Anatomy of a deal: the sale of Vancouver's Olympic Village

Multi-million condo purchase was about more than acquiring city property

Sept. 30, 2014, 9:57 a.m.

By Jen St. Denis and Frank O'Brien

This story includes an interactive infographic exploring the dramatic drop in assessed values of Olympic Village condos.

It was trumpeted as a great deal: the City of Vancouver was ridding itself of its interest in the controversial Olympic Village development and making $70 million to boot. But the city has been reticent about supplying details of the deal, under which the remaining assets of Millennium Southeast False Creek Properties Ltd. were sold to the Aquilini Group for $91 million. An access to information request made in June remains outstanding, and the Aquilini Group declined to comment for this story.

Part of the purchase price of the deal, which was announced in April, would be for the 67 condominiums that remained unsold. Their total value is likely more than $70 million (scroll down to see infographic). But $20 million of that price may have been to acquire the tax losses that accompanied the troubled project, which ultimately has left more losers than winners in its wake.

Years after they dug, built and painted the Olympic Village, 125 contractors and suppliers are still sitting on the project's unsecured creditor list. They are owed as little as $29 (Vancouver Police Department) and as much as $122,722 (*Vancouver Sun*). In total they are owed almost $1 million, according to documents prepared byreceiver EY (formerly Ernst & Young LLP).

Dan Brady of Burnaby-based Pacific Waterproofing Ltd. said his company has been told it will receive around $670 out of the $20,160 it is owed (3.3%). According to other creditors, settlements have been in the 4.5% range or less.

For an early bill of nearly $400,000, before the project was put into receivership, Brady said Pacific Waterproofing received $0.60 on the dollar from Olympic Village project proponent Millennium Development Corp.

"There are companies that are so close to the edge, but we're bigger, we're a little bit more well heeled," Brady said. "But a couple of big ones [payment losses] and even we could be in trouble."

Shana Hochfelder of the Umbrella Shop in Vancouver said her business has been paid back around $400 of the original $8,120 owed.

Asked whether that was a big hit for her small business to take, Hochfelder said, "You bet."

Most of the creditors *Business in Vancouver* contacted refused to comment.

While Vision Vancouver's political opponents lined up to take aim at the way the city handled the project after trouble struck, some of the most steadfast critics are sounding more conciliatory now that the city's obligations have been wrapped up.

In April, developer Michael Geller told *BIV* that while he remains critical of the way the city handled the project, he's glad that proceeds from property sales in the development were higher than expected.

When announcing the Aquilini Group deal in April, Mayor Gregor Robertson said the city had been left with a $70 million surplus.

According to Robertson, the sale retired the $690 million debt the city had taken on after Millennium Development experienced serious financing problems following the 2008 financial crisis.

The city recouped $770 million, including Olympic Village presales, commercial and residential sales, sales of other Millennium Development buildings located throughout the city and the Aquilini purchase, city manager Penny Ballem explained in April. Subtracting the fees the city was obliged to pay to the receiver and other parties leaves it with a $70 million surplus, according to Ballem.

But Rob Macdonald, president of Vancouver-based Macdonald Development Corp., noted that the city will never recoup $170 million out of the $200 million Millennium originally agreed to pay for the 17 acres of land in 2006.

“City taxpayers lost about $100 million,” Macdonald said.

Winning with tax losses

Tax losses are usually a factor in transactions like the one between the city and the Aquilini Group, David Bowra of financial advisory company the Bowra Group told *BIV*.

“These guys are sophisticated buyers, and I would expect that tax losses may have been one of the factors influencing this transaction,” said Bowra, who did not know the specifics of the deal.

Tax losses, he said, generally sell for $0.04 or $0.05 on the dollar, “and it’s likely there may have been large tax pools available that they could have utilized.”

Those “tax pools” would be available to the Aquilini Group to offset future business income.

In a written statement released following the April announcement, the Aquilini Group stated, “We have a long-term investment horizon.

Some condominium units will be sold, while others will be retained for rent until sold. We see long-term appreciation in these units.”

The City of Vancouver declined an interview request, but communications manager Tobin Postma emailed a statement to *BIV*: “The assets and liabilities related to the transaction are considerations of any proponent considering an offer in any real estate deal. These considerations are personal to such proponents and affect the value they are prepared to offer.”

A solvent company that buys a business that is in debt can apply the losses of the distressed company to future tax years, said Kin Lo, a professor at the University of British Columbia’s Sauder School of Business. Lo added, however, that in order to be able to use the tax loss, the businesses must be “the same or similar.”

The principle behind the practice is to provide a balance between taxable profits and the losses that all businesses risk incurring.

How much of the $91 million purchase was for the properties and how much might have been a tax loss purchase remains uncertain, but the tax losses are estimated at $400 million, an amount Millennium principal Peter Malek did not dispute. At $.05 on the dollar, $20 million of the purchase price would have been for the losses.

In 2006, Millennium Development raised eyebrows with its $190 million offer for the parcel of land set to house the athletes for the 2010 Winter Olympics. The second-highest bid was $150 million. At $225 per square foot, it was then the highest price paid for land in Vancouver. Millenium later added a small parcel for $10 million, bringing the total purchase price to $200 million.

Starting in November 2010, SEFC Properties Ltd., Millennium's subsidiary that had been known as Millennium Southeast False Creek Properties Ltd., was forced into receivershipafter months of negotiations with the city over plans to revise the development's marketing and to repay the $740 million in loans Millennium owed the city at the time.

Millennium, headed by brothers Peter and Shahram Malek, has apparently shrugged off its Olympic Village losses and has since reeled off a string of successful multi-family residential projects in the city of Vancouver and across the Lower Mainland.

The company developed the $100 million, 21-storey Alexandra residential tower in Vancouver's West End, where all 88 units pre-sold at between $298,000 and $999,000. The project is scheduled to be completed this year.

Millennium also developed the $45 million Boheme, a 102-unit condominium development on East Hastings in Vancouver, which has sold out and is now under construction.

In addition, Millennium is developing the $250 million One Madison Avenue mixed-use complex in Burnaby and is planning a multi-tower development in North Surrey.

According to Millennium's website, the company has developed and sold out 21 condominium projects across Metro Vancouver.

Amir Malek, the father of Peter and Shahram, is a noted international real estate developer with large projects in Europe and Iran, the family's homeland.

As to lessons he and his company learned from the Olympic Village project, Peter Malek said, "We are very proud of the fact that we designed and built the entire Olympic Village, comprised of eight city blocks, in about 30 months, and ahead of schedule for the 2010 Winter Olympics. Since then the community has turned out exactly as we planned and envisaged and continues to win numerous awards and accolades that all Vancouverites can be proud of."

– With files from Peter Mitham and Glen Korstrom

How much are they worth?

Much has been made of the fact that the Olympic Village condominiums have fallen in value, based on **BC Assessment** numbers from 2011 to July 1, 2013. **Paul Sullivan**, a partner in appraisers **Burgess Cawley Sullivan & Associates**, said the most likely reason for the drop in assessed values of new and unsold condominiums over the past three years was "an assessor being overly aggressive in pricing luxury condominiums" in 2011 and the prices no longer reflecting those values in the current market. He emphasized that this is a hypothetical concept related to new condominiums in general and doesn't refer to any specific project.

31.8%

181 WEST 1ST AVENUE UNIT 306

Square footage: 1,118
2011: $1,014,000
2014: $692,000
Down 31.8%

21.6%

170 ATHLETES WAY UNIT 501

Square footage: 1,923
2011: $2,164,000
2014: $1,697,000
Down 21.6%

27.8%

1616 COLUMBIA STREET UNIT 1005

Square footage: 2,623
2011: $3,463,000
2014: $2,502,000
Down 27.8%

12.4%

118 ATHLETES WAY UNIT 501

Square footage: 1,800
2011: $1,732,000
2014: $1,517,000
Down 12.4%

11.8%

1661 ONTARIO STREET UNIT 308

Square footage: 806
2011: $604,000
2014: $533,000
Down 11.8%

26.2%

1633 ONTARIO STREET UNIT 1101

Square footage: 2,799
2011: $4,562,000
2014: $3,369,000
Down 26.2%

6.2%

77 WALTER HARDWICK AVENUE, UNIT 608

Square footage: 685
2011: $502,000
2014: $471,000
Down 6.2%

Valuations of seven of the 63 unsold condos as of July 1, 2013 (the 2014 assessment) and July 1, 2010 (2011). The 63 units were last appraised at $70.3 million, a 20% drop from their 2011 assessed value of $87.8.

See *biv.com* for full list and interactive property valuation information graphic.

SOURCE: BC ASSESSMENT
COMPILED BY PETER MITHAM