

# Southeast False Creek Development

## Update on Negotiation with Millennium

City of Vancouver  
Technical Briefing  
April 8, 2011

# Post Games - Millennium Water

- April 2010: site returned to Millennium by VANOC
  - construction retrofit post athletes' stay
- May 15 2010: Marketing launch - Rennie Marketing Systems (contracted by developer)
- May - September 2010:
  - Closure of 226 pre-sales units
  - New sales
  - Millennium Water market rental program (119 units)

# Status at September 30 2010

- 259 units closed (35% of total units)
- Approximately 60% of Millennium's 119 market rental units rented
- of 454 unsold units:
  - 48% of priced at < \$1M
  - 24% priced at \$1M - \$2M
  - 28% priced at > \$2M
- Developer's loan with the city in default

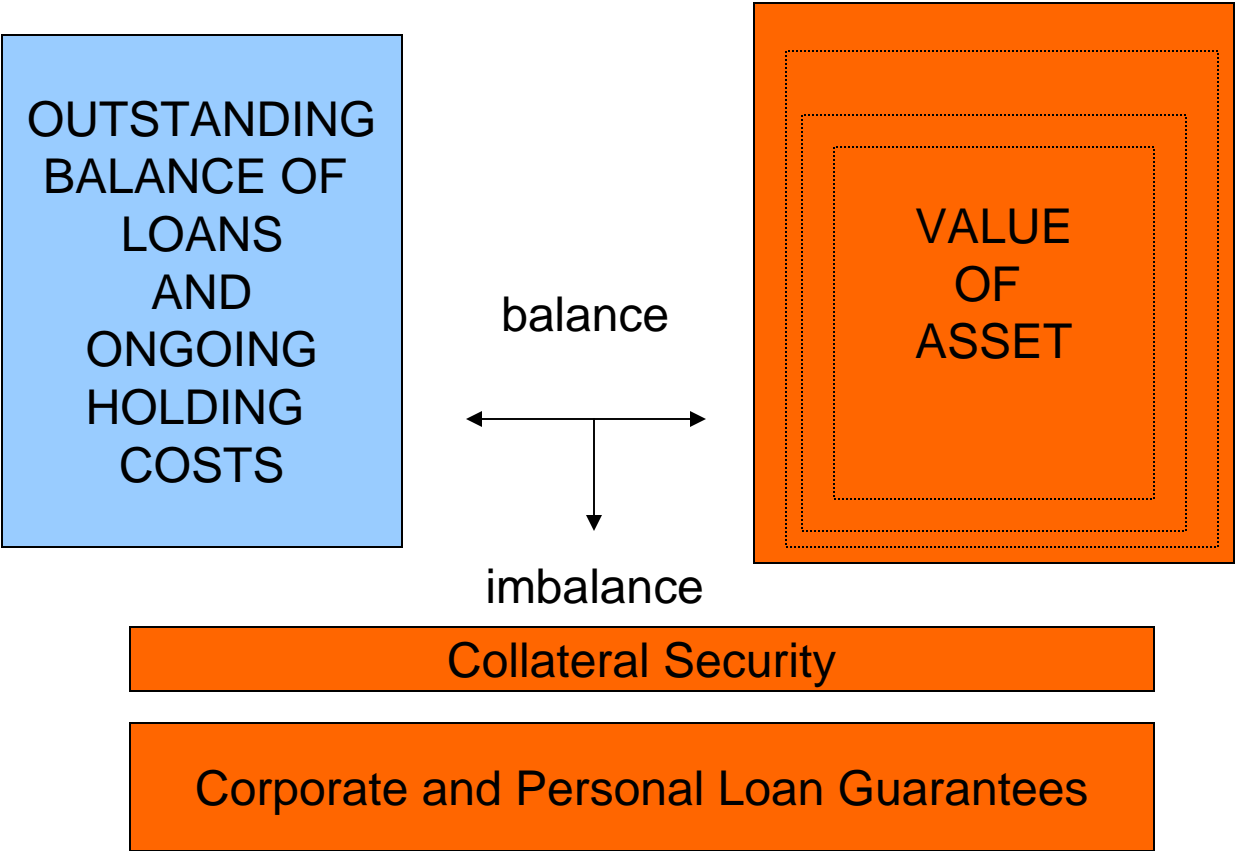
# Status as of September 30 2010: Protecting Taxpayers

- Lender (COV) actions:
  - Advised borrower construction loan now due and payable
  - Registration of security on assets already pledged to COV
  - Advised borrower that COV will only fund necessary costs to ensure asset protection
  - Ongoing discussions with borrower/developer re:
    - actions to protect asset
    - addressing of deficiencies
    - anticipation of future loan requirements
    - Other related business transactions
  - Requests to borrower for:
    - Refreshed Plan for marketing and protecting long-term value of asset
    - Plan to meet loan obligations

# Key Steps Since September 30 2010

- Developer failed to adequately respond to lender's demands re:
  - Protection of asset through addressing deficiencies
  - Development of an appropriate marketing plan
  - Development of an appropriate plan to meet loan obligations
- November 17 2010
  - Developer and Lender agreed to:
    - Appointment of a receiver
    - Negotiations related to transfer of assets related to city's debenture security and guarantors commitments
    - Negotiations to restructure to optimize residual value in SECF Properties Ltd

# Loan Dynamics



# Key Steps by City to Protect Taxpayers

# Financing Options by Fortress (December 2008)

## "Standstill" Loan \$317M

- COV Guarantees:
  - Completion Guarantee
  - \$190M Payment Guarantee
- Interest Rate **~9.5% (or higher)**
- If a decrease in COV Credit Rating below A/A2: Loan in Default
- Requires **market financing for balance of loan required to complete project (~\$400M)**

## Restructured \$665M Loan

- COV Guarantees:
  - Completion Guarantee
  - \$590M Payment Guarantee
- Interest Rate **~11.5% (or higher)**
- Decrease in COV Credit Rating below A/A2: requires further cash deposits
- Still requires **market financing for balance of loan to complete project to market readiness (~\$56M)**



# COV *Charter* Amendment

January 18, 2009

- BC Legislature amended *Vancouver Charter* to provide authority for the City to assist with the financing for the Olympic Village

# Summary of City's Financial Risk Mitigation

## 1. Interest Rate Savings

- City purchased the “original” Fortress Loan (Feb 2009):
  - Avoided additional interest costs related to a restructured Fortress loan

Saving to January 3 2011: ~\$37M

- City arranged low cost borrowing (average ~2.5%):
  - Commercial Paper Program
  - longer term debenture

Saving to January 3 2011: ~\$56M

Total Saving: \$93M

# Summary of City's Financial Risk Mitigation

2. Appointment of a Receiver (Ernst & Young Inc) November 17 2010
  - Receiver's actions to protect value of asset:
    - strategic marketing and sales plan based on detailed market evaluation
      - Sales goal at relaunch (14/02/11): 60 units in 60 days
      - Actual sales under contract or closed (as of April 1 2011): 118 units in 45 days
    - comprehensive commercial leasing program
    - aggressive program to address deficiencies
    - Market rental program

# Summary of City's Financial Risk Mitigation

## 3. Millennium Security:

- Floating Debenture covered real estate assets
  - Security registered following default on loan September 2010
- Loan agreement involved pledges of assets by Guarantors
  - City entered negotiations with Guarantors for:
    - asset transfer under guarantees
    - restructuring of SEFC Properties Ltd to optimize residual value for lender

# Millennium/Guarantor's Security Transferred Properties

# Restructuring Agreement between City and Loan Guarantors

- Restructuring Agreement:
  - 32 properties transferred to City's control
    - Gross value: \$82M; net value: \$45M
    - Properties located in Burnaby, North Vancouver, Toronto, West Vancouver and Vancouver
      - (Note: 1 additional property under discussions)
  - \$5M mortgage registered on Bidwell and Davie Site
    - subordinated to existing lenders and construction financing
  - \$6-\$12M of residual value related to restructuring of *SEFC Properties* entity

Total Recovery from Millennium and Guarantors:  
\$56 - \$70M

# Transferred Properties

Type of Property	Number of Properties	Value (Based on Recent Appraisals)	Mortgages	Approximate Net Value	Estimated Annual Net Operating Income
Residential Condominiums	5	\$2M	\$0.74M	\$1.26M	0
Commercial	13	\$14.6M	\$8M	\$6.6M	\$0.9M
Development (Commercial)	14*	\$65.6M	\$24.4M	\$41.2M	\$2.8M
Amounts paid by City to Discharge Existing Mortgages	0	0	\$3.58M	(\$3.58M)	0
<b>Total</b>	<b>32*</b>	<b>\$82.2M</b>	<b>\$36.72M</b>	<b>\$45.48M**</b>	<b>\$3.7M</b>

# COV \$5M Mortgage - 1215 Bidwell Street, Vancouver



## Bidwell & Davie Development Site

(Development by Millennium in  
cooperation with Another 3<sup>rd</sup> Party)

**1<sup>st</sup> Mortgage\***  
~\$6M

**2<sup>nd</sup> Mortgage**  
~\$6M

**3<sup>rd</sup> Mortgage**  
CoV  
\$5M

\*Cross-collateralization of 1st Mortgage on some other Transferred Properties



# Vancouver Properties

# 198 W Hastings Street, Vancouver



7 storey office building  
Site Area: 6,179 sq.ft.  
Rentable Area: 38,545 sq.ft.

Assessed Value (2011): \$6,996,000

Appraised Value (March 1, 2011):  
\$10,000,000

Actual NOI (Dec.31, 2010): \$695,834

# 177 West Pender Street, Vancouver

Vacant site/ parking lot  
Site Area: 6,000 sq.ft.

Assessed Value (2011):  
\$1,530,600

Appraised Value (March 1, 2011):  
\$3,000,000



# West Vancouver Properties

# 1583 Marine Dr, West Vancouver



1 storey retail building  
Site Area: 16,277 sq.ft.  
Rentable Area: 8,105 sq.ft.

Assessed Value (2011): \$6,307,400  
Appraised Value (March 1, 2011):  
\$6,400,000  
Actual NOI (Dec.31, 2011): \$292,000

# 1846-1854 Marine Dr, West Vancouver



1 storey retail building  
Site Area: 12,305 sq.ft.  
Rentable Area: 6,913 sq.ft.

Assessed Value (2011): \$3,764,800  
Appraised Value (March 1, 2011):  
\$4,300,000  
Actual NOI (Dec.31,2010): \$61,633

# 1379-1381 Marine Drive, West Vancouver



2 storey retail building  
Site Area: 3,711 sq.ft.  
Rentable Area: 3,774 sq.ft.

Assessed Value (2011): \$1,440,000  
Appraised Value (March 1, 2011):  
\$1,565,000  
Actual NOI (Dec.31, 2011):  
\$99,875

# 1327 (1321-1341) Marine Drive, West Vancouver



2 storey retail /office building

Site Area: 15,647 sq.ft.

Rentable Area: 10,743 sq.ft.

Assessed Value (2011): \$5,264,800

Appraised Value (March 1, 2011):  
\$5,500,000

Actual NOI (Dec.31, 2011): \$195,528



# North Vancouver Properties

# 131 Esplanade W, North Vancouver



1 storey retail building  
Site Area: 2,079 sq.ft.  
Rentable Area: 2,470 sq.ft.

Assessed Value (2011): \$1,245,000  
Appraised Value (March 1, 2011):  
\$1,250,000  
Actual NOI (Dec.31, 2010):  
\$26,836

# 127 Esplanade W, North Vancouver



1 storey retail building  
Site Area: 4,500 sq.ft.  
Rentable Area: 6,000 sq.ft.

Assessed Value (2011): \$2,160,000  
Appraised Value (March 1, 2011):  
\$1,700,000  
Actual NOI (Dec.31, 2010): \$6,619

# 119 Esplanade W, North Vancouver



Vacant/Parking lot  
Site Area: 10,845 sq.ft.

Assessed Value (2011):  
\$2,115,000

Appraised Value (March 1,  
2011): \$3,300,000

# 260 Esplanade W & 255 W 1st, North Vancouver (SL 1, 2,3)



2 - 3 storey office & retail buildings  
Site Area: 2.24 acres (97,574 sq.ft.)  
Rentable Area: 107,647 sq.ft.

Assessed Value (2011):  
\$19,940,000

Appraised Value (March 1, 2011):  
\$28,500,000

Actual NOI (Dec.31, 2010):  
\$1,733,902

# Burnaby Properties

# 4208 - 4248 Dawson Street, Burnaby (Lot 147, 148, 149, 150, 151, 152, 153, 154)



8 commercial strata units on the ground floor.  
Total Rentable Area: 8,163 sq.ft.

Total Assessed Value (2011):  
\$3,437,000

Total Appraised Value (March 1, 2011): \$3,475,000

Estimated stabilized NOI:  
\$170,000

# 6855, 6865, 6875, & 6885 Station Hill Drive, Burnaby (Lot 167, 168, 169,170)



4 commercial strata units - stand-alone building.

Total Rentable Area: 4,006 sq.ft.

Assessed Value (2011): \$984,000

Appraised Value (March 1, 2011):  
\$1,135,000

Actual NOI (Dec.31, 2010): \$ 24,751 \*

Stabilized NOI (Dec.31, 2010): \$ 61,770



# 4270 Dawson Street, Burnaby



1 storey warehouse  
Site Area: 2.67 acres

Assessed Value (2011):  
\$10,084,800

Appraised Value (March 1, 2011):  
\$10,080,000

Actual NOI (Dec.31, 2010):  
\$393,392

# Residential Strata Properties

# 603 - 1 Deer Park Crescent, Toronto, Ontario



Strata residential unit  
Unit Size: 1,013 sq.ft.

Assessed Value (Jan.1, 2011)  
\$426,750

Appraised Value (March 1, 2011):  
\$480,000

# 801-7368 Sandborne Avenue, Burnaby (SL 53)



Strata residential unit  
Unit Size: 1,685 sq.ft.

Assessed Value (2011): \$363,000  
Appraised Value (Feb.20, 2011):  
\$365,000

# 806-7368 Sandborne Avenue, Burnaby (SL 50)



Strata residential unit  
Unit Size: 1,423 sq.ft.

Assessed Value (2011): \$335,000  
Appraised Value (Feb.20, 2011):  
\$365,000

# 1406-6833 Station Hill Drive, Burnaby (SL 85)



Strata residential unit  
Unit Size: 867 sq.ft.

Assessed Value (2011): \$376,000  
Appraised Value (Feb.20, 2011):  
\$400,000

# 401 - 9390 University Crescent, Burnaby (SL 24) (Leasehold Interest)



Strata residential unit  
Unit Size: 877 sq.ft.

Assessed Value (2011): \$316,000  
Appraised Value (Feb.20, 2011):  
\$370,000

# City Security Released from Properties



# Release of City Debenture Security

City security released as part of Restructuring Agreement on following Properties:

## Evelyn Drive (West Vancouver) - Development Site (in receivership)

Estimated Value	~\$75M
Mortgages	~\$116M
Net Equity	(~\$41M)

## L'Hermitage (Robson Street) - Hotel/Commercial

Estimated Value	~\$40M
Mortgage	~\$46M
Net Equity	(~\$6M)

## Whistler Condominium - residential

Estimated Value	~ \$214,000
Mortgage	~\$250,000
Net Equity	(~\$36,000)

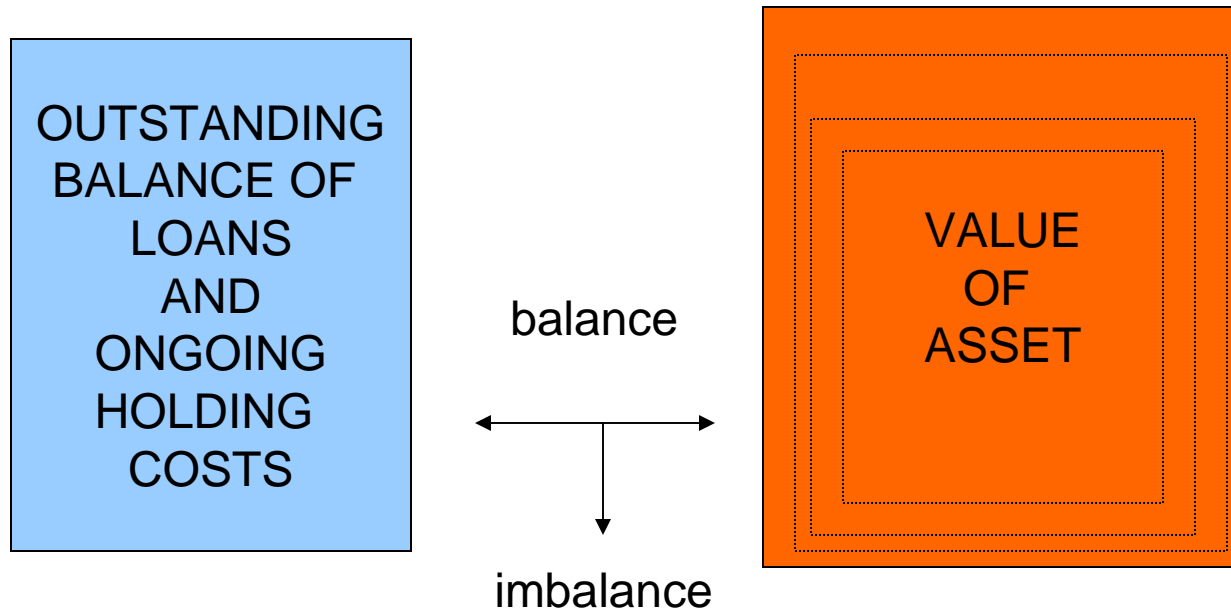
# Impact on SEFC Properties Loans

# Overall City Position: Amended Millennium Loan Agreement

## Long Term Outlook Depends on:

- Success of sales program for Village on False Creek
  - Ongoing real estate market
  - Time to complete sales program
- Final value obtained from transferred properties (net value on transfer: \$45M) and \$5M mortgage
- Final residual value of restructured SEFC Properties Ltd (estimated range: \$6M - \$12M)
- Ongoing Holding Costs during inventory sellout period

# Loan Dynamics



Value of Transferred Properties, mortgage on Davie and Bidwell,  
and residual value of Corporate restructuring of SEFC Properties

# 2010 COV Year End Financial Statements

- to Council April 21 2011 - being finalized by Finance staff and external auditors (KPMG)
- best current estimate of realizable value of Millennium loan: write down of approximately \$40-50M (to be finalized in final statements)
- Ultimate realized value over next few years may differ from this estimate

# Optimizing Long term Results for Taxpayers

- Since December 2008 key actions by lender to optimize results:
  - Reducing interest costs by \$93M
  - Lender oversight to ensure no further budget overruns
  - Optimized Olympic opportunity
  - Quick action to request court appointment of receiver to protect the asset following Millennium default
  - Aggressive negotiation of restructuring agreement with transfer of significant properties to City's control and registration of \$5M mortgage
  - Proposed strategic review of transferred assets to maximize value
  - Independent receiver working to optimize value of the Village on False Creek asset



# Lawsuit by Purchasers



# Lawsuit by Purchasers

- Claims by owners of 58 units (sales completed in 2010) have filed lawsuit against the Developers (Salescos) and the COV, claiming rescission (money back)
- Claims based on allegations relating to:
  - Technicalities under the *Real Estate Development Marketing Act*
  - Representation as to quality
- The City believes there is no merit to these claims and we will defend them vigorously

# Discussion / Questions