

## **Coca-Cola Coliseum Lease and Sublease Amendment**

**Date:** August 31, 2023

**To:** Board of Governors of Exhibition Place

**From:** Don Boyle, Chief Executive Officer

**Wards:** Ward 10

### **REASON FOR CONFIDENTIAL INFORMATION**

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This report deals with a position, plan, procedure, criteria or instruction to be applied to negotiations carried on or to be carried on by or on behalf of the City and the Board.

### **SUMMARY**

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The City of Toronto and The Board of Governors of Exhibition Place (the "Board"), collectively as landlord, and BPC Coliseum Inc. ("BPC") (now part of Oxford Properties) as tenant, entered into a lease (the "Head Lease") dated June 16, 2005 for the premises now known as the Coca Cola Coliseum (the "Premises"). Concurrently, BPC, as Sublandlord, and Maple Leaf Sports & Entertainment Ltd. ("MLSE") entered into a sublease (the "Sublease") dated June 2005 for the Premises Pursuant to the Sublease, the Toronto Marlies hockey club uses the Premises as its home arena.

The Sublease term is for a twenty (20) year period from July 1, 2005 to June 30, 2025. The Subtenant has a right, upon written notice on or before June 30, 2023 and subject to certain other conditions, to extend the term of the Sublease for a successive period of 10 years to June 30, 2035. The annual Basic Rent, Percentage Rent, and Supplemental Rent for the extension Term were negotiated in 2005 and included in the Sublease. These existing provisions are set out in Confidential Attachment 1.

The Subtenant, MLSE, wishes to extend the Sublease Term for an additional ten (10) years, with an option to extend for a further ten (10) years. However, it has proposed certain amendments to the Sublease for the extension term including with respect to Basic Rent, Percentage Rent, and Supplemental Rent. MLSE and BPC have entered into a conditional agreement setting out the proposed terms of the extension. Under the Head Lease, the Landlord's consent is required for any amendment to the Sublease. Accordingly, BPC has approached the City and Board requesting consent to the proposed amendments.

It has been necessary for the Board, the City, and BPC to revisit the financial and revenue assumptions that were made in 2005, based on the performance of the Toronto Marlies hockey club during the initial term of the Sublease. Accordingly, Exhibition Place and CREM staff recommend that the Board and the City consent to the proposed amendments to the Sublease, as set out in Appendix B and Confidential Attachment 1, provided that BPC agrees to amend the Head Lease to increase the share of Sublease Rent payable to the City and Board, as landlord.

## **RECOMMENDATIONS**

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The Chief Executive Officer recommends that:

1. Subject to obtaining City Council approval, the Board, pursuant to the Head Lease for premises at the Coca Cola Coliseum dated June 16, 2005, between the City of Toronto and the Board, collectively as landlord, and BPC Coliseum Inc. as tenant, approve the amendments to the Sublease between BPC Coliseum Inc, as sublandlord, and Maple Leaf Sports & Entertainment Ltd. as subtenant, for the Sublease extension term of ten (10) years commencing July 1, 2025 and ending June 30, 2035, with an option to extend for a further ten (10) years, substantially on the terms and conditions set out in Appendix B and Confidential Attachment 1, and such other and amended terms and conditions deemed appropriate by the Deputy City Manager, Corporate Services, the Chief Executive Officer, Exhibition Place, and in a form satisfactory to the City Solicitor.
2. As a condition of granting the consent in Recommendation 1, and subject to obtaining City Council approval, the Board enter into a Head Lease amending agreement whereby the share of Sublease Rent, after payment of Realty Taxes, be distributed 75 percent to the City and the Board, as landlord, and 25 percent to BPC Coliseum Inc., as tenant, rather than 50 percent to each of the landlord and tenant as currently provided in the Head Lease.
3. The Board direct the Chief Executive Officer to work with the Deputy City Manager, Corporate Services, to request City Council's approval for the amendments to the Sublease and Lease referred to in Recommendations 1 and 2.
4. The Board direct that Confidential Attachment 1 to this report remain confidential in its entirety and not be released publicly as it pertains to a position, plan, procedure, criteria or instruction to be applied to negotiations carried on or to be carried on by or on behalf of the City and the Board.

## **FINANCIAL IMPACT**

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It is estimated that the positive financial implications of the Lease and Sublease, as amended, over the 10-year Sublease extension term will be \$14.881 million as outlined in Confidential Attachment 1. The capital contribution of Supplemental Rent in the amount of \$5.47 million for the 10 years is in addition to the positive financial

implications noted above. The annual property taxes currently paid to the City is approximately \$356,920.

## **DECISION HISTORY**

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The Exhibition Place 2022 - 2026 Strategic Plan has a Financial Goal to maintain a positive financial performance across Exhibition Place and all its businesses, and as a Strategy to support this Goal to ensure operating results meet or show positive revenue surplus or positive under expenditure to budget.

The 2022 - 2026 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 of November 26 – 28, 2002, City Council approved of moving forward with the renovation of the Ricoh Coliseum at a total cost of \$38.0M and entering a long-term lease arrangement with BPC.

<https://www.toronto.ca/legdocs/2002/agendas/council/cc021126/pof15rpt/cl012.pdf>

At its meeting of August 12, 2004, the Board consent to the granting of a Sublease by BPC Coliseum Inc. to Maple Leaf Sports and Entertainment (MLSE) with certain amendments to the Lease which was subsequently approved by Council.

<https://www.explace.on.ca/files/file/5cfab766702bc/Item-1---No-Reports-All-Confidential.pdf>

At its meeting of September 14, 2004, the Policy and Finance Committee consent by adoption of report 7(4) to the granting of a Sublease by BPC Coliseum Inc. to MLSE with certain amendments to the Lease which was adopted by Council on September 28-30 and October 1, 2004.

<https://www.toronto.ca/legdocs/2004/minutes/council/cc040928.pdf>

## **COMMENTS**

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### **Background Information**

At its meeting of November 26 – 28, 2002, City Council approved of moving forward with the renovation of the Ricoh Coliseum (now Coca Cola Coliseum) at a total cost of \$38.0 Million and entering a long-term lease arrangement. The Coliseum project involved three participants: the City/Board, BPC Coliseum Inc. (BPC) (now Oxford Properties), an affiliate of OMERS, and Coliseum Renovation Corporation (CRC). BPC contributed a \$9.0 Million equity investment to the project and is the tenant under the 49-year Head Lease. CRC contributed an American Hockey League (AHL) team, the Toronto Roadrunners which deemed contribution was valued at \$9.0 million and was the subtenant of the project under a 49-year sublease (the “CRC Sublease”), with BPC as sublandlord. For its part, the City contributed a \$9.0 Million equity investment in the project (on a \$1 for \$1 basis with BPC) and guaranteed the \$20.0 Million BMO loan

borrowed by BPC to use towards the \$38.0 million renovation. Accordingly, based on BPC and the City contributing an equal amount towards the renovation, the sharing of net basic rental revenue between BPC and the City/Board was agreed to at 50% for each party during the term.

Renovation of the Ricoh Coliseum was completed on time and on budget and the Coliseum opened for its first Roadrunners game on November 1, 2003. The Roadrunners continued to play at the Ricoh Coliseum for one full hockey season. During that season, CRC retained full control of the marketing and management of hockey operations including suite sales, club seat sales, game day sales, naming rights, in-building sponsorships, team sponsorships, TV sponsorships, and the management of the hockey events. O&Y/SMG, the Board's facility manager for the National Trade Centre (now Enercare Centre), provided services as the facility manager for the Coliseum and was responsible for the physical plant. O&Y/SMG was also responsible for the marketing of the building for all non-hockey events such as concerts and the management of those events.

Gross revenue earned in the Coliseum consists of all hockey and non-hockey events that accrued to the Coliseum. Net cash flow after deduction of basic rent to the Board, operating costs and bank loan payments was to be made from remaining cash flow and distributed on a waterfall priority basis between the three parties.

Because of the financial results in year one as noted below, there were no net proceeds available to allow for the payment/distribution of any of the "waterfall" priorities.

The financial viability of the Coliseum project was driven primarily by attendance at the Road Runner hockey games. Ticket sales and ancillary revenues from these games accounted for over 50% of total projected revenues. Except for building sponsorship, the revenues associated with hockey operations did not meet pro-forma projections. The greatest financial impact was the result of lower-than-forecast attendance at games. Total paid attendance for the 2003/04 hockey season averaged 2,295 per game, well short of the pre-opening proforma of 7,000 per game.

As a result of the poor monthly cash flows as noted above, by June 13, 2004, CRC was in a negative cash flow position, owed \$2.4 million to its suppliers and had defaulted in payment of rent to BPC, payment of services supplied by the Board and payment of the Affiliation Fee to the Edmonton Oilers. Furthermore, it was estimated that if the performance continued, then by August 31, 2004 (CRC's first year-end), CRC would have accumulated debts totaling \$4.0 Million. Given this forecast, BPC sent a demand letter to CRC on May 4, 2004, requiring an injection of cash by CRC to cure all rent defaults and bring the sublease into good standing. However, given that there was no response to this demand from CRC, BPC terminated the CRC Sublease on June 14, 2004.

Following termination of the CRC Sublease, BPC commenced negotiating with several parties in an effort to enter a sublease with an operator that would be financially viable and provide the building with a stable and successful operation.

However, BPC had at the same time presented to staff of Exhibition Place and the City, a recommendation that the Board and City consent to BPC entering a sublease with MLSE commencing on July 1, 2005, on terms and conditions which would vary from the CRC Sublease. MLSE's proposed use of the Premises was as the home arena for the Toronto Marlies hockey club.

The major changes and benefits to the structure of the amended sublease with MLSE being recommended were as follows:

- (1) The sublease will be with a well-funded corporate entity with a well-known "brand" in professional hockey, and one of the best building operators in North America
- (2) The annual rent to be paid by the sublessee will be sufficient to pay the BMO loan (with a 20-year amortization) and property taxes and provide an annual return to the equity contributors, BPC, and the Board/City
- (3) The subtenant, MLSE, would be responsible for all operating costs
- (4) MLSE would provide a stable situation for 20 years to June 2025
- (5) MLSE will make annual payments to a capital reserve fund held by BPC
- (6) In addition to the annual base rent paid to BPC, MLSE will also provide percentage rent to BPC if actual earned revenues exceed certain prescribed revenue targets

### **Existing Sublease**

The Sublease term with MLSE is for a 20-year period from July 1, 2005 to June 30, 2025. Subject to certain conditions, the Subtenant has a right, with written notice given on or before June 30, 2023 to extend the term of the Sublease for a successive period of 10 years to June 30, 2035 with no further right to extend the Term after. The Annual Basic Rent, Annual Percentage Rent, and Annual Supplemental Rent for the extended 10-year term were negotiated in 2005, are provided for in the Sublease, and are set out in Confidential Attachment 1.

### **Amendment to Head Lease and Sublease**

MLSE wishes to extend the Sublease term for an additional ten (10) years. However, it has proposed certain amendments to the Sublease for the extension Term including with respect to Basic Rent, Percentage Rent, and Supplemental Rent. MLSE and BPC have entered into a conditional agreement setting out the proposed terms of the extension. Under the Head Lease, the Landlord's consent is required for any amendment to the Sublease. Accordingly, BPC has approached the City and Board requesting consent to the proposed amendments.

It has been necessary for the Board, the City and BPC to revisit the financial and revenue assumptions that were made in 2005 based on the performance of the Toronto Marlies at the Premises. Accordingly, Exhibition Place and CREM staff recommend that the Board and the City consent to the proposed amendments to the Sublease as set out in Appendix B and Confidential Attachment 1. As a condition of this consent, BPC would be required to enter into a Head Lease amending agreement with the City and Board whereby the share of Sublease Rent, after payment of Realty Taxes, be distributed 75 percent to the City and the Board, as landlord, and 25 percent to BPC, as tenant, rather

than 50 percent to each of the landlord and tenant as currently provided in the Head Lease.

Under the amended Sublease, MLSE will continue to invest in various state of good repairs on an annual basis through its contribution to the Supplemental Rent reserve held by BPC for capital infrastructure expenditures based on building condition assessment audits.

The negotiation team that reviewed the proposed Sublease and Lease amendments include staff from Exhibition Place and City Corporate Real Estate Management (CREM), with input from City Legal Services on legal matters. CREM staff also consulted with its internal valuation group to review market rent and the rent structure of the Sublease, who have determined that the proposed Sublease amendments, together with the Head Lease amendments, represent fair market value.

## **CONTACT**

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## **SIGNATURE**

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Don Boyle  
Chief Executive Officer

## **ATTACHMENTS**

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Appendix A - Coca-Cola Building Site Location  
Appendix B - Terms and Conditions of Sublease, as Amended, and Lease Amendment  
Confidential Attachment 1 - Financial Analysis and Terms