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X MARKS THE SPOT: Toronto Hotel Development Gets \$100M Construction Loan

BY DAMIAN GHIGLIOTTY ■ JUNE 4, 2015

AFTER SEVERAL YEARS of negotiations and preparations, an Ontario-based hotel partnership has passed one of the last hurdles to finish a 406-room luxury resort development in Toronto, according to several people involved in the project.

Princes' Gates Hotel, a limited partnership that includes entities controlled by real estate investors Henry Kallan, Alex Rovt and Joshua Durst, received a \$100 million construction loan from Toronto-based Romspen Investment Corporation for the completion of its 29-story Hotel X. The development is now topped out.

"What's different about this project is that nobody puts up a nearly 30-story building out of pocket," said Mr. Kallan, president of the Library Hotel Collection in New York.

"One of the conditions for the construction loan was that we had to first spend our equity commitment, which was initially \$80 million, and it may require an additional \$20 million in equity, which we are prepared to do," he told Commercial Observer.

The total project cost will likely exceed \$200 million, according to Mr. Kallan. The new loan will fund the interior build out, he said. The resort is being constructed near two convention centers at Exhibition Place, which consists of 192 acres on Lake Ontario.

"It's going to be a unique hotel," said Dennis Hellman of New York-based Rosenberg & Estis, who represented the borrower alongside James Marrelli of the Toronto law firm Marrelli & Co. "The development is located within three kilometers from Toronto's central business district. There hasn't been a hotel in that location before this."

The construction loan from Romspen—one of the largest non-bank commercial mortgage lenders in Canada—carries a term of two and a half years with two one-year extension options, according to another person familiar with the deal. The sponsor will look to refinance the loan once the hotel is completed and running, that person said.

The Princes' Gates partnership signed a letter of intent for the Hotel X project with the city of Toronto in 2009. In 2010, that agreement was converted into a 49-year ground lease, with renewal options extending another 50 years. The deal with the city includes the option to lease additional land for a future expansion of the hotel, according to Messrs. Kallan and Hellman.

"When I was given the opportunity to submit a request for proposal, there were several companies, including a few other hotel developers, doing the same thing. I was fortunate that I was



picked as one of the three finalists," Mr. Kallan said. "I won the process because I was more sensitive to the city's expectations when it came to the location's heritage."

Among the various hurdles, the sponsor had to negotiate with a local transportation authority that operates a nearby airport. The developers agreed to reduce the size of the hotel a few floors to avoid a dispute over takeoff and landing clearance.

Due to Canada's more conservative lending environment, the development partners needed to have a lot of skin in the game, according to Mr. Hellman. Likewise, interest rates for construction loans in the country are relatively higher than in the U.S., he said.

"When the hotel was just a concept, it was very hard to get construction financing," Mr. Hellman told CO. "It became doable based on the expenditure of many millions of dollars of equity and having an actual structure in place."

Construction on the hotel site at Exhibition Place commenced in 2013. The property is due to open in the spring of 2016.

The completed resort will contain a sports facility, including a yoga, dance and Pilates center, 10 squash courts, and four indoor tennis courts, as well as a 11 meeting rooms, two ballrooms and a rooftop pool, bar and restaurant. Mr. Kallan and his partners also secured 3.3 acres next to the hotel site for future development.

"This would not be achievable in any North American city that is considered a downtown location," the developer said.