Exhibition Place

REPORT FOR ACTION

Queen Elizabeth Theatre Lease

Date: January 28, 2020
To: Board of Governors of Exhibition Place
From: Don Boyle, Chief Executive Officer
Wards: All

SUMMARY

The Board and 16730801 Ontario Ltd. (the "Tenant") entered into a lease for the Queen Elizabeth Theatre (the "QET") dated March 6, 2008, as amended by a Lease Amending Agreement dated May 1, 2010 and a Lease Amending Agreement dated May 9, 2018 (collectively, the "Existing Lease ") which expires on April 30, 2020.

At its meeting of June 13, 2019 the Board approved, subject to City of Toronto ("City") authorization, a new lease between the City as Landlord and the Tenant for a term of ten (10) years commencing May 1, 2020 and ending April 30, 2030.

At its meeting of September 19, 2019, the Board approved a new lease between the City as Landlord and the Tenant for the Fountain Dining Room located adjacent to the QET, which is also currently leased by the Tenant. The approved term of this new lease was also for ten (10) years commencing May 1, 2020 and ending April 30, 2030.

The Tenant on January 9, 2020 wrote to the CEO of Exhibition Place requesting that it be granted a new Lease with a term of twenty (20) years expiring April 30, 2040, instead of the ten (10) years approved by the Board in June 2019.

On January 9, 2020, the Tenant also wrote to the CEO of Exhibition Place requesting a term of twenty (20) years for the Fountain Dining Room lease, which would make both leases coterminous on April 30, 2040. This request is the subject of a separate report.

Since the Tenant took possession of the QET, the Tenant has undertaken several investments / renovations in the leased premises as follows:

- 2008 to 2010 - invested approximately $550,000 for upgraded washroom facilities, bar area, and technical production equipment.
- 2010 to 2017 - invested $300,000 in further stage enhancements, dressing room renovations, and technical equipment.

- January 2018 to present - invested $1,000,000 or 42% of the proposed renovation estimated at a total of $2.4 million, to increase capacity, which includes a lobby renovation, and the addition of two balconies (the "2018 Renovations").

The major 2018 Renovations proposed by the Tenant and previously approved by the Board will significantly improve this City asset and the commercial viability of the QET and this report is recommending that a new lease for a term of ten (10) years, with a Tenant's option to extend for a further term of ten (10) years, be entered into with the Tenant on the terms and conditions provided in this report.

RECOMMENDATIONS

The Chief Executive Officer recommends that:

1. Subject to obtaining the necessary City of Toronto authorization, the Board approve a new lease (the "Lease") for the Queen Elizabeth Theatre between the City of Toronto, as landlord (the "Landlord"), 16730801 Ontario Ltd., as tenant (the "Tenant"), and the Board, for a term of ten (10) years commencing May 1, 2020 and ending April 30, 2030, with an option to extend the Lease in favour of the Tenant for a further term of ten (10) years from May 1, 2030 to April 30, 2040, substantially on the terms and conditions set out in Appendix "A" and such other terms and conditions deemed appropriate by the Deputy City Manager, Corporate Services (the "DCM"), the Chief Executive Officer, Exhibition Place (the "CEO"), and in a form satisfactory to the City Solicitor .

2. The Board authorize the CEO to request the necessary City of Toronto authorities to approve and enter into the Lease.

FINANCIAL IMPACT

Over the first ten (10) year term previously approved by the Board in June 2019 in Confidential Attachment 1, it is estimated that the annual positive financial implications of the proposed Lease over the term will be $8.623M made of Basic Rent, Percentage Rent, Additional Rent, Services, and Net Parking Income. The capital investment of approximately $2.4 million in the 2018 Renovations are in addition to the positive financial implications noted above.

Over the ten (10) year extension term, the estimated financial return to the Board is approximately $14.176 million made of Basic Rent, Percentage Rent, Additional Rent, Services, and Net Parking Income.

DECISION HISTORY

The 2017 - 2019 Strategic Plan has a Business Development goal to grow event activity and maintain strong relationships with existing clients, and identify areas for revenue enhancements.

At its meeting on March 6, 2008 the Board approved entering into a lease with the Tenant for a term of three (3) years commencing May 1, 2008 and concluding April 30, 2011.

On April 23, 2010, the Board approved of the staff recommendation to extend the term of the lease with the Tenant to April 30, 2020, on the terms and conditions set out in the staff recommendation.
https://www.explace.on.ca/files/file/58c6df474bf7a/Item-36-Queen-Elizabeth-Theatre-final.pdf

At its meeting of June 13, 2019 the Board approved a new Lease for a term of ten (10) years commencing May 1, 2020 and ending April 20, 2030.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EP3.22

At its meeting on September 19, 2019, the Board approved of the staff recommendation to extend the term of the lease with the Tenant for the Fountain Dining Room to April 30, 2030, on the terms and conditions set out in the staff recommendation.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EP6.14

COMMENTS

The 2018 Lease Amending Agreement permitted the Tenant to proceed with the 2018 Renovations, which would otherwise not have been compliant with certain provisions of the original lease agreements. The 2018 Renovations provided for:

- Replacement of the fixed theatre (1300) seating with 1200 retractable theatre seating to allow the theatre to operate in two different modes.
- Construction of two new balconies on the west and east side of the theatre with a standing capacity of 77 and 78 people respectively.
- Additional washrooms facilities that will increase capacity from 17 female and 15 male total washroom fixtures to 25 female and 27 male total washroom fixtures. In addition to this increase in fixtures, there will be 3 universal washrooms added.
- Upgrading the front lobby.
- Refurbishing the interior lobby artwork.

The Tenant has commenced construction of the 2018 $2.4 million Renovations and has, thus far, invested approximately $1,000,000 or 42% into the premises.

The Tenant on January 9, 2020 wrote to the CEO of Exhibition Place requesting a term of 20 years instead of 10 years which is now set to expire on April 30, 2040 based on his current upfront capital investment, his performance and good standing over the years, so that he is in a better position to recoup his investment and sustain his business model. Exhibition Place staff has met with City Real Estate staff to consult on this matter and they are supportive with the direction to move forward as set out in this report.

In our lease negotiations in the summer of 2019, the Tenant initially proposed a 20 years term; however Exhibition Place and City Real Estate negotiated a 10 year term due to the Master Planning Development Study being undertaken by the City Planning. So far, nothing in the draft guiding principles of the Master Plan would indicate that a 20 year lease cannot be done at this time.

Attached as Appendix A to this report are the proposed terms and conditions of the new Lease.

CONTACT

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SIGNATURE

Don Boyle
Chief Executive Officer

ATTACHMENTS

Appendix A - Terms and Conditions of Lease Agreement