

Staff of both CNEA and Exhibition Place have investigated common practices with the food court and fair concession industries. Any direct comparison is complicated by the unique nature of the Food Building at the CNE.

- The Food Building only operates during the CNE Fair period thus limiting the maximum number of sales that can be generated. In addition, fixed costs for items such as plumbing, electrical and other hookups are the same as those that a year round tenant would pay in a Food Court, but can only be amortized over a eighteen day selling period.
- The CNE Food Building has a number of corporate partners who offer many products below normal pricing plateaus in order to encourage trial.
- A number of Food Building exhibitors offer free samples to CNE visitors.
- The Food Building is not just a food court in that the CNE visitors look upon the Food Building as an important component of their CNE visit where they are able to select from a variety of products which are priced with the intent of providing value to the visitor.

An analysis of current market rent and occupancy costs for food courts in downtown Toronto confirm that annual rental rates are between 12 to 13.5% of gross sales. In this highly competitive environment lease term average 5 to 10 years. Based on a projected per cap of \$6.00 per person, and recognizing that current research indicates 75% to 80% of CNE visitors visit the building this increase in rates will bring the gross rental income of the Food Building to approximately 11% of our estimate of total gross sales in 1999 (see calculation at the end of this report). This is assuming there is no increase in attendance at the CNE over the next three years. If attendance increases above the current level and the visitation rate to the Food Building remains constant, the rental rates of the Food Building may be less than 11% of gross and may fall below the industry average.

In the past, a maximum three-year contract has been offered to all Food Building exhibitors. This practice provided exhibitors the opportunity for an extended term, which some required, given the large capital investment necessary to participate in the Food Building. Unlike outdoor concessions, this capital investment cannot be spread over other events. It should be noted that the rules and regulations agreed to by each exhibitor do contain a clause that in the event the Food Building is no longer part of the CNE due to future development at Exhibition Place, that all contracts would end at that time and the full three year term would not be realized. Both the short term offered and the uncertainty written into the rental agreement support a rental rate below industry standard.

During the period 1997-1999 extensive improvements have been made to the layout of the Food Building. More seating areas have been incorporated into the layout of the building, thereby balancing traffic flow throughout the building. This new floor plan also reduced the number of exhibitors in the building. In addition, infrastructure and aesthetic improvements have been made to the interior and exterior of the building, including new temporary wall system, new seating, exhaust hood upgrade program, interior and exterior signs. As a result of these changes the areas of the building which at one time experienced low sales due to poor traffic flows have now seen an increase in sales.

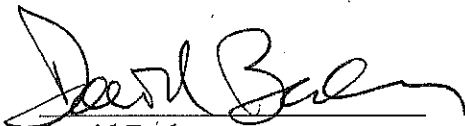
Conclusion

There is no easy answer as to what the rental rates "should" be in the Food Building, especially given its unique status within the fair business. The best we can do is to try to place the rates in relation to the history of the building and general practices accepted by food retailers and the fair industry.

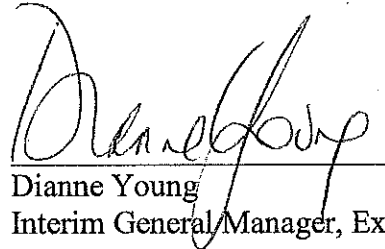
Given there has not been an increase in rental rates since 1996, many improvements made to the building and the decrease in the amount of available exhibit space, and the current market situation, an increase of 4% over the three year term would appear to be justified.

The reporting of gross sales figures over the next three years will provide information for the CNEA and the Food Product Association to be able to assess and ensure that these rental rates in the building have been established fairly.

Respectfully submitted,



David Bednar
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Rental income as percentage of Gross Sales calculation:

- 80% of 1.5 million visitors = 1.2 million visits to the Food Building
- 1.2 million visitors @ \$6.00 per person = \$7.2 million
- Rental income of \$790,000 is approximately 11%

