



Exhibition Place

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March 16, 2016

To: Finance & Audit Committee

ACTION REQUIRED

From: Dianne Young
Chief Executive Officer

Subject: **Allstream Centre – Updated Market Analysis and Revenue Projections**

Summary:

The Allstream Centre (formerly the Automotive Building) underwent a \$58.0M renovation in 2007/08 and reopened for business as a conference centre in October 2009 with its first full year of operations in 2010. Horwath did an initial study entitled “Executive Summary – Phase 1 Report: Market Analysis” dated October 17, 2006 in support of the City construction loan approved by the Board and City Council in 2007 (the “2006 Horwath Study”). This report provides information on the recently updated study of the Allstream Centre entitled “Market Analysis and Revenue Projections” done by Horwath HTL (“Horwath”) dated October 2015 (the “2015 Horwath Study”).

The attached Executive Summary “Appendix A” from Horwath details the study, economy, market and revenue analysis; “Appendix B” Horwath Conclusions and Recommendations; Appendix “C” is Financial Results from 2010 to 2015; and “Appendix “D” provides Projected Financial Results from 2016 to 2020. The full study can be provided in a soft copy, on request.

Recommendation:

It is recommended that the Finance & Audit Committee receive this report for information.

Financial Impact:

There is no financial impact in 2016 from this report. Any adjustment to the annual Operating Budget from the updated market and revenue analysis pro-forma will be contained within the 2017 Operating Budget.

Decision History:

The Exhibition Place 2014 to 2016 Strategic Plan had a Financial Goal to *effectively monitor costs and revenues* and as a strategy to support this Goal *we will ensure operating budgets are met and show a positive surplus to budget*

At its meeting of December 15, 2006, the Board approved of the terms and conditions of the LOI between the Board and the FSP for food services within Allstream Centre.

At its meeting of November 7, 2007, the Board approved of the increase in the overall conference centre capital budget from \$29.0M to \$46.88M with request from City Council to increase to increase its loan from \$21.2M to \$35.6M.

At its meeting of December 10,11,12,13 &14, 2007, City Council approved of the Board’s recommendation noted above and in addition establish an obligatory reserve fund, called the “Exhibition Place Conference Centre Reserve Fund”, to provide a source of funding for any shortfalls in the City loan payments and direct revenues from the existing Direct Energy Centre

naming rights and the Conference Centre naming rights agreements into this Reserve Fund along with any 2007 operating surplus for Exhibition Place.

<http://www.toronto.ca/legdocs/mmis/2007/cc/decisions/2007-12-11-cc15-dd.pdf> (Item 127)

At its meeting of February 9, 2016, the Finance & Audit Committee deferred the Allstream Centre – Updated Market Analysis and Revenue Projects to its May 13, 2016 meeting, and requested that staff invite representatives from Horwath HTL and Cerise Catering to said meeting to provide a presentation.

Issue Background:

The Allstream Centre operating budget for the first and second full year (2010 and 2011) was based on proforma financial information that was developed from the 2006 Horwath Study. The 2012 to 2016 budget followed the same profomas, except to the extent it is adjusted for specific revenue and expenditures item where there is sufficient information from the 2010 to 2015 operations to provide for different amounts based on the 6-year history.

While the Allstream Centre performed and met the proformas in 2010, its first year, since 2011, Allstream Centre has underperformed compared to the 2006 Horwath proformas. To understand this underperformance and also seek advice on possible new initiatives / directions, Horwath was retained to conduct the 2015 Horwath Study.

Comments:

2015 Horwath Study Parameters

To understand the issue of the underperformance of Allstream Centre, the 2015 Study examined the following matters:

- Analyse relevant demographic and economic data that has impacted the conference, meeting and events market in Toronto and could impact the competitive market for the foreseeable future
- Analyse supply and demand fundamentals since opening
- Meet with representatives of Tourism Toronto
- Review / inspect competitive venues in GTA to understand their facilities and amenities, relative product quality, market orientation and capabilities and to extent possible gain an understanding of the number and type of events held annually, pricing trends and factors impacting the business
- Recommend strategies to increase the number of events and revenues
- Prepare event projections, revenue and operation expenses for the next 5 years
- Prepare estimates of the economic impact generated

2015 Horwath Study Conclusions

Generally, the 2006 Horwath Study and proformas was based on the assumption that the Toronto and North American economy and conventions and meetings market was relatively strong and was expected to remain strong in the foreseeable future. However, due to the recession starting in 2008, this assumption is no longer justified; the market was severely affected and the 2006 Horwath Study projected results for Allstream Centre are not likely to be achieved in the near future. While Exhibition Place sales team has achieved the annual rental budget projections as set out in the original proformas, as discussed in the 2015 Horwath

update, the initial proformas were heavily weighted to corporate events / galas which experienced a major reduction with the 2008 recession.

Although the facility has not achieved to the proformas in the 2015 Horwath report, the Centre has met or will result in the following benefits to the Exhibition Place site:

- Attracting certain large events and supplements major events that might not otherwise have booked the Enercare Centre or Exhibition Place facilities (e.g. NBA AllStar Jam Session, G8/G20, RBC, CPMA, Funeral Director's, Shoppers Drug Mart, Canwea and Loblaws).
- Generates significant economic impact to the local and regional economy (\$80M since opening). The 2015 Horwath Study has estimated the impact from stabilized operations in 2018 to be, \$12.7M in GDP; 118 jobs and \$7.56M in income and \$5.5M in taxes to the three levels of Government.
- Without the loan repayment costs, achieves or exceeds its annual operating budget.
- Was a major consideration for the private sector to invest \$250.0M in a hotel property on site.
- Attracted a valuable naming partner to the grounds.
- Converted an underutilized Class "B" exhibition space into a Class "A" conference centre facility with long-term benefits for the grounds and the City.
- Capital cost avoidance for State of Good Repair of approximately \$5.0M since opening

Exhibition Place Loan Agreements / Reserve Fund

The renovation of Allstream Centre was funded through a loan with the City for \$38.675M at 5% amortized over 25 years and a loan from Federation of Canadian Municipalities (FCM) for \$2.0M loan for energy upgrades and LEED certification at a 2.375% interest rate amortized over 20 years. At the end of 2015, Exhibition Place has paid the City loan principal in an amount of \$4.785M resulting in a remaining balance owing of \$33.890M. At the end of 2015, Exhibition Place has paid the FCM loan principal in the amount of \$.460M resulting in a remaining loan balance of \$1.540M.

Annually the cost of both the City and FCM loans to the Allstream Centre operating Budget is \$2.798M. As shown in the 2015 Horwath "Appendix D", the Projected Financial Results from 2016 to 2020 are insufficient to pay the annual operating expenditures and the annual loan payments.

In the approval from City Council of the loan in 2007, a Conference Centre Reserve Fund was established to fund the loan if there were any operating shortfalls. Funds from the naming partner's fees and any annual operating surpluses from Exhibition Place are to be deposited in the Reserve Fund. The forecasted balance in the Conference Centre Reserve Fund at the end of 2015 is expected to be \$1.7M.

Action Plan

- With the food and beverage provider Cerise, develop at the executive level a joint marketing and sales strategy with aggressive objectives and a regular performance assessment tool;
- With Tourism Toronto, develop at the executive level a "lead generation" strategy and a regular performance assessment tool;
- With Economic Development develop a "lead generation" strategy for major events.
- Meet with the City CFO on possible options related to the loan (ie matching the loan agreement period to the loan debenture amortization period)
- Commence construction of the hotel / conference centre link;

- Consider engagement of additional sales staff on a pay for performance basis;
- Address IATSE issues during collective bargaining;
- Continue to explore options to reduce building operating costs (ie LED lighting, shut down during CNE period if not in use);
- Market building for new types of events other than just conferences, meetings and galas.

Contact:

Hardat Persaud, Chief Financial Officer

Telephone: 416 263-3031

Fax: 416 263-3690

E-mail: HPersaud@explace.on.ca

Appendix "A" 2015 Horwath Study Executive Summary

Horwath HTL (formerly Horwath Horizon Consultants) was retained by Exhibition Place in the fall of 2006 to prepare a Market Analysis and Revenue Projections for the proposed new Direct Energy Conference Centre (now referred to as the Allstream Centre). Our report was completed in mid-October 2006. At that time, the Toronto economy and hotel market and the North American meetings market was relatively strong and was expected to be so for the foreseeable future.

The Allstream Centre opened in October 2009. Management of Exhibition Place has advised us that since opening, the Allstream Centre has underperformed as to expectations, largely due to the impact of the Great Recession.

In our October 2006 report, we projected the proposed Allstream Centre to achieve revenues of \$1.8 million in its first full-year of operation, \$3.6 million in its second year and stabilizing at approximately \$5.3 million as reflected in the following table. Total events were projected at 82, 156 and 238, respectively.

Horwath Allstream Centre Projected Events

	Events	Space Rental	F+B	Total
Year 1	82	\$151,450	\$1,687,880	\$1,839,330
Year 2	156	\$372,850	\$3,222,549	\$3,595,399
Year 3	238	\$546,575	\$4,740,000	\$5,286,575

Source: Horwath HTL

In 2012, the third full year of operation, the Allstream Centre achieved 122 events and generated total revenue of \$2.5 million. Since that time, total revenue has declined to \$1.7 million in 2013 and to just under \$2.0 million in 2014.

Since opening in 2009, the Allstream Centre has not achieved the projected results and is unlikely to do so for the foreseeable future due for the following reasons:

- The Canadian economy was impacted by the Great Recession (late 2007-2009), and this impacted the hospitality industry and more specifically the conventions and meetings market significantly.
- In conjunction with rising job losses, Toronto's office market also suffered a blow in response to the recession. Vacancy rates increased and gross rents fell, as companies decreased in size, which dramatically impacted the meetings and conventions market. The corporate market was expected to be the primary driver of demand for meetings and conventions.

- The Canadian economy and the hospitality industry are just beginning to get back to pre-recession levels.
- There has been an increase in meeting venues and hotel meeting space in the downtown Toronto market that was not expected to be competitive for the type of business targeted by the Allstream Centre, and as a result of the recession, these venues and hotels are now directly competitive.
- The MTCC (Metro Toronto Convention Centre) generally experienced a decline in both conventions and meetings from fiscal 2008-09 through fiscal 2012-13. Conventions decreased at a compound annual rate of 6.7%, and meetings at a compound annual rate of 8.5%. The 2013-14 fiscal year reflected strong growth, with conventions increasing 18.0%, but still well below the peak of 2008-2009 (-22.0%) and meetings up 37.0% over 2012-13, but down from the peak of 2008-09 (-19.0%). To offset the decline in major convention and meeting business, the MTCC has targeted a broader range of meetings that might otherwise be held in hotels or other venues in Toronto.
- The Allstream Centre does not have the capacity to do multiple smaller events like the MTCC which offers 72 meeting rooms.
- Tourism Toronto was expected to provide at least 200 leads annually to the Allstream Centre, and approximately 25% of its business with a closing rate of approximately 20+%. This has not happened, with the number of leads falling short of 100 annually, with a closing rate of approximately 1.0% as reported by Allstream Centre management.
- There has been a shift away from larger food and beverage events with limited food and beverage, which will require a re-evaluation of profit centres.
- It was originally intended that the CNE (Canadian National Exhibition) would use the Allstream Centre during the CNE (when accessibility for group business is limited and the building is difficult to rent) and have only done one small internal event since opening. The Allstream Centre has not been used for any public programming by the CNE since that initial event.
- It was also intended that the hotel on-site would be open at the same time as the Allstream Centre.

Although the Allstream Centre has not achieved the anticipated level of revenue projected in our original report, the Centre has been helpful in attracting certain large events (e.g., Shoppers Drug Mart, CPMA, G-20, and Salesforce) and supplements major events that might not otherwise have booked the Direct Energy Centre or other Exhibition Place facilities.

We believe that the Allstream Centre's (Exhibition Place's) sales team is focused on the right initiatives to increase market share from both the meetings and events market, but will be limited in gaining share due to the increase in available venues.

The addition of Hotel X to Exhibition Place will help to attract events and meetings that might not previously have considered Exhibition Place or the Allstream Centre. However, to attract a greater share of event and meeting business, we believe that a covered indoor walkway between the hotel and Allstream Centre is critical. Not having a direct connection will create a further barrier to generating revenue for the Allstream Centre and will make it more challenging for the hotel to attract larger groups.

Based on discussions with representatives of the Allstream Centre, our analysis of the subject property's historical performance, the market for meetings and events in Toronto and reported citywide convention demand, we have projected the number of events for the Allstream Centre to increase from 150 in 2014 to 185 by 2018, with the greatest number of events coming through meetings, conferences and galas. We have projected annual revenue to increase from approximately \$2.48 million in 2014 to \$3.49 million in 2018, as reflected in the following table. (F+B revenue represents net revenue from catering from both Exhibition Place and Cerise).

Projected Events and Revenue

	Events	Space Rental	F+B	Total Revenue
2015	150	\$1,168,200	\$853,350	\$2,477,625
2016	161	\$1,313,374	\$938,186	\$2,756,357
2017	178	\$1,495,614	\$1,043,162	\$3,104,167
2018	190	\$1,644,336	\$1,130,317	\$3,390,049
2019	190	\$1,693,666	\$1,164,226	\$3,491,750

Source: Horwath HTL

MARKET OVERVIEW

At the end of November 2008, the National Bureau of Economic Research indicated that the U.S. had been in a recession since December 2007. The impact of the financial crisis on the Canadian economy was felt immediately. Canada's trade with the United States fell and had a significant impact on business travel, conventions, meetings and events.

In the fourth quarter of 2008, the Ontario economy experienced its worst quarter in 18 years. With the provincial economy heavily dependent on trade with the United States, several of Ontario's main sectors suffered due to decreased demand from across the border.

Toronto's main industry clusters, which are manufacturing; retail trade; financial services, insurance, and real estate were all impacted by the economic slowdown.

While the North American convention and meetings market was strong going into 2006 and at the time of our original report in October of 2006, the difficult economic conditions in 2008 and 2009 resulted in enormous uncertainty regarding the economic recovery. Unemployment remained high and office vacancy was increasing (in part due to new supply) and rental rates were projected to decrease. This uncertainty impacted the convention, meetings and events market from 2008 through 2013.

The Allstream Centre competes for major meeting and event business with a number of significant venues, not only in Toronto, but also across Canada. In addition, recent additions in the luxury hotel market in Toronto (Ritz Carlton, Four Seasons, Shangri-la and Trump) have further impacted the market. While these newer hotels were expected to compete for smaller meetings and social events, they have been very aggressive in going after group business at lower rates than anticipated in order to build base demand.

Business travel in general was down in 2009 as a result of the recession, but was expected to see resurgence both on the short and long haul destinations. The impact of the recession on the world economy forced the MC&IT market to retool itself not only to bear the brunt of cutbacks but also to prepare for the future. The trend in overall attendance and the number of meetings has slid downward from the peak in 2007.

The MTCC (Metro Toronto Convention Centre) generally experienced a decline in both conventions and meetings from fiscal 2008-09 through fiscal 2012-13. Conventions decreased at a compound annual rate of 6.7%, and meetings at a compound annual rate of 8.5%. The 2013-14 fiscal year reflected strong growth, with conventions increasing 18.0%, but still well below the peak of 2008-2009 (-22.0%) and meetings up 37.0% over 2012-13, but down from the peak of 2008-09 (-19.0%).

Exhibition Place venues (the Direct Energy Centre, Better Living Centre and Queen Elizabeth Building) have experienced a similar pattern of decline. The total number of events declined from 2008 through 2013. The Allstream Centre has had a positive impact on increasing the number of events at Exhibition Place. Since 2010, the Allstream Centre has hosted over 560 events which reflects overall growth in total events at Exhibition Place of 2.8%, since 2010.

Without including the Allstream Centre, the downward trend follows the demand patterns experienced by the MTCC and hotel group demand over a similar period. The trend reversed in 2014, with an increase in events of 14.8%, and is expected to continue on a positive trend upwards with increased citywide convention demand through 2018, as reported by Tourism Toronto. The MTCC also has a much greater capability than the Allstream Centre to do multiple events.

Between 2005 and 2014, total hotel room night demand in the primary competitive hotel market (Fairmont Royal York, Sheraton Centre, Westin Harbour Castle and Hilton) increased at a compound annual rate of 1.1%; however, over this period, group demand decreased at a compound annual rate of 1.6%. Since 2008, total demand in this group of hotels has decreased at a compound annual rate of 0.59%, while group demand increased at a marginal compound annual rate of 0.07%.

The Allstream Centre's booking trends are similar to those of the MTCC and the "big four" hotels in terms of meetings demand. The Allstream Centre derived between 70% and 77% of its business from Meetings and Conferences from 2010 through 2012. In 2013, 89% of demand was generated from these two segments and 80% in 2014.

Much like the MTCC, the Allstream Centre targets meetings that don't have room nights attached. Management of the Allstream Centre advised us that they do partner where possible with hotels in order to attract some additional demand

Total average attendance has declined annually, but that is largely a result of the change in mix of events

The number of events booked by the Centre's exclusive caterer, Cerise Fine Catering, (responsible for generating food and beverage only events) has also experienced the same trends as the MTCC, other Exhibition Place venues, hotel group demand and the Allstream Centre.

The 2014 Sales & Marketing Plan (SMP) highlighted several challenges in securing new business for the Exhibition Place, and more specifically the Allstream Centre. These include:

- 🔥 Production Services - one of the most significant challenges impeding the ability to attract meetings and events to the Allstream Centre are the IATSE work rules, under a collective agreement. Both the Allstream and Cerise sales teams highlighted this as their biggest concern in booking events. We understand the relationship with IATSE is good and that there were improvements to the 2012 CBA; however, the work rules still impede the ability to be competitive with other non-union venues. The major issue are the costs imposed upon prospective clients to use stagehand labour, which forces the venue to block space pre and post events for set up and breakdown to avoid overtime premiums. This also results in reduced saleable inventory. In addition, clients are forced to hire IATSE labour for audio-visual requirements even if they have their own AV supplier (thus increasing costs dramatically). We understand that there are also challenges related to scheduling and availability of IATSE labour and training.
- 🔥 Location – the Allstream Centre's location outside of the downtown core is perceived as an obstacle in securing meetings, conventions and some events due to organizers having to shuttle delegates to the venue(s).

- 🔥 Hotel X – Developing a strong working relationship with the Hotel X sales team to maximize booking opportunities must be a priority. Hotel X will feature 60,000 square feet of indoor and outdoor meeting space, but its' two ballrooms are under 7,000 square feet each. This presents an excellent opportunity to focus on groups that can maximize the space at both facilities.
- 🔥 Covered Indoor Walkway – Site and venue selection is one of the most challenging components of the meeting planning process. Meeting planners prefer venues that are self-contained and / or directly connected and easily accessible from the headquarters hotel. We note that there is currently no connectivity from Hotel X to the Allstream Centre. We believe that such a connection will make the two facilities even more attractive for meeting and event planners and will provide a competitive advantage over such facilities as the Toronto Congress Centre and International Centre. Furthermore, it is our opinion, that the acceptance of a two-building scenario will increase with a weather-protected covered indoor walkway, and would benefit Exhibition Place as a whole as a destination that caters to meetings and events. A covered indoor walkway will create a facility that is essentially under one roof, and providing for seamless transition between meeting spaces and venues. Major downtown venues also have weather-protected connections. The Fairmont Royal York is connected to the MTCC is connected via the PATH to Union Station (an historic building) and then by a glass-enclosed walkway over Simcoe Street (which would impact view corridors more than a walkway between Hotel X and the Allstream Centre). The Delta Toronto is connected to the MTCC via the Path. The Westin Harbour Castle is connected to its freestanding 70,000 square foot conference centre via a glass-enclosed walkway over Front Street. These connections make it convenient for guests to move freely indoors during Toronto's winters and inclement weather.
- 🔥 Tourism Toronto Lead Generation – Tourism Toronto is responsible for and has historically focused on selling the MTCC as the venue of choice in Toronto. Historically, the number of leads generated through Tourism Toronto for Exhibition Place facilities has been under 100 annually (93 in 2012 and 80 in 2013), with a closing rate of approximately 1.0% according to Allstream Centre Management. Exhibition Place sales teams are focused on developing a more cohesive working relationship with Tourism Toronto to generate a minimum of 200 qualified leads annually, with a closing rate closer to 20.0%

Based on discussions with representatives of the Allstream Centre, our analysis of the subject property's historical performance, the market for meetings and events in Toronto and reported citywide convention demand, we have projected the number of events for the Allstream Centre to increase from 150 in 2014 to 190 by 2018, with the greatest number of events coming through meetings, conferences and galas. We have projected annual revenue to increase from approximately \$2.477 million in 2014 to \$3.390 million in 2018.

Despite the projected increase in the number of events and revenue, the Allstream Centre as one component of Exhibition Place will not as a stand-alone program be able to service its loan obligations, even after adding on the fees from naming rights.

The Allstream Centre currently generates and will continue to generate significant economic impact in the local and regional economy. The following table summarizes the estimated economic impacts in a stabilized operating year (2018), resulting from the operation of the Allstream Centre.

The total impact from stabilized operations (2018) including direct, indirect and induced impacts will generate:

- \$12.7 million in gross domestic product;
- 118 jobs and \$7.56 million in income; and
- \$5.5 million in taxes to all three levels of government.

Based on the economic benefits the Allstream Centre generates, we recommend that the loan terms be modified or restructured, including increasing the amortization period, or converting to an interest free loan. In addition, the annual rent received from Hotel X should be attributed towards servicing the loan. (Without the Allstream Centre, it is highly unlikely that the hotel would have been developed).

Economic Impact Allstream Centre – (Stabilized 2018)

	Toronto	Rest of Ontario	Total
Initial Expenditure	\$12,735,616		\$12,735,616
Impact: Gross Output / Gross Domestic Product (GDP)			
<i>Direct</i>	\$7,901,061	\$58,944	\$7,960,005
<i>Indirect</i>	\$2,166,494	\$169,840	\$2,336,334
<i>Induced</i>	\$1,988,530	\$368,961	\$2,357,491
Total	\$12,056,085	\$597,745	\$12,653,830
Impact: Employment			
<i>Direct</i>	72	1	73
<i>Indirect</i>	20	2	22
<i>Induced</i>	19	4	23
Total	111	7	118
Impact : Labour Income			
<i>Direct</i>	\$4,307,770	\$41,982	\$4,349,752
<i>Indirect</i>	\$1,503,576	\$124,120	\$1,627,696
<i>Induced</i>	\$1,336,400	\$271,000	\$1,607,400
Total	\$7,147,746	\$437,102	\$7,584,848
Impact: Total Taxes			
<i>Federal</i>	\$2,825,569	\$113,240	\$2,938,809
<i>Provincial</i>	\$2,452,973	\$86,794	\$2,539,767
<i>Municipal</i>	\$30,765	\$1,539	\$32,304
Total	\$5,309,307	\$201,573	\$5,510,880

Source: Horwath HTL, based on the Tourism Regional Economic Impact Model (TREIM)
Ministry of Tourism, Culture and Sport (2015).

MARKET OVERVIEW

INTRODUCTION

Horwath HTL (formerly Horwath Horizon Consultants) was retained by Exhibition Place in the fall of 2006 to prepare a Market Analysis and Revenue Projections for the proposed new Direct Energy Conference Centre (now referred to as the Allstream Centre). Our report was completed in mid-October 2006. At that time, the Toronto economy and hotel market and the North American meetings market was relatively strong and was expected to be so for the foreseeable future as evidenced by the following:

-  Toronto's real GDP growth was 3.4% in each of 2004 and 2005, and was 2.3% in 2006. The Conference Board of Canada, forecasted Toronto's real GDP to accelerate to 2.9% in 2007, 4.0% in 2008 and 4.1% in each of 2009-2011.¹ Actual GDP growth was 2.8% in 2007, 0.3% in 2008, -1.6% in 2009 and a robust 3.9% in 2010 coming out of the Great Recession. GDP growth between 2011 and 2014 ranged from 1.8% (2013) to 2.8% (2014) and is forecast by the Conference Board at 3.1% for 2015.²
-  Toronto's hotel market was on track to achieve occupancy of 66%, with an average daily rate of \$135.00 and a RevPar (revenue per available room) of \$89.00, up 3.5% from the previous year and 8.5% from 2004. PKF, in their 2007 Market Outlook, was projecting Toronto demand to increase by 2.5%, with a 1.1% increase in supply, resulting in occupancy of 67% with an average rate of \$140.00 and RevPar of \$94.00, an increase of 5.6% over 2006.
-  The Canadian meetings industry organized 671,000 meetings in 2006, hosting some 70.2 million participants and accounting for \$32.2 billion in direct spending.³
-  18.8% of total meetings were from conferences and conventions of which 83.7% were held in hotels and 3.0% were held in purpose built facilities.
-  58.2% of the total meetings were categorized as other business meetings of which 78.5% were held in hotels and 3.3% were held in purpose built facilities.
-  In the United States, the meetings, incentive, convention, and exhibition (MICE) industry was growing. According to an article by Meetings & Conventions (2006), the spending on meetings was nearly \$103 billion with "the total number of meetings held up across the board". Corporate events

¹ Metropolitan Outlook, Winter 2007, The Conference Board of Canada.

² Conference Board of Canada

³ Economic Contribution of Meetings Activity in Canada, Meeting Professionals International, Maritz Research Canada and The Conference Board of Canada, 2008.

rose 6.0% to almost 1.1 million events; association meetings increased by 8.0% to 227,000 events; and 13,000 conventions were held in 2007.⁴

The Allstream Centre opened in October 2009. Management of Exhibition Place has advised us that since opening, the Allstream Centre has underperformed as to expectations, largely due to the impact of the Great Recession and changes in the competitive marketplace.

Accordingly we have been asked to update our original report dated October 17, 2006, to include an overview of what has transpired in the market since the opening of the Allstream Centre, and to provide an analysis of the current and anticipated market over the next five years and recommendations with regards to sales and marketing opportunities and strategies.

ECONOMIC OVERVIEW

IMPACT OF THE U.S. RECESSION

At the end of November 2008, the National Bureau of Economic Research indicated that the U.S. had been in a recession since December 2007⁵. The housing downturn, which started in 2006 and resulted in a sharp rise in mortgage foreclosures, further resulted in losses of hundreds of billions of dollars among the nation's leading banks and a tightening of credit markets. Coupled with the deterioration in the labour market throughout 2008, these events triggered a broader economic malaise.

The financial market and credit crisis worsened during the summer of 2008, prompting the U.S. Congress, the Treasury Department and the Federal Reserve (Fed) to pump trillions of dollars into the U.S. economy through a variety of programs, including a U.S. \$700 billion bailout of banks and Wall Street firms and hundreds of billions of lending by the Fed to major companies and lending institutions.

The global financial system suffered a severe setback over the course of 2008, culminating in a tailspin on two occasions. In March of 2008, Bear Stearns was purchased by rival firm JPMorgan Chase. The U.S. Federal Reserve extended a loan to JPMorgan to help absorb Bear Stearns' bad debt. In September of 2008, Lehman Brothers filed for bankruptcy, Merrill Lynch was sold to Bank of America, and the U.S. Treasury, with the Fed, provided financial assistance to AIG. Fannie Mae and Freddie Mac were put under conservatorship.⁶ These significant events did not precipitate the financial crisis or the recession, but they marked the bursting of a long inflated asset bubble, as markets around the world entered a state of

⁴ David M. Pearlman and Lindi Mollere, 2009, Meetings, Incentive, Convention, and Exhibition Evaluation Practices: An Exploratory Study among Destination Marketing Organizations. *Journal of Convention and Event Tourism*, 10:3, 147-165, DOI: [10.1080/15470140903116633](https://doi.org/10.1080/15470140903116633)

⁵ http://www.usatoday.com/money/economy/2008-12-01-recession-nber-statement_N.htm

⁶ TD Quarterly Economic Forecast September 2008

disarray.⁷ U.S. GDP growth began to contract in the fourth quarter of 2008 and remained negative through the first quarter of 2009, as shown in the following graphs.

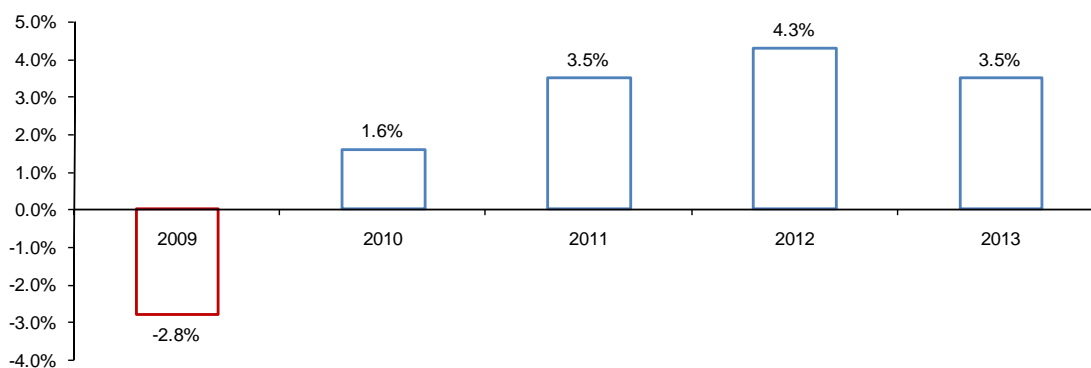
U.S. GDP Quarterly Growth



Source: TD Economics Long Term Economic Forecast June 16, 2009.

These developments accelerated ensuing turbulence of declining housing prices, household incomes, slowing consumption and investment, and the need for financial firms around the globe to recapitalize and deleverage their balance sheets. As of June 2009, TD Bank was forecasting that the U.S. economy would achieve moderate growth in 2010 and more robust growth through 2013 as evidenced in the following graph.

U.S. GDP Forecast



Source: TD Economics Long Term Economic Forecast June 16, 2009.

⁷ Ibid

IMPACT OF THE CANADIAN RECESSION

The impact of the financial crisis on the Canadian economy was felt immediately. Canada's trade with the United States fell, largely due to the decrease in demand for cars and the decline in housing construction in the U.S. The reduction in exports to the U.S led to the shedding of jobs as unemployment rose at a steady pace from mid-2008 to mid-2009. Consequently, consumption activity diminished in the wake of a worsening labour market. In addition, domestic investment in machinery and equipment (capital stock) stagnated after double-digit increases from 2003 to 2007.⁸

In the second half of 2008, commodity prices decreased rapidly, reducing the profits of many Canadian exporters to reinvest into growth. The TD Commodity Price Index lost 46.0% of its value from June 2008 to November 2008. With the tightened availability of financing, many real estate projects had to be delayed or cancelled across Canada.⁹

As of Q1 2009, the volume of Canadian exports was down 17% from two years earlier. The size of the export industry contracted to 33.0% of the total real output compared to the traditional level of 40.0%. Canadian exports were expected to remain weak until a full recovery materialized in the U.S. economy.¹⁰

The Bank of Canada slashed the overnight lending rate to attempt to unfreeze credit markets and increase the supply of money in the economy. The interest rate was cut from 4.5% in September of 2007 to 0.25% by April of 2009. The Bank of Canada noted in its July 2009 statement that stimulative monetary and fiscal policies, improved financial conditions, firmer commodity prices, and a rebound in business and consumer confidence were helping to revitalize the economy.

The higher value of the Canadian dollar and ongoing restructuring in key industrial sectors were, however, hampering the pace of overall growth.¹¹

The overall result of the global financial crisis and recession has led to a steady contraction in Canadian economic activity as evidenced below.

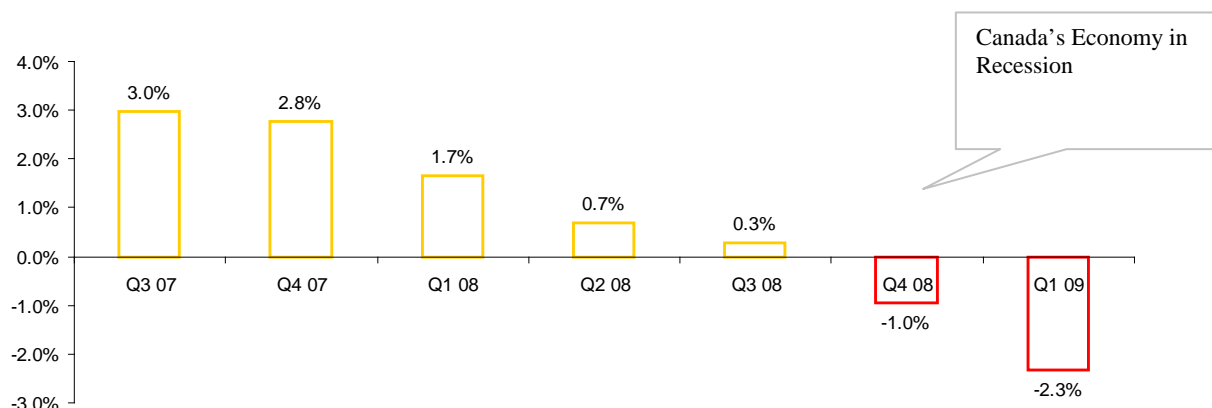
⁸ Ibid

⁹ TD Quarterly Economic Forecast December 10, 2008.

¹⁰ TD Quarterly Economic Forecast June 2009.

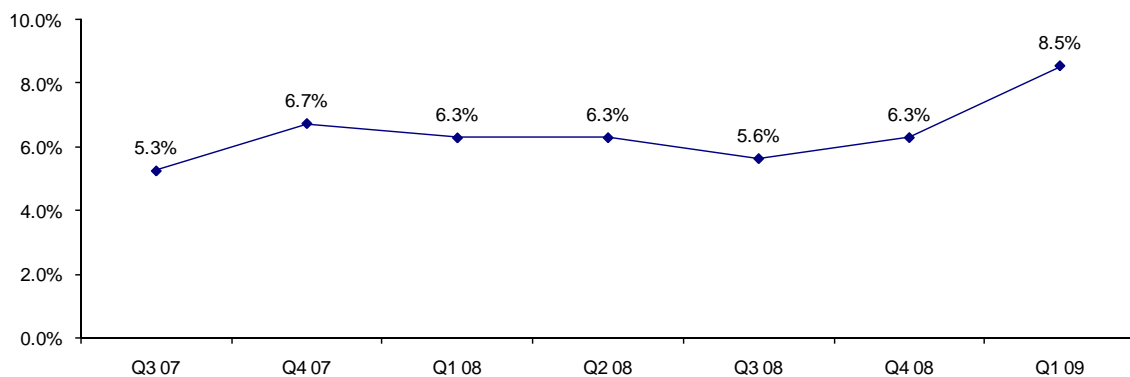
¹¹ Bank of Canada http://www.bank-banque-canada.ca/en/fixed-dates/2009/rate_210709.html.

Canadian GDP Quarterly Growth



Source: Statistics Canada.

Canadian Unemployment by Quarter



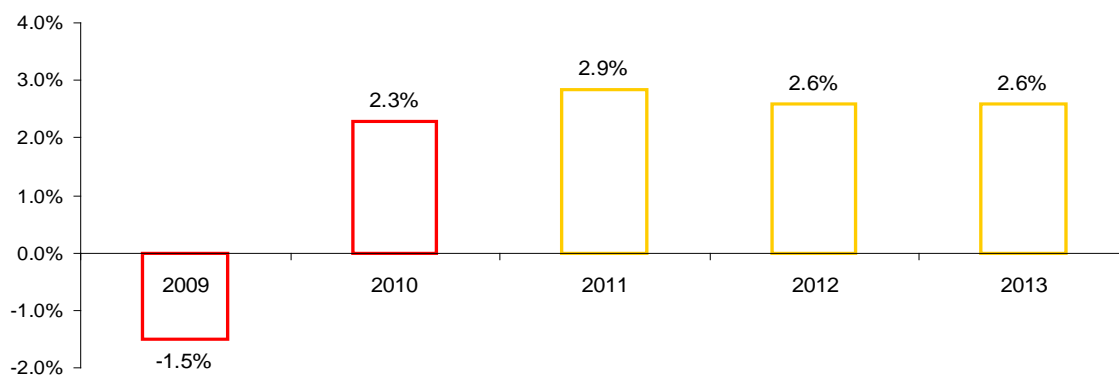
Source: Conference Board of Canada.

ECONOMIC OUTLOOK 2009

Following a deep recession in both Canada and the U.S. in 2009, 2010 was expected to mark the first leg of the recovery phase. However, the recovery in 2010 and the ensuing years was expected to be shallow relative to historical experience due to the lasting economic costs of recapitalization, deleveraging among businesses and households, and large public sector deficits.¹² The following table reflects the TD Bank's GDP forecast for the Canadian economy as of April 2009.

¹² TD Quarterly Economic Forecast June 2009

Canadian GDP Forecast



Source: TD Economics Long Term Economic Forecast June 16, 2009.

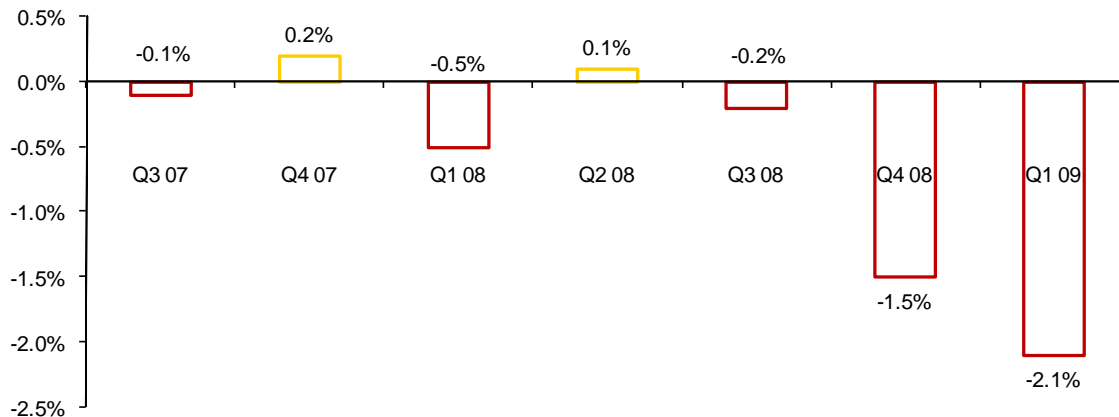
While the Canadian economy was forecasted to improve by 2.9% in 2011 and 2.6% in both 2012 and 2013, the Conference Board of Canada estimated that the Canadian economy increased by 1.7% in 2012, 2.0% in 2013, and 2.0% in 2014. As of autumn 2014, the economy was further forecasted to increase by 2.7% in 2015, and between 2.1% and 2.3% from 2016 to 2018, which should bode well for the convention and meetings market.

ONTARIO

In the fourth quarter of 2008, the Ontario economy experienced its worst quarter in 18 years. With the provincial economy heavily dependent on trade with the United States, several of Ontario's main sectors suffered due to decreased demand from across the border.

The uncertainty that accompanied the bankruptcy filings by auto giants Chrysler and GM south of the border halted the production and sales of motor vehicles, as well as those of related goods and services, and weakened the longer-term viability of large portions of the sector in the province. Many jobs were shed as a result of the major contraction in automotive production and adjacent manufacturing sectors.

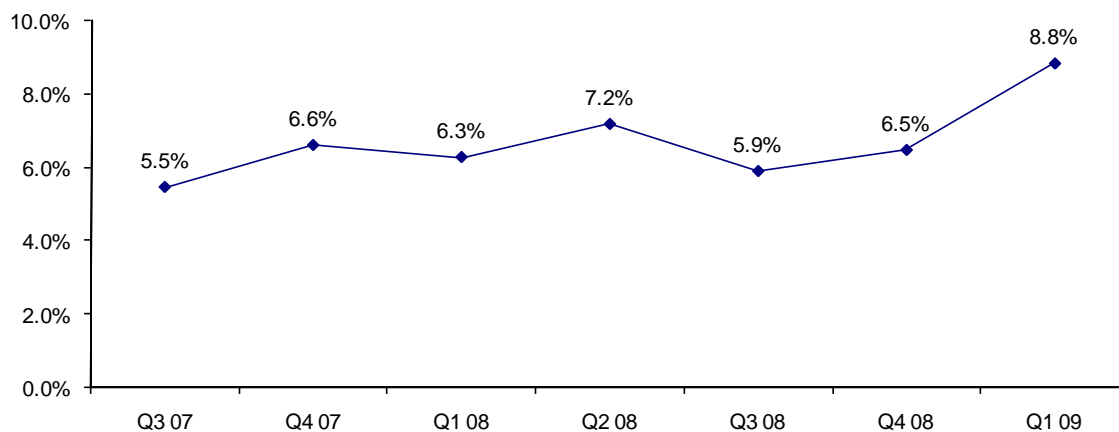
Ontario GDP Quarterly Growth



Source: Ontario Budget, March 26, 2009.

The Ontario economy contracted at an annual rate of 0.4% in 2008.¹³ The unemployment rate hit a 12-year high during the first quarter of 2009 and consumption and car sales continued to fall. The Royal Bank forecasted real GDP to decline 3.4% in 2009.

Ontario Unemployment by Quarter



Source: Conference Board of Canada, April 6, 2009.

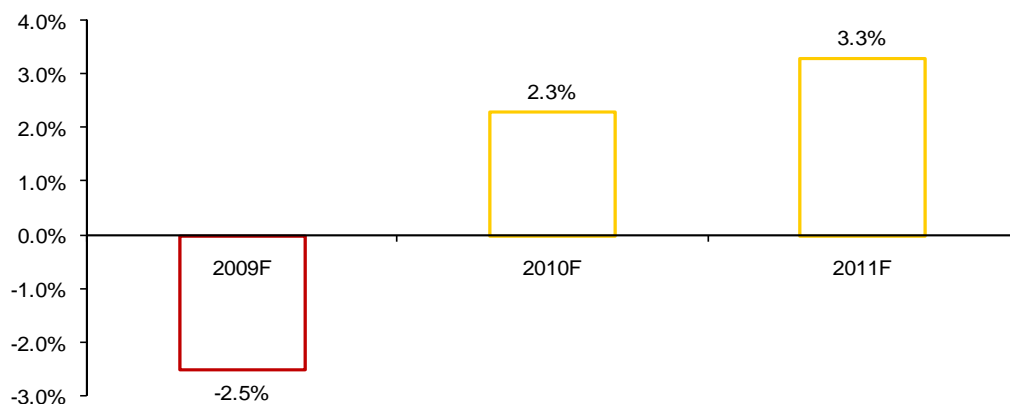
¹³ RBC Economics, Economic and Financial Market Outlook June 2009.

ECONOMIC OUTLOOK

The auto industry was expected to stabilize in 2010, with Ontario's economy showing greater benefits from the substantial monetary and fiscal stimulus (federal and provincial). The provincial government had planned to inject \$12.7 billion in stimulus money into the economy. The American stimulus package was also expected to help boost demand for products and services manufactured in Ontario. The Ontario economic recovery was largely dependent on the strength of the American economic recovery. RBC indicated that growth was expected to resume during the latter half of 2009 and to gain momentum in 2010 and 2011.

The provincial government, in its 2009 budget, projected GDP, as shown in the following table, to shrink by 2.5% in 2009, grow 2.3% in 2010, and 3.3% in 2011.

Ontario GDP Forecast



Source: Ontario Budget, March 26, 2009.

TORONTO

Toronto's main industry clusters, which are manufacturing; retail trade; financial services, insurance, and real estate were all impacted by the economic slowdown. GDP growth (shown following) in Toronto contracted marginally in 2008 by 0.8% and was expected to decline by 1.5% in 2009. The economy was projected to recover in 2010 and 2011, growing at a rate of 2.3% and 2.9% respectively.¹⁴

¹⁴ Conference Board of Canada, April 6, 2009.

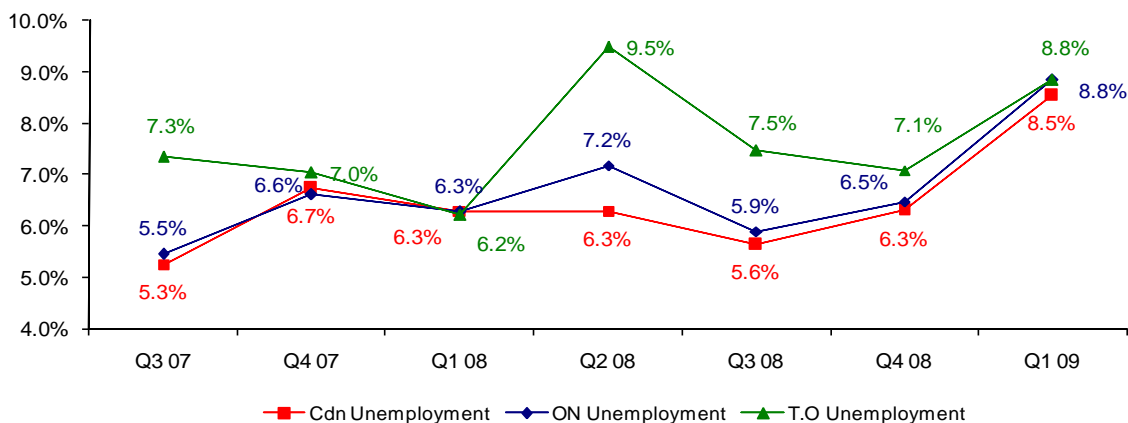
Toronto GDP Annual Growth



Source: Conference Board of Canada, April 6, 2009.

The Canada Mortgage and Housing Corporation predicted Toronto's employment rate to decline 1.5% in 2009 after 14 years of growth.¹⁵ Toronto's labour market gradually worsened throughout 2008, and into the first part of 2009, reaching 8.8% at the end of Q1 2009. The following chart compares the national, provincial and municipal rates of unemployment.

Unemployment by Quarter

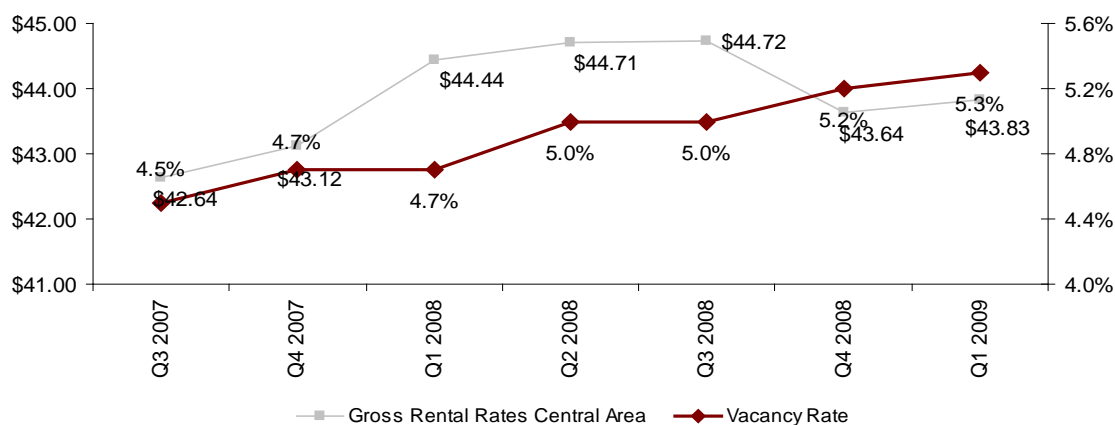


Source: Conference Board of Canada, April 6, 2009.

¹⁵ National Post, Toronto Faces Employment Rate Decline in 14 Years, May 19, 2009.

In conjunction with rising job losses, Toronto's office market also suffered a blow in response to the recession. Vacancy rates increased and gross rents fell, as shown in the following chart, as companies decreased in size. Vacancy and gross rents tend to lag the business cycle, implying that they would trail the economic recovery.

Toronto Central Area - Vacancy Rates and Gross Rents by Quarter



Source: Conference Board of Canada, April 6, 2009.

OFFICE DEVELOPMENTS DOWNTOWN TORONTO

Four new office tower projects were under construction in the downtown core in the first half of 2009. These developments are shown in the table following.

Office Developments Downtown Toronto – Under Construction in 2008

Office	Address	Storeys	Total Square Feet	Occupancy Date
Bay Adelaide Centre	333 Bay Street	51	1,160,000	2009
RBC Centre	155 Wellington Street West	41	1,200,000	2009
Telus Tower	25 York Street	30	780,000	2009
18 York Street	18 York Street	26	650,000	2011
Total New Office Square Footage			3,790,000	

Source: Colliers.

The Colliers Q2 2009 Market Report reported the overall vacancy rate for the downtown Toronto office market was 4.7%, while the Class AAA vacancy rate was 3.1%. Additionally, average asking net rental rates for the overall downtown Toronto office market were \$22.49 per square foot (psf), as of Q2 2009, and Class AAA average asking net rental rates were \$31.50 psf.

According to Colliers Semi-Annual Office Market Report and Forecast 2009, vacancy rates in the downtown core were expected to rise to almost 9.0% in 2010, nearly double that at the end of Q2 2009. Asking net rents were expected to decrease more than 20 per cent. Combined Class "A" and Class "B" vacancy rates reached an historic low of 3.9% at the end of 2007, and climbed as high as 7.7% at the end of 2009, due largely to the delivery of new space and a pause in market activity caused by the recession.

By the end of 2010, the combined vacancy rate had decreased to 6.0%, and approximately 3.6 million square feet of space was vacant. Taking the new inventory into account, nearly 1.2 million square feet was absorbed throughout the year. From Q2 2011, available office space decreased in the downtown market from 9.1% to 8.2%, well below the 10-year average of 9.2%. Over the same time period, vacant unoccupied space declined from 5.7% to 4.5%, down to less than four million square feet. While this indicated solid demand for office space, the rate of decline actually slowed compared to the period from Q4 2010 through to the beginning of 2011.

A new construction cycle began in the second quarter of 2012, with approximately 5.9 million square feet of Class A office space under construction in downtown Toronto at that time. The first of those eight buildings were expected to be online as of 2013 with the remainder expected to be completed by 2017.

Office Space Under Construction Downtown Toronto

Building	SF	Completion
MaRS Phase II	740,000	2013
RBC Waterpark Place	933,020	2014
One York St	800,000	2016
Bremner Tower	706,636	2014
Bay Adelaide Centre	1,017,826	2016
351 King St E	462,000	2016
134 Peter St	285,581	2015
100 Adelaide St	905,720	2017
Total	5,850,783	

CONCLUSION

The credit crunch was the forerunner of the global economic recession, triggering housing repossessions, business bankruptcies, rising unemployment, falling real incomes and more loss of productive capacity, in both the U.S. and Canada. Financing for real estate essentially dried up overnight.

While the North American convention and meetings market was strong going into 2006 and at the time of our original report in October of 2006, the difficult economic conditions in 2008 and 2009 resulted in enormous uncertainty regarding the economic recovery. Unemployment remained high and office vacancy was increasing (in part due to new supply) and rental rates were projected to decrease. This uncertainty impacted the convention, meetings and events market from 2008 through 2013.

The financial crisis in North America and the global recession had a dramatic impact on the travel and more significantly the meetings and events market. The expectations in 2006, at the time of our original report, were that there would be continued economic growth for the foreseeable future and continued growth in the meetings and events market. The recession not only dampened demand growth, but growth coming out of the recession has been much slower than anticipated by economists.

Appendix “B”

Horwath Study Conclusions and Recommendations

The Allstream Centre is a world-class conference centre and event venue. Since opening in 2009, the facility has been impacted by the Great Recession, a slower than anticipated recovery to the North American economy and the meetings and events business. The sales team has also faced perceived challenges based on location, the lack of a hotel on-site and to some degree an unwillingness to be more creative in targeting events.

Based on our analysis of the market, we believe that there is an opportunity for the Allstream Centre to increase its penetration of the meetings, conference and events market in Toronto. We recommend that Exhibition Place Management consider the following:

- ▲ In addition to marketing the Allstream Centre as a Conference Centre, it should also be positioned as an Event Centre (e.g., Conference and Event Centre).
- ▲ The primary sales focus should be on corporate, government and association meetings, as well as the SMERF market.
- ▲ The sales team should also develop strong relationships and partner with local and regional promoters for “other” events as identified herein. There is an opportunity to fill low demand periods with a myriad of other events. We believe that more creativity and receptivity to stepping outside the traditional sources of business for a conference facility is required. The sales team needs to reach beyond existing demand and create new market opportunities.
- ▲ Although not identified in the sales and marketing plan, we assume that there are detailed sales activities, quantifiable objectives by market segments for event booking and revenue for sales personnel. These should be reviewed on a regular basis to ensure that sales initiatives are resulting in a return on investment.
- ▲ Exhibition Place Management needs to solidify its relationship with the operator of Hotel X to ensure that there is a mutual business and sales plan to maximize the sale of the Allstream Centre, as well as other Exhibition Place venues and the Hotel's meeting facilities. Hotel X affords a new and unique opportunity for the Allstream Centre in particular to capture demand from groups that would not previously consider the facility due to a lack of accommodation.

- ⚡ Cooperation from the Hotel operator will be required in terms of setting room blocks, pricing, targeting the right groups (based on size as well as rate parameters) and in joint sales and marketing.
- ⚡ We note that there is currently no connectivity either underground or via raised and covered walkway from Hotel X to the Allstream Centre. We believe that such a connection will make the two facilities even more attractive for meeting and event planners and will provide a competitive advantage over such facilities as the Toronto Congress Centre and International Centre. It is our opinion, that an indoor covered walkway connection between Hotel X and the Allstream Centre would benefit Exhibition Place as a whole as a destination that caters to meetings and events.
- ⚡ In our research, we noted that while the Allstream Centre is marketed on key on-line sites (e.g., Ignite, Cvent, etc.), general brand awareness on the web needs to be further optimized. For example, when searching keywords “convention centres Toronto”, “conference centres Toronto” or “meeting and event venues Toronto”, the Allstream Centre does not appear on the first page.
- ⚡ The relationship with IATSE needs to be re-examined a view to being more competitive with non-union venues. Work rules need to be more flexible to allow more competitive pricing. The Allstream Centre should not be forced into absorbing additional labour costs in order to attract a piece of business. A more flexible contract would enable both the IATSE membership and the Allstream Centre to benefit.

2015 Horwath Study – Historical Financial Results

	HISTORICAL													
	2009		2010		2011		2012		2013		2014		2015	
	ACTUAL		ACTUAL		ACTUAL		ACTUALS		ACTUALS		ACTUALS		BUDGET	
NUMBER OF EVENTS - ALLSTREAM SALES TEAM			99		97		108		97		103			
NUMBER OF PARTICIPANTS - ALLSTREAM SALES TEAM			149,749		52,124		46,396		26,247		28,113			
NUMBER OF EVENTS - CERISE SALES TEAM			19		17		7		13		14			
NUMBER OF PARTICIPANTS - CERISE SALES TEAM			7,815		10,160		3,900		8,250		7,705			
REVENUES:														
BUILDING RENTAL														
EXPLACE CONTRACTED	\$25,556	18.1%	\$1,010,921	52.9%	\$1,098,763	48.8%	\$1,429,979	57.0%	\$789,153	46.3%	\$921,989	46.7%	\$1,019,375	41.9%
CERISE CONTRACTED	0	0.0%	17,413	0.9%	807	0.0%	4,112	0.2%	0	0.0%	4,543	0.2%	192,026	7.9%
CATERING CONCESSIONS														
EXPLACE CONTRACTED	6,405	4.5%	379,904	19.9%	607,775	27.0%	505,214	20.1%	361,845	21.2%	491,995	24.9%	209,659	8.6%
CERISE CONTRACTED	11,476	8.1%	120,096	6.3%	161,975	7.2%	160,130	6.4%	159,437	9.4%	208,943	10.6%	629,016	25.8%
SHOW SERVICES - NET	66,406	47.1%	289,351	15.1%	222,571	9.0%	232,522	9.3%	259,566	15.2%	226,894	11.5%	247,508	10.2%
PARKING - NET	9,216	6.5%	94,912	5.0%	158,517	7.0%	175,904	7.0%	135,145	7.9%	120,522	6.1%	137,500	5.6%
SPONSORSHIP REVENUE	22,000	15.6%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
TOTAL REVENUES:	141,059	100.0%	1,912,597	100.0%	2,250,408	100.0%	2,507,861	100.0%	1,705,146	100.0%	1,974,885	100.0%	2,435,083	100.0%
DEPARTMENTAL OVERHEAD EXPENSES:														
EVENTS PMD COST	3,543	2.5%	174,064	9.1%	345,217	15.3%	309,424	12.3%	304,196	17.8%	420,008	21.3%	316,210	13.0%
CLEANING AND DÉCOR	46,170	32.7%	101,887	5.3%	125,597	5.6%	110,184	4.4%	124,369	7.3%	156,311	7.9%	197,647	8.1%
BUILDING OPERATIONS	129,820	92.0%	386,038	20.2%	472,315	21.0%	494,721	19.7%	372,390	21.8%	491,177	24.9%	498,400	20.5%
FINANCE														
CONCIERGE SERVICE	2,714	1.9%	30,275	1.6%	66,645	3.0%	54,837	2.2%	56,166	3.3%	66,984	3.4%	60,669	2.5%
SALES AND MARKETING	164,948	116.9%	257,741	13.5%	269,330	12.0%	309,888	12.4%	231,123	13.6%	350,201	17.7%	360,686	14.8%
EVENT SERVICES	12,152	8.6%	158,077	8.3%	213,108	9.5%	221,401	8.8%	243,060	14.3%	252,983	12.8%	256,059	10.5%
HOUSE TECHNICIAN & EVENT PMD	6,112	4.3%	91,838	4.8%	104,649	4.7%	104,334	4.2%	180,520	10.6%	160,229	8.1%	229,488	9.4%
OFFICIAL OPENING & START UP PROVISION	115,111	81.6%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
CNE OPERATING COST RECOVERY	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
TOTAL OPERATING EXPENSES:	492,880	349.4%	1,279,644	66.9%	1,661,053	73.8%	1,646,096	65.6%	1,575,112	92.4%	2,000,612	101.3%	1,996,904	82.0%
PROFIT (LOSS) BEFORE DEBT CHARGES, & NAMING FEES	-\$351,820	-249.4%	\$632,953	33.1%	\$589,354	26.2%	\$861,765	34.4%	\$130,034	7.6%	-\$25,727	-1.3%	\$438,179	18.0%

	2016		2017		2018		2019		2020	
NUMBER OF EVENTS - ALLSTREAM SALES TEAM	161		178		190		190		190	
NUMBER OF PARTICIPANTS - ALLSTREAM SALES TEAM	38,640		42,720		45,600		45,600		45,600	
NUMBER OF EVENTS - CERISE SALES TEAM	14		14		14		14		14	
NUMBER OF PARTICIPANTS - CERISE SALES TEAM	7,500		7,500		7,500		7,500		7,500	
REVENUES:										
BUILDING RENTAL										
EXPLACE CONTRACTED	\$1,313,374	47.6%	\$1,495,614	48.2%	\$1,644,336	48.5%	\$1,693,666	48.5%	\$1,744,476	48.5%
CERISE CONTRACTED	5,794	0.2%	5,968	0.2%	6,147	0.2%	6,331	0.2%	6,521	0.2%
CATERING CONCESSIONS										
EXPLACE CONTRACTED	706,436	25.6%	804,459	25.9%	884,453	26.1%	910,987	26.1%	938,316	26.1%
CERISE CONTRACTED	231,750	8.4%	238,703	7.7%	245,864	7.3%	253,239	7.3%	260,837	7.3%
SHOW SERVICES - NET	308,907	11.2%	346,310	11.2%	377,155	11.1%	388,469	11.1%	400,123	11.1%
PARKING - NET	190,097	6.9%	213,114	6.9%	232,095	6.8%	239,058	6.8%	246,230	6.8%
SPONSORSHIP REVENUE	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
TOTAL REVENUES:	2,756,357	100.0%	3,104,167	100.0%	3,390,049	100.0%	3,491,750	100.0%	3,596,503	100.0%
DEPARTMENTAL OVERHEAD EXPENSES:										
EVENTS PMD COST	385,890	14.0%	403,542	13.0%	440,706	13.0%	453,928	13.0%	467,545	13.0%
CLEANING AND DÉCOR	179,163	6.5%	186,250	6.0%	203,403	6.0%	209,505	6.0%	215,790	6.0%
BUILDING OPERATIONS	565,053	20.5%	620,833	20.0%	678,010	20.0%	698,350	20.0%	719,301	20.0%
FINANCE	77,046	2.8%	79,648	2.6%	82,005	2.4%	83,645	2.4%	86,154	2.4%
CONCIERGE SERVICE	60,099	2.2%	61,938	2.0%	63,635	1.9%	64,908	1.9%	66,855	1.9%
SALES AND MARKETING	356,597	12.9%	366,913	11.8%	376,543	11.1%	384,074	11.0%	395,596	11.0%
EVENT SERVICES	269,897	9.8%	278,479	9.0%	286,340	8.4%	292,067	8.4%	300,829	8.4%
HOUSE TECHNICIAN & EVENT PMD	167,119	6.1%	171,735	5.5%	176,086	5.2%	179,608	5.1%	184,996	5.1%
OFFICIAL OPENING & START UP PROVISION	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
CNE OPERATING COST RECOVERY	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
TOTAL OPERATING EXPENSES:	2,060,865	74.8%	2,169,337	69.9%	2,306,729	68.0%	2,366,085	67.8%	2,437,067	67.8%
PROFIT (LOSS) BEFORE DEBT CHARGES, & NAMING FEES	\$695,493	25.2%	\$934,830	30.1%	\$1,083,320	32.0%	\$1,125,666	32.2%	\$1,159,435	32.2%