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EXHIBITION PLACE

March 4, 2008

To: Business Development Committee
From: Dianne Young, CEO
Subject: **Hotel Development – Proposed Letter of Intent**

Summary:

A Request for Proposal for the Hotel Development was released on April 17, 2007. Both of the two short-listed developers submitted a proposal and the Board approved of HK Hotels LLC (“HKH”) as the successful proponent. Exhibition Place staff have been in exclusive negotiations with HKK since September 2007. The Confidential Attachment I sets out the substantial terms and conditions of the business part of the proposed Letter of Intent (LOI) between the Board and HKH and recommends approval by the Board. As explained, the proposed LOI is a very “high-level” document and through the next phase of the negotiations towards a development plan, there may be some changes to the terms of the LOI which will be brought back to the Board.

In addition, a more complete financial analysis of this project will be provided by HKH as the development plan and their financing is solidified. However, based on the financials provided in the RFP response, the financial terms of the LOI (rent and percentage rent) would provide an approximate return of \$51.6M to the Board over the initial 49-year term.

Recommendation(s):

It is recommended that the Board:

- (1) Approve the entering into of an LOI with HKH on terms and conditions substantially as outlined in the Confidential Attachment I;
- (2) Request staff to report back to the Board on any further amendments to the LOI;
- (3) Direct that the confidential information contained in Attachment 1 to this report not be released publicly as the Attachment includes a request for confidential directions to staff and contains advice which could prejudice the economic interests or competitive position of the Board; and,
- (4) Request staff to report on a monthly basis to the Committee as to the progress on the Implementation Timetable set out in the proposed LOI and this report.

Decision History:

Meeting Date	Decision
June 1998/Jan 1999	Approval of 1998 Exhibition Place Program & Development Concept Plan for Exhibition Place with the development of a hotel/conference centre complex a first priority
May 2000	Engagement of hotel consultant for marketing of hotel opportunity
March 2003	Authority to negotiate an LOI with the National Hotel Corporation (NHC) for development of hotel
April 2004	Approval of terms of LOI with NHC
September 2006	Directed development of REOI for hotel development
November 2006	Terminated LOI with NHC and public release of REOI for hotel
March 2007	Approved two successful proponents of REOI & directed release of RFP to the two proponents
September 2007	Approval by the Board of HKH as the successful proponent of the RFP process and directed staff to enter into exclusive negotiations leading to a letter of intent.

Financial Implications and Impact Statement:

While a full financial analysis of this project has not as yet been completed, the financial terms of the LOI would provide an approximate return of \$51.6M in fixed base rent and additional percentage rent to the Board over the initial 49-year term.

Issue Background:

The RFP for the Hotel Development was released through the City of Toronto Purchasing Division on April 17, 2007 with a deadline for submissions of July 17, 2007. Two developers submitted proposals and the Evaluation Team recommended HKH as the successful proponent and the Board approved of entering into exclusive negotiations with HKH to develop the terms and conditions of a proposed Letter of Intent (LOI).

Comments:

Early in the negotiations, HKH indicated their desire to negotiate the clauses of the agreement that would have a significant effect on its financial proforma so that they could start to approach financial institutions as soon as possible. HKH also wanted to understand their financial obligations prior to engaging its consultants to undertake studies dealing with the development aspects of the proposal which will entail significant costs (ie architecture fees, archeological assessments).

In the context noted above, the Confidential Attachment I sets out the substantial terms and conditions of the business part of the proposed Letter of Intent (LOI) between the Board and HKH and recommends approval by the Board. As explained, the proposed LOI is a very "high-level" document and through the next phase of the negotiations towards a development plan, there may be some changes to the terms of the LOI which will be brought back to the Board.

The parties have also established an initial schedule that sets the timetable for the future steps to be taken:

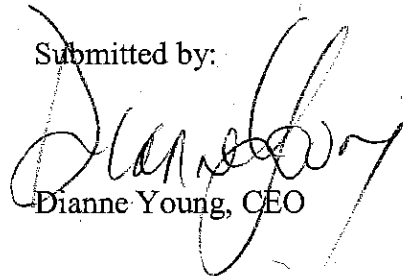
(a) Declaration of Surplus Property by City – This was approved by City Council in 2004 but may need to update depending on lands to be used for Phase I but the existing City process is through an administrative committee	
(b) Report & Approval of LOI by Board of Governors	March 6, 2008
(c) Limited archeological investigation and decision of the exact site for Phase I	June 30, 2008
(d) Report & Approval of Development Plan and preliminary budget including FF&E, EBITDA by Board of Governors	On or before November 15, 2008
(e) Approval by City Council of LOI, Development Plan and preliminary budget including FF&E, EBITDA	On or before December 31, 2008
(f) HKH/Tenant satisfied on soil/environmental conditions, title, and all other due diligence including consequences of complying with paragraph 13 of the LOI in respect of Board controlled Union agreements	On or before December 31, 2008
(g) Parties negotiate and finalize all legal agreements & approval, if necessary, by Board of lease terms	March 15, 2009
(h) Building permit application	March 15, 2010
(i) Construction period (approx. 24 months)	December 31, 2012
(j) Opening of Hotel	January 31, 2013

The hotel developer and Exhibition Place staff have had an initial meeting with an archeological consultant to conduct a Stage 2 investigation over some areas of the Phase I lands with the intent of proceeding to do some Stage 2 trenches over some of these lands early in the Spring 2008 as the actual location of the Phase I tower will be influenced by this determination.

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Submitted by:



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