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EXHIBITION PLACE

May 21, 1999

To: The Board of Governors of Exhibition Place

From: Kathryn Reed-Garrett
Director of Business Development & Special Events

Subject: **Development Proposal for the Horticulture Building - Steam Whistle Brewing Inc.**

Recommendations:

It is recommended that the Board:

- 1) Subject to the approval of Toronto City Council enter into an agreement with Steam Whistle Brewing Inc. ("Steam Whistle") for the lease of the Horticulture Building on the terms and conditions set out in this report; and**
- 2) the appropriate Board officials be authorized to take the necessary actions to give effect thereto, including the entering into of a Lease with Steam Whistle in a form and substance satisfactory to the Interim General Manager and the City Solicitor.**

Background:

At its meeting of June 19, 1998, the Board approved and adopted the Program Development and Concept Plan which report identified strategic directions for the future development of Exhibition Place. Furthermore, at its workshop of January 26, 1999 the Board reconfirmed its commitment to securing destination-type tenants and activities that would extend the year-round use of the site.

Discussion:

Extensive discussions have taken place during the last several weeks which have resulted in an agreement in principle between staff and the proponents of Steam Whistle which would form the basis of a long term lease for the Horticulture Building. The Horticulture Building located at the westerly part of the grounds in front of the Bandshell was constructed in 1907. While it is a significant and historic building on the grounds, it is very underutilized as it does not have even the most basic amenities, heat or air-conditioning. In addition, while the Board has had to expend approximately \$600,000.00 in capital expenditures on this building since 1984, there are

substantial renovations remaining to be done including replacement of the floor slab at an estimated cost of \$300,000. In 1998, the Horticulture Building was used approximately 80 days in total, half of those days were related to the annual CNE. Therefore, the proposal from Steam Whistle presents an opportunity to not only revitalize the Horticulture Building for full-time occupancy but invest approximately \$1.9 in private sector upgrades to the building, including structural and cosmetic renovations and improvements.

The *City of Toronto Act, 1997*, provides that Exhibition Place be used for various specified uses as stated in the legislation and for "any other purpose that the council may approved". The Steam Whistle concept is to establish a microbrewery and craft-brewing centre in a niche market which is currently underserved. Toronto represents the largest localized beer market in Canada and provides an opportunity for a Toronto craft brewery to target and support a growing trend in consumer groups seeking a premium and specialty beer product. In response to its market research, Steam Whistle proposes to produce a European-style pilsner that is currently enjoying immense popularity with North American consumers. Steam Whistle also intends to package its product in a distinctive non-industry standard and returnable bottle for high-end consumers.

The Steam Whistle craft brewing operation inside the Horticulture Building would include not only a microbrewery and retail operation but also would feature a hospitality area, community room, a licenced pub/restaurant as well as an historic exhibit area. Tours of the brewery would be offered by Steam Whistle to visitors to the Horticulture Building to view the craft brewing process from the "barley and hot water" stage through to the final product.

The management/project team for Steam Whistle includes Cameron Heaps and Gregory Cromwell, the founders of Upper Canada Brewing Company, that was honoured in 1994 as one of Canada's 50 Best Managed Private Companies. Both veterans of the Ontario craft brewing industry bring with them numerous years of management experience. They are joined by one of the founders of the craft brewing industry in Canada, Frank Heaps, who has received numerous entrepreneurial awards; corporate lawyer, John Craig, who co-founded one of Toronto's most successful craft breweries; and brewmaster Harold Sowade.

The proponents have indicated a need to be producing a product ready for distribution by no later than October, 1999. To meet this deadline the terms being proposed call for the brewery to begin operations this summer and to start the delivery of packaged beer in October, 1999. Approval by the Board and City Council would allow Steam Whistle to take early possession of the Horticulture Building in order to execute some necessary base building repairs (such as the replacement of the slab concrete floor) in advance of the 1999 CNE. Securing an early possession of a portion of the Horticulture Building of approximately 10,000 square feet would allow it to commence brewing in time to meet the October deadline.

Staff has undertaken discussions with David Bednar, General Manager, CNEA to ensure that there would be minimal interruption during the 1999 CNE and to determine an appropriate possession and move-in period for both Steam Whistle and the CNE. While Steam Whistle would not be in operation during the 1999 CNE, the terms of the agreement would require it to be active and open for business during the 2000 CNE. The nature of the Steam Whistle activities will add to the attractions at the 2000 CNE with its historic visitor centre; public tours through its

craft brewing operations; and a licensed restaurant and pub. Steam Whistle has committed itself to working with the CNE to assist in complementing, where possible, any CNE programming.

The economic value that the Steam Whistle proposal brings to Exhibition Place over the full 20-year term is as follows:

Total Rent for Term	\$2,575,440.
Private Sector Investment	\$720,000.
Total Value for Term	\$3,295,440.

The Total Value for Term stated above does not include Participation Rent to be paid on food, beverage or miscellaneous sales. The proponents have not as yet completed their analysis of the proposed pub/restaurant operation, therefore, any Participation Rent paid on the gross sales from food and beverage sales in the pub/restaurant will increase the Total Value for Term.

Terms and Conditions of Agreement

The Parties have agreed to the substantial terms and conditions of the proposed agreement outlined below. The proponents have agreed not to negotiate or enter into negotiations with any third parties for the leasing of property with respect to this proposal from the date of approval of the Board through to an including the completion of a successful Initial (due diligence) Phase.

a) The Concept

A craft or microbrewery that employs traditional brewing methods to produce a European-style pilsner. The craft brewing operation would feature interactive hospitality areas as well as an historic exhibit area to allow visitors an opportunity to view the craft brewing process.

b) Scope of Work

Steam Whistle will undertake approximately \$720,000 in capital repairs, including the replacement of the entire concrete floor slab, installation of a climate control system (HVAC), upgrades to plumbing, sanitary drainage, and electrical, as well as the appropriate cosmetic improvements to create both public and office spaces, washrooms, shipping and receiving, etc. The total investment by the proponents that would include all equipment and fixtures necessary for this type of business is approximately \$1.9 million.

Work would be performed in three stages:

- (i) possession by Steam Whistle of the building in July 1999 to execute base building repairs and upgrades and the necessary leasehold improvements and alterations to allow for immediate brewing and production;
- (ii) construction of a temporary dividing wall and possession/move-in of approximately 10,000 square feet of space, located primarily in the "west wing" of the Horticulture Building. The CNEA would commence the

installation of its' 1999 program once the dividing wall was completed; and,

- (iii) full possession of the building by Steam Whistle immediately following the CNE move-out and a completion of all outstanding base building, leasehold and cosmetic improvements no later than March 30, 2000.

c) Initial Phase

This period would constitute the "Due Diligence" phase for both the Steam Whistle and the Board and would be completed no later than thirty (30) days following the execution of the Term Letter. During this period, the Board would be required to provide full disclosure of all information, documentation, etc. pertaining to the Horticulture Building and to Exhibition Place. Steam Whistle would satisfy itself as to the soil conditions; environmental implications; land use controls; municipal servicing requirements; demolition and excavation implications; legal impediments; capital costs; infrastructure and transportation requirements; title; etc. At this time, the parties would also reach an agreement on the concept design plans.

During this period, the Board would undertake to satisfy itself with respect to the financial viability and creditworthiness of Steam Whistle; the expertise of Steam Whistle and Indemnifiers; the ability of Steam Whistle to secure the requisite licenses and permits necessary to carry on the contemplated use; and, the availability of all necessary consents, including but not limited to Heritage Toronto.

d) Pre-Construction Phase

Immediately following the Due Diligence period and upon execution of the Term Letter, Steam Whistle will be required to deliver to the Board a non-refundable deposit in the amount of \$10,000. Once the formal documentation is in place, the parties would be obligated to proceed in good faith and use their best efforts to achieve certain pre-conditions during a period not to exceed thirty (30) days from the completion of the Due Diligence period. These pre-conditions include, but are not limited to :

- (i) Steam Whistle to have obtained all construction permits, approvals and other government permissions necessary for the project;
- (ii) Board approval of the concept plan designs;
- (iii) Board to be satisfied with the performance bonding and Steam Whistle financing commitments; and
- (iv) Board to be satisfied with Steam Whistle's covenant and to have received all supporting indemnities, guarantees and all other security that it requires with respect to the construction and operating obligations of Steam Whistle.

e) Construction Phase

During the Construction Period, Steam Whistle will proceed promptly with the construction of the project at its own costs and complete the project, subject to force majeure no later than 240 days following commencement of construction or March 30, 2000 whichever comes first and, in particular will:

- (i) construct the leasehold and base building improvements as detailed in the concept design plans approved by the Board, including but not limited to the entire replacement of the concrete slab floor, the construction of a loading dock bay and overhead door, staff lunchrooms and washrooms, public areas and washrooms, HVAC, lighting and electrical panel services distribution and connections, plumbing, retail, and public areas;
- (ii) ensure that construction proceeds in accordance with the approved development schedule, project budget, plans and specifications, concept and site designs, building permits, and appropriate approvals (including Heritage Toronto, etc.); and,
- (iii) minimize disruption to the balance of Exhibition Place Grounds, including its tenants and activities, and ensure the continuity of the Board's operations.

f) Term

The term of the Lease shall be for ten (10) years, commencing at the expiry of the Pre-Construction period, with an option to renew for ten (10) years upon approval of the Board.

g) Base Rent and Participation Rent

- (i) Base Rent will commence to be paid following substantial completion of construction and will be as follows:

Years 1 - 3 \$ 91,688 per annum;
Years 4 - 6 \$101,032 per annum;
Years 7 - 9 \$111,252 per annum;
Years 10 - 14 \$156,220 per annum;
Years 15 - 19 \$176,660 per annum.

- (ii) Participation Rent

I. Food Sales: 15% of gross sales;
II. Alcohol Sales: 30% of gross sales; and,
III. All Miscellaneous Sales (licensed goods, novelties, etc): 15% of gross sales

h) Use and Restrictions

Steam Whistle will use the leased premises solely for the purpose of a Craft Brewing Centre as follows:

- (i) a micro-brewery;
- (ii) a community function area for community, cultural and charitable events;
- (iii) brewery tour and hospitality area;
- (iv) historical artifacts/ artistic exhibit area (memorabilia; works by local artists; historical artifacts, etc.);
- (v) on-site retail store; and
- (vi) a licensed brew-pub/restaurant.

Steam Whistle shall not use the leased premises for any other purpose than those specified above, nor for the following uses as will be determined by the Board in its sole discretion: a themed dinner theatre; trade and/or consumer shows; corporate product launches; vendor shows or meetings that are related to any event, trade or consumer show, sporting events, and a casino.

i) Special Conditions

Steam Whistle shall:

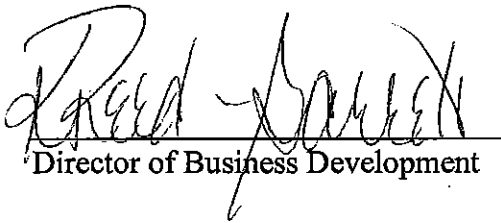
- (i) place a priority on the hiring and training of local residents for its operations;
- (ii) shall during the CNE, provide at no cost to the CNEA facilities within the leased premises suitable for the execution uses complementary to the CNE, and shall make reasonable arrangements for access to the leased premises for set-up and tear-down prior to and following the CNE;
- (iii) remit an Annual Gross Sales Report to the Board no less than 90 days following each respective year-end, together with any participation rent that is due and payable;
- (iv) receive a quantity of 15 parking passes from the Board for the use of employees;
- (v) abide by all the terms and conditions of any binding labour agreements. The Board will supply Steam Whistle with copies of all relevant agreements on a regular basis;
- (vi) acknowledge that there will be limited access to the grounds during designated Special Events. These events include but are not limited to the Molson Indy, and the CNE.

Conclusion:

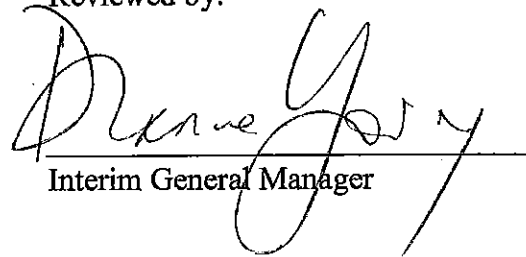
This report recommends the entering into of a long-term lease between the Board and Steam Whistle. It is the belief of staff that the Steam Whistle proposal brings substantial benefits to both Exhibition Place and the City of Toronto. Exhibition Place will receive a minimum of \$2.576 million in rental over the term and an investment of \$1.9 million in an historic building on the site. The Horticulture Building will become a year-round centre of activity rather than a building which now stands empty for almost 9 months of the year. The Steam Whistle operation

has the potential of becoming a preeminent operation within the microbrewery industry not only in the City but the Province and will add to the tax base of the City. The proposal is not only positive in terms of its economic development to the site and the City but its community/public aspects are exciting. The added features of interactive hospitality areas, an historic exhibit area and public access and tours of the brewing process bring a new element of year-round activity to the grounds of Exhibition Place. Again, it is these components which meet the mandate set recently by the Board in the adoption of its Program Development and Concept Plan. The use, and the proponents' commitment to work closely with all major events such as the CNE, is complementary to both present and future activities planned for the grounds.

Submitted by:


Director of Business Development

Reviewed by:


Interim General Manager

