

ESPLANADE HOTEL MANAGEMENT PLAN

Discussion paper, 13/12/00

Introduction

This document is intended to stimulate thinking about management models that would best assist the perpetuation of a place of urban cultural significance. It focuses specifically on the Esplanade Hotel in St Kilda, which occupies a rare niche in both local and national alternative arts and music subcultures. The hotel has recently been the subject of proposals for substantial redevelopment that would probably obliterate the place's current uses, meanings and associations. There are few precedents in Australia for the preservation of a place of urban cultural significance. This should be seen not as a discouragement, but as a challenge for expansion of existing thought and practice.

Background

The Esplanade Hotel on the St Kilda foreshore (the Espy) has been hosting regular live music performances since its construction in 1878. In the 1920s and '30s it developed a reputation for nurturing and supporting independent, Australian musicians. The reputation continues while the music played at the Espy moves through jazz, rock n roll, country, grunge and ever on. In the last few decades, the hotel has become an icon of constantly evolving counter-cultural arts and alternative music. It is a must-have on every young Australian non-mainstream musician's CV, and a must-see for any backpacker carrying the Lonely Planet Guide to Australia (for a brief history see *The Esplanade Hotel 1878 -? An exploration of the Espy's cultural significance*, Paine and Shaw, 1998).

For the last 20 years the hotel has played music seven nights a week, held regular comedy gigs and art exhibitions and run an excellent kitchen with famously cheap meals. It has no door charge, no dress policy, serves local beer on tap and maintains a proudly egalitarian, non-discriminatory feel. The extraordinary diversity in class background, age and subcultures of its patrons has become a legend in itself.

The hotel occupies approximately one-third of the island site bounded by The Esplanade and Victoria and Pollington Streets. The uses on the remainder of the site are relatively low-key, occupied by old stables and Spanish Mission flats that have been steadily run-down over the last decade and now generate little return. Since the mid-1980s three successive owners have committed themselves to inflated prices for the site on the assumption of opportunities for extensive redevelopment. Community and Council concern at various proposals over the last fifteen years led to the introduction of heritage and development controls that limit any redevelopment to the height of the existing building (18 metres). All proposals have so far been refused, and as a consequence the hotel's substantial revenue has been ploughed into disproportionately high loan repayments rather than maintenance. Its physical fabric has deteriorated over the last decade; the upper floors no longer meet fire and health regulations and have been closed to the public. Re-investment in the hotel is urgently required.

The hotel building is still protected under the local planning scheme. The broad use has defacto protection in that any significant change of use (eg. to residential) would require a planning permit, and Port Phillip City Council wishes the place to continue as a hotel (ie. it could refuse a permit on that basis). The particular style of use, in terms of the hotel's culture and subcultures, is not protected at all. The Victorian planning system is still not well-equipped to deal with social and cultural intangibles, meaning the Council would have no control over a change of use to an up-market resort hotel *a la Mietta's*, for example, or to an outer-suburban-type beer barn.

In 1997 the Becton Corporation entered into a conditional arrangement with Carlton United Breweries (CUB - the current owners of the site) to purchase the hotel. It is believed the agreed figure is around \$8 million, and that the sale depends on Becton receiving planning permission to redevelop the site beyond the existing controls. In 1998 Becton submitted a proposal to retain the Espy in its current form and build a 38-storey tower on the balance of the site, precipitating the formation of the Esplanade Alliance. Becton's proposal was refused by the Council and the existing controls were reinforced. As a result of the planning system reform introduced by the former Kennett State government, however, these planning controls are under currently under revision.

A Working Group was convened in 2000 by Port Phillip Council and the State Government to review the existing controls and prepare planning and development guidelines for the site. Membership of the group consisted of Council and State Government officers, Councillors, three nominees of Becton and two representatives of the Esplanade Alliance. There was immediate consensus that the hotel remain protected under the existing local heritage and development controls. There was also a high degree of commitment to the continuation of the Espy's role in Australian alternative culture as an incubator of independent Australian music, art and comedy talent.

Debate revolves around the extent of development to be allowed on the remainder of the site. Becton introduced the argument early in its custodianship of the hotel that enhanced development rights on the back of the site were necessary to retaining the particular use of the hotel. In its promotional video, Becton emphasised the importance of the current culture of the Espy, and argued that it would need to build 38 storeys to subsidise this use.

The central issues for the Esplanade Alliance relate both to use and form. While Becton suggests that one must be traded against the other, satisfactory outcomes on both are not incompatible. The Alliance accepts the idea of a nexus between retention of current use and more profitable development on the rest of the site. While the Alliance regards the extent of development requested to date by Becton as insupportable, it agrees there could be a case for modest alterations to the existing height limit and other development controls if these were critical to securing the long-term physical and cultural viability of the Espy.

Management issues

The Espy represents a complex set of values in its form, the way it operates and, indeed, in its role in planning policy development in Victoria. For the last fifteen years the hotel has become a metaphor for cultural difference: for the survival of alternative subcultures, and local determination in the face of market-driven planning. It represents a triumph, in one small area, of use value over exchange value. Its internal operations are simple, yet hard to pin down.

The Working Group unanimously agreed that the Espy "is a democratic and widely accessible space, especially for people on low incomes. Its furnishings, door policy, physical intimacy, lack of pretension, sense of faded glory and promotion and support of artists and musicians on the commercial fringe, are key ingredients of its on-going contemporary appeal. This culture, which is commercially successful and which has been continually renewed by the hotel, its artists and patrons, should be supported and encouraged".

This is not a venture to be preserved in aspic: the hotel has a dynamic culture that has followed or set the pace in the St Kilda music and arts scene for most of the last century, and this continually evolving quality must be allowed to continue. The Working Group agreed on the contribution the Espy makes to St Kilda:

- it is a crucible of affordable leading edge music, comedy and art

- it is constant in its role as a vehicle for the on-going evolution and metamorphosis of alternative culture
- it is a producer of substantial community benefits, especially in terms of building St Kilda's reputation in the performing arts and cultural diversity, and
- it stands as an outcast or rebel, resistant to the siren call of a glamorised, monocultural, corporate ethos.

The following key principles for the site were broadly agreed on in the Working Group:

- maintain and support the Espy Hotel in its established role as an incubator of independent local music and comedy talent
- maintain and support the Espy Hotel as a venue accessible to a broad, diverse and non-mainstream public
- maintain and support the Espy Hotel as one of the key publicly-accessible facilities in the context of the St Kilda foreshore recreation and entertainment precinct, and
- maintain the Espy Hotel as a key icon of St Kilda's cultural identity.

How can this culture be safeguarded? Protection of the role of the Espy as a culturally important site and venue in the future must be intimately tied into how the site as a whole is developed and managed. Management must be innovative, commercially-informed and culturally sensitive. It should not simply be left to the building's owners. Certainly they have a key role to play, but so do others including the local and State governments and a broader range of stakeholders including the Espy's customers, admirers and artists. A range of management options is possible and has been canvassed by the Working Group. Broadly, the range considered by the Working Group is as follows:

1. Development party guarantee (including s.173 agreements)
2. Planning controls (including s.173 agreements)
3. Community Trust lease
4. Community Trust purchase
5. Council or State government purchase

1. Development party guarantee (including s.173 agreements)

If protection and perpetuation of existing culture and use is a genuine objective, retention of the site by the developer, even with a guarantee, is not the best way to achieve this. Property developers, builders and construction companies do not ordinarily have the expertise or long-term interest in managing and operating hotel and arts facilities. Small management decisions can deeply affect ambience, and have enormous impacts on patronage. For such a significant venue, it really is important that the managers have the relevant experience to understand this. Whilst it is by no means certain that a different style of use for the hotel - for example an up-market, 'mainstream' use, which is frequently raised - would be any more profitable than the current use, there is little to prevent the owners from taking this course if they chose (and whilst the primary object of private owners is usually to maximise profits, they don't always get it right).

No matter how good the intention, a guarantee relating to particular use for alternative music and other fringe arts activities is not enforceable. The content of a voluntary but legally binding agreement such as is provided for in section 173 of the Planning and Environment Act must be drawn up in enforceable and legally acceptable terms. Specifications of individual characteristics that collectively make up the ambience of the place (dress code, door charge, styles of music played) are not legitimate 'planning' considerations. Even if they were, each in isolation contributes only a small amount to the whole, which is greater than the sum of its parts, and they must be free to change and evolve. Small management decisions can have deeply positive as well as negative effects.

The logical conclusion to this argument requires a definition of the 'right' managers. We will return to this point below.

2. Planning controls (including s.173 agreements)

Existing planning mechanisms enable only weak control over specific types of use. They may go some way to protecting broad use, but are inadequate when it comes to particular, critical details of culture and meaning. Elements such as 'democratic space' and 'lack of pretension' would be impossible to specify in a land-use zone; there is simply not the conceptual framework or vocabulary within the Victorian planning system to give expression to such values. Even were these values to be broken down into component 'planning' elements, we would run into the problems discussed above. This argument is actually very similar to that of the critics of physical planning controls who argue for architects being given the freedom to create. That is, specification of all the fine details that mysteriously combine to make a thing 'work', and reach us on an intuitive level that transcends 'planning speak', is virtually impossible. Indeed, the process of specifying may be a killer in itself.

The difference between this argument and that of the advocates of design freedom, is that in the latter there is no guarantee that once a planning permit is issued, the architect with the required understanding and experience will have anything to do with the final product. Another deficiency of the Victorian planning system, perhaps. But where it relates to use, this problem can be overcome through creative employment of non-statutory techniques. It is on this basis that the following model has been developed.

3. Community Trust lease

A key element of the community trust model is that its Board of Trustees can be made up of dedicated positions which are specified in its constitution. Organisations with a cultural affinity with the Esplanade Hotel – from the music industry, Fringe Network, public radio, community arts, for example – could have dedicated seats on the Board, to be filled by election from their respective members. Other positions on the Board would be reserved to ensure financial, commercial and liquor industry expertise, ensuring a healthy mix of understanding of alternative culture and sound economic management. The Board would have responsibility for overseeing the management of the hotel, and appointing the licensee.

One arrangement could be that the owner would lease the hotel on a long-term basis to the community trust. The continued use of the hotel on a long-term basis requires that 'ownership' of the hotel to be separated from the rest of the site. Without the encumbrance of subsidising the remainder of the site, the hotel would be highly profitable in its current function. A lease arrangement would lift this encumbrance if it were accompanied by commercially successful development on the rest of the site, but the terms of the lease would always be subject to the will of the owner.

4. Community Trust purchase

The highest degree of security for long-term use of the hotel is through purchase. The hotel alone has been roughly estimated by the Council valuer at about \$3 million. Independent purchase of the hotel would lift the burden of the rest of the site and allow its refurbishment via hotel revenue and other sources of support (for example, heritage grants, for which the hotel may be eligible given that community trust ownership in itself would most likely gain the hotel a State heritage listing). After the works were completed and the hotel was operating at full capacity, it is expected that the investors in the community trust would receive a respectable dividend. In recent years the hotel, operating at well below maximum capacity, has been estimated to generate a 22 percent trading profit.

A variation is that the trust raises the funds necessary for both purchase and refurbishment (estimated at about \$6 million in total). In this situation, the necessary works could be carried out as soon as the legal structures were finalised and investors would receive almost immediate returns.

Much work needs to go into developing the details of a preferred model, attracting investors and setting up a trust. A prospectus needs to be drawn up; this would require support from Council. Potential investors include individuals and institutions. More than 10,000 individuals wrote submissions and signed petitions to protect the Espy; with a good campaign many of these and more may be willing to purchase a brick in the Espy. Institutional investors could be offered a clear financial incentive to invest. A reasonable, fixed rate of return would supplement an ethical and philanthropic motive to invest in the protection of cultural heritage.

It is a big task. It is worth noting that there is a precedent for this kind of approach in the recent decision by Yarra Council on the St Helier's Convent site. Yarra Council has committed \$250,000 to implement a structure very similar to that advocated here. It requires imagination and commitment, and it can be done.

The trust model outlined in the attached diagram combines the best features of a commercial property trust, where risk is shared and capital is efficiently managed, with a heritage trust, where responsibility for long-term cultural and public interest uses is safeguarded.

5. Council or State government purchase

Government purchase is unlikely. The current economic and political climate is such that governments are divesting themselves of assets rather than acquiring them. While the possibility should not be completely ruled out, and is infinitely the most straightforward of the options considered here, it is one the Working Group has spent little time on.

The form-use nexus

It is important to reiterate that the Esplanade Hotel is considered within the hotel industry as being a highly profitable concern (unlike St Helier's). Local knowledge confirms this: the Espy is by far the most popular and heavily patronised hotel in the inner-Melbourne region. For the last fifteen years the hotel has been effectively forced to subsidise the inflated cost of the entire site. A number of valuations and estimates have been commissioned by Port Phillip Council to determine the viability of the hotel independent of the rest of the site, the costs of works required to bring it up to basic operating standards, and the approximate scale of development required to subsidise these costs. (All the figures mentioned above are the subject of this valuations process and await confirmation).

The Alliance's position is that it would accept revised controls, within acceptable design parameters, if it can be shown that enhanced development on the remainder of the site is necessary to the refurbishment of the hotel and adoption of an acceptable management plan. A set of specific design criteria has been prepared to outline those parameters, and is included in the attachments to the final report of the Working Group.

The Alliance has proposed a set of revisions to the existing planning controls that it regards as acceptable if they are shown to be necessary to securing the long term operational future of the hotel. The revisions include an increase in height to 25 metres, amended demolition controls and streamlined development approval processes. There are two alternative purposes to these potential revisions:

1. they subsidise the costs of a modest refurbishment of the hotel that will bring it to a safe and sustainable level, and provide an incentive to the owner/developer to adopt a management plan that continues the established cultural use of the hotel,
OR
2. they provide an incentive to the owner/developer to sell the hotel to a trust developed specifically to oversee management of the hotel.

There are precedents for this kind of planning. Tax incentives, rate exemptions, land swaps and variations to planning regulations are common strategies used by governments to elicit desired responses from the private sector. The restoration of the Regent Theatre by David Marriner in return for development rights on the former City Square is one example. The permission granted to the owners of the Regal Private Hotel in Fitzroy Street, St Kilda, to redevelop and subdivide units in the front of the building in return for maintenance of the low-income accommodation at the rear is another. Every time a government offers financial incentives to private companies to locate in a preferred position, to offer a particular kind of service, to provide a particular range of housing or retain a heritage-listed structure, it is engaging in an increasingly accepted form of negotiated planning.

Long-term lease or sale of the hotel to a community trust would of course have to be attractive to the vendor – it is not possible to compel an owner of private property to lease or sell that property unless through government powers of compulsory acquisition, and these are probably not appropriate in this situation. A degree of enhanced development potential, within the bounds of acceptable design, is something Council can legitimately offer to the owner. The Alliance maintains that there is no other, compelling reason why the existing controls should change.

PROPOSED MODEL FOR MANAGEMENT OF THE ESPLANADE HOTEL

OWNERSHIP STRUCTURE

The proposal is to transfer the Esplanade Hotel (where 'Hotel' refers to the buildings currently used for the hotel, approximately one-third of the entire site) to a neutral landlord such as the State Government or Port Phillip Council. This body would have a pure custodial role and would grant a long term (99-year) lease ('Head Lease') for a peppercorn rental to a trust that is established as the ultimate decision making body over the use and development of the Esplanade Hotel. Such trusts exist in relation to many other sites of significant cultural interest such as the Botanical Gardens, the MCG and the Arts Centre.

The trust would be formed under a deed of trust under the auspices of the Council and the Government (that is, they are the parties who establish the trust), with the board of trustees appointed by the Council (say, 6-year terms, with 1/3 of the Trustees to retire every 2 years) to reflect the principal interest groups – the local community, relevant industry professionals (eg. music and arts industries), finance and hotel industry professionals, State government and Council. The function of the Board of Trustees would be to enter into and manage a sublease to a licensee, who would operate the Esplanade Hotel on a commercial basis subject to the overriding controls contained in the Head Lease.

A variation on the lease from the State Government could be that the title be held directly by the trust. In this event, the trust would act as the manager of the hotel under the terms of the trust deed. The trust would lease the hotel to a licensee who would be required to operate the hotel within the policy developed by the trust (which in turn would develop the policy consistent with the requirements expressed in the trust deed).

The Trustees, within the constraints of the terms imposed by the Head Lease, would ensure that the future development and management of the Esplanade Hotel was in accordance with the wishes of the investors in the Trust, having regard to the historical significance of the site and the changing amenity of the St Kilda precinct.

The significance of the Esplanade Hotel being subject to a 99-year Head Lease is that the lease can incorporate suitable planning controls that would insulate the Esplanade Hotel against possible future changes in planning laws. The terms of the Head Lease would not be subject to interference by any planning or statutory authority. The only way these controls could be altered would be if both the neutral landlord and the Board of Trustees agreed. The Trustees would ensure that the Esplanade Hotel evolved in accordance with the terms of the Head Lease.

FUNDING

It is estimated that the initial funding for the acquisition of the Esplanade Hotel will cost approximately \$3 million (based on recent Council estimates). The trust could generate funds by issuing debentures – a form of investment, with a fixed rate of return (interest) for debenture-holders. The debentures would be unsecured (secured debentures would create some difficulties over the title to the hotel). Investors would not be represented on the board of trustees – because the board's responsibility would be to cultural and heritage values and priorities, not to generating profits for the investors. The investment would hold out the prospect of a reasonable rate of return, but the primary objective of the investors would be to secure the future of the hotel.

Funding for the acquisition and refurbishment of the Esplanade Hotel would be achieved by the issue of a prospectus calling for investment in the Esplanade Hotel Trust.

USE OF FUNDS

The funds raised from the prospectus would be used to purchase the hotel and, if sufficient, undertake necessary refurbishments.

REVENUE

The revenue of the Trust, and accordingly the distribution to unit holders in the Trust, would be sourced from:

- sale of alcohol in the various bars
- operation of the kitchen
- operation of the bottle shop
- leasing of the upper levels of the Hotel.

The future trading profits would provide investors with a fixed rate of return on their investment via distributions from the Trust. The management of the Esplanade Hotel would be oriented primarily to maintaining and promoting the Esplanade as a cultural venue, subject to commercial considerations and realities.

PROPOSED STRUCTURE

