FilmOntario

FILM · TELEVISION · INTERACTIVE

THE STRENGTH OF OUR SCREENS

Studio Report

November 2017

INTRODUCTION

Over the past several years, the screen-based industries in Ontario have been growing, and film and television production spending has increased almost every year from $791 million in 2007 to $1.7 billion in 2016.[1] This is part of a worldwide trend of increased demand for screen-based content. With the ongoing disruption of broadcasting and distribution models, new online streaming services are competing with the traditional players for quality content that will fill consumers' screens and attract subscribers. Ontario, along with other production centres, is benefitting from this worldwide demand for content through increased production activity and spending. While creating jobs and other opportunities for many, this increased activity has also put a strain on the province's existing studio infrastructure, especially in the City of Toronto. This report looks at the current environment for studio owners, and provides some potential solutions to support the expansion of studio infrastructure.

Toronto's studios have been operating at full capacity for the past year, and are full for the year ahead. They have also had to turn away business: while estimates vary, as much as $130 million in production activity has been sent elsewhere due to lack of studio space, which could have led to the creation of over 1,000 jobs. Studio owners are either in the process of expanding, or looking to expand in the near future, with the hope that our studio infrastructure will grow by over 600,000 square feet in the next five to ten years.

Production spending has increased almost every year from $791 million in 2007 to $1.7 billion in 2016

The provincial government can support this potential growth in three ways:

1. **by maintaining a commitment to stable tax credit rates, which gives private studio owners and investors confidence in the jurisdiction as a place where film and television production will continue to grow;**

2. **by providing capital to assist studio owners in finding the final piece of financing that will allow them to get their expansion projects underway; and**

3. **by working with other levels of government to develop studio-friendly policies and leverage additional cultural infrastructure funds where available.**

[1] OMDC Film and Television Production Statistics, www.omdc.on.ca.

BACKGROUND AND METHODOLOGY

FilmOntario is an industry consortium that represents the over 35,000 individuals working in the province's film, television and digital media industries. Our members are from all areas in the sector, including labour unions, production companies, equipment suppliers, financial and legal service professionals and, of course, studio owners. Our emphasis is on marketing Ontario as a screen-based content creation and production jurisdiction, and working with all levels of government to ensure that policies and programs continue to support Ontario's competitiveness in the global market.

Over the past two years, as the province has become busier, FilmOntario has been looking at ways to spur new studio growth, or the expansion of existing studios, in order to support the increased business that we are already seeing and to attract new business to the province. This report is part of the bigger conversation studio owners are having with us, with each other, and with all levels of government.

FilmOntario engaged a third party to undertake interviews with our Toronto studio members. The interviews were limited to Toronto studios for several reasons: (1) the sample size is large enough to protect confidentiality of the individual respondents, yet small enough to keep the study manageable given available resources; (2) although there has been growth in the production industry across the province, the bulk of activity still takes place in and around the City of Toronto, and this is where the infrastructure needs are most urgent; and (3) studio owners in

Toronto have already been working on the challenges and opportunities surrounding studio expansion, and this study gave us an opportunity to formalize some of those conversations. Studio owners were asked about their current size, their current capacity to take on new work, and current plans for expansion. In order to maintain confidentiality, the consultant compiled the answers and submitted them to FilmOntario with no names attached. The results from the survey were then supplemented by an environmental scan done in-house.

We did not survey any new players looking to invest in studio infrastructure for the purposes of this study. This is mainly due to the fact that the focus of the interviews was on current challenges and opportunities facing those who have already invested in the business in the province. However, the recommended actions to support infrastructure expansion should be equally applicable to support new entrants in the province.

THE GLOBAL PRODUCTION ENVIRONMENT

Although we are seeing a great deal of disruption in traditional broadcasting distribution and consumption models, we are currently also seeing tremendous growth in the screen-based industries, particularly in scripted television series. From 2009 to 2015, the number of scripted series on U.S. television more than doubled, going from 210 to 455[2]. In addition to producing more series, new streaming services and traditional premium cable channels are also spending more per episode on their original productions, in the hopes of attracting and maintaining subscribers. For example, Netflix, Amazon and Hulu have indicated that between them they will spend over $10 billion US in 2017, while HBO is planning to spend over $2 billion US.[3]

While feature film spending is not expected to increase at the same rates as television spending, large blockbusters (with their accompanyingly large budgets) continue to dominate the production landscape. Global box office revenues hit record levels of $38.6 billion US in 2016, but despite the fact that more than 700 movies were released, over 40% of that revenue was earned by the top 25 films. Only one of those 25 films had a budget below $50 million US.[4] Early reports have 2017 box office levels lower than last year, although the trend of releasing large franchise blockbusters shows no signs of letting up.

British Columbia recently announced a more than 35% increase in 2016-17 over 2015-16 production levels, to $2.6 billion

All this demand for content has meant increased production activity in various jurisdictions: British Columbia recently announced a more than 35% increase in 2016-17 over 2015-16 production levels, to $2.6 billion,[5] and Georgia's production spending reached almost $3.5 billion in their fiscal 2017, also an increase of 35% over the previous year.[6] Increased production spending has also meant a corresponding increase in demand for studio space, as well as for well-trained crews and other production staff.

Jurisdictions around the world are adapting to this increased demand and announcing plans for infrastructure expansion. At the end of October, the City of London announced that it will start

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[2] Susan Krashinsky Robertson, "Streaming Wars: The escalating battle for Canadian Screens", *The Globe and Mail* 22 August 2017, www.theglobeandmail.com.

[3] "Traditional TV's surprising staying power", *The Economist* 9 February 2017, www.economist.com.

[4] Film L.A. Inc., *2016 Feature Film Study*, p. 2.

[5] "B.C. motion picture production at all-time high", B.C. Ministry of Tourism, Arts and Culture, 23 September 2017, https://news.gov.bc.ca/15474.

[6] Ellie Hensley, "Georgia's film industry generates $9.5 billion economic impact in fiscal 2017", *Atlanta Business Chronicle*, 10 July 2016, www.bizjournals.com. Production spend amount expressed in Canadian funds for comparative purposes; calculated at an exchange rate of $1.28.

accepting expressions of interest from investors to develop a studio proposal for Dagenham East.[7] The studio is needed in part because of the growth in production in the United Kingdom, where production spending has almost tripled since 2000, to $2.67 billion in 2016.[8] They estimate that building a studio structure which includes 125,000 square feet of stage space could generate 780 jobs and contribute over $58 million of gross value added (GVA) to the national economy per year.[9]

Other jurisdictions where new studio buildings have been announced lately include Montreal, where MTL GRANDÉ opened in December 2016, and the Calgary Film Centre, which opened in May 2016. Internationally, in addition to the City of London, production company Bad Wolf announced plans to build a new studio in Cardiff, Wales; the Scottish government approved plans for a studio just outside Edinburgh; and at least two new studio spaces have been announced for the state of Georgia.

Investment models for these projects vary, depending on the jurisdiction. In Canada, provincial governments have invested through both loans (Montreal) and grants (Calgary). In Wales, the studio land is being leased from the government but the facility is being built with private funds. Other models around the world range from government-owned and operated studios (such as Docklands Studios in Melbourne, Australia) to the fully privately funded studios common in Georgia and the rest of the U.S. It is important to note, though, that even in a fully private funding model, stable production incentives are essential to send "'a message to the industry that [the jurisdiction] is here for the long term, and it gives them the confidence to not only shoot here, but bring television shows here that could be long-lived and put down roots and infrastructure and make commitments to help grow the industry.'"[10]

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7 "Mayor hails Dagenham East as the future destination for film", Mayor of London, Press Release, 30 October 2017, www.london.gov.uk.

8 SQW, "Made in Dagenham: a proposed film studio for Dagenham East, Assessment of Content and Capacity", released by Film London, 30 October 2017, p.a. Production spend amount expressed in Canadian funds for comparative purposes; calculated at an exchange rate of $1.67.

9 *ibid*. Note that this is an increase in overall production impact, not just direct production spend.

10 Hensley, *supra* note 6.

CURRENT ENVIRONMENT IN ONTARIO

Like other jurisdictions, Ontario's production industry has grown in both volume and employment over the past several years, and increased by 11% in 2016 compared to 2015, the third year in a row of consecutive increases.[11] This is a testament to our provincial incentives, great locations, and incredible on- and off-screen talent. However, growth in Ontario has not kept pace with other jurisdictions, and there is some concern among FilmOntario members that lack of growth in studio infrastructure will inhibit further growth in the industry.

Full Studios are Straining the System

In our survey, all the survey respondents indicated that they have been operating at capacity for the past year or longer. This is in line with an earlier study by the City of Toronto, which estimated that vacancy rates in the city were less than five per cent.[12] As well, all the studio owners anticipate operating at capacity well into 2018 (and in one case through October 2018). However, as there is at least one studio space that is closing in the next year, if that space is not replaced, this could lead to less business overall.

Ontario's production industry has grown in both volume and employment over the past several years

As a result of operating at capacity now and for the foreseeable future, all of the respondents in our survey indicated that they have turned away business over the past year and for the coming year. All types of productions have been turned away, including feature films with budgets ranging from $10 to $80 million, and series with budgets ranging from $3 to $5 million per episode. Each respondent reported turning away at least five projects, and in one case the number was as high as 20. Overall the respondents reported turning away a total of 44 productions. While some of the projects did find other facilities in Toronto or elsewhere in the province, the majority of projects did not. The studio owners also reported that they were generally able to accommodate television series more often than higher-budget feature films, so a higher percentage of those ended up going elsewhere (usually to Vancouver or back to the U.S.).

While it is difficult to put a precise value on the amount of business lost, conservative estimates based on the studio owners' responses suggest that the projects that went elsewhere had budgets totalling approximately $260 million.[13] Assuming, again conservatively, that only half of those

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[11] OMDC, *supra* note 1.

[12] Hemson Consulting Ltd., "Study of Film and Screen Industry Studios in the Port Lands and South of Eastern Employment District," for the City of Toronto, Economic Development and Culture Division, 21 July 2017, p. 86.

[13] In all cases, where studio owners reported estimated budget ranges rather than a specific number, we used the lowest number in the range for this calculation. So, for example, if the owner reported turning away two features with budgets in the $30-$80 million range, these were counted as two features with $30 million budgets.

total budgets would actually have been spent in Ontario, this represents a loss in direct production spending of $130 million, and just over 1,000 industry FTEs.

It should be noted that, in addition to the lost business, having low vacancy rates in provincial studios can also have a detrimental impact on a very important part of the province's screen-based ecosystem – the domestic productions that are squeezed out of the premium studio spaces due to their usually smaller budget sizes. The fact that Ontario's production activity is split almost evenly between foreign service and domestic production[14] is a unique strength of our jurisdiction. When big-budget, usually U.S., productions film here, it means that studio owners can invest in state-of-the-art facilities and equipment. However, as the province becomes busier and there is no corresponding increase in available studio space, it becomes difficult for domestic producers to find suitable production spaces. More studio infrastructure means more room for everyone and a healthier ecosystem overall.

Potential for Greater Industry Growth

All the studio owners surveyed are either hoping to expand in the near future or are already in the process of expanding. As announced in September 2017, Cinespace has recently broken ground on 50,000 square feet of production space.[15] Other studio owners are in the planning stages or have begun work on another 40,000 square feet of sound stage spaces to come online by mid-to-late 2018. As there are several studios in the City of Toronto that will be closing over the next few years, this new construction will assist in keeping the City at status quo in terms of studio space, but will not significantly increase the amount of space available.

Studio owners expressed ambitious plans for expansion: to bring over 600,000 square feet of production space to the province by 2022

The owners also expressed ambitious plans for expansion, both within the City of Toronto and beyond, to bring over 600,000 square feet of production space (including stages, production offices, carpentry shops, etc.) to the province by 2022. Most of the owners have identified suitable land for this expansion, some of which is in the Port Lands in Toronto and some of which they did not want to identify for confidentiality reasons. At the same time, most of the owners also noted that finding land that is available to buy, or that is available for a suitably long-term lease, continues to be a challenge, particularly within the City of Toronto. Overall, there is strong interest from all the studio owners in increasing their investment in the province, provided a few key challenges can be overcome.

[14] OMDC, *supra* note 1.

[15] David Rider, "Cinespace to build 2 new film studios in Etobicoke," *Toronto Star* 7 September 2017, www.thestar.com.

Challenges

As noted, the biggest challenge currently impeding future studio development is the difficulty in finding suitable land in the downtown Toronto area. Additionally, while there may be land available outside the downtown core, some studio owners expect that it will be difficult to convince producers to travel greater distances from downtown. However, an equal number of studio owners believe that travel issues could be mitigated if there were state-of-the-art production facilities outside of the downtown core and/or the Toronto Port Lands. Some areas that have been identified are in Markham, Etobicoke, Pickering and Hamilton.[16] This will likely continue to be an issue as development continues at a rapid pace across the GTHA. The City of Toronto study, referenced earlier, indicated that sites need to be at least 10 acres in size in order to accommodate not only soundstages, production offices and other ancillary buildings needed to support a working studio, but also the amount of parking needed for production vehicles.[17]

The other major issue identified by studio owners is a difficulty in accessing capital for building new studio spaces or for expanding existing spaces. In some cases, this is because the land available for studio development is leased, and therefore does not provide solid collateral to lend against. In other cases owners have difficulty raising money due to the fact that financial institutions are less familiar with industry business models.

Finally, among studio owners there is a perception that government support has been unfairly distributed in the past, resulting in an uneven playing field for the rest of the sector. There is also a perception that enforcement of safety regulations is less rigorous when it comes to studios being operated in warehouses on a short-term basis, where operators spend far less on maintenance and construction than in full-time studio facilities. Studio owners feel this puts them at a competitive disadvantage yet, should anything happen in one of those inadequate spaces, it will be the entire sector that suffers reputational damage, even those who were following existing safety regulations.

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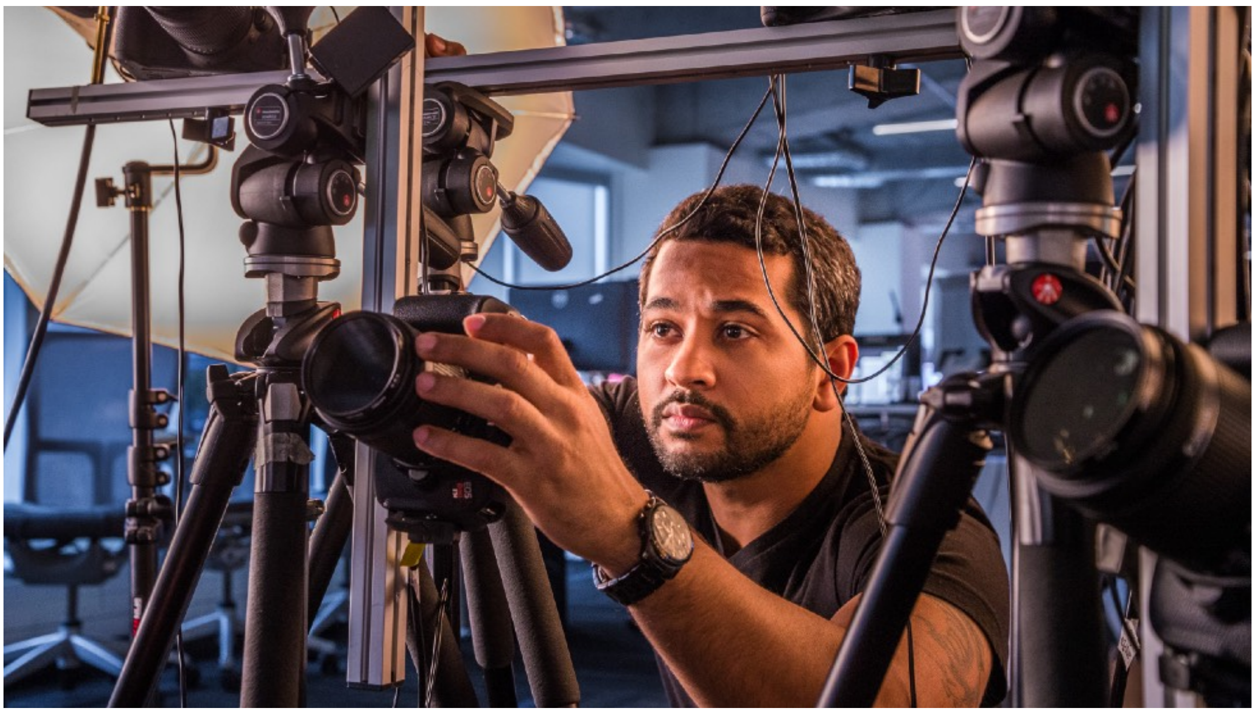
[16] It should be noted, of course, that Cinespace is already operating in Etobicoke and that is where their current expansion is taking place.

[17] Hemson Consulting Ltd., *supra* note 12 at p. 77.

OPPORTUNITIES FOR PROVINCIAL INVESTMENT

Based on the above, it is clear that there are opportunities for growth in the screen-based production sector, but that one of the obstacles to that growth is the current lack of available studio space in the City of Toronto and the surrounding areas. Studio owners are ready and willing to invest in the industry, and modest government support could assist them in accelerating that investment.



1. A Multi-Year Commitment to Stable Film and Television Tax Credit Rates

Tax credits are the key factor in attracting production activity to a jurisdiction. By maintaining its commitment to stable tax credit rates for a specified period of time, the provincial government would demonstrate to the industry around the world that Ontario is committed to the long-term growth of the screen-based business in the province. This would also encourage private investors to make equally long-term commitments in the industry by investing in studio facilities.

2. Provide Access to Capital

There is no single business model employed in other jurisdictions to assist studio owners in leveraging the investments they need to expand their studio businesses. However, if the provincial government wanted to assist studio owners investing in the Ontario industry, any of the following options would facilitate further investment:

a. **One-Time Grants**, for up to $20 million per company, for shovel-ready studio projects where studio owners are investing (at minimum) an equal amount of their own money in the project. These matching funds would ensure that private sector companies are as invested in the project as the government, and have the advantage of being relatively less complex to administer than a loan program.

b. **Government Loans**, offered to studio owners at competitive rates and terms, on an equal basis to all studio owners. While slightly more complex than a grant program to administer, a loan program has the advantage of providing assistance to studio owners while also providing a small direct return to the government.

c. **Loan Guarantees**, on loans that studio owners have arranged through private lenders but, given the government guarantee, are obtained at more favourable rates than they could obtain on their own. The risks and costs to the government of this option would be lower than with the above two options.

Whatever the financing option the government may choose, it is important that it be implemented in a way that is clear and transparent to all – with clear guidelines and application parameters – to ensure that there is no perception of unfairness or undue preference in the sector.

3. Coordinate Efforts with Other Levels of Government

The solutions described above are focused on initiatives that could take place at the provincial level. Other initiatives, such as favourable lease terms on municipally-owned property, or credits on property tax rates, could also be explored on a city-by-city basis. While those initiatives are outside the scope of this report, the provincial government could take the lead in ensuring that Ontario companies are able to access support from all levels of government. For example, while we have few details about how recent announcements regarding federal investments in cultural infrastructure will be applied, the provincial government could work with their federal partners to direct some of those investments to studios in Ontario.

CONCLUSION

The screen-based industries are currently in a period of growth, with an increasing number of programming services feeding the worldwide demand for content. Ontario has been participating in this growth, but our opportunities for further growth are being limited to a degree by the lack of studio space in and around the City of Toronto. The time is right for an investment in studio infrastructure; any government investment made now would ensure a return in terms of production spending and the high-paying, innovative jobs that spending creates.