



REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

123 Queen Street West - Lease Amending & Extension Agreement

Date: September 3, 2020

To: General Government and Licensing Committee

From: Executive Director, Corporate Real Estate Management

Wards: Ward 10 - Spadina - Fort York

REASON FOR CONFIDENTIAL INFORMATION

This report deals with a proposed or pending acquisition or disposition of land by the City of Toronto.

SUMMARY

BSREP II Hospitality Toronto GP Inc., in its capacity as general partner of BSREP II Hospitality Toronto L.P (the "Tenant"), managed by Brookfield Asset Management, operates the Sheraton Center at 123 Queen Street West (the "Premises") and is planning to invest a minimum of \$40 million in renovations and capital improvements to the Premises within the next three (3) years, and has agreed to invest a minimum of \$5 million in additional renovations when the market and hospitality industry have recovered from COVID-19 impacts. In respect of the latter investment, the Tenant has agreed to update the City of its investment plans within the next three (3) years.

The Tenant has requested that the underlying ground lease with the City of Toronto be amended as set out in this report and extended for 40 years beyond the current expiry of the ground lease on May 31, 2068 (with an extension term commencing June 1, 2068 and ending May 31, 2108) in order to assist in securing capital required to fund such investments. This report requests authority for a lease amending and extension agreement, which will incorporate the major terms and conditions as described in Appendix B and Confidential Attachment 1.

RECOMMENDATIONS

The Executive Director, Corporate Real Estate Management, recommends that:

1. City Council authorize the City of Toronto (the "City"), as landlord, to enter into a lease amending and extension agreement (the "Agreement") with BSREP II Hospitality Toronto GP Inc., in its capacity as general partner of BSREP II Hospitality Toronto L.P, as tenant, for the lands located at 123 Queen Street West, substantially on the terms and conditions outlined in Appendix B and as further set out in the attached Confidential Attachment 1, and on such other or amended terms and conditions acceptable to the Deputy City Manager, Corporate Services and in a form acceptable to the City Solicitor.
2. City Council direct that the confidential information contained in Confidential Attachment 1 remain confidential in its entirety, until the Agreement or notice thereof is registered on title.

FINANCIAL IMPACT

The amendment and extension agreement will result in the City receiving an increase in annual rent, commencing October 1, 2022 to May 31, 2026 and will increase the annual base rent calculations for the remainder of the term, as extended, in accordance with the terms of the Ground Lease. Percentage rent calculation and payments will remain unchanged. The Tenant will remain responsible for any operating costs, charges and taxes, resulting in no cost to the City.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial implications as identified in the Financial Impact section.

DECISION HISTORY

As adopted by City Council of The Corporation of the City of Toronto on July 5, 1968, as confirmed by By-Law No. 219-68, the Property was leased under a ground lease dated August 19, 1968, executed between The Corporation of the City of Toronto (now the "City") and a consortium of companies carrying on business as The Inn on the Park, Four Seasons Motor Hotel Limited and South Side Development Limited, collectively as lessee, for a term of ninety-five (95) years, commencing on June 1, 1973 and expiring on May 31, 2068.

In consideration of the ground lease dated August 19, 1968, the City and a consortium of companies carrying on business as The Inn on the Park, Four Seasons Motor Hotel Limited and South Side Development Limited entered into a building agreement dated August 19, 1968 (the "Building Agreement"), which set out the parties' obligations and covenants to erect and construct certain buildings and works on the subject lands. The Building Agreement was subsequently amended by an agreement dated July 27, 1971 (the "Bridge Agreement") in relation to the adjacent pedestrian bridge, the pedestrian walkway and the vehicular tunnel. The ground lease, the Building Agreement and the Bridge Agreement are collectively referred to as the "Ground Lease". Through a series of transactions, there have been amendments, assignments of all or part of the leasehold interests and corporate restructurings dealing with the Ground Lease and leasehold interest from time to time.

In October 2017, by way of DAF 2017-249 the City consented to the assignment of the Ground lease from 1367357 Alberta ULC, in its capacity as general partner of Sheraton Centre Toronto Limited Partnership to the current Tenant, BSREP II Hospitality Toronto GP Inc., in its capacity as general partner of BSREP II Hospitality Toronto L.P.

COMMENTS

The Tenant purchased the Premises and acquired the Ground Lease in 2017 for approximately \$335 million. There is an additional 47 years remaining on the current term.

The Tenant first approached the City in 2019 requesting an extension of the term of the Ground Lease and amendments to several other provisions in order to secure financing for a major capital renovation that was planned. In connection with this negotiation, CreateTO engaged Infrastructure Ontario, with CBRE as agent, to provide analysis on the value of the City's major ground leases for hotel sites, potential rent structures and other key considerations in renegotiating long term ground leases of this nature.

The City proposes to enter into a lease extension and amending agreement with the Tenant to extend and amend the terms of the Ground Lease in accordance with the terms and conditions set out in Appendix B and as further described in Confidential Attachment 1.

The amended and extended Ground Lease includes the requirement that the Tenant complete a minimum of \$40 million in capital renovations to the Premises that include investments to the lobby, aesthetic improvements to the Queen Street retail façade/frontage, the restaurant and bar, Porte Cochere pick-up/drop-off, club members lounge, meeting rooms, pool area and locker rooms, back of house, and exterior and physical plan improvements, within three (3) years after City Council's authorization of the amended and extended Ground Lease.

The Tenant will also be required to complete a minimum of \$5 million in additional capital improvements, provided the retail and hospitality markets have recovered from the current COVID-19 pandemic. These improvements will include investments to the retail amenities on Queen Street and the hotel's concourse and renovations to the Richmond Tower Hotel rooms, converting existing office space back to hotel rooms and increasing the number of rooms by 70-75. The Tenant has agreed to update the City of its investment plan for additional renovations within three (3) years of Council's approval of the proposed agreement.

The proposed rental rates are the result of negotiations led by CreateTO in review of the current appraised land value of the Premises, the projected percentage rental payments based on the Tenant's stated revenues and the estimated cost of the Tenant's proposed renovation work. City staff are satisfied that the revised rental rates are at market value and satisfactory to the City.

CONTACT

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SIGNATURE

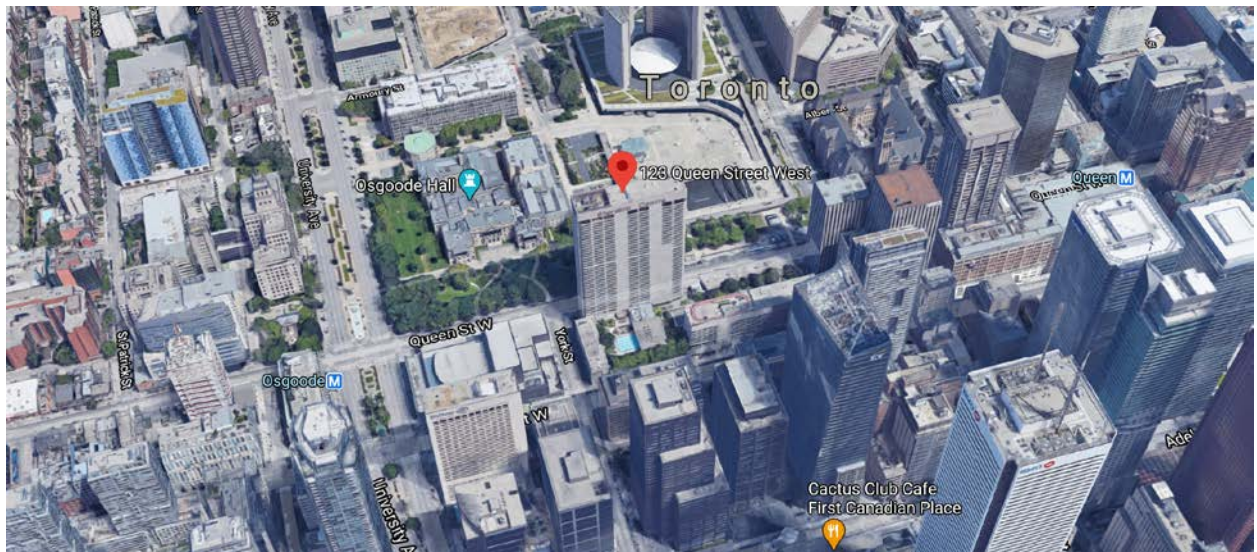
Patrick Matozzo
Executive Director, Corporate Real Estate Management

ATTACHMENTS

Appendix A - Location Map
Appendix B - Major Terms and Conditions
Confidential Attachment 1

APPENDIX A

Location Map



APPENDIX B

Major Terms and Conditions

Landlord:	City of Toronto
Tenant:	BSREP II Hospitality Toronto GP Inc., in its capacity as general partner of BSREP II Hospitality Toronto L.P.
Leased Premises:	The premises municipally known as 123 Queen Street West, Toronto and known as the Sheraton Centre
Extension Term:	Extension of the existing term of the Ground Lease for 40 years, commencing on May 31, 2068 and expiring on May 31, 2108 (the "Extension Term"), upon the same terms and conditions as the existing Ground Lease, except as amended herein and as further set out in Confidential Attachment 1.
Estoppels:	The Landlord and the Tenant agrees to execute, on no less than 30 days written notice, a certificate in writing as to the status of the Ground Lease from time to time, in a form satisfactory to the City Solicitor.
Transaction and Administrative Fees, Consent Timelines:	The Tenant shall pay the Landlord an administration fee of \$10,000.00 for requests related to consents to a transfer/assignment that will be payable upon execution of the consent by the Landlord, provided such consent is delivered by the Landlord within an agreed to period of time.
Landlord Consent for Renovations:	Section 6.01 of the Ground Lease to be amended such that the Tenant shall obtained Landlord's consent for any capital improvements that (i) would have the effect of the Leased Premises or the buildings being used for a purpose which is not permitted in Ground Lease; (ii) which exceeds Five Million Dollars (\$5,000,000.00) in cost (increased from \$250,000.00); and/or (iii) which affects the exterior of the building

<p>Capital Improvements:</p>	<p>The Tenant agrees to invest a minimum of \$40 million (and up to \$45 million) in renovations and capital improvements to the Leased Premises, including without limitation, improvements to the lobby, aesthetic improvements to the Queen Street retail façade/frontage, the restaurant and bar, Porte Cochere pick-up/drop-off, club members lounge, meeting rooms, pool area and locker rooms, back of house, and exterior and physical plan improvements; with such improvements to be completed within three years from the City of City Council approval of this agreement.</p> <p>The Tenant agrees to invest a minimum of \$5 million (and up to \$40 million) in additional renovations when the retail leasing market and hospitality industry have recovered to the pre-COVID levels as indicated by the metrics provided to the Landlord prior to the execution of this agreement and agrees to update the Landlord within three (3) years of City Council's approval of this agreement of its updated plan for its additional investments into the building.</p>
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