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EXHIBITION PLACE

ACTION REQUIRED

July 2, 2008

To: The Board of Governors of Exhibition Place

From: Dianne Young
Chief Executive Officer

Subject: **Food Building Rental Rates for Concessionaires – 2009 to 2011**

Summary:

This report seeks approval of a rental rate structure for the Food Building for the 2009, 2010 and 2011 CNE's. At its meeting of June 5, 2008, the CNEA Finance Committee considered a staff report on rate increases and amended that report with the recommendations on increase that were subsequently approved on June 19, 2008, by the CNEA Board of Directors as outlined in the attached report.

Recommendation:

It is recommended that the Board consider for approval the Food Building Rates as proposed by the CNEA Board of Directors and outlined in the attached report (Appendix "A") dated May 29, 2008 from the General Manager of the CNEA

Financial Impact:

Based on the existing mix of food vendors, the rental rate structure proposed will provide an increase in revenues to the CNEA of approximately \$45,000 over a three-year period.

Decision History:

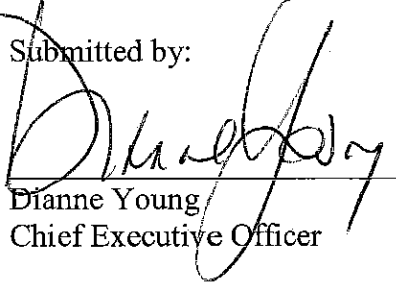
At its meeting of November 3, 2005, the Board of Governors approved of Food Building rental rates for 2006-2009 as follows: A new base rate be established at the current top rate for 2005 (2003 base rate + 2%); all 3 year agreements signed prior to October 31, 2005 be charged at the new base rate in all three years (no further increases to apply); all 3 year agreements signed after October 31, 2005 be charged at the new base rate for 2006 and then increase by 1% per annum; all one or two year term agreements pay the new base rate in 2006 and then increase by 1% per annum; and all agreements expire at the conclusion of the 2007 CNE.

At its meeting of June 19, 2008, the CNEA Board of Directors considered and recommended the approval of a new three-year rental structure for the Food Building to the Board of Governors.

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Submitted by:



Dianne Young
Chief Executive Officer



APPENDIX "A"

At its meeting of June 5, 2008, the Finance Committee recommended that the Food Building Rates for 2009-2011, be forwarded to the Executive and Board of Directors for approval with three amendments:

- a) that a new base rental rate be established for 2009 at the current 2008 top rental rate plus 2%
- b) that all one year agreements pay the new 2009 base rate in 2009 and then increase by 1% per annum in 2010 and 2011 respectively; and
- c) that all Food Building rental agreements include an additional environmental surcharge that exhibitors can reduce by participating in the CNE waste diversion and energy conservation programs by meeting specific measurable goals and objectives that support these programs be referred back to staff for further review.

May 29, 2008

To: The Executive Committees and the Board of Directors
Canadian National Exhibition Association

From: David Bednar, General Manager

Subject: **Food Building Rates - 2009 - 2011 - June 2008**

Summary:

This report proposes a rental rate structure for the Food Building for the 2009 – 2011 CNE's. The structure includes a minimum increase of 3% over the previous top rate, encourages exhibitors to sign up early for another 3 year period, and will encourage participation in waste diversion and energy conservation programs.

Recommendation:

It is recommended that for the 2009-2011 CNE's, the following rental rates be charged for exhibitors in the Food Building:

1. that a new base rental rate be established for 2009 at the current 2008 top rental rate plus 3%;
2. that all three year agreements signed prior to October 31, 2008 be charged at the new 2009 base rental rate in all three years (no further increases to apply);
3. that all three year agreements signed after October 31, 2008 be charged at the new 2009 base rental rate for 2009 and then increase 1% per annum for each subsequent year of the agreement;

4. that all one year agreements pay the new 2009 base rate in 2009 and then increase by 2% per annum in 2010 and 2011 respectively;
5. that all Food Building rental agreements include an additional environmental surcharge that exhibitors can reduce by participating in the CNE waste diversion and energy conservation programs by meeting specific measurable goals and objectives that support these programs; and
6. that all agreements expire at the conclusion of the 2011 CNE.

Financial Impact:

Appropriation for the increases in Food Building rental rates will be included as part of the 2009-2011 CNEA Operating budgets.

Issue Background:

Pursuant to CNEA by-laws, all rental rates must be approved by the Board of Directors. In addition any agreements for greater than a one year term must be approved by the Board of Governors of Exhibition Place.

Decision History:

At the meetings of the Finance Committee, the Executive Committee and the Board of Directors in July 2005, approval was given to the following rental rate increase for the three year term of the Food Building (2006-2009): That a new base rate be established at the current top rate for 2005 (2003 base rate + 2%); that all 3 year agreements signed prior to October 31, 2005 be charged at the new base rate in all three years (no further increases to apply); that all 3 year agreements signed after October 31, 2005 be charged at the new base rate for 2006 and then increase by 1% per annum; that all one or two year term agreements pay the new base rate in 2006 and then increase by 1% per annum; that all agreements expire at the conclusion of the 2007 CNE.

Comments:

The CNE Food Building is a unique attraction that no other fair in North America has been successful in duplicating. Research conducted in 2003 indicates that 44% of visitors to the Food Building indicated that if it was not at the CNE they would be less likely to attend the fair. The Food Building is one of the motivating factors for our customers when deciding whether or not to attend the fair – with over 80% of our customers visiting the building each year.

Unlike any other building where exhibit space is rented at the CNE, Food Building exhibitors are required to make significant capital investments in their booths. For example, furnishings and equipment for the most recent renovation of the Coca Cola booth were reported to cost \$100,000. Other exhibitors report similar capital costs. These capital costs, combined with the high cost of food product, staff costs, environmental/energy conservation initiatives and increases in rental rates for the period 2009-2011 all continue to make the Food Building an expensive venue to exhibit in. This increase in expenses to operate in the Food Building, coupled with stagnant

attendance growth at the CNE, make the Food Building a less desirable building to exhibitors, in particular brand-name corporate exhibitors.

Many uncertainties continue to create the perception for the exhibitors that their long term commitment may be threatened. Future developments on the site may include changes to the fair that may have an impact on traffic flow to the Food Building up to and including the potential removal of the building from the site. The limited ability the CNE has to use new facilities like BMO field have also impacted this. All of this uncertainty continues to create a climate in which it is difficult to rent space in the building.

Although the Food Building has achieved budget in revenue generation, it is unknown how long this trend will continue if increases in rent continue to be applied. A number of large corporate partners have indicated they left the Food Building partly due to high rental rates. These include Billy Bee Honey, Faema, President's Choice and most recently Hershey to name a few.

At present rental rates, the Food building generates an annual net income to the Association of approximately \$650,000. By way of comparison, the other food concessions on the grounds generate approximately \$620,000. While staff recognize that the Food Building is a unique and costly environment for exhibitors to operate in, costs to maintain and operate the Food Building during the CNE period continue to increase. The organic waste and recycling programs introduced to the building over the last two years are expensive programs to operate, in addition, significant investment has been made by the CNE to improve the atmosphere and look of the Food Building. This includes planting beds, ceiling banners, improved directional signage, Food Building promotions, information booth in the building and over the past year improvements to landscaping on the south side of the building and a new entrance.

The proposed rate structure strikes a balance in maintaining a vital CNE tradition while recognizing ongoing cost facts and the mix of exhibitors in the building.

Respectfully submitted,



David Bednar
General Manager

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