originally forecast at \$7,235,387. However due to the impacts of COVID-19, the income forecast has been revised down to \$5,726,505.

The Year-to-Date total actual income for the 4th quarter of 20/21 which was received on a cash basis through Colliers International was \$5,824,204 as at 30 June 2021, which is \$97,699 more than the revised forecast of \$5,726,505 for the quarter, 102% of the projected budgeted income for the quarter.

Property Arrears over 30 days

Property Arrears over 30 days have increased across the Portfolio from \$241,818 in June 30, 2020, to \$1,382,232.44 at on June 30, 2021. The majority of the arrears over 30 days sit with ten (10) tenancies. Refer to the Confidential report for more detail information.

COVID-19 Rent Waiver and Abatement update

North Sydney Council has currently waived \$258,329.99 of rent since April 2020. A further \$158,824.55 has been deferred or abated. Council currently has before it 10 new applications from commercial tenancies for further waiver or abatement of rent. *Refer to the Confidential report for more detail information.*

Number of outdoor dining licences

As at 30 June 2020 Council had a total 165 outdoor Dining Licences. As at 30 June 2021 Council had 171 signed licences. The minor increase in the number of Outdoor Dining Licences over the last 18 months is associated with Council's introduction of the "Waiving Charges during Novel Coronavirus (COVID-19) Policy" which was introduced on Friday 27 March 2020.

Council has not experienced a mass cancellation of licenses and whenever a license holder approaches Council about cancelling a License, Councils Property Officers encourage the holder not to cancel but simply keep the license and defer payment.

Lease Cancellations

As at 30 June 2020 Council had a total of 309 Commercial leases including 165 outdoor dining licences. As at June 30, 2021, the number of leases was 316 including 171 outdoor Dining Licences. As with the Outdoor Dining Licences, Council has not experienced a mass cancellation of leases across its property portfolio because of the Impacts of COVID-19. The maintenance of the quantum of leases including the minor increase (mostly in Outdoor Dining

Licences) can be contributed to Council's introduction of the "Waiving Charges during Novel Coronavirus (COVID-19) Policy" which was introduced on Friday 27 March 2020 and Councils overall approach to the management of its Property Portfolio over the last 18 months.

Councils approach through both its Property Management Agents – Colliers International and Property Staff has been to work with tenants to ensure that they don't cancel their leases and vacate their premises. The success of working closely with all tenants in the portfolio is also reflected in the low vacancy rate (2.79%).

COVID-19 hygiene measures and associated costs

Over the last 12 months Council has spent a total of \$313,199 on hygiene measures across all its properties including operational and community properties in relation to COVID-19.

The Olinga Services Rapid Response COVID Cleaning Team were commissioned to conduct a deep sanitising COVID clean of the Rangers section at the Council Depot on 21 July 2021 following a staff member testing positive for COVID-19.

Refer to the Confidential report for more detail information on the cost of the hygiene measures Council has introduced.

Outdoor Dining Licence Fee waiver – effective as at 1 July 2021



Effective from 1st July 2021 (Q1 2021/22) North Sydney Council has waived all the Footpath Licence Fees payable on the 171 current Outdoor Dining Licences until such time as the NSW Government lifts the Public Health Orders in force preventing outdoor dining.

The General Manager and the Mayor have used the delegation of authority adopted by Council on 4 December 2017 which provides that the Mayor is delegated to deal, in cases of emergency, with any matter not precluded by Section 377 of the Local Government Act 1993 and not being otherwise delegated or development/building applications.

Section 226 of the Local Government Act provides that it is the role of the Mayor:

(d) to exercise, in cases of necessity, the policy-making functions of the governing body of the council between meetings of the council,

It is a requirement that all matters dealt with under delegation to the Mayor shall be reported to the next available meeting of the Council.

Councils Property Management Agents – Colliers International have sent a letter out to all licence holders on 2 August 2021 notifying them of this decision. This was also reported in the Council bulletin on 5 August 2021.

North Sydney Council's response is consistent with Lane Cove, Mosman and Willoughby Councils waiver of Outdoor Dining Licence Fees for the duration of the existing Orders. The City of Sydney has waived all Outdoor Dining Fees until 30 June 2022.

The revenue foregone to Council through waiving Outdoor Dining Licences fees is estimated to be \$52,020 per month.