

REPORT FOR ACTION

Exhibition Place Hotel X Development - Phase 2 Lands

Date: November 28, 2024

To: Board of Governors of Exhibition Place

From: Don Boyle, Chief Executive Officer

Wards: Ward 10 - Fort York - Spadina

SUMMARY

Phase 1 Development

Following the completion of a successful Request for Proposal process held in 2007, the City of Toronto and the Board of Governors of Exhibition Place (the "Board"), collectively as landlord, executed a 49-year lease agreement with two options, each to renew for a 25-year term (the "Phase 1 Lease") with Princes Gate Hotel Limited Partnership (the "Phase 1 Tenant") for the development of a new hotel on the Exhibition Place grounds. The first phase of Hotel X opened for operations on March 20, 2018.s. Under the Phase 1 Lease, the Phase 1 Tenant had an option to lease certain additional lands to the west of the Phase 1 Lease lands for the development of second hotel tower. The Phase 1 Tenant exercised the option by written notice to the Board dated July 31, 2020.

The proposed second phase hotel (the "Phase 2 Hotel") is permitted based on the approval of Council of the Phase 1 Hotel lease, which as noted above provided the Phase 1 Tenant with an option to develop a second hotel. However, as discussed below, the option under the Phase 1 Lease did not provide for the performance venue (the "Performance Venue"), now proposed by the Tenant for Phase 2.

City Council at its meeting of December 15, 16 and 17, 2021, by its adoption of GL27.18 (the "Original Decision") approved of a new lease between the City, as landlord, the Board, and Lakeshore Princess West Limited Partnership (the "Phase 2 Tenant"), on the terms and conditions set out in the staff report and confidential attachments submitted with that item (the "Phase 2 Lease").

Since the Original Decision, staff from the City Real Estate Management and Exhibition Place have been working with the Tenant to finalize the Phase 2 Lease; however, due to the market pressures imposed by the COVID-19 pandemic, the Tenant's various consultations with City Planning, minor modifications to the development plans, and the

need to avoid interfering with the preparations and events for the FIFA World Cup 2026, staff and the Phase 2 tenant have negotiated certain amendments to the Phase 2 Lease. Appendix B to this report outlines the proposed revisions to the terms and conditions approved in the Original Decision. The necessary City authorization will be sought for these amendments.

RECOMMENDATIONS

The Chief Executive Officer recommends that:

1. The Board receive this report for information.

FINANCIAL IMPACT

The initial Term under the Original Decision was estimated to begin on August 29, 2022, run for approximately 39 years, 3 months, and end on November 30, 2061. The financials were estimated accordingly. The financial structure approved under the Original Decision provides for both a fixed minimum rent and additional percentage rent payable to the City, as landlord, increasing over the initial term. The rates for the annual minimum rents and annual percentage rent remain unchanged. The term of the lease is shortened due to a fixed end date (co-terminus with the Phase 1 Lease) and a delayed construction commencement date. With the initial Term shortened from approximately 39 years, 3 months to approximately 33 years and 9 months, the result is a lower estimated financial return over the full Term.

Under the requested Phase 2 Lease amendments, the expiry of the Term remains fixed, ending on November 30, 2061 (co-terminous with the Phase 1 Lease term expiry). Under the proposed amended Term, the estimated positive financial return of the Phase 2 Lease from both the Phase 2 Hotel and Performance Venue from rent and ancillary revenue, over its initial Term, will be \$136.658 million.

The Phase 2 Hotel is expected to open in August 2032. The positive economic impact detailed below from this project and various capital expenditures of approximately \$417.0 million for construction is in addition to the positive financial implications noted above.

In addition, it is estimated the Hotel and Performance Venue will pay approximately \$2.456 million annually in property taxes (Municipal share is 50%), increasing over the term once the facility becomes operational.

DECISION HISTORY

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

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, maintain strong relationships with existing clients, and identify areas for revenue enhancements.

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 the Phase 1 Lease, which recommendations were subsequently approved by City Council at its meeting of November 30, December 1, 2, 4 & 7, 2009, by adoption of Executive Committee 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%2017Hotel%20Development%20Info%20Report\(1\).pdf](http://www.explace.on.ca/database/rte/files/Item%2017Hotel%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.

<https://www.explace.on.ca/files/file/58cab325d61a7/EP2.13---Hotel-X-Status-Update-2ND.pdf>

At its meeting of September 18, 2020, by Item EP13.5, the Board received an information report on Hotel X Development - Phase 2 Lands, that the Phase 1 Lease tenant had provided written notice that it wished to exercise its option rights for a second hotel tower and other related amenities. The Board: requested the Chief Executive Officer, Exhibition Place to commence discussions with City of Toronto Corporate Real Estate Management ("CREM") staff and Hotel X representatives to start negotiations on the Phase 2 development and report back to the Board on:

- a. the results of the discussions;
- b. terms and conditions for the development, including design concept;
- c. an overview of the approval process; and
- d. how the development will take into consideration the recent Exhibition Place Master Plan

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EP13.5>

At its meeting of October 26, 2020, by Item EP14.5, the Board received from the Phase 1 Tenant's principal shareholder, Mr. Henry Kallan, Overactive Media Corporation, and their architect, Populous, a power point presentation on the progress of the Phase 2 development design concept for the benefit of the Board Members.

<https://www.toronto.ca/legdocs/mmis/2020/ep/bgrd/backgroundfile-157468.pdf>

At its meeting of April 21, 2021, by adoption of Item TE24.95, Toronto and East York Community requested the Chief Planner and Executive Director, City Planning Division, to work with the Chief Executive Officer, Exhibition Place, and the Ward Councillor to undertake public consultation for the proposed Phase 2 Hotel X development at Exhibition Place and report back at an early stage of the Site Plan review process.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.TE24.95>

At its meeting of October 29, 2021, by adoption of Item EP20.1, the Board approved the Phase 2 Lease, substantially on the terms and conditions set out in Appendix "A", Confidential Attachment 1, and Confidential Attachment 2 to the report (October 14, 2021) from the Chief Executive Officer, Exhibition Place, subject to City Council approval.

<https://secure.toronto.ca/council/agenda-item.do?item=2021.EP20.1>

At its meeting of December 15, 16 and 17, 2021 by adoption of item GL27.18 City Council approved the Phase 2 Lease substantially on the terms and conditions set out in Appendix A and Confidential Attachments 1 and 2 to the staff report (November 19, 2021) from the Deputy City Manager, Corporate Services and the Chief Executive Officer, Exhibition Place.

<https://secure.toronto.ca/council/agenda-item.do?item=2021.GL27.18>

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 years staff have been working at achieving this goal. The 750,000 square foot first Phase 1 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 Phase 1 Lease, the Phase 1 Tenant had the option to lease certain phase 2 lands to the west of the current property for the development of a Phase 2 Hotel. By letter dated July 31, 2020, the Phase 1 Tenant exercised that option.

The Phase 2 Tenant also proposed constructing a Performance Venue, which was not provided for in the option. City Council, by the Original Decision, approved the Phase 2 Lease, which included the Phase 2 Hotel, Performance Venue and an underground parking structure. The proposed second phase expansion (the "Phase 2 Development") would be located to the west of Stanley Barracks on the south side of Princes' Boulevard, as shown in Appendix A2 (the "Phase 2 Lands"), and include approximately 750,000 square feet of space.

Under the Original Decision, the approved Phase 2 Development was comprised of:

- the Phase 2 Hotel, being a 400-room hotel (360,000 square feet)
- underground parking of approximately 350 spaces (200,000 square feet); and
- the Performance Venue, being a 6,000 to 7,000 seat auditorium-style entertainment venue (190,000 square feet).

The negotiated Phase 2 Lease amends the Phase 2 Development as follows:

- the Performance Venue will operate solely as an entertainment venue having a seating capacity of no less than 5,500 and no more than 7,000 (with temporary contractions and expansions from time to time);
- underground parking changes from approximately 350 spaces to an estimated minimum of 296 stalls; and
- as a result of a delayed construction commencement date, and a fixed end date (co-terminus with the Phase 1 Lease), the proposed initial Term has been shortened from approximately 39 years, 3 months to approximately 33 years and 9 months,

Appendix B to this report outlines the proposed revisions to the terms and conditions approved in the Original Decision in more detail.

Benefits to Exhibition Place and the City

The financial terms of the Phase 1 Lease and the Phase 2 Lease provide both a fixed Minimum Rent, annual Percentage Rent, and ancillary revenue to the City and the Board increasing over the initial term. In addition, the Hotel and Performance Venue 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 construction of the Phase 2 Hotel and Performance Venue will create equivalent full-time jobs and generate millions in total tax revenues. On an ongoing basis, the Phase 2 Hotel and Performance Venue operations will create full-time jobs and millions in total tax revenues.
- In addition to the positive financial return to the City and the Board in the form of Minimum Rent, Percentage Rent, and the economic impact of the facility to the City of Toronto, the expanded Hotel and Performance Venue addition will be a significant, enhanced marketing benefit for Enercare Centre and Beanfield Centre.

Construction Milestones/Delay

The Phase 2 Tenant is excited about the prospect of bringing a second hotel and a performance venue to Exhibition Place. Since the Original Decision, City and Exhibition Place staff have been working to formalize the lease terms and conditions and refine their development plans. Once the project was approved, the Phase 2 Tenant undertook more detailed design and phasing exercises with their development team and made submission for their Site Plan Approval through City Planning. Concurrently they worked with 3 construction firms to provide more detailed and competitive pricing for the project. The pricing received at the time was well beyond their budget, driven mainly by soaring demand and activity in the Toronto construction industry. The Phase 2 Tenant team worked with two of the three groups to value engineer the existing design with varying degrees of success, but ultimately fell short of their initial targets.

At the same time Live Nation, who will be involved in the Performance Venue development, noted that their newer form of performance venues was extremely well received by their customers and more flexible than traditional theater style venues. Given that the tenant is building this venue for decades to come and for multiple uses, they shifted focus to apply this best practice to the venue design and the decision to undertake a complete redesign, ultimately resulting in an optimized venue that has a slightly reduced capacity.

In addition, with the proposed amended lease terms and the redesign coming close to completion, the parties recognized that the construction schedule was straddling with the FIFA 2026 shut down period. To limit the disruption during FIFA, and to better manage construction costs, it makes the most sense to defer the start of construction until after FIFA. While the timing delay is not ideal, it does align the project completion date well with other proposed projects in the precinct which will provide a greater benefit to the Exhibition Place grounds and the proposed developments at Ontario Place scheduled for completion sometime in 2028.

CONTACT

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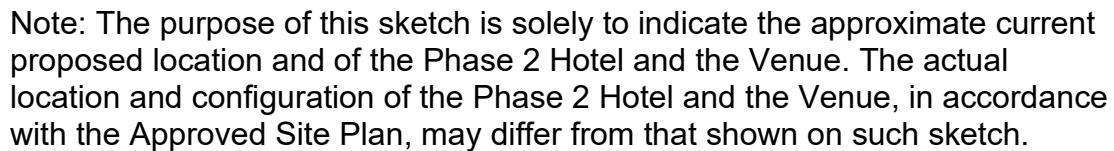
SIGNATURE

Don Boyle
Chief Executive Officer

ATTACHMENTS

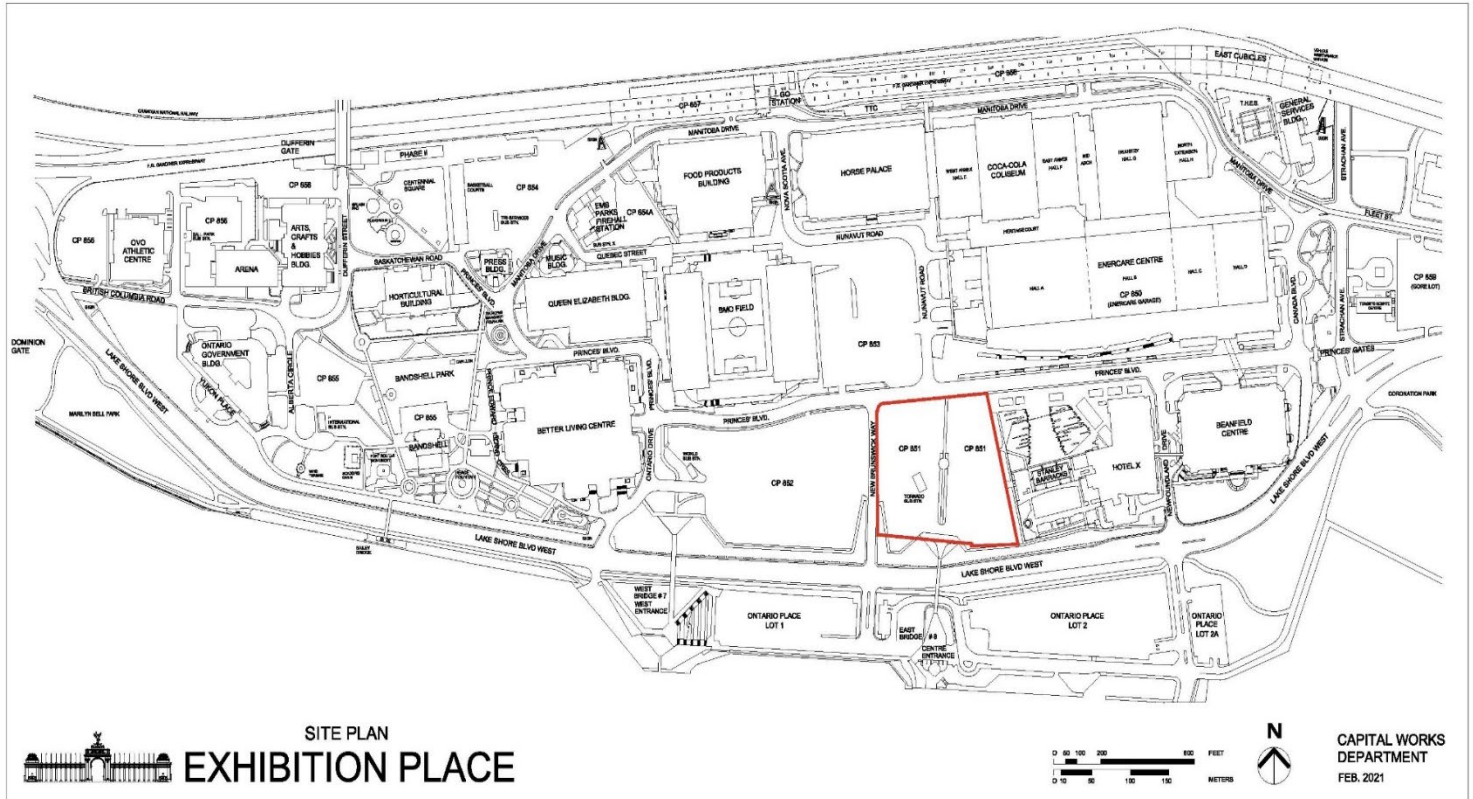
Appendix A1 – Location Map – Phase 2 Lands
Appendix A2 – Site Plan of Leased Property
Appendix B – Amendments to 2021 Terms GL27.18, as adopted by City Council on
December 15, 2021
Appendix C – Revised Preliminary Conceptual Design of Development

Location Map – Phase 2 Lands



Appendix A2

Site Plan of Leased Property



Appendix B

Amendments to 2021.GL27.18, as adopted by City Council on December 15, 16 and 17, 2021

Authority	Council-Adopted Recommendation or Term	Amendments Request by Delegated Authority (with Section references from Phase 2 Lease)
GL27.18 – Appendix A – Terms and Conditions of Phase 2 Lease - Schedule 2	GL 27.18, Schedule 2 – Milestone Dates	Schedule E of the Lease – Milestone Dates
<u>Milestone Dates</u> , as follows:		
Concept Design submission to City Planning/Development Review and the Design Review Panel Advisory Board (DRPAB)	Completed	Tenant to submit the revised conceptual design to Development Review for consideration and possible resubmission to the DRPAB.
General Government and Licensing Committee - Request for Approval	October 20, 2021	Completed (November 30, 2021)
Toronto City Council – Request for Approval	November 9, 2021	Completed (December 15, 2021)
Submit Site Plan Approval (SPA) Application	January 30, 2022	December 31, 2025
Submit Archaeological Phasing Application	-	March 31, 2026
Reference Plan/Survey registered on Title and separate property identifier	January 31, 2022	Not included in revised Schedule E
Public Consultation/Engagement	January 1, 2022 – September 30, 2022	Not included in revised Schedule E. Public consultation is no longer part of the SPA process. Project updates to be included in the Exhibition Place community liaison meetings.
Site Plan Review	December 9, 2021 – October 31, 2022	Not included in revised Schedule E. However, Lease now contains an outside date of January 1, 2030, by which site plan approval must be obtained, subject only to Force Majeure and Landlord Delay.
Financing Plan – Commitment Letters from Major Subtenant Sublease Lenders and Equity Partners	December 1, 2021	March 31, 2026
Infrastructure Pre-Work	January 1, 2022 – July 31, 2022	Not included in revised Schedule E.

Authority	Council-Adopted Recommendation or Term	Amendments Request by Delegated Authority (with Section references from Phase 2 Lease)
Award Construction Contract	April 15, 2022	April 30, 2026
Notice of Approval Conditions	-	December 31, 2027 (subject to the SPA outside date of January 1, 2030)
Commence Archaeological Work – Stage 2 pending approval from Ministry	November 1, 2021	April 15, 2027
Apply for Building Permit	January 1, 2021 – August 18, 2022	November 1, 2026
Capital Cost Estimates – Final	March 30, 2022	Not included in revised Schedule E
Commence Construction/Site Excavation	August 29, 2022	March 1, 2028
Complete Phase 2 Construction	August 27, 2025	March 1, 2032
Finalize and Execute Lease	June 30, 2022	Not included in revised Schedule E
GL27.18, Appendix A – Terms and Conditions of Phase 2 Lease	Schedule 2 (Milestone Dates) anticipates construction of Phase 2 Hotel and Venue as single Development.	Sections 1.1, 4.3, 4.5, 6.1, 10.2, 14.3, Schedule E Tenant plans to construct, or cause to be constructed by subtenants, the Development on a Component-by-Component basis. The current intention is for the Below-Grade Structure, Venue and Phase 2 Hotel to be constructed together.
GL27.18, Appendix A – Terms and Conditions of Phase 2 Lease Development	Underground parking of approximately 350 spaces (200,000 square feet).	<i>Sections 3.3(b), 7.3</i> Currently estimated below-grade area of the parking stalls of the Below-Grade Structure will be comprised of 200,000 square feet (being a minimum of 296 underground parking stalls).
GL27.18, Appendix A – Terms and Conditions of Phase 2 Lease Development	A 6,000 to 7,000 seat auditorium-style entertainment Performance Venue (190,000 square feet).	Section 4.1(c) The Venue shall operate solely as an entertainment venue having a seating capacity of no less than 5,500 and no more than 7,000 (with temporary contractions and expansions from time to time).

Authority	Council-Adopted Recommendation or Term	Amendments Request by Delegated Authority (with Section references from Phase 2 Lease)
GL27.18, Appendix A – Terms and Conditions of Phase 2 Lease Development	Current conceptual design for the Development is shown as Schedule 4	Section 4.1(f), Schedule D Preliminary conceptual design for the Development is attached to Lease as Schedule D and included in this Delegated Approval Form as Appendix C.
GL27.18, Appendix A – Terms and Conditions of Phase 2 Lease Renewal Terms	The Tenant will have two (2) renewal options for renewal terms of twenty-five (25) years each, on the terms and conditions provided for in the Phase 1 Lease	Section 2.2 The Tenant may elect to designate only the Phase 2 Hotel or the Venue as that portion of the Leased Premises and the Development that the Tenant elects to retain and continue to lease during the Renewal Term, and to surrender the other portion of the Leased Premises.
GL27.18, Appendix A – Terms and Conditions of Phase 2 Lease Signage	(f) The Tenant has provided the Landlord with the proposed exterior locations and specifications of its requested signage relating to the Venue, as set out in Schedule 3 hereto.	Schedule G, setting out the Proposed Venue Signage as set out in Schedule 3 to the staff report in GL27.18, has been deleted from the Lease. Section 8.4(f) The Tenant shall provide the proposed exterior locations and specifications of its requested signage relating to the Venue for the Landlord's review and approval, in its capacity as lessor under the Lease, acting reasonably and having regard to the Landlord's and the Board's policies relating to signage at Exhibition Place.

Authority	Council-Adopted Recommendation or Term	Amendments Request by Delegated Authority (with Section references from Phase 2 Lease)
<p>GL27.18, Appendix A – Terms and Conditions of Phase 2 Lease</p> <p>Permitted Uses/Prohibited Uses</p>	<p>Permitted Uses include the operation of the Venue as a facility having a seating capacity of 6,000 to 7,000 seats for concerts, sports events, private meeting events, promotional events, family shows, corporate launches, and Cirque de Soleil-like events.</p>	<p>Section 4.1(c)</p> <p>The Venue shall operate solely as an entertainment venue having a seating capacity of no less than 5,500 and no more than 7,000 (with temporary contractions and expansions from time to time) for concerts, religious or celebratory functions and gatherings, speakers, e-sports, video gaming, sports, private meetings, family shows, corporate, product or promotional launches, promotional events, comedy nights, live entertainment and/or Cirque de Soleil-like events as well as, in each case, reasonably related ancillary uses, including, the sale of souvenirs, memorabilia, food and drink. However, in no event shall the Venue be used as a nightclub or for similar dance uses, including disc jockeyed events that are not concerts provided the foregoing prohibitions shall not in any way prohibit dancing and/or disc jockeys in connection with any of the permitted uses hereunder from time to time.</p>
<p>GL27.18, Appendix A – Terms and Conditions of Phase 2 Lease</p> <p>Permitted Uses/Prohibited Uses</p>	<p>The Prohibited Uses set out in the Phase 1 Lease, ... shall apply to the Phase 2 Lease.</p> <p>Section 6.2(a) of the Phase 1 Lease prohibits the use as a casino or gaming facility.</p>	<p>Section 6.2(a)</p> <p>Prohibited activities include:</p> <p>(a) permanent (as opposed to temporary or charity) casino or gambling facility, provided that a temporary or charity casino or gambling facility will not be permitted when the CNE summer fair is operating, and at all other times a temporary or charity casino shall only be permitted for a maximum duration of five (5) consecutive days per occurrence, and there shall be no more than six (6) such occurrences per calendar year. The Tenant must provide Notice to the Landlord and Board not less than two (2) weeks prior to the proposed date of any temporary or charity casino from time to time.</p>
<p>GL27.18, Appendix A – Terms and Conditions of Phase 2 Lease</p> <p>Registration and Creation of Leasehold Parcel(s)</p>	<p>Registration of a notice of lease or creation of a leasehold parcel shall not be permitted prior to the Commencement Date.</p>	<p>Section 19.3</p> <p>Unless required by a Leasehold Mortgagee, registration of a notice or lease or short form of lease is not permitted prior to the satisfaction or waiver of the Landlord's conditions set out in Section 19.27 of the Lease.</p>

Authority	Council-Adopted Recommendation or Term	Amendments Request by Delegated Authority (with Section references from Phase 2 Lease)
<p>GL27.18, Appendix A – Terms and Conditions of Phase 2 Lease</p> <p>Non-Disturbance Agreement</p>	<p>The Landlord shall agree to provide to the subtenant under a Permitted Sublease a non-disturbance agreement on the terms otherwise provided for in Section 14.2(g) of the Phase 1 Lease, other than the requirement that the Permitted Sublease be a sublease of all of the Phase 2 Lands.</p>	<p>Section 14.3(c)</p> <p>Non-disturbance agreement (“NDA”) shall be interpreted and construed to reflect the fact that such subtenant may only be subleasing a single Component.</p> <p>Section 14.3(d), (e)</p> <p>New provision that provides that the Venue Subtenant, Hotel Subtenant, and Tenant shall enter into a mutual easement and operating agreement (the “MEOA”). The MEOA must be acceptable to the Landlord and will include a cost sharing regime with respect to the construction and ongoing costs and expenses of the Below Grade Structure. The MEOA or notice thereof may be registered on title.</p> <p>If the Landlord becomes successor in interest to one Component (but not both), the non-defaulting subtenant will continue to enjoy its existing rights of access to the Below-Grade Structure at no extra cost. Any further rights shall be negotiated between the Landlord and non-defaulting subtenant.</p>

Authority	Council-Adopted Recommendation or Term	Amendments Request by Delegated Authority (with Section references from Phase 2 Lease)
<p>GL27.18, Appendix A – Terms and Conditions of Phase 2 Lease</p> <p>Landlord's Condition</p>	<p>The Lease is subject to the following conditions for the benefit of the Landlord:</p> <ul style="list-style-type: none"> (i) the Tenant, by no later than the milestone date set out in Schedule 2 for the submission of the site plan application, finalizing the design of the Development to the satisfaction of the Landlord, in consultation with the Board, each acting reasonably; (ii) the Tenant, by no later than the milestone date set out in Schedule 2, submitting a site plan application for the Development satisfactory to the Chief Planner and Executive Director, City Planning 	<p>Section 19.27</p> <p>The Lease is subject to the following conditions for the mutual benefit of each of the Landlord and the Tenant:</p> <ul style="list-style-type: none"> (i) the Tenant, by no later than December 31, 2025, submitting a site plan application for the Phase 2 Hotel and the Venue, which is determined to be a complete application by Development Review, in a design satisfactory to the Landlord, as landlord under this Lease, acting reasonably; (ii) the Tenant, by no later than March 31, 2026, providing reasonable evidence to the Landlord that it has a Financing Plan in for the Phase 2 construction; and (iii) the Tenant, by no later than January 1, 2030, having obtained Notice of Approval Conditions from Development Review. <p>If the Tenant is proceeding in a commercially reasonable manner, the Landlord agrees to extend the dates from time to time, except the date in (iii). All dates are subject to Landlord Delay and Force Majeure.</p>

Appendix C
Revised Preliminary Conceptual Design of Development



