

10 December 2007

Mr David Spokes
Chief Executive Officer
City of Port Phillip
Cnr Carlisle Street and Brighton Road
St Kilda, Victoria 3182

Dear Mr Spokes,

Re: St Kilda Triangle

Further to our recent discussions, I understand that the City of Port Phillip (Council) has suggested various amendments to the Development Agreement dated 25 May 2007 (Development Agreement) to provide additional community benefits as outlined below. Subject to a formal amending document being entered into between the Council, the State and BBC Triangle Investments Pty Ltd (BBC) and BBC obtaining the consent of the financiers under the finance documents, I am pleased to advise that BBC agrees to amend the Development Agreement accordingly. These changes are in addition to any permit conditions that will be imposed on the Development Plan, assuming that the Council elects to approve it.

1. BBC agrees to amend the Tenancy Guidelines that form part of the indicative Operating Plan set out in Schedule 11 of the Development Agreement by including the following new provisions:
 - The Shops must occupy no more than 20% of the gross area of the development. BBC also agrees that the maximum number of Shops within this area shall be 150 tenancies (excluding the community uses described below). This maximum limit can only be increased with Council approval.
 - [Within the Entertainment category there must be no more than five (5) Nightclubs that hold not more than 4000 patrons in total. The Nightclub tenancies will target a diverse clientele, providing a broad range of music styles and genres with an emphasis on live performances. Table 1 attached establishes new criteria for the Nightclub mix, operations, areas and patrons within the tenancies. Additionally, BBC agrees to establish a regular program of alcohol free, under 18 events hosted in one or more of the nightclub venues.
 - The St Kilda Common tenancy (Tavern) will be reduced from 1500 m² to not more than 900 m² of lettable area.

- Additional community uses will be incorporated into the development including:
 - A Local Opportunity Shop and a facility for drug and alcohol counselling ;
 - Business Incubator spaces,

or other community uses as otherwise agreed.

BBC agrees to provide this space rent free for the Opportunity Shop and Drug and Alcohol Counselling Centre and subsidised rental for the Business Incubator spaces for a period of 10 years. BBC will also provide a fitout for these spaces to minimise costs for each of the respective occupiers.

- The following uses are to be included in the tenancy plan targeted at families and patrons under 18 years of age:
 - A tenpin bowling facility in excess of 950 m²;
 - An indoor adventure playground of at least 400 m²;
 - A dance studio offering tuition in a variety of classical and contemporary styles;
 - A music tuition venue offering tuition in a variety of musical instruments.
2. BBC agrees that the Council will appoint two (2) members of the public with relevant professional qualifications to the group known as the Design Review Committee. Additionally, BBC agree to participate in periodic Stakeholder Forums as the design develops.
 3. BBC agrees that the Council will appoint one (1) suitably qualified member of the public with relevant experience to a group known as the Tenancy Review Committee that has been formed to assess compliance with the Tenancy Guidelines and the general policy objectives of the project.
 4. BBC agrees to actively encourage and provide incentives to hospitality based tenants to provide training and future employment opportunities to William Angliss Port Philip Academy students and to promote on-site the activities of William Angliss in the development.
 5. BBC agrees that the two tenancies adjacent to Linden II's entry facing the Palais forecourt will be subject to the approval of the Linden gallery.
 6. BBC agrees to increase the area of the Linden II gallery space to 330m² and fund the appointment of an architect to assist the gallery with the concept of the internal design and layout so that an appropriate gallery internal design may be included in our overall plans.
 7. BBC agrees to support an 'artist in residence' program associated with the Linden II gallery which will include an annual period of free accommodation in the hotel of 50 room nights per annum subject to the approval of the Linden gallery.

8. BBC agrees to a Council right to require BBC to terminate a tenant's lease in the event that the tenant breaches a condition of their Liquor Licence and is issued with an infringement notice on 5 or more occasions in any twelve (12) month period.
9. BBC agrees to provide reasonable additional funding for art works within the precinct. The quantum of funding shall be negotiated with the Council. An advisory committee that includes public participation will be established for the selection of art works.
10. BBC agrees to amend the design to include an additional area of approximately 500 m² of public open space as part of the grassy slopes above the proposed 'soup kitchen' subject to the approval of the Design Review Committee.
11. In the event that the current location of the marquee restaurant building opposite the Mandalay Apartments is relocated, the area adjacent to the Catani Steps will be redesigned to include the following elements:
 - A small kiosk building of 50 m² with an allowance of 10 m² permanently allocated to the St Kilda markets.
 - A multi purpose plaza which will be used for an ice skating rink operating over 3 months in winter. Activities in this area for the remainder of the year will be incorporated into the calendar of events for the site.
 - A temporary enclosure designed by the project architects will be erected over this space for the ice skating rink and other events as reasonably required.
12. BBC agrees to undertake further works to the Palais Theatre additional to those included in the Development Agreement which may include reinstatement of the orchestra pit, new bar & merchandise area, increased scope of seating replacement, new stage curtain and side drapes, replacement of fixtures and furniture removed by the previous tenant and new bio box and projection equipment in lieu of upgrade.
13. BBC agrees to undertake further works and design incentives to improve Environmental Sustainability which are additional to those outlined in the Development Agreement.
14. BBC agrees to provide funding of \$300,000 to the Council for associated public works in the immediate vicinity of the site that contribute to additional community benefit as nominated by the Council. The Council will provide to BBC, on a half yearly basis, a summary of benefits implemented and funds expended. If, after a period of 3 years, Council has not expended all of the funds provided, the balance will be refunded.

15. BBC agrees to prepare a "Civic and Cultural Charter" which outlines our vision for the site and how this vision contributes to the "St Kilda-ness" of the development and its subsequent use with regard to matters including design, sub-tenants and tenancy mix, and calendar of events.

We trust that the proposed contractual changes outlined above together with any permit conditions will address many of the issues raised during the community consultation period. It is noted that among the matters raised by the community is a concern regarding the size of the development and the numbers of shops. In response we would like to make the following observations.

- The proposed contractual changes outlined above are significant concessions to the agreement entered into at the time BBC was awarded the contract and that agreement was reached only after an exhaustive and competitive tender process.
- Our proposal, in our view, conforms to the physical planning objectives established by the Council in its various statutory planning policies and that the perceived scale is significantly mitigated by the creation of 1.7 hectares of public open spaces contiguous with the Upper Esplanade and the Palais forecourt.
- The project is to be entirely funded without State Government and Council funds. As you are aware this policy requires BBC to incur the following costs:
 - \$20 million for the Palais Theatre refurbishment.
 - In excess of \$10 million for the decontamination of the site.
 - Approximately \$15 million to relocate the existing 260 on grade car spaces into a basement.
 - \$15 million to create the public open space network.

In addition we have undertaken to fund the establishment of the Linden II Gallery, William Angliss Port Phillip Academy and other community spaces. This in total represents a cost to BBC of \$65 million in addition to the land rental payments.

We believe it is an important point to note that while there may be some concern regarding the extent of the commercial development on the site it's only through the creation of these commercial spaces that we are able to undertake such significant public investment and accept the risk profile required by the State and the Council.

- There has also been some concern raised regarding the potential negative impact of our proposal on the sustainability of both Acland and Fitzroy Streets. To the contrary it is our view that the Triangle development will have a positive effect on the commercial activity in these precincts and this view is supported by detailed research undertaken by Urbis. A copy of Urbis's advice on this matter is attached.

In conclusion we would like to thank the Council for its assistance and professionalism, and look forward to working with you and the community to create a truly remarkable transformation of the Triangle site.

Yours sincerely

A handwritten signature in black ink, appearing to read 'SRMcMillan', with a long horizontal flourish extending to the right.

Stephen McMillan
Managing Director of Citta Property Group
on behalf of BBC Triangle Investments Pty Ltd

Table 1

Venue description	Indicative area & patron breakdown
Live music band room / performance venue and night club to replace Palace Nightclub	1300 m ² 1200p
Sophisticated dance venue and bar for 25-50 age group	700 m ² 875p
Alternative dance and music venue OR Internationally branded dance and music venue	800 m ² 1000p
Jazz, acoustic and intimate performance music lounge and restaurant for 30 plus age group	800 m ² 525p
Local orientated smaller music venue and bar able to provide a variety of small scale performances	400 m ² 400p
Total	4000 m² / 4000 patrons