



REPORT FOR ACTION

Exhibition Place Hotel X Development - Phase 2 Lands

Date: September 3 2020
To: The Board of Governors of Exhibition Place
From: Don Boyle, Chief Executive Officer
Wards: All Wards

SUMMARY

An RFP was released through the City of Toronto Purchasing on April 17, 2007. Both of the two hotel developers short-listed through a previous REOI process submitted a proposal and the Board approved HK Hotels LLC ("HKH") as the successful proponent. In March 2008, the Board approved a Letter of Intent (LOI) between the Board and HKH which set out general terms along with an exclusivity to negotiate.

At its meeting of October 8, 2009, the Board of Governors approve of entering into a 49-year lease agreement with two 25-year renewal terms with HKH, which report was subsequently approved by City Council at its meeting of November 30, December 1, 2, 3, 4, 7, 2009 (EX36.3).

The 750,000 square feet first phase Hotel opened for operations on March 20, 2018, with the hotel development consisting generally of a podium and tower (29 floors for the tower, 404 rooms, and 411 underground parking spots).

Under the current lease for Hotel X, the tenant Princes Gate Hotel Limited Partnership ("HKH") has an option to lease certain phase 2 lands to the west of the current property. By letter dated July 31, 2020 HKH gave formal written notice to the Board Chair and CEO of Exhibition Place that it wishes to exercise that option for the 2nd tower and other related amenities.

The financial terms and conditions and concept/specifications/design plan surrounding the phase 2 parcel of lands need to be negotiated in advance between the parties and once finalized shall be subject to review and approval by both the Board and City Council.

RECOMMENDATIONS

The Chief Executive Officer recommends that:

1. The Board receive this report for information.

FINANCIAL IMPACT

There are no negative financial implications of this report.

DECISION HISTORY

The Exhibition Place 2014 – 2016 Strategic Plan had a Goal to enhance our public assets through major new builds and/or renovations, and as a Strategy to work in partnership with the private sector to complete Phase I of the hotel and Stanley Barracks Park.

At its meeting of October 8, 2009, the Board approved of the development plan for a hotel at Exhibition Place and the terms and conditions of a lease with HK Hotels LLC, which recommendations were subsequently approved by City Council at its meeting of November 30, December 1, 2, 4 & 7, 2009 (Item EX36.3).

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.EX36.3>

At its meeting of December 6, 2011, the Board approved of a revised schedule for the hotel development.

<http://www.explace.on.ca/database/rte/files/Hotel%20Development-Dec.pdf>

At its meeting of December 4, 2015, the Board considered a report to respond to a request for information on the construction schedule for the hotel.

[http://www.explace.on.ca/database/rte/files/Item%2017-Hotel%20Development%20Info%20Report\(1\).pdf](http://www.explace.on.ca/database/rte/files/Item%2017-Hotel%20Development%20Info%20Report(1).pdf)

At its meeting of December 9, 2016, the Board considered a status report on the hotel construction schedule, the tenant's decision to engage a new constructor, liens registered on title, and approved a recommendation to amend the lease to extend the date for opening.

<http://www.explace.on.ca/database/rte/files/Item%202-Hotel%20Development.pdf>

At its meeting of March 23, 2017, the Board considered a status update on both the construction schedule of the hotel, liens related to the construction, and approved a recommendation to further extend the dates for substantial completion and opening.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EP2.13>

COMMENTS

Through Exhibition Place 1999 Development Concept Plan, the Board set a priority to develop a hotel on the grounds and over the last many year's staff have been working at achieving this goal. The 750,000 square feet first phase Hotel opened for operations on

March 20, 2018, with the hotel development consisting generally of a podium and tower (29 floors for the tower, 404 rooms, and 411 underground parking spots).

Under the current lease for Hotel X, HKH has option to lease certain phase 2 lands to the west of the current property. By letter dated July 31, 2020 HKH have given formal written notice to the Board Chair and CEO of Exhibition Place that it wishes to exercise that option for the 2nd tower and other related amenities.

In order to exercise its option to lease the phase 2 lands, the tenant must comply with various terms set out in the lease. Among these requirements are that the tenant is not in material default of the lease after notice from the landlord and the expiry of the applicable cure period. To the best of the undersigned's knowledge, there is no existing default or breach of the lease on the part of the tenant of which the landlord has provided notice, beyond any applicable cure period contained in the lease. The landlord has permitted the tenant to defer payment of certain amounts of additional rent as a result of the COVID-19 crisis, but no formal notice of default has been given with respect to these amounts.

Benefits to Exhibition Place and the City Economic

The financial terms of the existing lease provide both a fixed minimum rent and additional percentage rent to the Board increasing over the initial 49-year term. In addition, the Hotel will pay property taxes annually (municipal share is 50%).

The positive economic impact from the proposed expansion would be as follows:

- During the construction period the hotel will create equivalent full-time jobs and generate millions in total tax revenues.
- On an ongoing basis, the hotel operations will create full-time jobs and millions in total tax revenues.
- As important as the positive financial return to the Board in the form of rent and percentage rent, and the economic impact to the City of Toronto, the hotel addition will be a huge enhanced marketing benefit for Enercare Centre and Beanfield Centre.

Economic Impact of Phase 2 Hotel

The economic impacts of the hotel are calculated on the basis of capital and operating expenditures on goods, services, and employee salaries, and on the basis of projected spending in the City and Province. An economic model measures the direct, indirect, and induced effects for each of these elements. While hotels typically do not attract visitation to a community, they are an essential piece of tourism infrastructure that must be present to capture the maximum economic impact from many forms of tourism activity. The proposed hotel addition at Exhibition Place will generate significant one-time and recurring economic benefits. The capital investment will create the equivalent of hundreds of full time jobs and generate millions in total tax revenues to all levels of government. Given the current state of Ontario's commercial construction sector, it is reasonable to assume that almost all of these jobs and this tax revenue would be incremental.

Requirement for Hotel on Site

Generally, all event planners and tradeshow organizers cite the convenience and availability of hotels as one of their primary criteria for selecting a location and facility for their events. The present cost of transportation (i.e. busing thousands of exhibitors and/or delegates from downtown hotels) is an expensive line item in a tradeshow budget and causes organizers to make a decision based on the proximity of a headquarters hotel. While Enercare Centre has always had a “host hotel” partnership with a city hotel, the location outside of Exhibition Place still makes transportation costly and time consuming. Transportation for a three-day tradeshow to and from the downtown core could easily exceed \$100,000 in expenses for the tradeshow. The development of another hotel property at Exhibition Place will make Enercare Centre more appealing to tradeshow organizers, especially those from the United States. The opening of Beanfield Centre in October 2009 dramatically increased the need for an “on-site” hotel to support the conferences, meetings, and conventions that will be attracted to the site. The additional hotel rooms from phase 2 will be great for launching Exhibition Place as a competitive venue in North America for major tradeshows, mid-size conferences, and meetings.

Finally, in addition to the needs of Enercare Centre and Beanfield Centre clients, a phase 2 hotel would be of benefit to other tenants and users of the grounds such as the Royal Agricultural Winter Fair, Toronto Honda INDY, CNE, and would support out-of-town visitors to Medieval Times, special occasion/wedding business at the Liberty Grand, and major sporting events at BMO Field and Coca-Cola Coliseum.

HKH

HKH is a privately run company that successfully operates 4 boutique hotels in New York City and a new resort hotel in Prague, which in total represent over 300 rooms and 250 employees. HKH principal shareholder, Mr. Henry Kallan, has managed many substantial hotel properties in Europe and the United States.

CONTACT

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SIGNATURE

Don Boyle
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