



**STAFF REPORT
ACTION REQUIRED**
with Confidential Attachment

Information Report on 1132 Leslie Street – License to Sunnybrook Stables Limited for Operation of a Horse Riding Facility in Sunnybrook Park

Date:	December 20, 2007
To:	Government Management Committee
From:	Chief Corporate Officer
Wards:	Ward 25 – Don Valley West
Reason for Confidential Information:	The security of the property of the municipality.
Reference Number:	P:\2008\Internal Services\F&re\Gm07138F&re – (AFS 6632)

SUMMARY

The purpose of this report is to address the report-back requirements requested by Government Management Committee at its meeting on December 3rd 2007, respecting the subject.

RECOMMENDATIONS

The Chief Corporate Officer recommends that:

1. Council adopt the staff recommendations contained in the recommendation section of the report dated November 15, 2007, from the Chief Corporate Officer headed, “1132 Leslie Street – License to Sunnybrook Stables Limited for Operation of a Horse Riding Facility in Sunnybrook Park” [GM10.8].
2. The confidential information in Attachment 1 remain confidential.

Financial Impact

Refer to financial impact statement in the November 15, 2007 report.

DECISION HISTORY

Government Management Committee, at its meeting on December 3rd, 2007, deferred consideration of item GM10.8, titled "1132 Leslie St – License to Sunnybrook Stables Limited for Operation of a Horse Riding Facility in Sunnybrook Park,"

(<http://www.toronto.ca/legdocs/mmis/2007/gm/bgrd/backgroundfile-8960.pdf>), and requested the Chief Corporate Officer to report back on the following items:

- (1) The business evaluation made by the independent advisor;
- (2) the commercial property taxes now expected to be achieved annually in the business portion of the lease;
- (3) the separate residential lease;
- (4) the opportunity to collect taxes, via omitted or supplementary assessments by MPAC, for the years 2005-2007 and earlier years;
- (5) an appropriate accelerator clause which may be included to account for market increase in value; and,
- (6) the advantages and disadvantages of a shorter lease term.

The decision advice can be found through the following hyperlink:

<http://www.toronto.ca/legdocs/mmis/2007/gm/decisions/2007-12-03-gm10-dd.pdf>.

ISSUE BACKGROUND

In 1978, the Licensee began licensing the Main Barn, Westerly Riding Ring, and the Concession Residence (see Parts 1, 4 & 6, respectively - Appendix A) for the operation of a public horse riding facility in Sunnybrook Park. In 1982, the Licensee built a 12,000 square foot indoor riding arena (See Part 2 - Appendix A) to allow for year-round equestrian programs. In 1985, the Licensee constructed an additional stable and public viewing lounge (see Part 3 - Appendix A).

The term of the original License was extended by the Metropolitan Council, and expired on May 31, 2007. The Licensee is interested in continuing to license the Premises to operate the public riding stable. Staff entered into negotiations with the Licensee and have come to an agreement, subject to Council approval.

COMMENTS

Business Valuation

Given the unique nature of the leased premises and a lack of comparable sites in the local marketplace, the most appropriate valuation methodology for this site and its commercial operation is the revised income approach. Under this methodology, the commercial operation is valued, and a determination is made as to the level of rent such an operation

can viably sustain. To determine the rental value of this commercial operation, staff hired Hallinan Tautrimis Inc. to conduct a business valuation assessment. At the request of City Staff, Sunnybrook Stables Ltd. provided unaudited financial statements for six years ending December 31st, 2005 and corporate income tax returns for the years 2000-2004. Hallinan Tautrimis Inc. provided reconstructed income and expense estimates based on current industry data, data from similar operations, and an analysis of the Licensee's financial records. The findings of this analysis are contained in the attached confidential report.

Commercial Property Taxes

The Licensee has been paying property taxes while using the facilities. Taxes charged to the Licensee for the year ending 2007 were \$4,883.68. This particular equestrian operation is assessed at the residential tax rate, pursuant to a property tax regulation amendment that came into effect in 2004, which changed the way equestrian operations are assessed and classified. Prior to the change in regulation, the Licensee was paying substantially more (approximately \$20,000) than the 2007 amount. The Licensee is in good standing with the City for all property taxes due to date.

Separate Residential Lease (Residence I)

There is a third residence near the premises, known as Residence I (see Part 8 – Appendix A). This residence is currently occupied by the business operator and his family. As shown in Appendix A, the residence is geographically removed from the stable facilities. As such, this residence is not being considered in the License proposal. Occupation of this residence is not necessary for the functioning of the horse riding facility and the terms and conditions for use of this site will be negotiated apart from the License. The existing lease agreement for this residence expired on May 9th 2007 and a new agreement is being negotiated.

Accelerator Clause

The potential accelerator clause in the License agreement is addressed in Attachment 1 – Confidential Information.

Advantages/Disadvantages of Shorter License Term

One of the concerns of entering long-term leases surrounds changes to market value over time. The longer the term, the more difficult it becomes to establish market value for later years, which can be good or bad for the City, depending on the direction of the market for horse riding services. Given the unique nature of the site, the market value of the premises is directly tied into the revenue capabilities of the operation allowed for under the License agreement. Thus, if the business is able to generate substantially more revenues in the future, then the rental amount may be undervalued (and vice versa). However, based on the analysis undertaken, particularly considering that the physical capacity to expand the business is restricted, it is reasonable to assume that the revenue potential for the site has been maximized. Therefore, it is reasonable to assume revenue growth forecasted at the rate of inflation. The City is achieving fair market value for the term by factoring this growth in the License fee.

A major advantage of a long-term license relates to the intangible benefits of stability and consistency. Sunnybrook Stables Limited shares a neighbourly relationship with Sunnybrook Park and its patrons and the Licensee provides a number of community benefits, including the employment of 20 full-time and part-time employees, holiday day camps for children, support for community fundraising and horse riding competitions for adults and young riders. The current operator has built a good reputation and a longer term ensures that these community benefits will continue for an extended duration, rather than risking the potential of an undesirable business owner on the premises.

Providing the Licensee with a longer lease term also provides incentive for the business to invest more into the facilities. Aside from the required improvements outlined in the proposed License Agreement, the Licensee has a greater incentive to invest in aesthetic value and other building improvements, as the business stands to benefit from these investments over time and there is a greater sense of pride and ownership in the facility over the longer term.

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SIGNATURE

Bruce Bowes, P. Eng.
Chief Corporate Officer

ATTACHMENTS

Attachment 1 – Confidential Information
Appendix “A” – Sketch of Premises
Appendix “B” – Location Map