

March 8, 2006

Memorandum

To: G. Feltl

From: G. Linden

CC: P. Diem

Subject: **Schoenburg Palais**

Introduction

At your invitation and accompanied by Dr. Peter Diem, we visited the Schoenburg Palais in Vienna, Austria on January 27, 2006. It is my understanding that, due to the current condition and appearance of the property which reflects deferred maintenance and deterioration, government officials in Vienna have expressed concern about the future of this historic structure and grounds. The purpose of our visit, which was confined to viewing the property from outside the gate and fence on the southern boundary of the property, was to gain an appreciation of the property so that I could offer some preliminary ideas for its potential reuse/renovation.

Existing Situation

The basic facts about the property are described in a short paper prepared by Dr. Diem that summarizes the contents of a larger brochure containing some photographs and plans in the German language; I received a copy of this document during the visit:

The Schoenburg Palais was built in 1705 and designed by the renowned Baroque architect, Lukas von Hildebrand. The palais was intended as a "mason de plaisances" (i.e. entertainment palais) and was situated in a large Baroque garden, part of which was transformed into an English landscape garden in 1811. The original structure consisted of a central oval building of two stories with two appended wings that were one-story; in 1860, a second floor was added to the wings. The buildings were damaged by bombing during World War II and later rebuilt between 1955 and 1957.

The Palais is located about 15 minutes from Vienna's city center. The surrounding area is quite built-up with mid-rise residential blocks; the Austrian Chamber of Commerce complex is located to the west of the property, occupying several large buildings, some built in recent years, which face on to Rainergasse and Schamburg Streets.

The Palais property consists of a large, rectangular parcel of land of approximately 13,000+M2 (13 Ha. or 32 Ac.) which contains the main palace building which is an imposing 3-story + structure (which has about 1,380 M2 of interior space) and two detached, long narrow structures which were utilized in the past as stables; the buildings occupy only a small portion of the property, the remainder being dedicated to garden areas which exhibit a lack of maintenance and upkeep. The palace is set in the middle of the property while the stables are located along the perimeter

property lines of the parcel and connect with the street; a main gate and circular driveway front onto Rainergasse Street.

In recent years the property was sold to private owners who wanted to convert the building into a hotel with subterranean parking; the historic preservation authorities and neighbors defeated this scheme. Another attempt to redevelop the property involved a proposal to create a Hungarian Culture Institute but this failed due to a lack of financing. The District Parliament approved, on the 7th of May, 2004, a zoning law which limits development potentials. One key constraint is that no underground auto garages would be permitted to be developed in the park area as this action could endanger the existing trees. In 1892 a development scheme was proposed to add two new structures - 40 x 9m each, with a maximum height of 4.5m - which would be located along the north and south property boundaries; the possibility of developing these buildings was acknowledged by the District Parliament. The total area of these new buildings is about 2,260 M2.

At present the main building appears, from the exterior, to be occupied and maintained, although the large garden in front of the main building shows, as previously indicated, evidence of neglect as do the adjacent buildings (former stables). Dr. Diem reported that he personally visited the interior of the building in recent years to attend a musical performance and that the interior condition of the building appears good and without signs of damage or deterioration.

Reuse Plans To-Date

In recent years, as noted above, some inconclusive attempts have been made to renovate the existing palais and develop other buildings on the property. These new buildings could provide space for hotel rooms, apartments or offices. The new buildings would involve the demolition of the stables, which, apparently, the authorities have agreed to accept. Further improvements shown in the concept plan include provision for the area immediately in front of the large palais to be excavated and an underground garage developed to accommodate automobile parking. There would be new elevators connecting the underground parking with the structures. At present, there are no plans to implement the project as shown in the brochure.

Reuse Options and Opportunities

The basic conditions of the property (i.e. location, existing and surrounding development, size of parcel, building and grounds condition, etc.) suggest that there is a higher and better use which could be established. If the possibility existed to fully redevelop the property (i.e. remove the existing buildings and gardens), then the property could easily accommodate several large residential blocks and the property could be commensurately valued at a good market price. However, given the current limitations on redevelopment and the obvious concerns about retaining an historical landmark, opportunities for a higher and better use might be realized if either:

1. A purchaser could be found with the necessary resources to bear the (probable) high costs of renovation while accepting the limited new development potentials as well supporting the future upkeep and operations costs - which are also likely to be high. If the objectives of the investment were "non-profit", then the normal cost/benefit rules of a traditional commercial investment would not be considered, and some level of loss making would be acceptable.

Or, alternatively,

2. A developer or entrepreneur could be found who could purchase the property and undertake the renovations and new development to reposition the Palais as a profit-making venture.

As to the first possibility, on the one hand, if the property were to be dedicated to a purely public use such as a museum or a library, then the economics of purchasing it and operating it would be set within a "non-market" framework (i.e. the costs of acquisition, renovation and operations would almost surely exceed any revenues which would be generated through operations). In this case, the maintenance of the large gardens, the expensive renovations and upgrading works on the palais and restrictions on developing new buildings would need to be accepted by decision-makers and the community as well. In the end, the costs of this reuse option – and the benefits although largely non-economic - would be borne by the taxpayers - if it became a public project - or by a philanthropist, a foundation or other such organization which has the wherewithal to support such a project.

On the other hand, if a market-driven approach were taken, then the costs of acquisition, renovation, new development and operations would need to be amortized over a reasonable time period (say ten, fifteen or twenty years) against the revenues generated by the future uses in order to produce a profit.

Focusing on the market-driven, profit-making approach, there are several options which may be suggested for the reuse of the property including:

- *Private residence(s)*: The property could be restored and renovated to serve as a private home. The market for such a property is, no doubt, very limited, but it is conceivable that a wealthy individual/family buyer could be found through an international real estate brokerage. There are several international real estate publications and websites that advertise such unique properties to buyers throughout the world. Another possibility would be to divide the palais into a number of smaller residences which could be sold as condominiums; this would increase the market appeal to more buyers, while retaining the privacy and exclusiveness of the property. Another approach to this would be to sell outright some of the condominiums and develop the new wings, as contemplated in the recent proposal, which could be operated as serviced apartments; these could be rented on a monthly or weekly basis by corporations or individuals who have business in Vienna. If the average size of an apartment in these new wings was approximately 120 M2, then each could accommodate about 9 units for a total of 18 units. The services

provided would include daily maid services, shopping, laundry and dining as well as access to a fitness area, etc.

- *Luxury Hotel:* There are numerous examples of large palais in Europe which have been restored and successfully operated as luxury hotels. In order to assess the feasibility of this option, more detailed floor plans and interior sections of the main building would need to be reviewed in order to ascertain the possibilities of dividing the large rooms into suites and rooms for use as a hotel. The possibility of developing the two new buildings would appear to offer the best opportunity to create more modern accommodations which could be linked to the main building which could be used for the dining facilities, spa, meeting rooms, etc. If the hotel rooms in the new wings were about 45 M2 each, then the total number of rooms could be between 40 and 50, depending upon the other amenities provided in the buildings. Although the palais has an additional 1,380M2 of gross area, the number of hotel rooms which could be created is probably constrained by the layout of the rooms and the ceiling heights; therefore, if 50% of the area were suitable for hotel rooms, then the palais would only accommodate another 15 rooms. More careful analysis of the hotel option should be undertaken to fully understand the potentials for this reuse, but it is probably the case that the eventual yield of the renovation and new construction efforts would be a relatively small hotel of less than 80 rooms or so. The building complex would be sufficiently large to accommodate food services, recreational amenities, a business center, etc., etc. If a high quality restaurant were developed on the premises, this could attract customers who were not necessarily guests at the hotel.
- *Embassy:* The property, with internal renovations and the ability to construct an additional building or buildings to house office activities, could be reutilized by a foreign country as an embassy or consulate. The main building would be able to support a very stately suite of meeting and social event rooms as well as dwelling quarters on the upper floors. The two wings would accommodate office space as well as staff quarters. There would no doubt be some requirements for new external security controls which could include additional walls or other barriers which would alter the appearance of the existing fence.
- *Corporate/Foundation Headquarters:* Given Vienna's status as an international city where a variety of businesses and organizations have permanent representation, it is possible that the palais complex could be renovated to become a headquarters or regional office of such an entity. As with the Embassy option, renovations to the main palais building could be made to accommodate meeting and social function spaces as well as living quarters for a senior manager and family, while the two new wings could be developed as offices with all of the needed modern systems and conveniences and staff support areas.
- *Conference Center:* Although Vienna has a large inventory of facilities suitable for hosting conferences, exhibitions and trade shows, the ambience of a

renovated historical structure such as the Palais Schoenburg could be sufficiently attractive to capture business from existing, less attractive venues. Although most international standards hotels in Vienna have meeting rooms and social areas, it is possible that by developing new hotel accommodation in the two parallel wings and the upper levels of the palais, while renovating the large public rooms for meeting and events, the property could be marketed as an upscale conference center. Recent trends in the conference business indicate that the availability of high tech presentation equipment, video conferencing, audiovisual recording and production are key assets in capturing new business.

In all of the above cases, the fundamental analysis comes down to finding an economic use for the property which, through sales or rents or other income, can produce a profit which is commensurate with the costs and risk involved.

Challenges

In some instances, investments in historic structures are unattractive to developers and investors due to the many restrictions and limitations on renovations and redevelopment which may be imposed by government authorities. In the case of the Palais Schoenburg, the fact that the present owners have been refused permission to make improvements which they feel are necessary, will be well known by the local real estate market. Thus, attracting investors and developers to this property will be difficult unless some conditions can be changed or other incentives offered.

Opportunities

In a situation where previous renovation and improvement efforts have been thwarted on a historic property and where government understands that in order to achieve a desirable outcome (i.e. the preservation of a valuable historical asset) there must be some flexibility and "give and take", a range of incentives might be considered in order to attract investors. For example, tax incentives could be offered to the prospective investors to reduce the initial tax burden that would normally be assumed upon the purchase of the property. Other incentives, such as "tax holidays" (i.e. suspension of applicable income taxes for several years during initial operations) could also be attractive. Because a hotel or other on-going operation can generate new employment opportunities, some cash "bonuses" could be awarded by government authorities to developers in order to make deals more attractive. Another approach, requiring more creativity on the part of the government authorities, would be to "package" certain development rights around a given desired outcome (e.g. restoration of the palais and, for example, allowing public access to parts of the garden). This "packaging" of development rights would entail finding some other development opportunity, such as offering the developer the rights to purchase another property at below-market price or the ability to develop additional dwelling units or area elsewhere on a different project which would be sufficiently attractive to the prospective purchaser that inconveniences or costs imposed by the historic renovation project would be outweighed.