

## BACKGROUND

The Esplanade Hotel ("Espy") has been an icon in St Kilda since its construction in 1877.

The character of St Kilda has changed from its early days as a seaside holiday resort to its position now as a hub of street culture, fashion and restaurants. The Espy has reflected these changes and has transformed from a boutique hotel to a venue that supports many of the live bands and street culture that are integral to the identity of St Kilda and to greater Melbourne. The history and cultural significance of the Espy is usefully summarised in the document "**The Esplanade Hotel – An exploration of the Espy's cultural significance**" prepared by the Esplanade Alliance in 1988.

The culture of St Kilda continues to evolve and it is now recognised as a major cultural centre with many landmark buildings, venues and precincts such as Luna Park, the Prince of Wales, Acland Street, Barkly Street and the vibrant foreshore. The variety, culture and popularity of the area was well demonstrated when over 350,000 people attended the 2000 St Kilda Festival.

The popularity of St Kilda has been reflected in rising house prices in recent years and the redevelopment of many key sites. The Espy has itself attracted the attention of developers with recent proposals by Becton Corporation to redevelop the Espy and the surrounding site. There was extensive community opposition to the Becton development and as yet the developer has not obtained planning permission to build higher than the 18 meter height limit affecting the site.

The question is what form of management and ownership can protect the Espy's unique position in Melbourne and ensure that the Espy will continue to evolve and respond as a cultural centre?

The aim of this proposal is to provide a long term use and ownership structure that recognises, realises and protects the cultural and commercial potential of the Espy.

### Ownership

The Espy is currently owned by Becton Corporation.

### Proposed Ownership Structure

The nature of planning controls is such that they can change from government to government. There is a myriad of complexity in State and Local Government controls that cause difficulties in the protection and development of any site and particularly a site as sensitive and important as the Espy. The controls are also subject to political agendas and legislative change. In the long term planning controls provide only limited protection for the Espy and limited certainty for current and future owners and the community .

Our view is that the planning controls are insufficient to protect the Espy site.

Our proposal is to transfer the site to a neutral landlord such as the State Government, the Council, the National Trust or other similar body.

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 committee of management that is established as the ultimate decision making body over the use and development of the Espy site. Such

committees of management exist in relation to many other sites of significant cultural interest such as the Botanical Gardens, the MCG and the Arts Centre.

Membership of the committee would be a small board structure (say four or five persons) whose primary function would be to enter into various subleases to management companies who would operate the hotel and Baymore flats on a commercial basis but subject to the overriding controls contained in the Head Lease

The suggested mechanism for financing the purchase and effectively owning the lessee's interest rights under the Head Lease is via a unit trust mechanism structured to allow both small scale and institutional investors to invest in the site.

For simplicity it is suggested that the committee of management be the trustee of the unit trust (or the unit trust would be the lessor of the Espy site). The trustees of the Trust, within the constraints of the terms imposed by the Head Lease, would ensure that the future development and management of the Espy was in accordance with the wishes of the community having regard to the historical significance of the site and the changing amenity of the St Kilda precinct.

The significance of having the Espy site subject to a 99 year lease is that the lease can incorporate suitable planning controls which would insulate the Espy against possible future changes in planning control. The terms of the lease would not be subject to interference by any planning or statutory authority and any sale of the lessee's interest under the lease (or more properly units in the unit trust) would have no impact on the direction of the Espy.

The only way these controls could be altered would be if both the neutral landlord and the Committee of Management agreed. The trustees of the Trust would ensure that the Espy evolved in accordance with the terms of the Head Lease.

## **FUNDING**

Becton Corporation may not wish to be involved long term in the development of the Espy. Assuming Becton are willing to sell the Espy, it is estimated that the initial funding for the acquisition of the site will cost approximately \$4-7 Million (based on our limited information about the land value and recent sale prices of the site). We envisage that the funding will come from a mix of the State and Local Governments, institutional and individual investors. Investors would receive units in the Trust in return for their investment.

The future trading profits would provide investors with a return on their investment via distributions from the trust. Whilst the trust may not have the estimated returns of other listed property trusts, it is anticipated that smaller investors would be prepared to "punt" a portion of their investment (ie \$500-\$1,000) shares in return for the certainty obtained by protecting the Espy and the "cultural returns" that investment in such a site would offer. Nevertheless the sublease to the management would be a commercial arrangement that is anticipated to return a profit to investors and the community.

We anticipate that the above groups will want to be involved in the project on the basis of both a profit motive and for the goodwill and positive public exposure generated by the sympathetic development and regeneration of a landmark site.

However the position of Becton is, of course, critical to the development of this concept, and they may wish to take an active role in establishing the Committee of Management/Trust structure.

**Next steps**

**The next steps that could be taken would be the preparation of the appropriate documentation and further financial and valuation work necessary to determine whether or not the proposal is feasible.**

**In the near future we would wish to present this proposal to Becton, the Espy Working Group, the Esplanade Alliance, the Council and other interested persons for further thought and comment.**

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