REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Exhibition Place Hotel X - Phase 1 - Consent to Change of Control of Tenant

Date: April 10, 2025
To: Board of Governors of Exhibition Place
From: Don Boyle, Chief Executive Officer
Wards: Ward 10 - Spadina - Fort York

REASON FOR CONFIDENTIAL INFORMATION

The attachment to this report contains financial information that belongs to the Board of Governors of Exhibition Place (the "Board") and has monetary value or potential monetary value.

SUMMARY

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 lease for a 49-year term, with two options to renew, each for a 25-year term (the "Phase 1 Lease"), with Princes Gates Hotel Limited Partnership (the "Phase 1 Tenant") for the development and operation of a new hotel on the Exhibition Place grounds. The first phase of the hotel, located at 111 Princes' Boulevard and known as "Hotel X", opened for operations on March 20, 2018.

By letter dated January 15, 2025, the Phase 1 Tenant formally advised the Board and the City, as Landlord, of a pending sale of the interest of Henry Kallan, his affiliates and related parties in the Hotel X property to the party set out in in Confidential Attachment 1 (the "Proposed Transaction"), and to request consent in respect thereof from the Landlord as required pursuant to Section 14 of the Phase 1 Lease. The letter also requested consent for a future transfer of hotel management and certain amendments to the Phase 1 Lease, both in connection with the Proposed Transaction. It is expected that the Proposed Transaction will close on or about June 2025.

Staff from the City Real Estate Management and Exhibition Place have been working with the Phase 1 Tenant with respect to the requested consent. In order to facilitate the Landlord's due diligence review process, we requested and obtained from the Tenant

more detailed information about the Proposed Transaction, the future transfer of hotel management and amendments to the Phase 1 Lease.

Confidential Attachment 1 to this report outline the Proposed Transaction, the proposed management transfer, and Phase 1 Lease amendments.

This report recommends that the Board approve the change in effective control of the Phase 1 Tenant resulting from the Proposed Transaction, and the related amendments to the Phase 1 Lease, subject to the necessary City of Toronto authorization.

RECOMMENDATIONS

The Chief Executive Officer recommends that:

1. Subject to obtaining the necessary authorization from City, the Board consent to the change in effective control of the Phase 1 Tenant resulting from the Proposed Transaction on the terms and conditions contained in Confidential Attachment 1, and such other terms and conditions as may be satisfactory to the Chief Executive Officer and the City's approving authority, and in a form satisfactory to the City Solicitor.

2. Subject to obtaining the necessary authorization from City, the Board consent to the Phase 1 Lease amendments on the terms and conditions contained in Confidential Attachment 1, and such other and amended terms and conditions as may be satisfactory to the Chief Executive Officer and the City's approving authority, and in a form satisfactory to the City Solicitor.

3. The Board direct the Chief Executive Officer to work with City Real Estate Management Services to seek the necessary City of Toronto approval for the Proposed Transaction and Phase 1 Lease amendments set out in Recommendations 1 and 2.

4. The Board direct that the information contained in Confidential Attachment 1 remain confidential in its entirety, as it contains financial information that belongs to the Board and has monetary value or potential monetary value.

FINANCIAL IMPACT

There is no financial impact from Board's consent to the change in effective control resulting from the Proposed Transaction, and the proposed Phase 1 Lease amendments, as these would not affect the rent provisions or other financial terms of the Phase 1 Lease.

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.
https://secure.toronto.ca/council/agenda-item.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

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.

COMMENTS

Through the 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 Hotel X 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).

By letter dated January 15, 2025, the Phase 1 Tenant formally advised the Board and the City, as Landlord, of the Proposed Transaction, which would result in a change in effective control of the Phase 1 Tenant, and to request the Landlord's consent in respect thereof as required pursuant to Article 14 of the Phase 1 Lease.

The letter also requested the Landlord's consent to: (i) a future transfer of hotel management; and (ii) certain amendments to the Phase 1 Lease reflecting the change of control. While this report recommends approval of these Phase 1 Lease amendments, the Landlord is not in a position to grant consent to the proposed change in hotel management, as the future manager has not yet been determined. The proposed management change will be considered by Exhibition Place and City Real Estate Management Services staff, in accordance with the relevant provisions of the Phase 1 Lease, at such time as the Phase 1 Tenant provides sufficient information about the proposed new manager and the proposed management change. Further direction from the Board and City authorities, if necessary, will be sought at that time.

It is expected that the Proposed Transaction will close on or about June 2025. The proposed management change will occur at a time after this closing, as set out in Confidential Attachment 1.

Due Diligence Review

In order to facilitate the Landlord’s due diligence review process, staff requested from the Phase 1 Tenant and obtained more detailed information about the Proposed Transaction, as well as the proposed management transfer and Phase 1 Lease amendments.

Staff reviewed the following information and are satisfied that the transferee under the Proposed Transaction has the necessary financial wherewithal and management experience.

(1) Updated corporate ownership records containing the share registry of the Phase 1 Tenant and organizational charts showing the current ownership structure and proposed ownership structure following the Proposed Transaction.

(2) Copy of the term sheet, setting out the details of the Proposed Transaction and the change in ownership of the Phase 1 Tenant.

(3) Audited financial statements of the Phase 1 Tenant for the last 2 years, including balance sheets, income statements, and cash flow statements, and an officer's certificate of the proposed transferee as to the transferee's net worth.

(4) Current credit report of the Tenant and transferee, from a recognized credit agency (Equifax).

(5) Summary of business and management experience and history of the proposed transferee, including details of the company's experience in the hospitality business, operations expertise, and key management team.

(6) Details of the proposed agreement for the temporary continuation of Henry Kallan's management of Hotel X, and the subsequent management, including qualifications and suitability criteria of the proposed new manager and transition milestones.

(7) Details about the specific Phase 1 Lease amendments that are proposed.

Confidential Attachment 1 to this report outlines the Proposed Transaction and current and new ownership structure, and the proposed Phase 1 Lease amendments to reflect the Proposed Transaction.

CONTACT

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Don Boyle, Chief Executive Officer, 416-263-3611, DBoyle@explace.on.ca

SIGNATURE

Don Boyle
Chief Executive Officer

ATTACHMENTS

Confidential Attachment 1 - Main Terms and Conditions of Proposed Transaction