

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

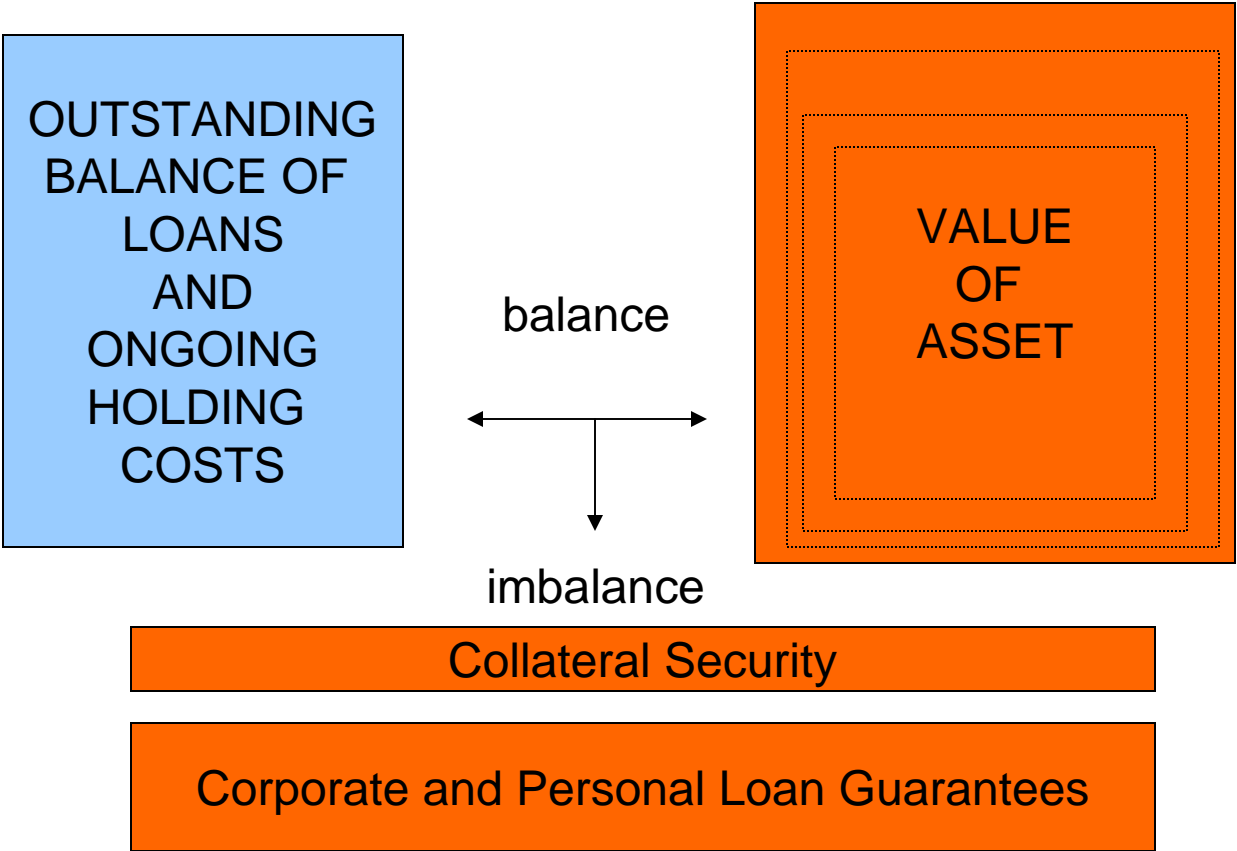
Status as of September 30 2010: Protecting Taxpayers

- 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 |
| Total | 32* | \$82.2M | \$36.72M | \$45.48M** | \$3.7M |

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



Bidwell & Davie Development Site

(Development by Millennium in
cooperation with Another 3rd Party)

1st Mortgage*
~\$6M

2nd Mortgage
~\$6M

3rd 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) |

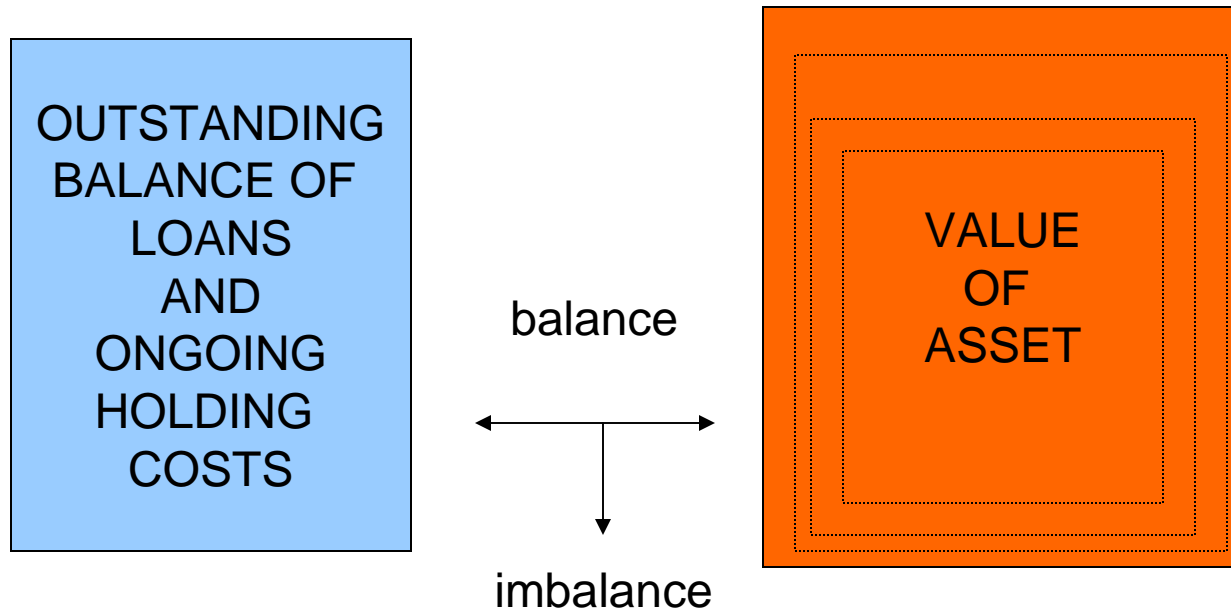
Impact on SEFC Properties Loans

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