



City of Port Phillip

St Kilda Triangle

Potential Live Performance Venue


Commercial Feasibility Analysis & Development Options

Public Summary



REPORT PREPARED BY M21 ADVISORY PTY LTD
IN CONJUNCTION WITH PATRICK DONOVAN CREATIVE CONSULTING

30 November 2023

 <p>M21 Advisory Pty Ltd. ABN: 44 167 798 861 53 Cookson St, Camberwell, 3124.</p>	<p>Important Notice In preparing this report, M21 Advisory Pty Ltd relied upon information supplied by others. We have not attempted to verify the accuracy or completeness of the information provided. Neither M21 Advisory nor its officers and employees take any responsibility arising in any way whatsoever to any person or organization, in respect of the information set out in this report, including any errors or omissions therein through negligence or otherwise howsoever caused. M21 Advisory specifically notes that reviews, by their very nature cannot and do not have all the facts and answers. Nothing in this report is to be construed as legal advice. The information contained in this report is strictly confidential and must not be copied, reproduced, disseminated or used, in whole or in part, for any purpose other than as detailed in our proposal, the Services Agreement and this report, without written permission.</p>
---	---



Introduction

The St Kilda Triangle, located next to the Palais Theatre in St Kilda, is a unique opportunity as one of Melbourne’s last bayside renewal sites. It is currently a car park.



Development of the St Kilda Triangle Project has essentially been on hold since Council’s adoption of a Masterplan in 2016 which reflected the Council and the community’s agreed future aspiration for the development of the Triangle site.

In 2016 Council adopted a Masterplan for the development of site and in late 2021, Council resolved to undertake the further assessment of options within the framework of the Masterplan. In September 2022, Council resolved to assess the viability of a live music led and/or flexible performance venue development on the St Kilda Triangle site and agreed a range of objectives for such a development.

Patrick Donovan Creative Consulting (PDCC) and M21 Advisory (M21A) were appointed by Council to assist in progressing the Project by undertaking commercial analysis works to inform the feasibility study that assesses the viability of a live music led and/or flexible performance venue development on the St Kilda Triangle site. The analyses both informed and was informed by the design feasibility work.



The approach taken has been to develop an understanding of the opportunity and assess options from a commercial perspective by carrying out four related work components.

- A Phase 1 market sounding with potential users of a venue.
- A design feasibility study reviewing a number of design options accompanied by initial commercial assessments.
- A Phase 2 market sounding with potential developers or investor / funders of a venue.
- An outline financial assessment.

Each of these components, in terms of process and broad outcomes, are collated in this public summary of a more detailed report provided to Council containing confidential commercially sensitive information.

Phase 1 Market Sounding

As a first step, PDCC and M21A carried out a market sounding of the live music and broader live performance sector in February and March 2023 and a report, [St Kilda Triangle Potential Live Music / Performance Venue Market Sounding Report](#), March 2023 was published on 1 September 2023. A series of face-to-face interviews and a focussed survey of industry proponents was carried out with the feedback being recorded in the Phase 1 Market Sounding report. In summary, the Phase 1 Market Sounding identified:

- The live performance market, particularly live music is extremely strong and sustainable;
- The key gap in Melbourne is a purpose-built indoor venue of between 3,000 and 5,000 standing capacity with a 5,000 standing capacity venue noted as the ‘sweet spot’; and
- St Kilda is supported by the majority of promoters as a live music location for various reasons including its location, access to public transport and history as an entertainment precinct.

Design Options and Initial Commercial Analysis

Following the Phase 1 Market Sounding Council appointed architects, MGS to work with Council to prepare a design feasibility report. MGS has used the community supported 2016 Masterplan principles and the outcomes of the phase 1 market sounding to inform the steps to progress the design elements of the feasibility assessment and develop a number of design concept options for a live music and performance venue on the Triangle site.

This was then used for the assessment of the possible costs and potential delivery models. An outline commercial analysis was also undertaken which included a desktop assessment of development and operational models for the management of the venue, a high-level financial assessment of possible costs and revenues and an estimate of potential payback periods to Council.

With the feedback of Councillors, the designs were refined to a preferred indicative concept option for the site.

The preferred option for an indicative site layout comprises a venue with a 5,000 standing capacity (inclusive of a mezzanine carrying 1,000 capacity), 240 carparks, associated public realm and a moderate approach to ancillary uses to complement the venue and activate the site. This option operates as a “proof of concept” that demonstrates how the venue and associated uses could fit on



the site and within the broader St Kilda foreshore area. Refer to the [St Kilda Triangle Design Feasibility for a Live Music and Performance Venue](#) report dated August 2023 by MGS, published on 1 September 23.

The table below provides a summary of the estimated total development costs produced by WT Partnership for the preferred option (Option 2).

We note the following with respect to the total development costs:

- Each of the components provides a + or – 10% range in pricing given the design is only at conceptual stage.
- The public realm costs include all components outside the venue building footprint such as landscaping, on-grade carparking, paved pedestrian areas and a single storey pavilion building.
- The basement carparking includes a significant sum for remediation / decontamination as the creation of the basement will require excavation, treatment and disposal of soil; and
- The venue building costs include all fit out required for the operation of the live music venue (stage, PA, lighting, bar areas, back of house, circulation zones, etc.), however, the commercial areas (e.g. restaurant, retail tenancies) that do not form part of the live music have been priced as a cold shell (with eventual tenants providing the fit-out of these spaces).

Total Construction + Development Cost		
Development Components	Low Range (Excl GST) (\$,000)	High Range (Excl GST) (\$,000)
Public Realm	\$ 7,000	\$ 9,000
Basement Car Parking	\$ 23,000	\$ 28,000
Venue Building	\$ 83,000	\$ 102,000
TOTAL DEVELOPMENT COST	\$ 113,000	\$ 139,000

Through this design, the commercial analysis and financial modelling process the project team gained a much greater level of insight into the potential opportunity and critical factors for success, and some of the challenges that the development is likely to face.

It is important to highlight that these costs represent an estimate of the cost of the ‘proof of concept’ idea that has been tested through the feasibility work. The cost estimates are useful for understanding the likely cost range for this type of development. However, if this idea were to be progressed, the costs would need to be reassessed to reflect the final design and any key changes that have been incorporated, as well as the current cost of materials, trades, etc at the time of delivery.

Financial Analysis

The purpose of the financial model was to assess the potential viability of the proposed live music venue.



It adopted a payback period approach (time taken to payback any initial investment) to enable Council to compare each option on an apples-for-apples basis and understand the outcome of the preferred option. During the design development and market sounding processes, a number of financial models were prepared and refined for the options produced by MGS.

These financial models were refined with feedback from various sources including Councillors, designers and the market.

When assessing and comparing design options, Council's preferred option (Option 2 – 2 level venue with a 5,000 standing capacity inclusive of a mezzanine carrying 1,000 capacity, 240 carparks, associated public realm) provides the best financial return to Council in terms of yield and payback period.

Nonetheless, and as expected for civic infrastructure projects of this type, some form of capital contribution or other subsidy (i.e. outside private funding derived from an immediate approach to market) is most likely required to realise the project).

It should be noted that while the work to prepare the financial model was carried out in a careful and diligent manner, the information (including financial information) relies on a range of inputs from a variety of sources.

Project development is a complex system of related inputs and outputs. Changes in one area can have very significant impacts in another. The synthesis of information into a report like this relies on making a range of assumptions and the interpretation of sometimes incomplete and ambiguous information. The given inputs and outputs of any complex undertaking like the development of a live performance venue contain significant risks and matters can readily change over time.

None of these matters should undermine the advice provided in this report, and the level of advice is appropriate for this early feasibility stage of the project. However, it is strongly advised that as the project is developed and further decisions are contemplated, CoPP should revisit aspects of the analysis to monitor any changes in the environment or market conditions.

Phase 2 Market Sounding

Having developed a preferred concept option, the project team began a further engagement with the venue industry. The Phase 2 Market Sounding was designed to test industry views about the design concept, the commercial and financial structure of the possible live music / performance venue, to test financial model inputs and outputs, and explore possible transaction structure arrangements, to inform and elaborate on early work done to date on procurement and delivery options for the venue.

The Phase 2 Market sounding was conducted by M21A and PDCC in August and September 2023. During this period, nine organisations involved in the operation, investment and/or development of live music venues were interviewed.

In summary the Phase 2 Market Sounding report made the following observations:

- Council's preferred option is supported by potential investors and operators - there is overwhelming support from the live music industry for a 5,000 capacity standing room venue.



- Operators are likely to include a capital contribution as part of any bid with the quantum being directly related to the length of tenure (i.e. the longer the tenure the greater the capital contribution).
- The indicative financial model is generally supported.
- A significant public capital contribution is likely to be required to make the development viable to private investors.
- Private financing via developer / financiers (i.e not by venue promoter/operators) is likely to be expensive with construction and operating risks being fully priced.
- The venue operator should have input into the design to ensure operational outcomes can be achieved.
- The market is keen to see any future procurement process appropriately minimize the risk and cost to proponents from aspects such as bid costs, decontamination costs, community sentiment, planning pathways, ability to achieve planning permits, environmental risk and complexity of tender process.

Development and Operating Models

Four options were explored at a high level for possible development and operating models for the venue as summarised below, including benefits and challenges or risks:

- **Option A** - Council / State Government Develops (and funds for the most part) the Triangle site and Leases the Venue – this one would be most supported by industry and therefore will attract the highest tender field. In the longer term, this would be the more cost effective for Council (or State Government) but represents the largest up front budget required, and all development risk carried by Council/State.
- **Option B** - Council Leases the Triangle Site to a Developer who funds, constructs and operates the venue. This is likely to be the least attractive to the general market and investors primarily due to concerns with overall viability when funded as a whole by the private market.
- **Option C** - Council Funds, develops and operates the venue. This would rely on Council / State hiring resources with expertise for the development and ongoing operation. It would likely be supported by smaller independent promoters as it may be perceived as a neutral venue.
- **Option D** - Council enters into a long-term Public Private Partnership (PPP) with a third party to fund, develop and operate the venue. However, the feedback from the market has been that the proposed venue is somewhat subscale for PPP style structure – it is unsuitable in terms of opportunities for return on effort and investment, or alternatively too costly for Council.

Next Steps

The feasibility process undertaken by Council has been beneficial in providing confidence that there is strong industry support for the new venue and identifying the steps towards realisation.

While it is clear is that there is significant support for a venue of the size and configuration contemplated on the Triangle site, it is likely that some form of public funding will be required to support the realisation of a new live music and performance venue, carparking and public realm/ landscaping on the site.



With this in mind, the following steps are recommended as part of subsequent project works, in determining whether to advance the development of a new live performance venue on the St Kilda Triangle site.

1. Determine Potential Funding Sources for the Project

In order to support a competitive selection process (and facilitate delivery), it is important to better understand the sources of funding that may be available. To this end the following should be considered:

- Establish potential for public funding - Council should build on engagement with the State and possibly Federal Government to explore funding opportunities, particularly given the significant industry support for a venue of the type proposed for the site. Council should also consider whether it has the capacity and willingness to deploy any Council funds to the project; and
- Further investigate the level of funding contribution available from the market to understand what level of public funding may be required to support delivery through a competitive market process, including the associated requirements and impacts for any procurement process and subsequent operational phase of the proposed venue.

2. Determine the Potential Economic Benefit Derived from a Live Music Venue on the Site

It will be important to assess the local and state-wide benefits derived from the project including but not limited to direct and indirect employment, tourism, and live music. This work would be a key input to any business case for potential public funding the project.

3. Determine Optimum Operating Structure and Term

The Phase 2 market sounding resulted in a variety of views from the market as to the optimum operating structure and term of any agreement. Council should seek to fully understand the potential for public and private sector capital contributions to help inform an assessment and ultimate decision on the optimum operating structure and term that would be a key part informing a procurement process.

4. Establish an Understanding of the level of Community Support

The support from the community for a new live music venue is paramount for both Council and any participants in an open market procurement process. This is particularly important due to the recent history of the site. As such, it will be important to continue to engage the community on the project at key points in the future.

5. Planning Certainty

The number of interested proponents will likely be affected by the level of clarity and certainty of a planning outcome. Accordingly, a clear pathway for statutory planning approvals would need to be established that provides the market with a degree of certainty that a development in accordance with the planning controls will ultimately achieve a planning approval.

6. Procurement Planning

Any plans for procurement should consider the feedback from the phase 2 market sounding as well as considerable other issues for the site. A procurement plan will need to be developed that considers issues such as site contamination and who is responsible, how will parking be dealt with in terms of management and revenue, possibilities for design input by proponents and alignment of the planning process to procurement (in parallel, or in advance?)