

esplanade hotel foundation ltd

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Commercial in Confidence

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29 June 2001

Mr Hamish MacDonald
Managing Director
Becton Corporation Pty Ltd
7/470 St. Kilda Road
MELBOURNE VIC 3000

C/- Mr Michael Hede
Knight Frank
Level 32
360 Collins Street
MELBOURNE VIC 3000

Re: Esplanade Hotel, St Kilda

Thank you for extending the Esplanade Hotel Foundation Ltd. ("EHF") the opportunity to tender for the Esplanade Hotel. It places faith in the members of the Esplanade Alliance, who have advocated the separation of the Hotel from the remainder of the site, to pursue their objectives to a logical conclusion. The EHF, established by the Esplanade Alliance, is now in a position to put in two conditional bids. The first and preferred option is a tender for Lots 1 and 2. A second, provisional bid is for a tenancy in Lot 2.

1. Preferred option

The EHF's preferred option is a conditional tender for Lots 1 (to be sold as a going concern) and 2. A Business Plan has been prepared by the EHF indicating the basis upon which the tender has been formulated and the intentions of the EHF if successful in its tender. This document has been submitted to banks this week in order to obtain finance approval for the tender.

Accordingly please find enclosed:

1. Three cheques totalling the sum of \$xxxxxbeing the conditional 1% preliminary deposit on a conditional bid of \$xxxxxxxsubmitted in accordance with the provisions of clauses 3.1(e), 6 and 17 of the Conditions of Tender (as amended) and special conditions 9 and 22 of the Agreement to Lease (as amended);
2. Indication of consideration of finance from Westpac/Bank of Melbourne;
3. Executed Form of Tender and Agreement for Lease for Lots 1 and 2 containing the amendments and conditions upon which these offers are made;
4. Vision statement;
5. Floor plans;
6. Credentials of the hotel operators associated with this bid.

The tender is submitted as an offer that is conditional on acceptance of the amendments made to the enclosed tender documents and each executed tender must be read as if those amendments were set out in full and incorporated into each of the submitted tenders.

Importantly, it must be made clear that these offers are conditional upon finance approval being obtained by 16 July 2001. Should the vendor accept our tender prior to finance approval being obtained, this acceptance will result in an Agreement to Lease that is also conditional upon finance approval being obtained by 16 July 2001. In the event that finance approval is obtained prior to the successful tender being awarded, then the EHF will notify you of that event so that you could then treat the tender and Agreement to Lease as being unconditional in relation to finance.

2. *Second option*

The EHF wishes to indicate a second preference in ownership arrangements for the hotel should its tender for Lots 1 and 2 fail. Our second preference is to enter into an arrangement with the successful bidders for Lots 1 and 2 to sub-let the entirety or part of Lot 2 on an on-going, secure tenancy (for example, a 10-year lease with options to renew for fifty years). As Lot 2 currently has no or negative value, we would expect a peppercorn rental for the entire period of the lease.

The EHF proposal is to secure and refurbish the upstairs parts of the hotel over the period of the lease and to sub-let spaces as they become available to cultural organisations with similar objectives to the EHF. Finance for the refurbishments would be derived through a fund-raising campaign run by the EHF, seeking public donations (on the reasonable assumption that the EHF will receive cultural organisation status with the Australian Tax Office that allows it to offer tax-deductibility on all gifts and donations) and philanthropic and government grants. The proposal should be attractive to the successful bidders for Lots 1 and 2 for the following reasons:

1. the EHF will bring in funds unavailable to commercial operators;
2. such an arrangement would probably constitute sufficient new information on social grounds for a renewed application for heritage listing with Heritage Victoria. If the application were successful, the Esplanade Hotel would become eligible for heritage restoration grants;
3. the fund-raising campaign will create publicity for the entire hotel that no amount of paid advertising could achieve. In addition, contrary to most advertising campaigns which reach saturation point fairly quickly, the fund-raising campaign will build momentum as the upper floors are seen to be opened up and gradually tenanted by cultural organisations which in themselves attract sympathetic media coverage and public interest. It is anticipated that the direct positive PR effects of the campaign will persist over a number of years;
4. the refurbishments and subsequent tenancies will secure the upper floors from fire and vandalism, with obvious benefits to the entire building;
5. the on-going refurbishment activity on the upper floors will provide a stream of customers to the commercial operations downstairs;
6. the tenants and visitors to the upper floors once fully occupied will provide a further stream of customers to the downstairs operations;
7. the local and broader community support for the entire project will create enormous goodwill for the downstairs operations;
8. the relationship of the Esplanade Hotel to Port Phillip Council will be mediated by the existing goodwill of the Council towards the Esplanade Alliance and the EHF;
9. the indirect publicity effects of this essentially self-funded cultural precinct will continue throughout the period of its existence;
10. the entire arrangement will be an unusual and intensely exciting model of a public-private partnership. The benefits of this, in terms of local, national and international interest, are unquantifiable.

In order for this second option to work it is critical that the terms of the lease to the EHF are sufficiently secure to justify public funding. The precise terms can be negotiated.

The key element of this proposal is that a highly positive synergy and cultural sympathy exists between the EHF and the owners of Lots 1 and 2. The EHF would not seek to restrict the commercial operations of downstairs (on the contrary, it is very much in the interests of the EHF to have a commercially viable entity as neighbour). However the reason for the EHF's involvement in this process is to ensure that the Esplanade Hotel continues to evolve in its role as a cultural incubator of new and original live music and comedy for as long as these activities have a market demand. Satisfactory outcomes to negotiations over the next few weeks are essential to the EHF entering into this option.

We look forward to continuing negotiations with you on both the above options over the next two weeks. If you have any queries or require any further assistance, please do not hesitate to contact us.

Yours faithfully,

David O'Brien
Director

Sean O'Donohue
Director

Kate Shaw
Director