

8 June 2001

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Dear Mr Hede,

Re: The Esplanade Hotel, St Kilda

The Esplanade Hotel Foundation (EHF) is indicating its interest in participating in the tender for the sale of the leasehold for the Esplanade Hotel, St Kilda.

The EHF emphasises that its interest does not conform exactly to the elements listed in the Expression of Interest documentation but requests that EHF be included in the process at this stage due its long-standing interest in the site and its potential as a vehicle to incorporate strong community involvement in the tender process.

The EHF is a unique concept and offers a range of possible ownership structures designed to operate in conjunction with one or more commercial partners in a public-private joint venture. The EHF views this EoI as an excellent opportunity to put itself forward as a partner or broker for parties in the tender process. The EHF can link its cultural capital with other parties who share the EHF vision for the hotel. We intend to continue canvassing potential partners over the next three weeks, and would like the opportunity to speak with parties in the Expression of Interest process to assess the potential of making a joint bid by the tender date.

Identity of the Foundation

The Esplanade Hotel Foundation was established by the Esplanade Alliance as a not-for-profit ownership entity for the Esplanade Hotel. The charter of EHF is to ensure that the existing Hotel continues to be a focal point for the local and broader metropolitan community and to encourage its expansion into other cultural activities.

The interim directors of the Foundation have been drawn from the membership of the Esplanade Alliance and have been long-standing participants in the community action to preserve the Hotel. They have been selected not only for their commitment to the Esplanade Hotel but also for their expertise in fields of finance, law, urban planning and local government. Their role is to guide the EHF through its formative stages of its establishment and the preparation of the tender.

If successful in a tender, the EHF the board of trustees will consist of between 8-12 persons drawn from a range of background including the music and hospitality industries, arts and cultural organisations and those with expertise in finance and law. The overriding criteria for selection will be their ability to provide guidance and management to the EHF in its capacity as the ownership entity of the Hotel and to advise on the activities envisaged for the building.

It is important that Becton understand that this bid is not based on an owner-operator model. The EHF proposes to establish itself as a partner in a joint venture, delegating by agreement the management of the Hotel to commercial operators. The EHF has been established solely for the purpose of achieving its objective – that being the preservation of the cultural value of the Esplanade Hotel. Accordingly it does not have any ‘existing business’ nor does it have any assets or liabilities.

What the Esplanade Hotel Foundation will do: the proposal

EHF will use its expertise, community support, and potential cultural organisation status to bring a range of activities to the upper floors:

- ⊕ studios for visual artists and performing artists
- ⊕ exhibition space for visual art, craft, photography and design
- ⊕ catered space for commercial and community ventures
- ⊕ offices and studios for community radio, television, film, cultural foundations and educational organisations
- ⊕ recording studios, editing suites and rehearsal rooms

The EHF is prepared to undertake to raise the capital necessary to return the upper floors to the uses outlined above. The key elements of the EHF proposal are:

- The Espy ‘brand’. The EHF represents the strong community support for ‘the Espy’ and is perfectly positioned to capitalise the Espy’s reputation as a cultural centre not only for St Kilda but Melbourne.

- The EHF has credibility as the guardian of Espy culture and as the lightning rod for community sentiment that is easily tapped through the membership. Its capacity to mobilise support quickly in the broader community through its contacts and reputation is an excellent base for future marketing
 - The EHF has assembled a range of suitable tenants designed to enhance the Espy brand
 - The synergies between the uses of the lot 2 and the hotel operator add to the commercial operations of the hotel itself and provide an incentive to the eventual operator
 - Goodwill in the form of community support for the proposed operation of the hotel and for broader eventualities should the lessor actively pursue the overall concept
- A clear, well-supported vision for the hotel as the heart of vibrant cultural precinct:
 - Refurbishment of the upper levels for a range of activities including studios for artists; exhibition space; catered space for public/private use; offices for radio, television and arts administration; recording and editing suites; and educational institutions
 - Hotel operations similar to present arrangements with minimum refurbishment
 - Promotion of the Hotel as a venue for cultural events; expansion of the hotel as an incubator for new talent and avant-garde performance.

Valuing the Esplanade Hotel and recognising its significance, both to St Kilda and Melbourne as a whole, is not just the responsibility of the owner – the community must articulate its own vision. All the stakeholders – commercial operators, state and local government, community action groups and the hotel’s patrons and supporters all have a part to play.

The Esplanade Hotel Foundation believes that it is the ideal umbrella all these stakeholders to make their contributions.

Source of Consideration

A point of distinction between the EHF and other tenderers is that the EHF has applied for ‘cultural organisation’ status with the Australian Tax Office. Once the application is approved the EHF will enjoy tax exemption pursuant to the provisions of Subdivision 30-F of the

Income Tax Assessment Act 1997. As a consequence all gifts and donations to the EHF will be tax deductible. The EHF has engaged the services of legal firm of Freehills to act on behalf of the EHF through this process. Preliminary indications from the ATO are that the EHF's will be successful.

As an entity, the EHF may receive grants, gifts, loans and deposits. It has the power to enter into partnerships and various collaborative arrangements, and it can carry on business and other activities that it considers desirable to promote its objectives. The EHF is currently in the process of sourcing joint venture partners, tenants and operators.

There is potential to raise funds from:

- bequests
- government grants
- individual benefactors
- public donations
- government and private loans
- prospective tenants

Our advice is that the upper floors offered in Lot 2 are worth nil given their current condition and the costs involved to bring this area to a commercial state.

The capital funds needed for refit will be sought from the above sources and potentially a bank loan serviced by future rental streams. The EHF will need sufficient time to be able to meet this commitment given the state of the upper floors. EHF has already received indications of support from organisations and individuals now interested in using space at the Espy, locating there in an on-going way, or contributing to its revival in other ways.

In exchange the Foundation would require appropriate legal and financial protections and status and the establishment of a joint brand management vehicle with the ground floor and basement operator to jointly promote and advance the Espy brand. This is crucial to ensuring a synergy of activity and marketing for the hotel as a whole. This mutually agreed common entity would service the booking, venue and marketing needs of the ground floor tenant and manage the leases of the upper floors.

Recognising and valuing the Espy's culture and contribution to both St Kilda and the broader metropolis should not just be the responsibility of the building's owners. Certainly they have a key role to play, but so do others including the local and state governments and the broader

range of stakeholders including the Espy' s customers, admirers and artists.

The fate of the Espy rests with the intentions and goodwill of the community and investors.

Other Information

Please find attached the following documents:

- The Constitution of the EHF;
- Particulars of Directors;
- EHF Vision Statement;
- Various letters of support;
- The Register of Cultural Organisations - Guide July 2000, prepared by Department of Communications, Information Technology and the Arts.