



Exhibition Place

17 (c)

June 1, 2016

To: Board of Governors of Exhibition Place

ACTION REQUIRED

From: Dianne Young
Chief Executive Officer

Subject: **Trade and Consumer Shows – Board of Governors of Exhibition Place Venues Exclusivity**

Summary:

This report provides information to the Board, as requested by the Business Development Committee, about the rationale for the booking of trade and consumer shows being exclusive to Board managed venues at Exhibition Place, and also recommends that the Board retain its rights to book events.

Recommendation:

It is recommended that the Board retain its existing exclusive rights to book trade and consumer shows at Exhibition Place within its convention facilities.

Financial Impact:

There may be negative financial implications to limiting the Board's exclusive rights and while difficult to estimate these could be at the range of \$193,000 to \$774,000 annually. In addition, given the debt incurred by the City with respect to the initial construction of the Enercare Centre and Allstream Centre (\$60.0M and 56.0M respectively) and the ongoing capital debt for these buildings (\$9.9M) which debt is still partially outstanding depending on the various debenture terms, there could be negative financial implications for the City.

Decision History:

As part of the 2014 to 2016 Strategic Plan, Exhibition Place has goals to *achieve our recurring events business revenue* and to *grow our events business with a number of strategies to achieve both*.

At its meeting of May 13, 2016, the Business Development Committee adopted a motion requesting staff to report to the Board on the financial implications of amending the Muzik Clubs Lease to allow the Tenant to host trade and consumer shows on the condition that the Tenant agrees to an amendment to the Muzik Clubs Lease to allow for removal of the Garden of the Greek Gods from the Leased Premises at the Board's cost.

Issue Background:

The Board has generally retained the exclusive rights to book trade and consumer shows within the Exhibition Place convention facilities, as it is one of the key revenue sources for the grounds. This exclusivity has been part of the strategic business plan since the opening of the Enercare Centre (then named The National Trade Centre) in April 1997.

Comments:

The Enercare Centre was a project funded equally by the Federal / Provincial / Municipal Governments under the Canada Ontario Infrastructure Works Program (COIW) at a cost of \$180.0M. The Municipal share of this cost (\$60.0M) is still an outstanding debenture held by the City of Toronto with repayment costs. Since 1997, the City / Board has invested over \$9.9M in maintaining the Enercare Centre as Class "A" space, again capital investments funded by the City of Toronto tax base. Finally, the Board / City made a substantial investment of \$56.0M in 2008 to expand the additional trade, consumer, meeting facilities on the grounds. Again, all capital financing noted above would be funded through City of Toronto long-term debentures and is still being repaid by the City over 25 / 30 years.

Given this significant investment, staff recommend that the Board / City needs to continue to take actions to be diligently protect its exclusivity in the area of trade and consumer events. Since the Board started entering into long term leases for entertainment premises, this exclusivity has been protected by prohibiting use of the leased premises for that purpose. For each of the entertainment / event tenants on the grounds, the initial bid documents; the Board / City approvals; the lease negotiations; and the lease terms were all very clear on the limitation / prohibition for tenants related to these events and the inclusion in all leases of a standard clause which reads as follows:

*The **Tenant** shall use the **Leased Property** solely for the purpose of [TBD], and for no other purpose (the "**Permitted Uses**"). For greater certainty, the **Leased Property** shall not be used for:*

1. *trade and consumer shows and any activities (including the provision of food and beverages) related to trade and consumer shows;*

City Council approved annual budgeted surplus for 2016 is \$0.105M for Exhibition Place and for 2017 the City Manager's Budget directive target for Exhibition Place is a surplus \$0.157M. Not achieving the budget target would result in funding the Exhibition Place Operating Budget through the City of Toronto tax base.

The financial reality of Exhibition Place is that rental from the exhibition and meeting facilities on the grounds finance 64% of all costs associated with managing this 192-acre site with over 2.0M square feet of built form to be maintained in a SOGR. While the tenants provide exciting year round activities on the grounds, \$23.4M or (64% of the Board's total revenues) is earned as a result of the exhibition facility activities and only \$3.3M or (9.1%) is earned from the tenants. Deleting the prohibition of "trade and consumer shows and any activities" from the tenant leases and allowing tenants to undertake this activity would not result in any additional revenues to the Board because the Tenants pay an annual rental fee. However, there is a very real possibility that the Board's revenues will be impacted negatively and eliminate the budgeted surplus.

Exhibition Place hosts over 240 convention / exhibition / meeting events every year. Each one of these events is unique and presents a business opportunity for the Board / City. Exhibition Place in its booking practice protects, to the extent commercially reasonable for the Board, this business interest. Not only is each event a unique business opportunity, each one requires a specific type of space and Exhibition Place's business is selling dates and spaces.

Exhibition Place has many large clients such as the National Home Show that rents 650,000 sf in the Enercare Centre. However, Exhibition Place also markets the Queen Elizabeth Hall at 63,000 sf, Heritage Court with 37,130 sf and other Exhibition Place spaces for events which require 20,000 sf (100 booths). These smaller spaces are used as incubators for the trade and consumer show industry, where new shows are launched. It is from these new launches that the incremental growth for trade and consumer show activity is established at Exhibition Place.

This is of particular importance given the competitive nature of the industry in the GTA since the 2008 Recession.

All of the tenanted areas with event space could be direct competitors for shows / events that would otherwise use the Board's smaller spaces. Staff estimates the net income impact from the loss of smaller events having up to 100 booths to be from \$105,000 to \$420,000 annually; and an additional loss from larger events having from 100 to 250 booths to be from \$88,000 to \$354,000 that may go to tenants with larger space to accommodate such larger events.

The relocation of any of the major shows from the Enercare Centre and Exhibition Place would be a major decision by an organizer, (and of significant impact to the Board). The immediate issue that could impact show organizers, and an issue that has happened in the past, and that could happen again, is when potential exhibitors, or competitors of these major shows, cannot or will not exhibit in the major shows but do want to financially benefit from the existing shows attendee and marketing efforts to divert visitors from the show floor to another similar event, held in proximity to the major event on the grounds. This protection for existing show is a recognized best practice in the North American and international exhibition centres industry. By having a prohibition in the lease, the tenant is required to contact Exhibition Place rather than just being able to book the event. If there is no conflict, Exhibition Place has typically allowed the tenant to proceed with the event.

The Board has retained the exclusive booking of trade and consumer shows for the following reasons:

1. The revenue that accrues to the Board from trade and consumer shows is the most significant part of the Board's revenue budget and allows the Board to operate in a surplus position;
2. To protect the Board's existing trade and consumer show clients from having competing events on the Exhibition Place site;
3. To protect the Board's clients from having exhibitors, that do not book space in the main shows, cannibalizing the show by booking these exhibitors in their space;
4. The combined value and presence of the trade and consumer shows in the Allstream and Enercare Centre are critical to the Board's naming sponsor;
5. The substantial marketing reach made by the Board's trade and consumer show clients of these named facilities as a site, are solely due to the multi-millions of dollars of advertising spent annually by the Board's trade and consumer show clients which are exclusively booked in Exhibition Place halls;
6. The value of the trade and consumer shows to sponsors such as Pepsi;
7. To assist in achieving the revenues required to service the Allstream Centre loan, staff are pursuing more trade, consumer and association shows in the Allstream Centre. The marketplace has been extremely competitive for events since the 2008 Great Recession, and accordingly staff have developed an action plan to secure more events to satisfy the loan repayment;
8. Equivalent space in Enercare Centre would be Heritage Court, QE Hall, Hall F and Allstream Centre, where the Board typically launches new consumer and trade shows with up to 100 booths; and
9. The tenants were meant to be a complement to the Board's core business, offering on-site entertainment options to Exhibition Place trade shows and conventions.

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