



REPORT FOR INFORMATION

Proposed Long Term Land Lease - City Owned Property at 11 Bay Street

Date: March 1, 2021
To: CreateTO Board of Directors
From: Chief Executive Officer
Wards: Ward 10 - Spadina - Fort York

SUMMARY

The purpose of this report is to report back to the Board of CreateTO with certain supplemental information related to the proposed lease terms negotiated between staff of CreateTO and QuadReal Property Group Limited Partnership ("**QuadReal**") and Barney River Investments Limited ("**Barney River**"), the managers acting on behalf for the tenant, in connection with a proposed long-term lease renewal/new lease agreement ("**Lease Extension**") to permit redevelopment of the City-owned property at 11 Bay Street (the "**Subject Property**"). QuadReal and Barney River have proposed a complete redevelopment of the Subject Property which will result in a new office tower and rebuilt convention centre at grade.

At its meeting on January 11, 2021, the CreateTO Board considered an initial report (the "**Initial Report**") on the proposed Lease Extension, and invited Staff to conduct further due diligence on the background to the Tenant's proposal. This Report contains the results of that due diligence investigation, and the schedules to this Report contain certain third party reports and correspondence that have resulted from this due diligence exercise.

RECOMMENDATIONS

The Interim Chief Executive Officer, CreateTO recommends that:

1. The Board of CreateTO direct the Interim CEO to report back to the next meeting of the CreateTO Board with a final report on the proposed transaction that reflects any changes required as a result of the input of the Board from this meeting.

FINANCIAL IMPACT

There is no financial impact as a result of the adoption of this report.

DECISION HISTORY

City Council on May 17, 18, and 19, 2011 authorized Build Toronto to undertake a master planning process for the properties municipally known as 11 Bay Street.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.GM3.21>

At its meeting on October 29, 2019, City Council adopted PH9.4 "Focusing on Building Design Improvements" and requested the Board of CreateTO to work with the Chief Executive Officer, CreateTO in order to employ open and international design competitions for major and transformational projects in which it is the lead developer.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.PH9.4>

At its meeting on March 13, 2020, the Board of CreateTO adopted RA11.2 authorizing staff of CreateTO to negotiate the terms and conditions of a long-term fair market-value lease agreement with SCG Aquarius Toronto Hotel, Inc., as tenant and SCG Aquarius Toronto Hotel, Inc., in its capacity as General Partner for SWA Toronto L.P., as beneficial tenant (the "**Tenant**"), to design, build, finance and operate a new office building and convention centre and other complementary facilities at 11 Bay Street and to report back to the Board of Directors of CreateTO on the results of the negotiations.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.RA11.2>

At its meeting on January 11, 2021, the Board of CreateTO received Report RA20.6 containing the initial report from staff in response to the direction of the Board in RA11.2 setting out the proposed terms of a long-term lease extension with the Tenant to design, build, finance and operate a new office building and convention centre and other complimentary facilities at 11 Bay Street.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.RA20.6>

At its meeting on January 12, 2021, the Toronto and East York Community Council received a preliminary report from the Director, Community Planning, Toronto and East York District on a zoning amendment application submitted by the Tenant for the Subject Property.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.TE22.12>

COMMENTS

The Subject Property is owned by the City and located in the Central Waterfront area at the foot of Bay Street – see Appendix 1. The City has entered into a long-term ground lease of the Subject Property with Barney River which expires on May 31, 2030, (with the potential of two further options to renew of five years each) for the primary use as a convention centre, serving the Toronto Westin Harbour Castle Hotel located directly to the south across Queens Quay West.

This Report addressed the additional due diligence enquiries which staff has undertaken subsequent to the January 11, 2021 Board of Directors meeting to address certain questions arising out of and following that meeting. A rendering of the Tenant's proposed development is included in Appendix 2.

The Procurement Process

The proposed Lease Extension advanced by the Tenant is unsolicited by CreateTO, and is the only business proposal for the Subject Property being entertained by CreateTO Staff at this time. This raises the question as to whether a broader procurement and public tender process should be undertaken by CreateTO in respect of the Subject Property. Staff are of the view that since Barney River legally controls the Subject Property for the next ten years under its existing lease arrangements, it is not possible to conduct an open procurement at this time. We must either deal with the Tenant's proposal, or wait ten years for the existing lease to expire and then conduct an open procurement.

In considering this issue, staff consulted with Optimus sbr, a management firm that specializes in procurement and fairness. Optimus sbr has been previously engaged as a fairness monitor on several CreateTO projects, including the Housing Now portfolio. A copy of the opinion letter provided by Optimus sbr is attached to this report as Appendix #3. The key conclusion set out in the fourth paragraph on page 1 is as follows:

“If the City wishes to proceed with negotiating the redevelopment with the existing tenant, it is my opinion that the lack of an open and competitive procurement should not be considered a fairness issue per se, as there is no legal alternative available, except as noted above.”

For a similar transaction recently approved by the City, Staff would refer the Board to the recent lease amending and extension agreement relating to the Sheraton Centre approved by City Council on September 20, 2020.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.GL15.16>

As noted above, the existing lease of the Subject Property in favour of Barney River has a further ten years remaining on its term, with a possible further extension of up to ten years on mutual agreement. One question that Staff has considered is whether it would be advisable for the City to wait until the existing lease expires and then offer the Subject Property to the open market on a public tender basis. While this option is possible in theory, it is Staff's understanding that should the current Lease Extension proposal not

be accepted by the City, it is the intention of Barney River to immediately submit a new proposal to the City to extend the existing lease for a further term of twenty to thirty years so as to permit the current Convention Centre to be renovated. As such, it is not possible for Staff to say at this time with any certainty that the Subject Property would be available for full public tender ten years from now.

The Planning Process

City Planning submitted its 11 Bay – Zoning Amendment Application – Preliminary Report to the Toronto and East York Community Council on January 12, 2021. The Tenant, in consultation with CreateTO, continues to actively engage with City Planning on the proposed development, including participating in the Council-mandated Design Excellence process. The goal is to achieve high standards in built form and public realm design for this important City-owned property.

CreateTO staff requested an opinion from City Planning regarding the compatibility and need for the proposed uses in this location. A letter from the Chief Planner and Executive Director, City Planning, dated February 19, 2021, supporting the conference centre, retail and office uses is provided as Appendix #4 to this report. Key points addressed in the letter are summarized as follows:

- City Planning is supportive of the proposed uses for the site, contingent on the application proceeding in a manner that supports the City's Official Plan and mandate for design excellence on public land;
- The Downtown Plan (TOcore) projects that the Downtown area will need to accommodate approximately 2,940,000 square metres of new office space between 2016 and 2041 to meet demand. This demand is particularly high in the Financial District, which includes 11 Bay Street;
- The existing convention centre at 11 Bay Street has played an important role in the Toronto's Meetings, Convention and Incentive Travel (MCIT) market, and has helped maintain the viability of the Westin Harbour Castle Hotel;
- The 2017 City report "*Ensuring a Robust Hotel Supply to Strengthen Tourism*", noted stagnated increase in rooms, despite increase in visitors. Prioritization of non-residential uses, particularly in the Financial District, is needed to protect the hotel sector. Replacement of the existing convention centre and connection to the existing hotel is of critical importance to the project; and,
- While difficult to predict long term impacts of the COVID-19 pandemic on retail, hotel and office sectors, preliminary data from the 2020 Toronto Employment Survey suggests that employment levels in the finance and technology sectors have seen flat or even positive growth. In the context of uncertainty, it is critical to

follow long terms plans and commit to the multi-decade vision set out in the Downtown Plan.

The Proponents

The principals of both Barney River and QuadReal have submitted letters of support for the project, attached as Appendix #5 and Appendix #6. Staff notes in particular the comment from Barney River (at the end of paragraph 3) that “...*the viability of the 977 – room hotel [i.e. the Westin Harbour Castle] is directly tied to the continuation of the convention centre use on the 11 Bay site.*”

Economic Development

A letter of support for the proposed office and conference centre uses at 11 Bay Street has also been submitted by the Acting General Manager of the City’s Economic Development and Culture (EDC) division as Appendix #7. EDC’s comments are summarized as follows:

- The proposed long-term lease for an office/conference centre development will support Toronto's tourism and hospitality sector; provide needed office space; and, promote overall economic development, thereby meeting important city building objectives;
- The modernized conference facility at 11 Bay Street would support the visitor economy by creating jobs, generating tax revenue and drive growth in the overall economy. The conference centre will be, and has historically been, an integral and mutually supportive part of the Westin Harbour Castle Hotel;
- This is one of only three large, self-contained convention hotels in the downtown core offering more than 5,576 square metres of rentable function space in an already underserviced market;
- The MCIT market is an important component of Toronto’s tourist and business sectors; and,
- The Westin Harbour Castle’s 977 rooms represent a significant portion of the downtown, mid-priced, convention-focussed hotel supply. This type of hotel accommodation is much needed in order to attract conventions to the core.

As previously noted, EDC’s 2017 report titled “*Ensuring a Robust Hotel Supply to Strengthen Tourism*” focused on the City’s hotel room supply.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.ED25.5>

This report contains the following note:

The Meetings, Convention and Incentive Travel (MCIT) market segment is by far the most lucrative tourism-related sector. Competition among cities for major conventions is intense. The ability to attract large business events depends on a reliable supply of hotel rooms concentrated in close proximity to one another. The potential impact of a reduced hotel room capacity in certain locations such as in the downtown exacerbates existing issues related to the reduced room blocks being made available. This may affect Toronto's ability to bid for large scale events that bring in significant economic benefits for the city.

Hotel and Convention Centre Business

As part of its re-zoning application submission, the Tenant included an Economic Impact Study prepared by CBRE Tourism and Leisure Group (CBRE) for the proposed development. (**Note:** The CBRE Study can be found under the “Supporting Documents” tab of City Planning’s Application Information Centre Portal)

<http://app.toronto.ca/AIC/index.do?folderRsn=SZLY8VwkdLbj85%2FJj50bSA%3D%3D>

One key conclusion of the CBRE Study is summarized as follows (at p. 9):

“The Westin Harbour Castle Convention Centre represents the key driver of business for the Westin Harbour Castle Hotel. Without the conference centre, the hotel could not support the two hotel towers of 977 rooms as the space to guest ratio would be out of sync.”

CBRE also noted the following relevant statistics related to WHC/WHCCC:

- (i) Economic Impact – WHC and WHCCC:
 - 721 direct and indirect FTE jobs
 - \$5.2M in direct annual municipal property taxes
 - \$105M direct and indirect GDP contribution
- (ii) Office/CC complex will generate \$26M a year in municipal and property taxes and approx. \$3M a year in rent.
- (iii) Lost Economic Impact without the WHCCC
 - 482 Hotel Rooms lost
 - 243 direct FTE jobs lost
 - \$3.8M in municipal property and MAT taxes p.a. lost
 - \$53M in annual GDP p.a. lost

In order to properly vet the conclusions in the CBRE report, CreateTO engaged Hall Hospitality Advisors, Inc. (“HHA”) to undertake a peer review of the CBRE Report, as well as to provide commentary on several related matters not explicitly addressed within the CBRE scope of work. The HHA peer review generally found that the CBRE report “...

properly documents the sources of input assumptions used, and appropriately sets out findings and conclusions.”

In order to assist the CreateTO Board in evaluating the Tenant’s development proposal, Staff requested HHA to prepare a modified report which specifically addresses three issues: (i) the need for convention centre space of this size and location for Toronto’s convention business and to ensure the continued viability of the WHC hotel; (ii) the requirement for government subsidy for this type of use; and (iii) the short and long-term impacts from Covid-19 on the convention/meetings industry. A copy of the portions of the HHA report which addresses these issues is attached as Appendix #8.

We note the following specific observations from the HHA report:

General:

(a) Full Service Convention Hotels such as WHC/WHCCC operate under different economics than public venues (e.g. Metro Toronto Convention Centre).

- (i) Usually privately owned and need to generate a profit.
- (ii) Hotel bookings and CC use are tightly integrated. Large hotels require consistent dependent sources of demand - e.g. an integrated convention centre.

(b) Full Service Convention Hotels serve two main purposes:

- (i) As a self-contained convention hotel (Note: only three in Toronto - Royal York, WHC, Sheraton Centre)
- (ii) As a key component of the “room block” for a city-wide convention.
 - Availability of room blocks is a key factor in attracting major convention business to Toronto
 - Only four downtown Toronto hotels offer 1000+ room availability
 - Two-thirds of Toronto City-wide conventions include WHC rooms

WHC/WHCCC:

- (i) At WHC/WHCCC:
 - a. Meeting/Conference business accounts for approx.:
 - i. 35% of total room demand;
 - ii. 22% of total room nights attributable to using just WHCCC event space.
- (ii) WHCCC is a very important component of the WHC product offering. WHC’s 977 rooms are not viable without WHCCC.

Government Support:

- (i) It is common across North America for convention centres of various sizes and ownership structures to include some public involvement – Toronto examples include:
 - MTCC – owned by Province (on land leased from Oxford and the City)
 - Beanfield Centre/Enercare Centre – located on City lands
 - Sheraton Centre – located on City lands

- (ii) Government’s focus is on overall economic contribution of the CC, not venue profitability
 - Most free-standing CC’s owned by government. Majority of hotel/conference centre venues owned by private sector.

 - In combined facilities, Hotel generally operates on a self-sufficient basis, but related conference centre has some level of government support. Hotel operates both facilities.

HHA offered the following summary comment on the WHC/WHCCC:

“The WHC/WHCCC is a key component of Toronto’s convention offering. Without the WHC/WHCCC, Toronto would host fewer city-wide conventions (those based at the MTCC) as well as being less able to accommodate smaller convention/conference meeting groups.”

Status of Appraisal and Financial Analysis

Management continues to work with its consultants and appraisers to finalize key financials as they pertain to 11 Bay. The appraisal is progressing towards completion with final numbers to be presented to the Board at the next meeting. A number of key items are being worked through that materially impact the final appraisal which include; the cost estimate of the Design Excellence Program, the impact the convention centre on land value and the estimated future value of the Subject Property with and without the convention centre. Management will report back to the Board in May with a comprehensive financial package detailing the results of our analysis.

CONCLUSION

This report is intended to address the question of “why this proposed project is appropriate for the 11 Bay property.” Staff intends to return to the Board at the May 11 Board meeting with a final report containing a detailed economic analysis of the proposal and requesting endorsement of the proposed transaction for the Subject Property with the Tenant. If endorsed by the Board, the proposed Lease Extension transaction will be forwarded to City Council for final approval.

CONTACT

Don Logie, Executive Vice-President, Development, CreateTO, Tel: 416-981-2896;
DLogie@createto.ca

Ryan Glenn, Vice President, Stakeholder & Client Relationship Management,
CreateTO, Tel: 416-981-3553; RGlenn@createto.ca

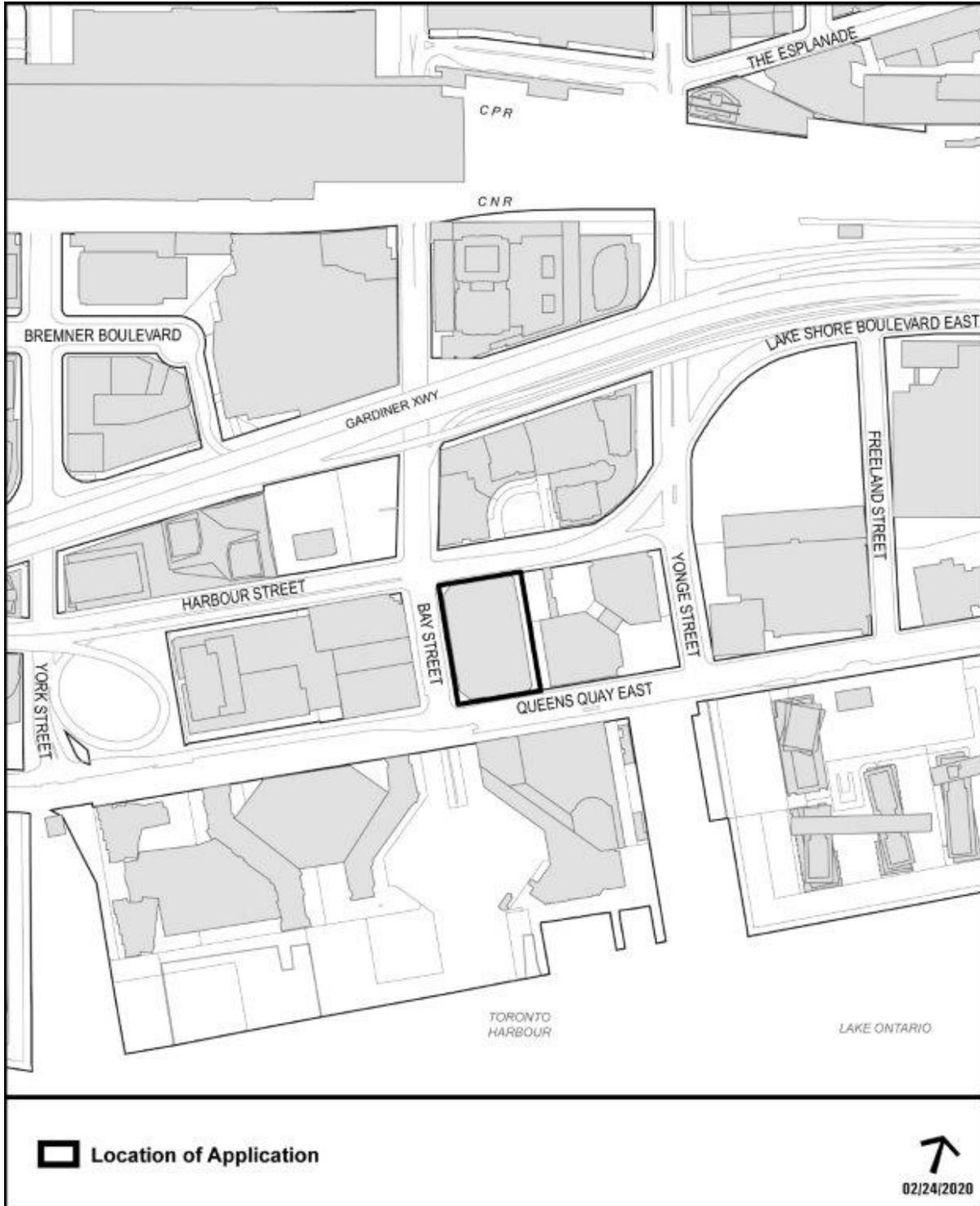
SIGNATURE

Steven Trumper
Chief Executive Officer, CreateTO

ATTACHMENTS

Attachment 1 – Location Map
Attachment 2 – Rendering of Proposed Development
Attachment 3 - Letter from Optimus sbr
Attachment 4 – Letter from Chief Planner
Attachment 5 - Letter from Barney River
Attachment 6 - Letter from QuadReal
Attachment 7 - Letter from Acting General Manager, EDC
Attachment 8 – Submission from HHA

Attachment 1 – Location Map



Attachment 2 – Rendering of Proposed Development

