



13.3 **STOKEHOUSE PRECINCT - ADDITIONAL SUPPORT**

EXECUTIVE MEMBER: **CHRIS CARROLL, GENERAL MANAGER, CUSTOMER, OPERATIONS AND INFRASTRUCTURE**

PREPARED BY: **ROD PRINGLE, HEAD OF PROPERTY AND WORKPLACE OPERATIONS**

1. PURPOSE

- 1.1 To seek approval to provide additional financial support and reasonable lease amendments for the Stokehouse Precinct restaurants to assist in the recovery from the coronavirus (COVID-19) pandemic.

2. EXECUTIVE SUMMARY

- 2.1 Council entered a 30-year lease with Stokegroup Pty Ltd (Stokegroup) on 2 March 2016 for the occupancy of the land (the Lease).
- 2.2 The Stokehouse restaurants are situated on Crown Land and Council acts in its role as “Manager” for Department of Environment, Land, Water and Planning (DELWP) as Lessor.
- 2.3 At the start of the COVID-19 pandemic, the Victorian Government introduced the Commercial Tenancy Relief Scheme (CTRS) to relieve financial hardship faced by commercial tenants and landlords as a result of the coronavirus pandemic.
- 2.4 During this period, Council introduced its Emergency Rent Relief Scheme (the Council Scheme) which also provided rental waivers.
- 2.5 Both support packages expired at the end of March 2021.
- 2.6 As a result of further COVID-19 lockdowns the Victorian Government introduced an updated Commercial Tenancy Relief Scheme in August 2021 (Updated CTRS).
- 2.7 Council also introduced an updated scheme (Updated Council Scheme) that provides more generous relief by providing a lower turnover trigger point of 20% (vs Updated CTRS rate of 30%). It also provides relief for June 2021 as a result of the short-term lockdown from May 28 to June 10, 2021.
- 2.8 While the support provided by Council has been helpful for commercial tenants in the municipality Stokegroup are facing some unique challenges related to the scale of the operation (three restaurants in the one building) and related costs of opening and closing for each lockdown, the large number of staff to be supported, the difficulties in effectively pivoting to takeaway service, the reliance on national and international visitors to enable full capacity in peak periods and the significant investment and related holding costs due to the recent rebuild of the precinct and ongoing investment in the 5-star green rating..
- 2.9 Stokegroup has requested that Council consider providing additional support.
- 2.10 It is recommended that Council, in addition to the proportional rent relief already being provided, provide additional rent relief, waive community contribution fees and approve proposed changes to the lease, as detailed in the body of the report.



3. RECOMMENDATION

That Council:

- 3.1 Notes that the Stokegroup has received financial support of \$534,000 inclusive of GST to date in the form of rental and Community Benefit payment waivers through Council's COVID19 support schemes in 2020 and 2021.
- 3.2 Notes that the Stokegroup will continue to receive proportional rent relief in the form of rent waivers until the end of the Updated Council Scheme on to 15 January 2022.
- 3.3 Notes that the Stokegroup has requested additional support from Council to assist their economic recovery due to: the scale of the restaurant operation (three restaurants in the one building) and costs of opening and closing for each lockdown; the large number of staff (200); the significant holding costs due to the recent rebuild and ongoing investment for the 5-star green rating; the difficulties in pivoting to takeaway service and the reliance on national and international visitors to maximise their custom in peak periods.
- 3.4 Approves additional financial support to Stokegroup Pty Ltd to assist in the recovery from the coronavirus pandemic, to include:
 - 3.4.1 Proportional rent relief based on reduction in turnover for the period 1 January 2021 to 31 May 2021, estimated at \$45,000 inclusive of GST; and
 - 3.4.2 A full waiver of Community Benefit fees for the period 1 April 2021 to 31 December 2021 to the value of \$41,250 inclusive of GST.
- 3.5 Approves reasonable amendments to the Lease subject to relevant State Government approvals if required including:
 - 3.5.1 extension of the 30-year lease term by 2 years (to 2048);
 - 3.5.2 a reduction of the current lease assignment prohibition from 21.5 years to 8 years from the lease commencement date; and
 - 3.5.3 an extension of the current due date (2026) for the repayment of deferred rent by 2 years (2028).
- 3.6 Delegates authority to the Chief Executive Officer to approve the lease amendments and execute the required documentation.

4. KEY POINTS/ISSUES

Background and relief provided to date

- 4.1 At the start of the COVID-19 pandemic, the Victorian Government introduced the CTRS to relieve financial hardship faced by commercial tenants and landlords as a result of the coronavirus pandemic.
- 4.2 During this period, Council introduced the Council Scheme which also provided rental waivers.
- 4.3 Stokegroup received a waiver of approximately 8 months rental during 2020 in line with the Council Scheme valued at \$424,176 inclusive of GST.
- 4.4 Both support packages expired at the end of March 2021.



- 4.5 Council also waived the quarterly Community Benefit charge in 2020 for the quarters commencing 1 April, 1 July and 1 October, valued at \$41,250 inclusive of GST.
- 4.6 As a result of further COVID-19 lockdowns the Victorian Government introduced an Updated CTRS in August 2021.
- 4.7 Council also introduced an Updated Council Scheme that provides more generous relief by providing a lower turnover trigger point of 20% (vs Updated CTRS rate of 30%). It also provides relief for June 2021 as a result of the short-term lockdown from May 28 to June 10, 2021.
- 4.8 Stokegroup has been provided with rental waivers in line with the Updated Council Scheme, valued (to date) at \$69,000 inclusive of GST.
- 4.9 While the support provided by Council has been helpful for commercial tenants in the municipality Stokegroup are facing some unique challenges.

Lease Summary

- 4.10 The former Stokehouse Restaurant was destroyed by fire in January 2014 and subsequently redeveloped over the period 2014 to 2016.
- 4.11 It was rebuilt over the period of 2014 to 2016, with significant additional investment from the Stokegroup, many millions of dollars above what was required for the basic rebuild and in addition to Council's insurance proceeds.
- 4.12 Council entered a 30-year lease with Stokegroup for the occupancy of the land commencing 2 March 2016.
- 4.13 The facility is situated on Crown Land and Council acts in its role as "Manager" for DELWP as Lessor.
- 4.14 The lease terms reflect the significant investment by Stokegroup in the redevelopment of the site.
- 4.15 The redeveloped Stokehouse Precinct now consists of three restaurants – Stokehouse, Pontoon and Paper Fish.
- 4.16 The Lease requires that the rebuild of the facility achieves a 5-star green rating, a rare achievement for a development of this type.
- 4.17 Stokegroup has continued to invest in this project during the pandemic and It is anticipated that the 5-star rating will be finalised shortly.
- 4.18 The Lease includes a "Community Benefit" requirement for Stokegroup to pay \$55,000 per annum (inclusive of GST), payable quarterly in advance "as a contribution to the costs associated with the construction of the St Kilda Life Saving Building".
- 4.19 A market rent review is due on the fifth anniversary of the Reinstatement Completion Date (4 June 2022). Officers have commissioned a market rent valuation. If the market rental falls this benefit will be passed over to Stokegroup. If the market rent increases, then the rental will remain at its current level of \$636,000 per annum. The Updated CTRS prohibits increases in rents and Council is also not implementing rent increases for commercial tenants for the 2021/22 financial year.

COVID Challenges

- 4.20 Stokegroup, like most of Council's commercial tenants have faced significant challenges as a result of the COVID-19 pandemic.



- 4.21 The Stokehouse Precinct restaurants have been closed for over 300 days since March 2020.
- 4.22 Council has provided financial relief to Stokegroup in line with the Council Scheme and Updated Council Scheme and has waived the Community Benefit charge in 2020 for the quarters commencing 1 April, 1 July and 1 October.
- 4.23 Stokegroup has faced the following unique challenges:
- Significant holding costs due to the recent rebuild where they invested significantly (many millions of dollars) above what was required and on top of Council's insurance funds. They have also just recently achieved a 5-star green rating which has required significant investment. These holding costs have recently increased due to refinancing required to fund the impact of the loss of trade due to the pandemic;
 - The 3 restaurants do not translate to providing take home meals despite trialling it through direct sales and a specialist online provider;
 - Partial re-opening of the Stokehouse Precinct in line with State Government restrictions is costly relative to other hospitality venues due to the size of the facility;
 - The Stokegroup Precinct supports approximately 200 employees during peak periods;
 - Impact of ban on international travel – during peak periods the Stokehouse Precinct attracts up to 4,000 guests across a weekend, many of these being international travellers.

Additional Support Requested

- 4.24 Financial Relief:
- Stokegroup has requested additional financial support from Council through rental relief and waiver of the Community Benefit fee.
 - Stokegroup has also indicated they may need to invest an additional \$200k in reconfiguring the dining spaces to respond to covid safe requirements.
 - Due to the difficulties encountered by Stokegroup it is reasonable to provide rental relief for the period January to May 2021 directly proportionate to their reduction in turnover (with no minimum "trigger" point). This is consistent with the relief provided to the Palais Theatre. This is estimated at \$45,000 inclusive of GST
 - Stokegroup has also sought a waiver of the Community Benefit contribution for the quarters commencing 1 April, 1 July and 1 October 2021 to the value of \$41,250 inclusive of GST. This is consistent with the waiver provided by Council during 2020.
- 4.25 Lease Amendments:
- Stokegroup has requested that Council and DELWP consider some amendments to the current lease clauses. These changes will help secure additional funding to assist in the recovery from the pandemic.
 - Extension of lease term – Stokegroup has requested an extension of 2 years (extending the term to 32 years) to offset the impact of the pandemic. Officers



have reviewed this request and consider it is reasonable given the period in which business has been impacted by the pandemic. In initial discussions with DELWP they have advised that this request could be given favourable consideration.

- Assignment provisions – the current lease prohibits assigning of the lease for a period of 21.5 years from the commencement date. Stokegroup are seeking to reduce that period to 5 years to enable a transition of the business from the control of its current principal. Stokegroup has informed us that they are not intending to sell, but this provision assists with refinancing. Officers have considered this request and have determined that 8 years is a more reasonable period as this will give the current operators time (to 2 March 2024) to reconsolidate the business as we move out of the pandemic.
- Repayment of deferred rent – a percentage of the rent (the equivalent of approximately one year's rental) was deferred during the first three years of the Lease. The deferred rent must be repaid on or before the tenth anniversary of the Lease commencement (2026). Stokegroup is seeking to extend the period by two years to the twelfth anniversary (2028). Officers have reviewed this request and consider it is reasonable given the period in which business has been impacted by the pandemic. In initial discussions with DELWP they have advised that this request would be given favourable consideration.
- Any changes to the Lease will require consent from DELWP and Ministerial approval.

5. CONSULTATION AND STAKEHOLDERS

- 5.1 Officers will continue to engage with Stokegroup during this period and will continue to provide relief available by the Updated Council Scheme.

6. LEGAL AND RISK IMPLICATIONS

- 6.1 Failure to support Stokegroup during this time may result in them being unable to fulfil their lease obligations.

7. FINANCIAL IMPACT

- 7.1 It is estimated that the financial support (in addition to the support provided by the Updated Scheme) for rental relief for the period 1 January 2021 to 31 May 2021 will cost Council approximately \$45,000 inclusive of GST. The waiving of Community Benefit amount for the period 1 April to 31 December 2021 will cost Council approximately \$41,250. In total, the financial support is estimated at \$86,250 inclusive of GST.

8. ENVIRONMENTAL IMPACT

- 8.1 There are no known environmental impacts for Council.

9. COMMUNITY IMPACT

- 9.1 The Stokehouse Precinct is considered a landmark hospitality venue, attracting many visitors locally, nationally and internationally to the municipality. It provides significant permanent and casual employment and should be supported to enable recovery from the pandemic.

10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 10.1 The partnership and current tenancy agreement aligns with:



10.1.1 Direction 5 – “Well-Governed Port Phillip”.

11. IMPLEMENTATION STRATEGY

11.1 TIMELINE

11.1.1 If Council resolves to provide additional support, Officers will organise for the support to be provided on a proportional basis upon receipt of supporting financial information and will process the waiver of the Community Benefit amount.

11.1.2 If Council resolves to consider amendments to the lease, Officers will engage with DELWP to determine that all statutory procedures and approvals are completed before actioning changes to the lease document.

11.2 COMMUNICATION

11.2.1 Officers will advise Stokegroup of the outcome of this meeting.

12. OFFICER DIRECT OR INDIRECT INTEREST

12.1 No officers involved in the preparation of this report have any material or general interest in the matter.

ATTACHMENTS

Nil