

ED23.7a - CONFIDENTIAL ATTACHMENT 1

- made public on September 11, 2018

CONFIDENTIAL INSTRUCTIONS TO STAFF

The Deputy City Manager, Cluster A, Deputy City Manager, Cluster B and Deputy City Manager & Chief Financial Officer, recommend that:

1. City Council direct Toronto Port Lands Corporation ("TPLC") to negotiate the continuation of the business and acquisition of the properties located at 915 and 945 Lake Shore Boulevard East (the "Studio Properties") at market value, calculated taking into consideration the environmental condition of the properties and any other relevant factors, including recent sale transactions in the vicinity, and otherwise on terms satisfactory to the Deputy City Manager & Chief Financial Officer and in consultation with the Toronto Realty Agency, for the purpose of maintaining the existing film and TV studio uses at the Studio Properties.

FINANCIAL IMPACT

This report recommends that the City direct TPLC to negotiate an agreement to purchase the Showline Studio lands at market value taking into consideration a number of related factors.

If an agreement is reached and approved by Council, it is recommended that the purchase cost be financed through the following means:

1. A TPLC equity investment of \$12 million funded through uncommitted amounts currently held in TPLC's reserve funds.
2. A loan from the City to TPLC for the balance of the required purchase price.

TPLC Equity Investment

TPLC staff have indicated that \$12 million of the current total \$40 million TPLC reserve fund balance is available to potentially fund an equity investment in the Showline studio property.

Loan from the City to TPLC

TPLC will require financing to fund the balance of the required purchase price. As TPLC can only borrow from the City, this report recommends that the City assist in the acquisition of the Studio Properties by providing a loan to TPLC.

The terms of this loan will require TPLC to apply all net proceeds from the operation of Studio properties towards the servicing of this debt. If the net revenues are insufficient to fund the debt service, TPLC will apply revenue from other sources towards

repayment of the City loan. Further details of the loan will be arranged between the City's CFO and TPLC staff once the purchase price and potential revenues of the studio have been established. These terms will be provided to Council when staff report back on the purchase transaction.

As the City loan will be repaid by TPLC, it can be considered as recoverable debt with no impact to the City's overall debt limit.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

CONFIDENTIAL INFORMATION OR ADVICE

The owner and founder of Showline Studios, located at 915 and 945 Lakeshore Blvd. East (in the Port Lands), recently passed away and his heirs put the properties and business up for sale. The sale process has been managed by brokerage firm, Avison Young. The properties total about 6.5 acres (including three vacant acres) with an older studio building of 78,000 square feet containing multiple studios used mostly for TV productions.

The sale had been well-advertised and any potential studio investor would have been well aware of the opportunity. Various sources indicate that the sale process came down to two or three best potential buyers. One of these potential buyers was a serious studio investor. As of September 25, the current film users at the Showline Studios were informed that they had to vacate the premises signalling that a non-studio bidder had been chosen but the buyer has not been announced. The broker is under a non-disclosure agreement and will not provide any further information. Information provided to staff indicates that it is likely that an Agreement of Purchase and Sale has been signed but a closing has not occurred.

As stated in the marketing literature: "The properties are strategically located just minutes east of the downtown core with easy accessibility to the Gardiner Expressway and the Don Valley Parkway. The area is undergoing rapid gentrification and re-development, with numerous government initiatives, infrastructure projects, and private commercial and residential development projects that will completely change the landscape of the area.

"The total site area is 6.52 acres. 915 Lake Shore Boulevard East is situated on a 4.01 acre site and is improved with a fully operational 77,000 square feet film studio facility. 945 Lake Shore Boulevard East is immediately adjacent to the east and comprises a vacant parking lot with a site area of approximately 2.51 acres. 915-945 Lake Shore Boulevard East is located in an established area for studio operators with highly functional studio space." The property includes three separate studios of 7,000, 11,000 and 14,000 square feet with clear heights of 32 to 39 feet.

The current studio rental business reportedly generates over \$2.0 million of annual gross revenue each of the past three years and in 2016 had net operating income of \$1.4 million on gross revenue of \$2.8 million (unaudited).

Unverified information obtained by staff is that the sale went to the buyer with the best environmental indemnification.

Neither the City nor TPLC have participated as bidders in the sale process to date since there was a serious film studio bidder already in the process.

Analysis of the Current Situation

It is likely that there is an agreed purchase of sale agreement in place but the closing has not yet happened. Given this situation, time is of the essence.

All information available at this time is that neither the buyer nor the seller will continue the film use nor replace the film use elsewhere.

As the Hemson Consulting Report pointed out, there are significant development pressures operating in the Port Lands and South of Eastern employment areas. These areas have been important locations for film and TV studios and their associated pre- and post-production operations.

The City, in its recent Port Lands Planning Framework, has signalled that these uses are important to the City and that they should be maintained and Hemson Consulting indicated that they should be expanded.

Employment areas have long been pressured by upward valuations of land for non-employment uses such as intense residential uses. There are also pressures put on valuations by low employment uses such as retail and self-storage.

Given the loss of several studio sites, the economies of scale of a vibrant studio industry on the east edge of Toronto's downtown is now under serious threat. The City has long supported the film and TV industry in this area.

The Port Lands revitalization means that there will be very limited alternative locations for studios in the port lands other than those that already exist or adjacent to existing facilities.

The area, due to its proximity to the popular location shooting sites in the city's core has a competitive advantage for this industry compared to other major film centres in North America. This will rapidly erode if this film precinct loses studio space.

Toronto has a vibrant film, TV and new media sector with all the key essentials needed to continue to grow the industry. These essentials include attractive locations for film productions to locate. If the number of studios were to contract due to alternate uses being able to squeeze the film use out, then the industry would be seriously constrained and would begin to falter in this area.

There are a number of land uses permitted in the Port Lands under the existing Zoning By-law that would be incompatible with plans for the Port Lands' transformation. It would be undesirable and counter to the public interest for these land uses to become

established in the Port Lands, as they have the potential to undermine or detract from revitalization efforts and investments. In contrast, film studio uses are consistent with plans to revitalize the Port Lands.

Given the development pressures in the area, it is expected that land values will continue to rise and that if the subject lands are ever not needed for filming, then the City's financial investment is likely to be protected by the land value improvement.

As a result of the above, staff recommend that the City through its local agency in the area, Toronto Port Lands Company, purchase the site and maintain the studio operations. Once the sale is achieved, staff will obtain the services of a studio organization to run the studio and, when appropriate, find a studio operator or investor to purchase or lease the property from the City and purchase the business.

Acquisition by the City of this site, completes the City's ownership in this block. Absent the cooperation of the existing owner or the perspective purchaser, staff will assess the appropriateness of expropriation and, if necessary, report the results of this analysis together with recommendations in this regard.

Conclusion

Without an intervention, the City will lose another film studio in the Port Lands/South of Eastern Avenue area. Efforts from all City divisions are being made to strengthen, not weaken the film industry and its production facilities. The recommendations in this report would demonstrate the City's commitment to maintaining and enhancing film production in the City.